

## CO PARTICIPATION REGIME IN THE PROVINCE OF MISIONES

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### ABSTRACT

This paper analyzes the mechanism of Co participation between different levels of government in Argentina and seeks, as its central objective, to give an explanation of the failure to find a way to reform the current system since 1988, despite the many project laws presented in the context of the House of Representatives of Misiones.

First, one traces the origin of co participation in Misiones and any alterations up to the current scheme was established in 1998. Secondly, a brief analysis of population trends of Misiones to try to show that it is necessary to reform the mechanism for allocating resources for municipalities to later look into the various proposals for reform that took place in the House of Representatives of Misiones, so that finally and as a conclusion and outline brief hypotheses to explain the difficulties to find consensus even with province consensus to achieve change.

**KEY WORDS:** Co Participation; Reformation; Act; Misiones; Administration; Finance.

## **INTRODUCTION**

Financial coordination among different jurisdictions, must necessarily develop when we are confronted with different levels of government taxation.

As noted by Musgrave and Musgrave (1999) multijurisdictional tax structure as imposed on any particular country, reflects the historical forces of nation-building, war and geography. In analyzing our country we find that the successive struggles between Unitarians and Federalists, was building a country with a Republican Representative and Federal system.

In terms of resources and allocations, it is to see whether the goods and services provided by the state are provided in a centralized or decentralized way, and whether the decentralization of services to the various jurisdictions is accompanied by the necessary resources.

The problem is the allocation of powers and responsibilities between different levels, covering both the appearance of the resources and expenditure, whether for the old conception of finance which seeks to optimize the allocation of resources to meet public needs through the provision of services or, as we look at modern finance, with aspects of redistribution, stabilization and economic development.

While the scheme does not end financial coordination in the distribution of revenues, which we give the same importance as the allocation of costs, we will focus our resources approach.

As stated clearly by Jarach:

"The distribution of costs and resources between different levels of the State organization should aim to ensure respect for the principles of equality and social equity, which the social consciousness considered valid with respect to individuals and groups affected by the financial activity of the state." [Jarach, D., 1996, p. 135] <sup>(1)</sup>

It is also essential that these aspects of analysis from the aspect of the distribution of the tax burden on taxpayers under tributary schemes of the different levels, we should also see it from the decision to place the incomes to society with the same principles and addressing the issues of redistribution and economic development.

Of course, the role of redistribution of income in a country with a federal system like ours, should be allocated to the national government, and from the various places of social representation (legislatures, civil society, province governments, lord mayors, councilmen, organizations) must monitor and demand they be carried out with fairness and social justice.

It is important to emphasize that the financial coordination to respond to certain premises or political principles, and present contrasts such as those proposed by Jarach "arise between the political demands for autonomy of Member States as to the federal state and municipal governments facing the states, on the one hand, and sound economic and financial requirements to the best use of resources" [Jarach, D., 1996, p. 139]<sup>(2)</sup>. Thus we note that solutions to conflicting objectives are not political and depending on what conception of state and federal government one has.

Through this conceptual framework, it is intended in this paper, to show what is the vertical Coordination mechanism between the province government and municipalities which we have in the province of Misiones, particularly the Cooperation of resources to municipalities, studying their historical background regime place since 1988, what were the draft amendments that have been presented in the House of Representatives of Misiones, their similarities and differences and above all look fairly for an explanation of why up to now they have failed to enact the new province system of tax co participation.

## **DEVELOPMENT**

### **History of Co participation in the Province of Misiones**

The Constitution of the province of Misiones enacted on 21st April 1958, its Article 74 clearly refers to the share that falls to the municipalities in the collection of taxes or contributions. Such participation should be made effective at least every three months failure of this is charged directly to the Governor, Minister of the area and the General Comptroller of the province.

Based on this constitutional mandate, the House of Representatives in 1963 passed Act No. 175 wherein:

- It states that 8% is the percentage to be distributed among municipalities and promotion committees;
- It Limits the Co participation with proceeds from the Property Tax, Profit Activities (now Gross Income) and what received by the National Co participation.
- It notes that the settlement is made monthly by the Accounts Office of the Province.

In November 1977, attesting to a co participation system to the municipalities (Law 900) which states what taxes will make up the co participate mass, form of distribution, parameters to make the indicators available, disposition making the distribution coefficients, automatic remission to municipalities within 30 days, the power to grant advances, no affectation of resources until they are deposited, and defines as the implementing agency to the General Budget Directorate. This means that we have a system that keeps the distribution percentage of 8%, but adds that within the taxes to be co-participated are the Motor Car ones.

In another order, the mechanism to distribute the proceeds, was established as follows: 20% in equal parts, 20% directly proportional to the population and 60% in direct proportion to the revenue obtained from each municipality of co-participation taxes (returnable basis).

In 1979<sup>1</sup>, the decision of the automatic transfer deepens, corresponding to the municipalities, its non-assignment and instructing the Bank of the Province of Misiones- then, financial agent of the state – that the amounts to enter for national co participation corresponds to the co participate with the municipalities do not enter the general treasury account of the province.

That same year, but in November, the de facto government of the province approves the law 1189<sup>2</sup>, which repeals law 900 and establishes a new regime, whose characteristics are the following:

- a) Maintain the 8% distribution to municipalities of co participate income tax;
- b) Makes a specific allocation to the municipality of Puerto Iguazú of 3%, leaving the remaining 97% with the distribution set out in Act 900.
- c) Remove the 30 days term, and states that the Province of Misiones Bank shall transfer

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1 Law 1143 dated 22nd August 1979.

2 It is pointed out in the document that, the Faculties conferred by the Military Junta, in Art. 1 inc. 3.2 of instruction N° 1-. It does not speak about Law Decree, but as the Law which it should be.

funds to municipalities automatically, without entering the Treasury of the Province.

This system maintains the basis of law 900, finding no evidence of why giving the municipality of Iguazú 3%, understanding that what he wanted the Executive Power was to encourage the growth of the municipality where we find the Iguazu Falls, the visible face of tourism in the province.

To close the year 1979, December 28th, Day of the Innocents, the governor approves Law No. 1212, which establishes that the resources of provincial jurisdiction (taxes and contributions) which are co participate, will be made with 8% while those from the national revenue co participation system only 6%, thus modifying the province primary distribution.

With the return to democracy in 1983, four months later, Law No. 2089 was adopted which rescinds Law No. 1212 and replanted the regime established by Law No. 1189, also of the de facto government, thus guaranteeing the system that had been established, where it highlights the preferential treatment of the municipality of Puerto Iguazú.

Five and a half years pas without changing the regime, until 1988 when the nation sanctions Law No. 23,548 known as Federal Co participation Tax, and the province in August of that year, sanctions Law No. XV- No 10 (previously 2535), establishing the Co participation regime governing today.

### **Attempts to reform the existing regime**

#### **Evolution of the municipalities 1980-2009**

1998 was the last one which reformed the co participation system, despite population changes experienced by the province, region and country. However there have been attempts at reform. Briefly we will discuss some projects submitted by legislators of various parties, which we consider relevant and which have not been approved, but not before stating that the reform is clearly necessary if one observes some indicators of change in the different municipalities of Misiones, which we present as follows for period 1980 - 2009 and the high dependence on budgets analyzed in municipal Co participation.

From the observation of the table shown below we see that 87% of the resources of the municipalities, corresponding to an income from other jurisdictions, where those from the Co participation are the most important and it can be seen that during the study period, participation of their resources of their own jurisdiction, for total resources tends to decrease.

Municipalities with more population, more economic activity, show a better situation than those small municipalities, they should focus on them, primarily, on the development project.

**Table 1: Origin of municipal resources, own resources on the total revenue (budget years 2004 – 2008)<sup>3</sup>**

MUNICIPALITY	RESOURCES 2005	RESOURCES 2006	RESOURCES 2007	RESOURCES 2008	OWN RESOURCES / TOTAL 2005 / 2008
CANDELARIA	1,147,000	1,645,000	1,995,000	2,395,000	2005- 19%; 2006- 21%; 2007- 17% 2008- 20 %
SANTA ANA	950,000	1,054,589.21	1,429,101.18	1,854,531.20	2005- 16%; 2006- 22%; 2007- 16%; 2008- 21 %
MÁRTIRES	444,500	573,000	680,010	1,092,500	2005- 24%; 2006- 18%; 2007- 21 %; 2008- 9 %
CERRO CORÁ	420,000	515,000	688,500	1,540,000	2005- 6 %; 2006- 6 %; 2007- 5%; 2008- 3 %
BONPLAND	670,100	725,100	955,100	1,316,150	2005- 8%; 2006- 8 %; 2007- 7%; 2008- 5 %
LORETO	435,500	543,650	685,000	876,000	2005-18%; 2006- 16 %; 2007- 13%; 2008 10 %
PROFUNDIDAD	336,910	542,060	680,010	882,000	2005- 15% ; 2006- 17 %; 2007- 21 %; 2008- 9 %
SAN IGNACIO	1,501,000	1,896,600	2,479,000	3,309,064	2005- 22 %; 2006- 19 %; 2007- 15%; 2008- 17%
SANTO PIPÓ	1,113,000	1,424,000	1,680,000	2,106,000	2005- 17%; 2006- 16%; 2007- 13%; 2008- 11 %
GOB. ROCA	1,873,305.04	2,371,632.60	2,308,000	2,988,800	2005- 13 %; 2006- 10%; 2007- 12 %; 2008- 10 %
H. RIGOYEN	890,050	1,038,200	776,000	880,856.26	2005- 21%; 2006- 10%; 2007- 13%; 2008- 17 %
G. URQUIZA	Sin datos	Sin datos	Sin datos	876,648	2005- s/d; 2006- s/d; 2007- s/d; 2008- 8 %
POLANA	Sin datos	Sin datos	732,814	623,500	2005- s/d; 2006- s/d; 2007- 7 %; 2008- 5 %
CORPUS	1,364,500	1,680,200	1,479,200	2,360,000	2005- 11%; 2006- 11 %; 2007-011 %; 2008- 10 %
<b>MUNICIPIOS</b>	<b>RECURSOS 2005</b>	<b>RECURSOS 2006</b>	<b>RECURSOS 2007</b>	<b>RECURSOS 2008</b>	<b>RECURSOS PROPIOS./TOTAL 2005 / 2008</b>
J. AMÉRICA	4,100,000	4,417,300	5,854,873	9,349,600	2005- 38 %; 2006- 33 % 2007- 32 %; 2008- 22 %
SAN VICENTE	5,561,992	6,500,000	7,100,000	8,400,000	2005 -23 %; 2006– 32 %; 2007 – 30 %; 2008 – 27 %
EL SOBERBIO	1,968,100	2,364,000	2,600,000	3,350,000	2005- 28 %; 2006 23 %; 2007 - 21 % ; 2008 – 16 %

Source: Prepared according to municipal bylaws

With regard to population growth in the last 20 years we emphasize that taking the province as a whole, the department General Manuel Belgrano has the highest growth in the period 1980 to

<sup>3</sup> The following chart is based on one of my papers, which was presented as Thesis for the Master in Public Management of the Misiones National University which considers 17 municipalities given as analysis samples.

2009 (278.23%). The sustained growth occurred in the town of Andrés Guacurarí. Bernardo de Irigoyen had its strongest growth in the period 1980 to 1991 and San Antonio from 1991 to 2001.

Candelaria department is the second in growth (193.41%), highlighting Candelaria, Santa Ana Profundidad. Present a significant decrease in the municipality of Cerro Cora.

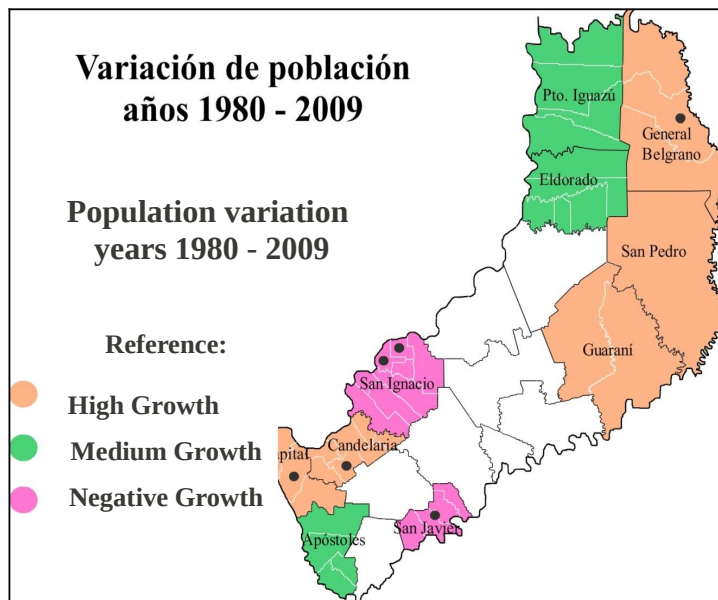
Iguazú Department showed the highest growth in 3 of 4 municipalities (Wanda, Iguazú and Libertad).

Oberá department presents its member municipalities, all the characteristics: steady growth in Campo Ramón and Colonia Alberdi, growth decrease in Oberá, Guarani and San Martín. And constant negative growth in General Alvear.

San Ignacio department, despite having an interesting average growth from 1980 to 2009 (63.81%), has two municipalities with negative population growth (Colonia Polana and General Urquiza).

San Javier is the fastest negative growth department. 3 of the 4 municipality members have reduced their population since 1980.

Figure 1: Province of Misiones. Population change 1980-2009



Source: Own elaboration based on National Censuses – INDEC - IPEC

### Provincial Co participation: draft reform

Throughout the 90s the issue was not considered in the legislative agenda of the different

political blocks. Not until the 2001 crisis there begin to be some projects that seek to reform the existing co participation regime in the province of Misiones. Outstanding was the project (Dossier D-18481/02) submitted by Rep. Joseph L. Dieminger<sup>4</sup> in May 2002, which raised the following issues:

- a) Establishes a complete regime and a new system;
- b) Rises the primary distribution from 12% to 16% (increase of 33.33%);
- c) Integrates as co participants partners all province and other resources of national jurisdiction.
- d) Creates a fund to support municipality of 1% to meet emergency needs;
- e) Considers variables such as population, Unsatisfied Basic Needs (NBI), own funds of the municipality on the its expenses, capital expenditures over total expenditures, population of the municipality on expenses.
- f) Partitions transfer to municipalities during the month to its operating account;
- g) Creates the Municipal Co participation Committee, with participation of the Executive and Legislative areas and establishes their functions.

Importantly, the Radical Civic Union (UCR) as a party does not govern the Province of Misiones since 1987, so beyond what is interesting to discuss a new scheme, the party matter and the country's financial and the province's in these times did not consider it.

In mid 2004, Rep. Luis A. Giuliani<sup>5</sup>, presents a Dossier D -18481/02), which in concept is similar to that discussed above, with some changes, but structurally the same.

The power game between majorities and minorities leads to not to deal with these projects, being able to see that whoever wields the power of whatever political color, it is not convenient to change the current municipal system based on the submission of municipal administrations.

In July 2004, Luis Kornuta, former provincial deputy that year for the Justicialist Party, introduced an amendment to Law 2535 (Dossier D 23716/04), proposing to allocate the total mass co participation of 3% in the creation a Productive Enterprise Fund to be administered by

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4 Member of Parliament (Fulfilled Mandate) UCR, Lord Major for various periods and at present in office in the Puerto Rico Municipality.

5 Member of Parliament (Fulfilled Mandate) UCR.



municipalities. While the legislature is of Peronist Party (PJ), he is not part of the party which since 2003 governs the province. The Renewal Front, a front formed by PJ, radicals and independents, outside of the traditional parties, so it did not get the political backing for processing and approval.

In February 2007, the provincial deputy Ricardo Biazzi, also Justicialist, proposes an amendment to introduce a Co participation scheme in the Constitution of the province. This initiative is consistent with their thinking and action of the Constitutional Convention of 1994 that included the regime in the art. 75 paragraph 2 of the National Constitution, under Misiones representation to that historic opportunity.

The project takes the same philosophy of Article 75, raising the percentage of primary distribution from 12% to 20% of all province and national resources received by the province. It states that this percentage will be reached in three years.

Up to now, the project has not been considered for not finding the appropriate support, both in the ruling bloc as in the opposition, not being included in the legislative agenda.

In the same month of February 2007, a concerns of the Lord Mayors, the block of the Justicialist Party in the House of Representatives introduced a bill to amend the primary distribution of 12% to 16% and a secondary distribution of emergency for some municipalities. This project has not found the support of the half plus one of legislators from both the ruling and opposition parties for processing and approval.

In March 2007 Rep. Timothy Llera, presents a project<sup>6</sup> which was intended to amend on one hand, the percentage of the primary distribution of 12% to 15% and also included as co participation to tax stamps. It provides mechanisms to determine the distribution where the population plays an important role (60%) plus other parameters such as: reverse wage costs, gathering local taxes on equal parts, among others, and establishing an Executive Committee Audit scheme of Co participation composed of representatives of the executive and municipalities, establishing its functions.

Neither this project has found echo in the House of Representatives to establish new financial relations between municipalities and the province.

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6 Dossier 29396/07.

In short, the province of Misiones as from its Constitution of 1958 established the financial relationship that should exist between the province and its municipalities, particularly as regards the system of allocating resources so that they can achieve their goals. And although since 1963 to date there have existed different relations in the financial vertical coordination in the province since 1988 to date, as well as what happens at the national level, it has not been able to change the current system, especially in as related to the co participation mass, in the primary and secondary distribution.

The lack of implementation of different ways of financial relationship between levels of government, including new standards, requirements, changes in management paradigms has led, among other things, that the municipalities have a greater reliance to finance their expenditures, from the resources from national or provincial jurisdiction, generating a major political vulnerability, which somehow prevents the full implementation of the principle of autonomy established in the National Constitution and the Province Constitution.

## **CONCLUSIONS**

After the seeing the different mechanisms of Co participation and several failed attempts to reform since 1988, one raises the question: why could not individual legislators from different political blocs at different times not succeed in introducing a new system of co participation in the province or making substantial improvements to the current system?

As a conclusion, we provide here some answers:

First, we understand that there has not been sought in each period, the necessary consensus within the legislature to set the matter in the legislative agenda item, emphasizing on the other hand, sectarian or individualism over the project.

Secondly, there has no been seen the emergence from those who should be the main stakeholders, mayors, raise the political necessity of a new financial relationship with the province.

Thirdly, society has not taken this issue as their own and not shown, in general, excellent municipal administration efforts to generate confidence in the management of resources, leading to

the need to discuss the issue and change the existing rules.

Fourth, to be an outstanding debt pending from the National Congress to enact a new revenue co participation system for the country, according to the parameters set forth in the National Constitution, which Misiones should improve its participation, it drags with it the suspense of a province debate of new way of financial coordination between the province and Misiones municipalities.

We can not deny that there is a debt pending from several local governments, to find the way to be more efficient and effective in implementing fiscal policy, especially in tax policy design that allows you to make resources of its own jurisdiction.

We understand that you can go exploring different alternatives to generate debate among different actors, be they mayors, province legislators, civil social organizations and enterprises, with the widest social participation as possible, since any decision made to modify coefficients, compatible mass, partner, co-participation tax, transparent mechanisms of control of the shipments on time and resources, it involves us all, considering that we will benefit or suffer as citizens in functions of the municipality or area of the province in which we live.

We think it is necessary, knowing the political vulnerability, to start generating the field for the study of a new strategy for the development of the municipalities of our province, seeking to regain the confidence of a society that is far from the administration of public resources, leaving demagogic positions and focus on strong content study new ways of Public Management, to change the existing paradigms, planning a Misiones for the next 15 years.

Undoubtedly, training, formation of local human resources and province different echelons in Management, Administration and Organization of Public Finance, will provide the firm basis for finding the goals. Misiones undoubtedly occupies an advanced place in this field.

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Please refer to articles Spanish bibliography.