

# MUNICIPAL COOPERATION IN BRAZIL: CHALLENGES AND OPPORTUNITIES

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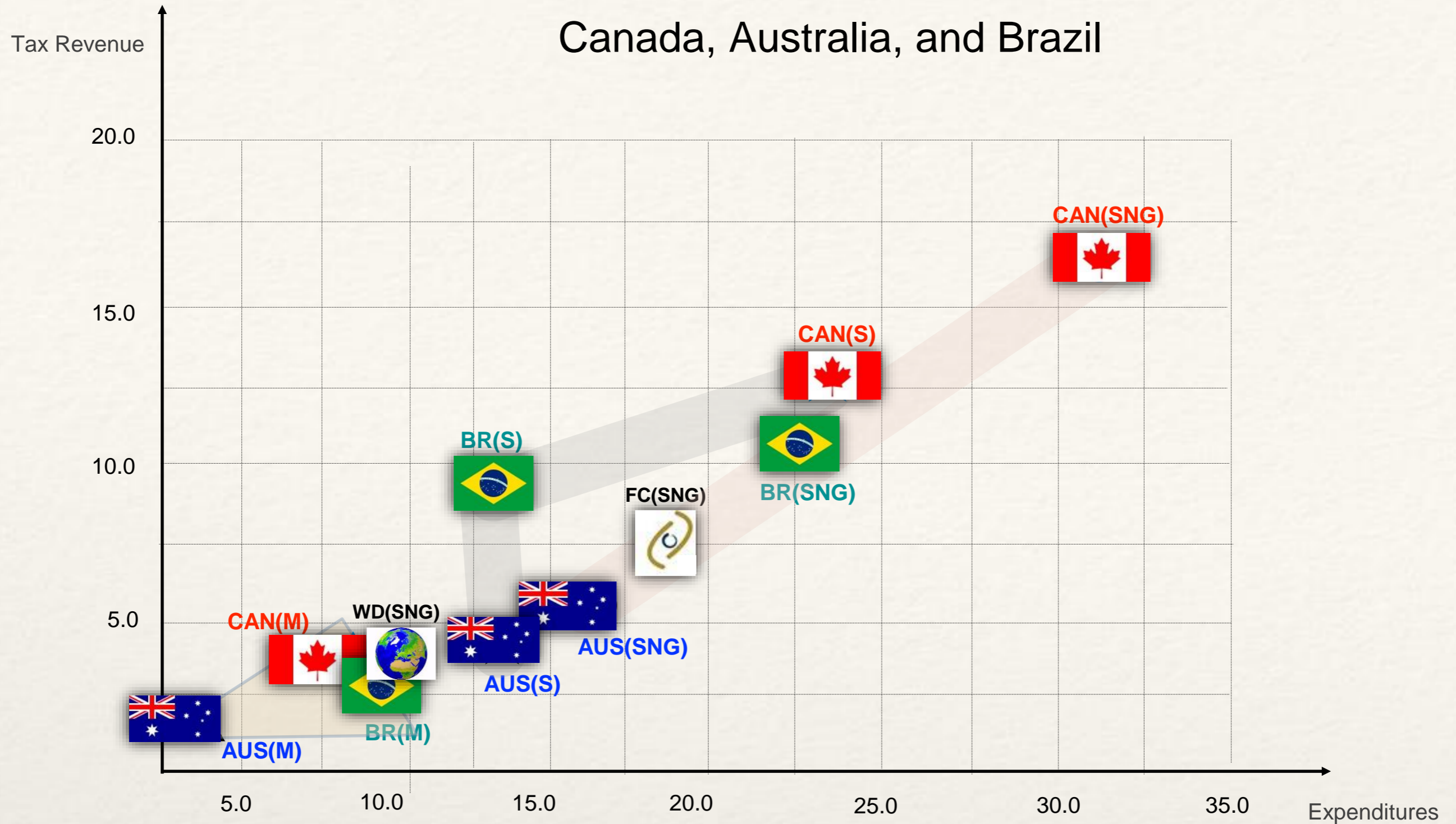
# Summary

- Brazil compared with Canada and Australia: decentralized or fragmented?
- How well have Brazilian municipalities been providing public services?
- What would be an effective instrument to improve cooperation, efficiency and equity in Brazil?
- Conclusion

# Decentralization: Tax Revenue and Expenditures - % GDP (2016)

## Subnational Governments (SNG), States (S), and Municipalities (M)

### Canada, Australia, and Brazil



CANADA



AUSTRALIA



BRASIL






FEDERAL COUNTRIES



WORLD

# Fragmentation: Quantity and size of subnational governments (SNG) Brazil versus Canada/Australia

Level/Country			
States/Provinces	10 (+ 3 Territories)	6 (+ 2 Territories)	26 + DF*
Local/Municipalities	3,959	562	5,572
Average Municipal size	9,166	43,568	36,400
GDP pc (USD**)	48,265	50,334	15,603
HDI	0.92	0.94	0.75

Source: Subnational Governments Around the World: structure and finance, OECD/UCLG (2016)

\* Municipality and State

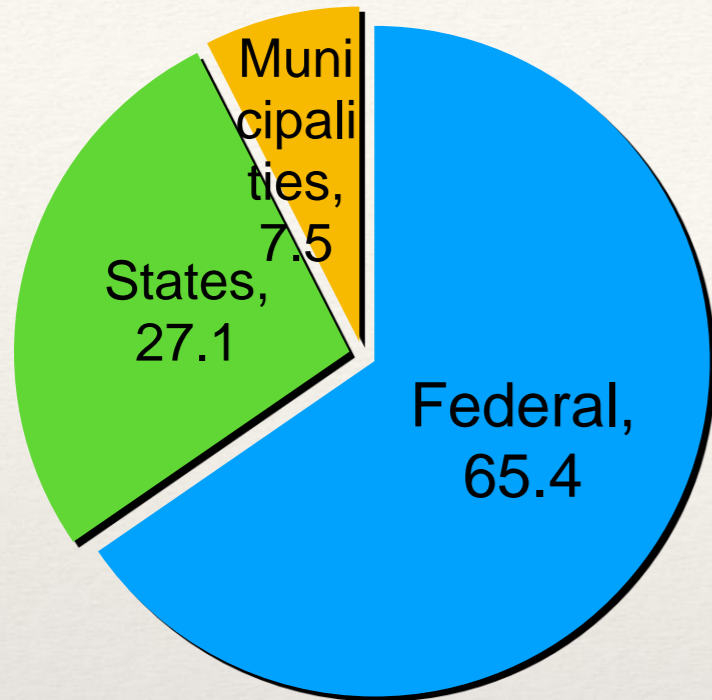
\*\* Current GDP converted to USD using Purchasing Power Parities (PPP)

# Has Brazil experienced decentralization or municipalization with fragmentation of public policies?

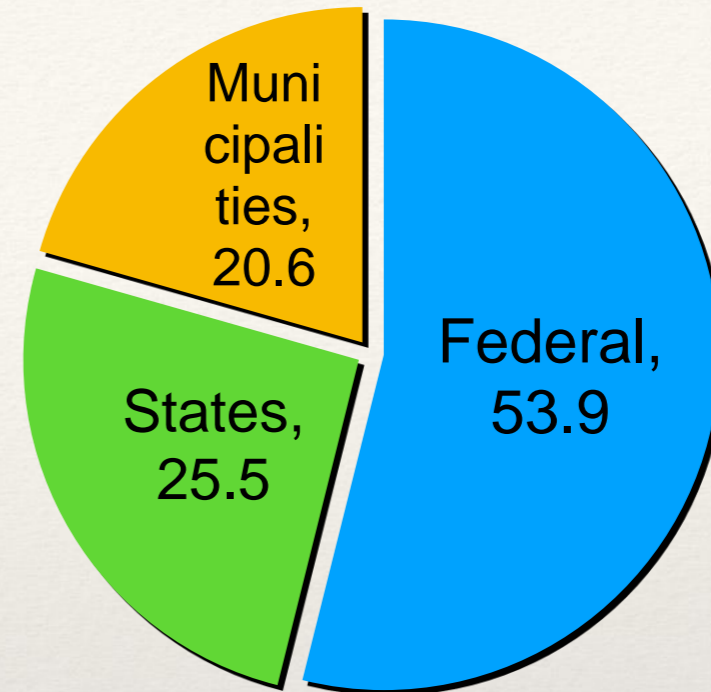
- Federal Constitution 1988: municipalities as third level of government
- Rights and responsibilities: tax collection (IPTU/ISS) and local public services
- Fiscal, infrastructural and management capacities: heterogeneity and inequality
- Equalization Systems (horizontal and vertical): State and Local Funds and Grants

# Brazil Tax Charge - % Total and GDP (2016): Looking for autonomy, equity or fiscal capacities equalization?

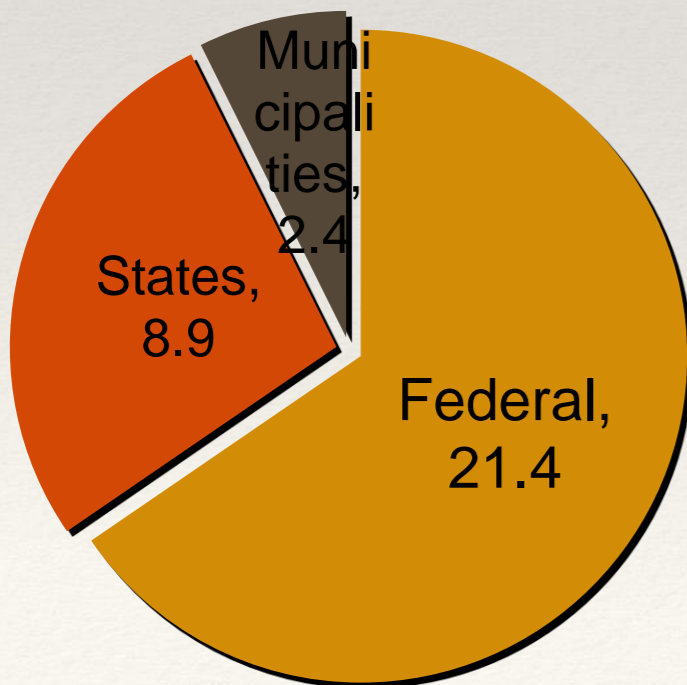
Tax Revenue (Total = 100%)



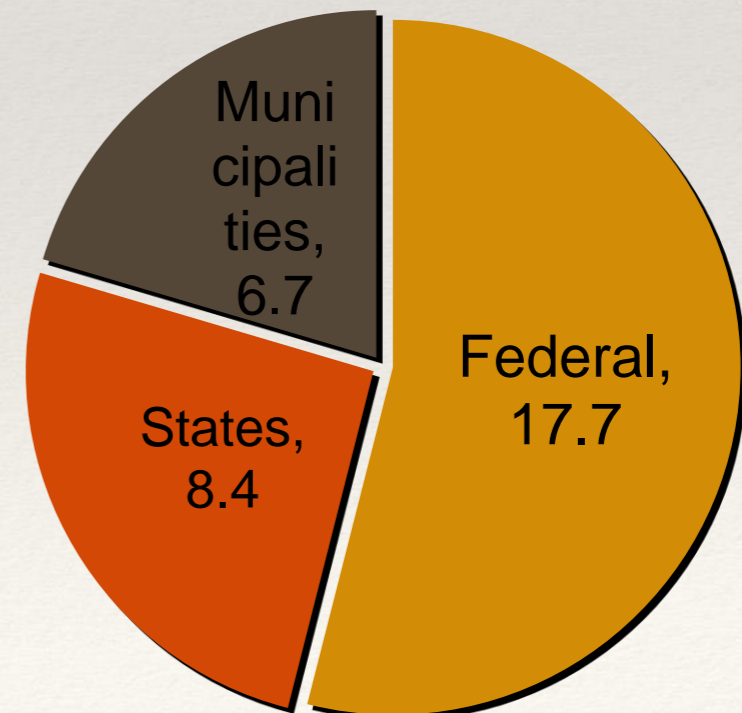
Revenue Available (Total = 100%)



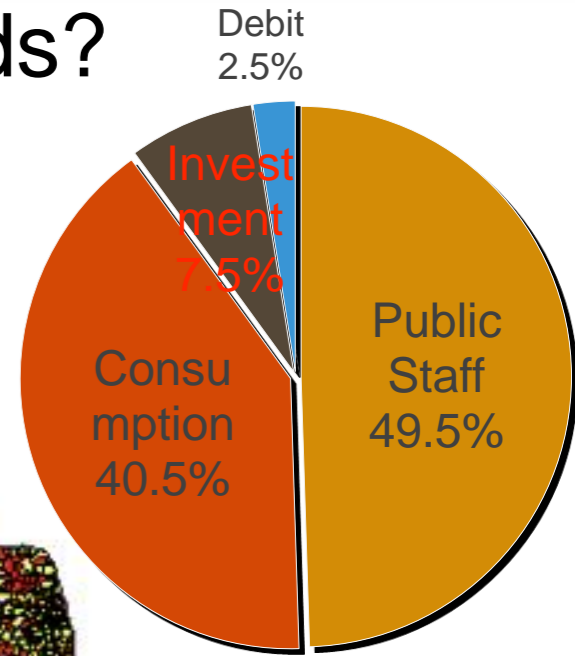
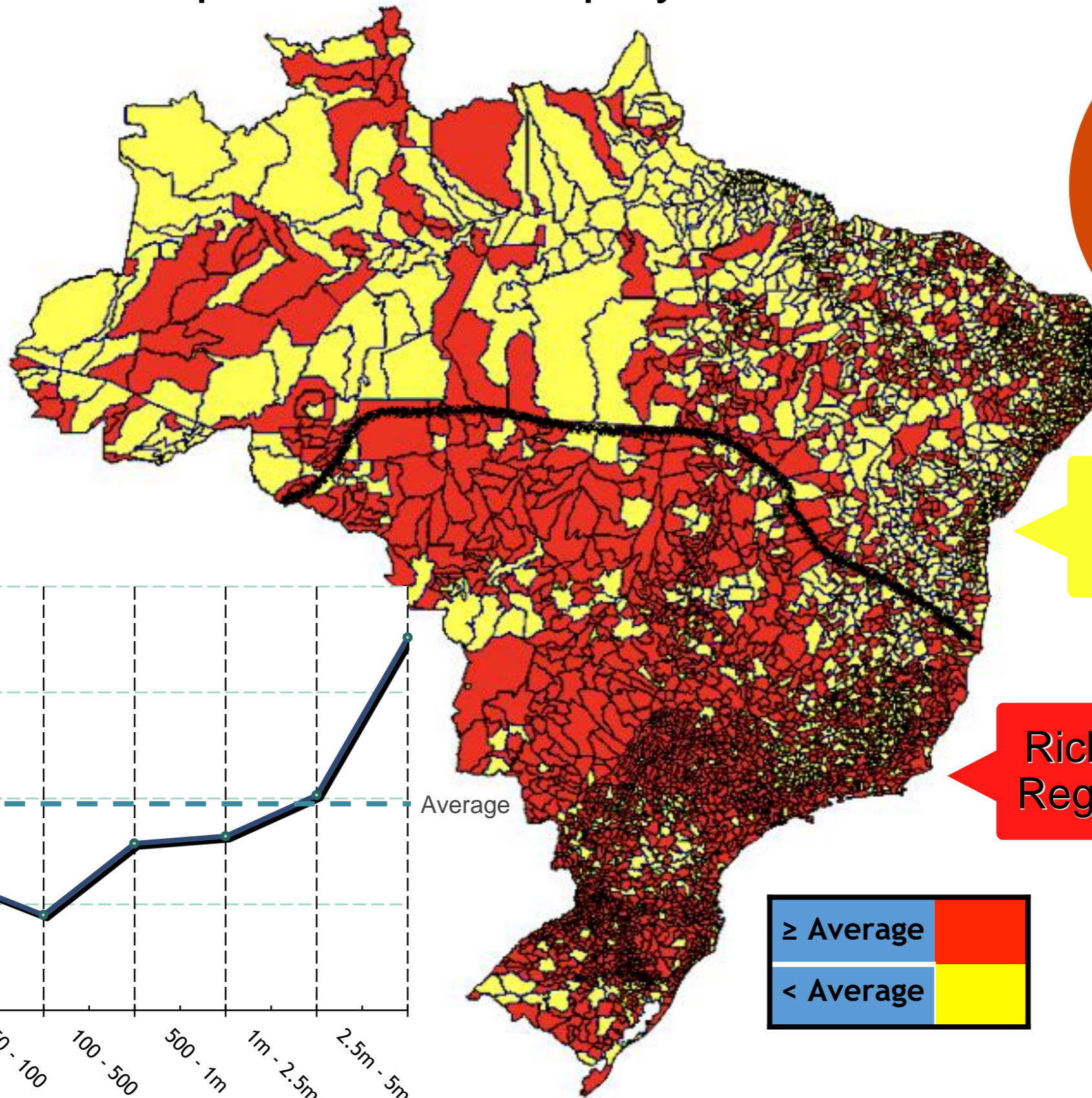
Tax Revenue (% GDP) (Total = 32.7% GDP)



Revenue Available (% GDP) (Total = 32.7% GDP)



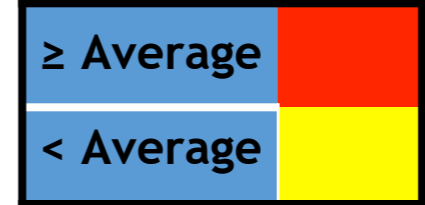
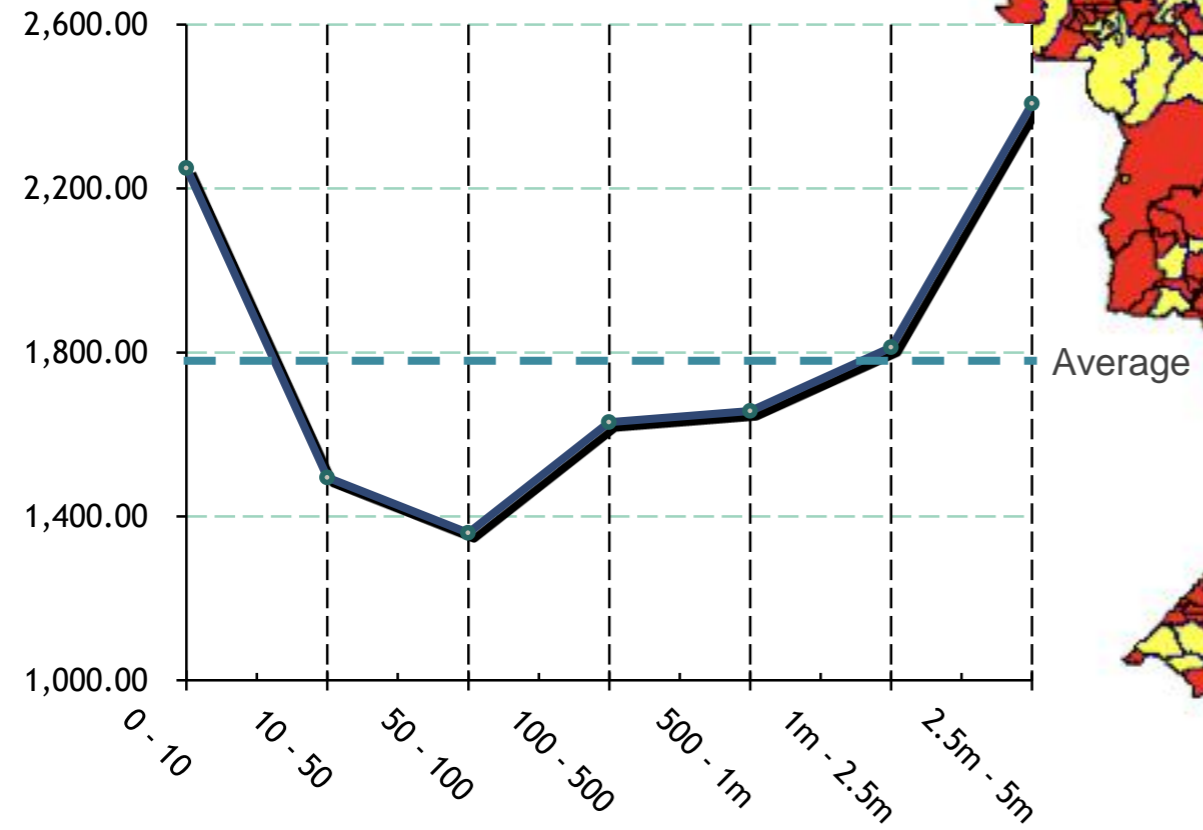
# Total Expenditures pc (R\$ 1,00) - 2010 (Brazil Municipalities): fiscal equalization or equity on social needs?



Source: FNP/2016

Poorest Regions

Richest Regions



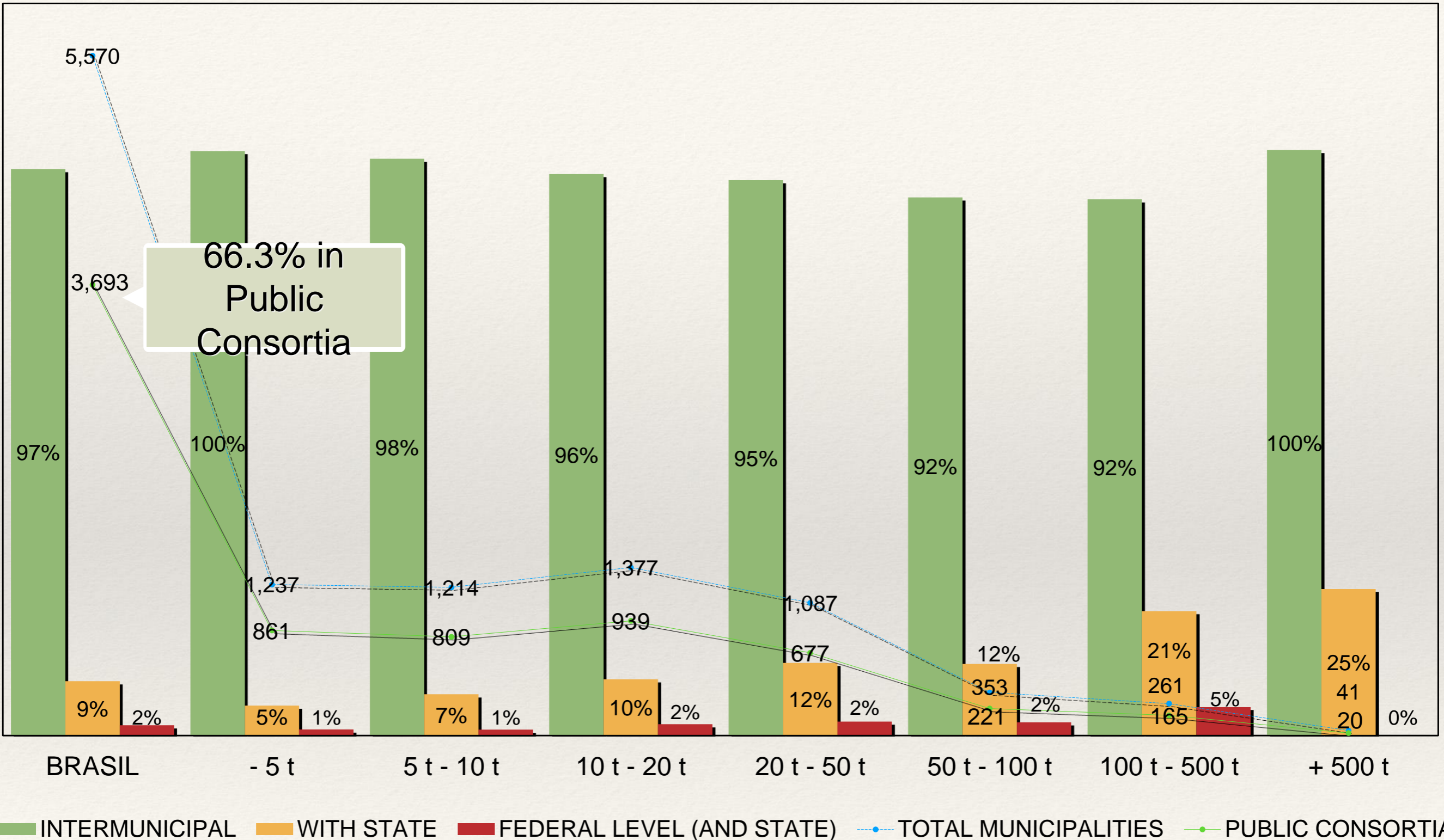
Source: MF/STN/Finbra

# Cooperation as an instrument to reduce fragmentation and to improve efficiency for public services provision in Brazil

- Mechanisms: Public Consortia (+ Metropolitan Regions, Integrated Development Regions, Agreements and Contracts)
- Constitutional Amendment 19/1998: “...laws for public consortia and cooperation agreements between the federated entities, authorizing the associative management of public services as well as the total or partial transfer of charges, services, people or goods essential for the continuity of transferred services.”
- Law n° 11.107/2005 defines Public Consortia:
  - Voluntary, non-profit single-purpose entities
  - Focus on the delivery of a vast array of public services (health care, solid waste, education, etc.)
  - Inter-municipal joint ventures, with higher levels of government, and with private sector (PPP).
- Decree n° 6.017/2007 establishes: legal personality (public or private), agreement of division for the allocation of funds, program contract etc.

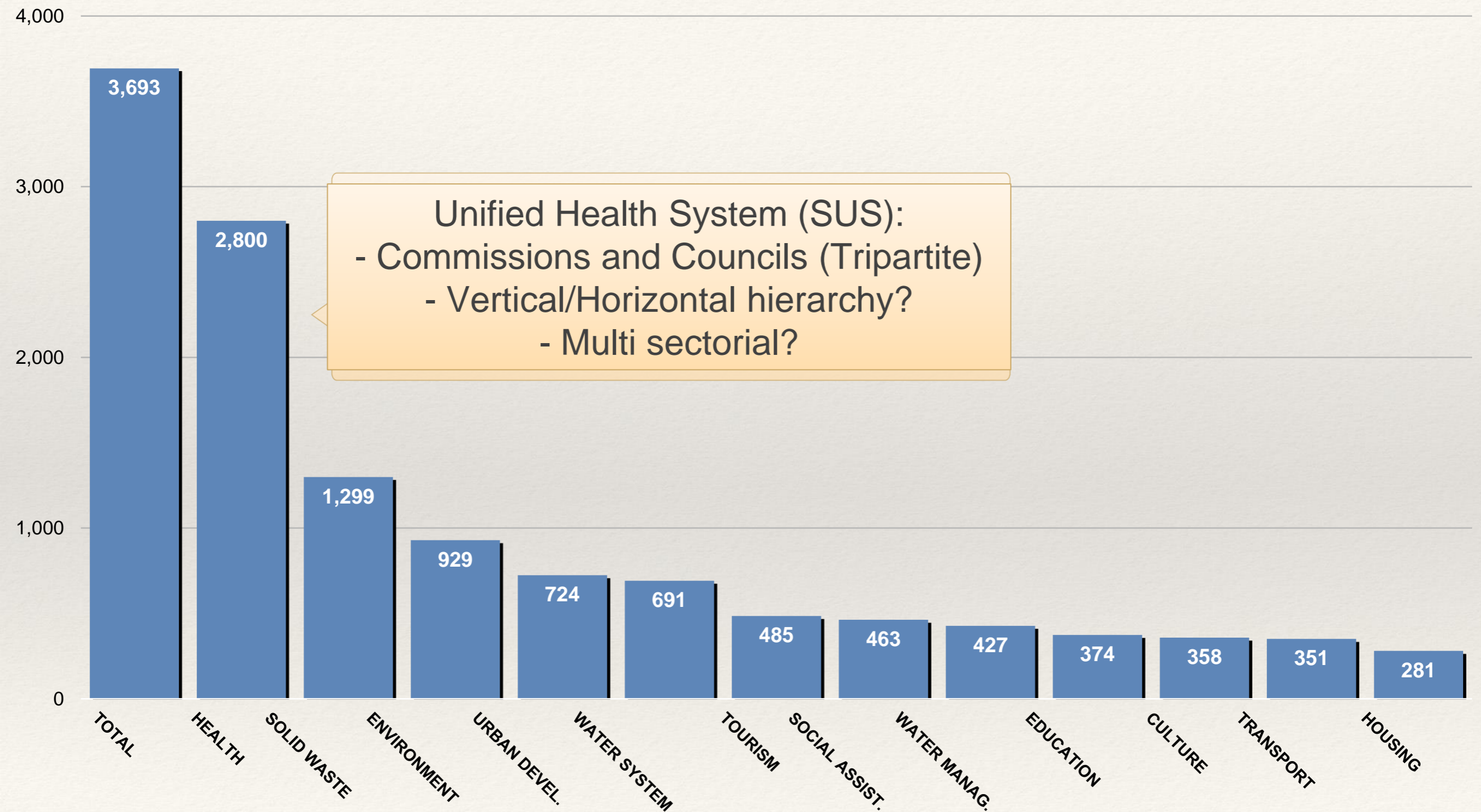


# Brazilian Municipalities in Public Consortia (2015): Horizontal cooperation versus Vertical coordination

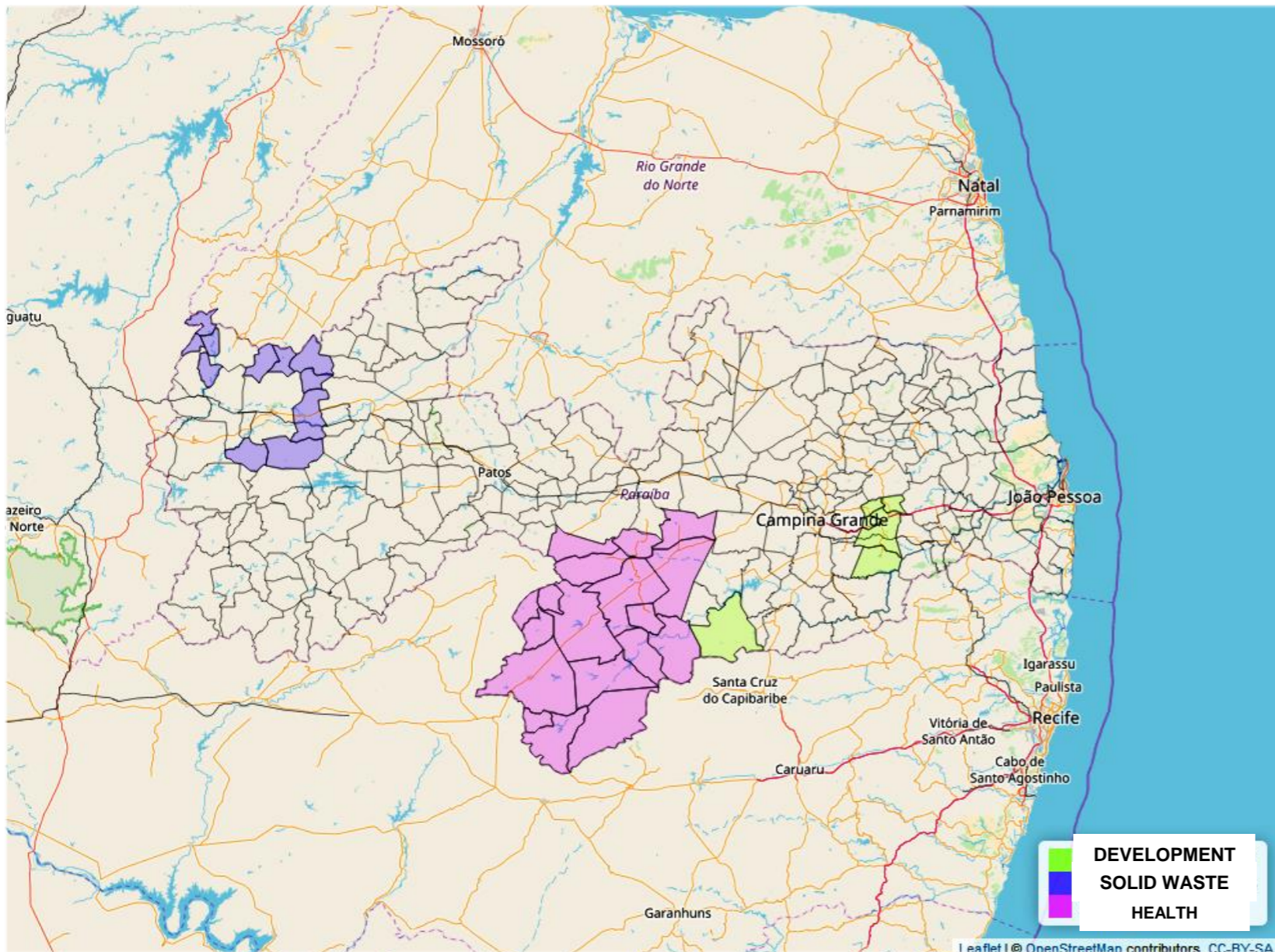
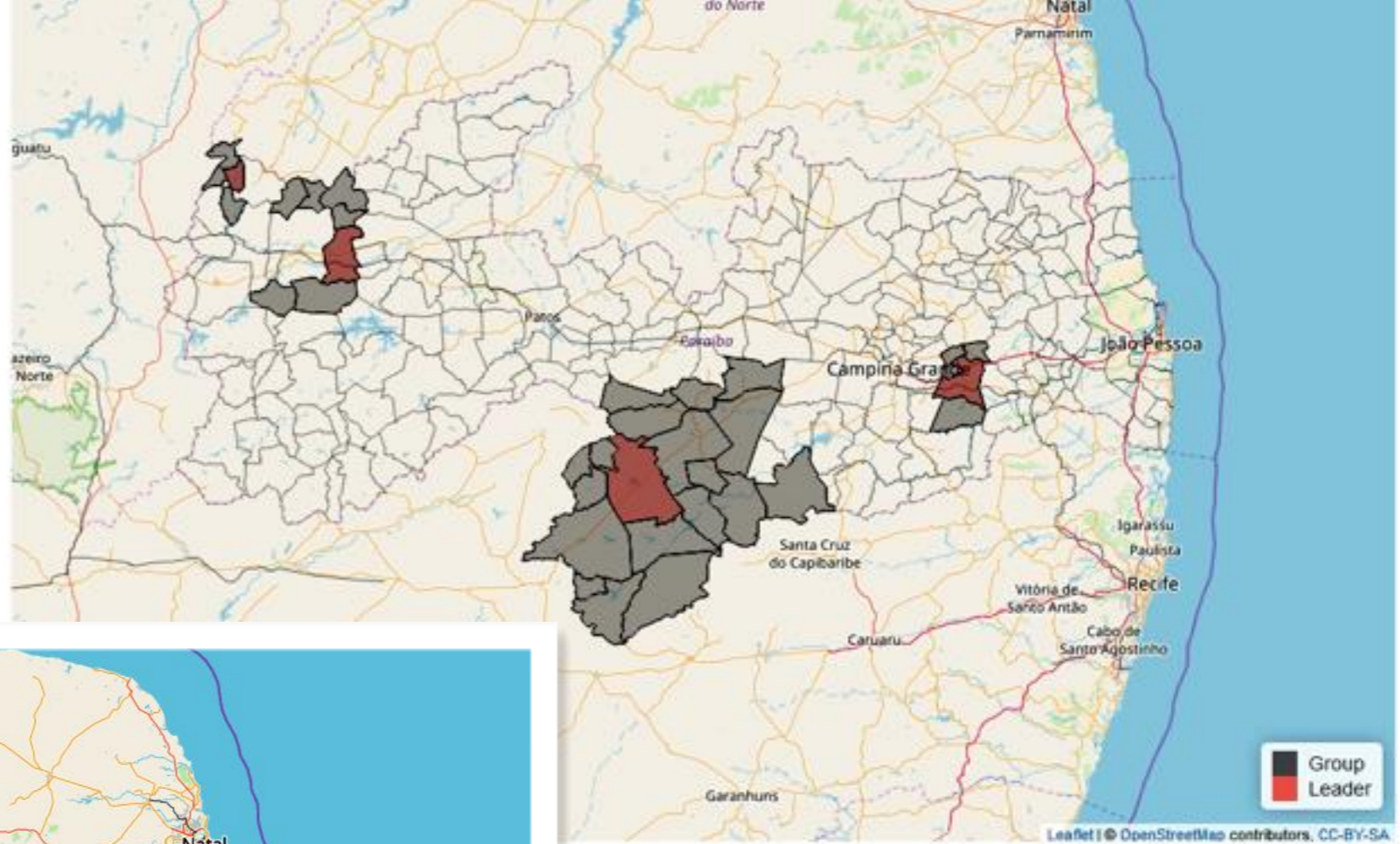


Source: IBGE/Munic

# Brazilian Municipalities in Public Consortia per Sector (2015): Governmental function and Sectorial cooperation



Municipalities in Public Consortia  
Group/Leader - Paraíba - Brazil  
(2015)



Municipalities in Public Consortia  
Per sector - Paraíba- Brazil  
(2015)

# Conclusion: Brazilian dilemmas, tradeoffs, and opportunities

- Decentralization should not mean fragmentation of public services provision

Why should Federal tiers cooperate?

- Public goods, Externalities, Economies of scale, Geographical integration, reduction of costs, and investments improvements to deliver public services
- Multi-sectorial Cooperation and Systemic Equalization of Fiscal Capacities
- Balancing Competitiveness and Efficiency versus Cooperation and Equity
- Reducing Heterogeneity and Inequality versus normative Homogeneity

## Projects:

- Equalization system (OttawaU): based on Revenue side (Canadian/Australian model?) and Expenditure side (Australian model?)
  
- Public Consortia(Ipea): Effectiveness and efficiency

Thank you!

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