

## ARGENTINA

FEDERAL COUNTRY

## BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: ARGENTINAN PESO (ARS)

## POPULATION AND GEOGRAPHY

**Area:** 2 780 400 km<sup>2</sup>  
**Population:** 44.045 million inhabitants (2017), an increase of 1.0% per year (2010-2015)  
**Density:** 16 inhabitants / km<sup>2</sup>  
**Urban population:** 91.7% of national population  
**Urban population growth:** 1.1% (2017 vs 2016)  
**Capital city:** Buenos Aires (34.0% of national population)

## ECONOMIC DATA

**GDP:** 920.2 billion (current PPP international dollars), i.e. 20 785 dollars per inhabitant (2017)  
**Real GDP growth:** 2.9% (2017 vs 2016)  
**Unemployment rate:** 8.7% (2017)  
**Foreign direct investment, net inflows (FDI):** 11 517 (BoP, current USD millions, 2017)  
**Gross Fixed Capital Formation (GFCF):** 14.8% of GDP (2017)  
**HDI:** 0.825 (very high), rank 47 (2017)

## MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Argentina is a federal representative republic, divided into 23 provinces and the federal capital of Buenos Aires. Argentina's subnational level of government is two-tiered, divided between provinces at the state (provincial) level and municipalities at the local level.

According to the 1853 Constitution (last revised in 1994), the President is both the Head of State and Head of Government, and is elected for a 4-year term by direct and universal suffrage. The Legislative Power is vested in a Congress (*Congreso Nacional*) composed of two chambers: the House of Deputies (*Cámara de Diputados de la Nación*) and the Senate (*Senado de la Nación*). The House of Deputies is composed of representatives directly elected for a 4-year term by a system of proportional representation. The Senate is composed of three senators from each province, and three from the Capital City of Buenos Aires (*Ciudad Autónoma de Buenos Aires*), elected for six years. The Senate is presided by the Vice-President of the Republic, elected at the same time as the President for a 4-year term.

At the provincial level, most provinces pre-date the nation's founding and enjoy a strong degree of autonomy. Provincial governments each have their own executive, legislative and judicial powers. The executive branch is led by the governor, elected according to each province's electoral system (representative, proportional, and majority). Provincial legislative power is vested in a bicameral provincial congress in eight provinces, comprising an upper chamber and a lower chamber, and a unicameral congress in the remaining 15 provinces and in the Capital City of Buenos Aires. Each province enacts its own constitution, as stated in Section 5 of the Federal Constitution of 1853. Inter-jurisdictional relations between the federal and provincial governments are facilitated through Federal Councils in several sectors (Federal Investments Council, Federal Taxes Council, Federal Councils on Education, etc).

The Autonomous City of Buenos Aires (CABA) has an autonomous system of government with its own powers of legislation and jurisdiction, and a directly-elected mayor. However, unlike the provinces, which enact and legally structure their constituent municipalities, federal law has restricted the power of Buenos Aires over its jurisdictions and limits its involvement in a number of sectors, including security and police, urban transport and service provision.

At the local level, the federal constitution establishes the legal basis for local government autonomy, including the rights to elect their own authorities. At provincial level, municipal autonomy is recognised in each provincial constitution. The scope of local government autonomy is largely determined at the provincial level. Each provincial constitution establishes differentiated attributions and organisational structures for local governments, as well as financial arrangements. Executive power at the local level is generally exercised by an intendant, elected by direct suffrage for two or four years, and legislative power is vested in a council whose total number of members is set according to legal prescriptions depending on the province. However, in some provinces, small local governments are governed by a single body, which holds both the executive and legislative functions.

## TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	2 277 local governments ( <i>gobiernos locales</i> )		23 provinces ( <i>provincias</i> ) + 1 The Autonomous City of Buenos Aires (CABA)	
	Average municipal size: 19 340 inhabitants			
	2 277		24	2 301

**OVERALL DESCRIPTION.** Argentina is a federal republic with 23 provinces (*provincias*) plus the Autonomous City of Buenos Aires (*Ciudad Autónoma de Buenos Aires*). Provinces are autonomous and are subdivided into 2 277 autonomous local governments.

**PROVINCIAL LEVEL.** The provincial level of government is composed of 23 provinces (*provincias*) and the Autonomous City of Buenos Aires. The largest province is the Province of Buenos Aires (307 571 km<sup>2</sup>) whereas the smallest one is Tucuman, which extends over just 29 801 km<sup>2</sup>. For statistical purposes, the provinces are further divided into a total of 529 department (*departamentos*, also called *partidos* in the Province of Buenos Aires), which cover the entire Argentinian territory and, unlike local governments, are mutually exclusive. In addition to the decentralised political structure, there also are deconcentrated units of the federal

government in all areas of public policy and it is common for the federal ministries to cooperate directly with the provincial authorities. For statistical purposes, Argentina is also divided into six regional areas: Metropolitana, Cuyana, Noroeste, Noreste, Pampeana and Patagónica.

**LOCAL GOVERNMENT LEVEL.** At the local level, the form of local government varies according to each province, and as of 2017, it included 1 191 municipalities (*municipios*), 496 communes (*comunas*), 94 development commissions (*comisiones de fomento*), 171 municipal commissions (*comisiones municipales*), 113 rural communes (*comunas rurales*), and 212 neighbourhood councils (*juntas vecinales*) and autonomous government councils (*juntas de gobierno autonomas*). Each category differs in its degree of autonomy. In addition, municipalities are divided into municipalities with organic charters, and municipalities without organic charters.

Provinces may be composed of a combination of these six types of local government, without a hierarchical relationship. The form of local government is based on the size of the population, but it can also be related to the number of registered voters, to the existence of an urban centre, etc. In most provinces, the minimum threshold for establishing a municipality is 500 inhabitants, but this limit can vary and be set as high as 10 000 inhabitants, for example in Santa Fe. Larger municipalities are authorised to enact their own Organic Charter of Municipalities (*Carta Orgánica Municipal*) subject to additional criteria depending on each province, such as the existence of urban areas and a population threshold of up to 30 000 inhabitants. As of 2017, approximately 130 municipalities had their own Organic Charters, established according to guidelines set in the Constitution of the relevant province. Other municipalities and types of local government are governed by the Organic Laws of Municipalities enacted by provincial legislation.

Other forms of local governments do not have a minimum threshold but rather maximum thresholds, which vary from 0 to 10 000 inhabitants, and consequently the local government level may be very fragmented in some cases. The average number of local governments per province in Argentina is 91, and in four provinces – Buenos Aires, La Rioja, Mendoza and San Juan – as well as in CABA, the departments have the same status as local governments. Local governments can extend across department boundaries, and in 13 provinces, some areas of the territory are not covered by local governments. Rural communes are only found in the provinces of Chubut and Tucuman. The CABA is divided into 15 communes (*comunas*) and subdivided into 48 neighbourhoods (*barrios*). Finally, like the provincial level, there are also deconcentrated bodies of federal ministries at the municipal level.

Argentina's territorial organisation is far from homogenous, with striking disparities in size and economic activities within and across provinces and local governments. The level of fragmentation at the municipal level is smaller than in most federations and quasi-federations within the OECD when looking at the average number of inhabitants per municipality (19 340 in Argentina). Approximately 80% of local governments have less than 10 000 inhabitants, while only two municipalities have populations above 1 million. In terms of inter-municipal cooperation, arrangements depend heavily on each province's constitution, which include varying degrees of incentives for horizontal and vertical coordination. In some cases, public service delivery (mainly electricity, gas and water) is managed through service cooperatives (*cooperativas*), which provide a community-based response in sparsely populated remote areas. "Urban agreements" (*convenios urbanísticos*) can also be promoted to support inter-municipal cooperation in service delivery along urban corridors near metropolitan areas.

## SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The provinces are responsible for all the powers not delegated to the Federal Government by the National Constitution, as well as those powers expressly reserved to them by special pacts at the time of their incorporation. Provinces have exclusive competences and also share competences with the federal state. Provinces have the power to create regions for socio-economic development or specific bodies to exercise provincial responsibilities and they may, upon approval by the National Congress, ratify international agreements, as long as these agreements do not conflict with the Nation's foreign policies. Provincial governments also own and manage the natural resources within their jurisdiction. Overall, there is a lack of formal guidance regarding responsibilities for territorial development, and the federal framework does not require subnational governments to design or implement formal territorial development strategies.

Exclusive competencies of provincial governments encompass electricity, primary, secondary education and vocational training, and interprovincial roads. Shared competences include some of the remaining aspects of education, justice, police and penitential services, health and social assistance, activities in the area of economic promotion and public transport, housing, energy and environmental matters. These responsibilities are generally spread across the three levels of government, and may be shared also with the private sector (public transport, internet services, hospitals). Education was devolved from the federal government to provinces and to the CABA in 1993 (except for tertiary education), under the coordination of the Federal Council for Education established by law in 2006. The Federal Council works jointly with Provincial Councils for Education Policy. The law on Education Financing (Law No.26075 of 2010) demonstrated further efforts to consolidate education service delivery among government tiers.

The competences assigned to the local governments and municipalities vary across provinces and depend on each provincial constitution. Since Argentina's financial crisis in 2001, municipal functions have expanded, and there is an increasing effort to coordinate with higher levels of government and participation of local authorities in service delivery. Municipal competencies vary widely depending on municipal size, and municipalities with high population density can be assigned significant budgetary and financial responsibility towards public service delivery. As such, some municipalities provide for school maintenance and healthcare services on a de facto basis. Municipal authorities share with provincial governments the responsibilities for primary education, primary healthcare, water and sanitation, regional roads construction and maintenance and fire protection, and responsibilities in economic development, tourism and health prevention with the federal government. Most municipalities have little or no power regarding major infrastructure work undertaken by national agencies in their jurisdictions. Despite the large array of devolved responsibilities, municipal governments in non-resource rich regions often lack the capacity to implement the responsibility assigned to them by provincial and federal authorities due to a lack of adequate human resources.

# ARGENTINA

FEDERAL COUNTRY

## MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	PROVINCES	MUNICIPAL LEVEL
<b>1. General public services</b>	Administration of all provincial services; Coordination and oversight of municipal governments	Regulation and control of local activities, including regulation of land use in accordance with provincial laws, business licenses
<b>2. Public order and safety</b>	Fire protection (shared); Justice and police (shared)	Assistance of population at risk; Fire protection (shared)
<b>3. Economic affairs / transports</b>	Economic promotion; Clusters development; Promotion and financing of economic services; Electricity; Interprovincial roads; Public transport (shared)	Urban planning; Land zoning; Urban infrastructure; Road construction and maintenance; Markets and cemeteries; Public transport and regulation of public roads; Tourism; Management of heritage and historical sites (shared)
<b>4. Environmental protection</b>	Natural resources management; Sewerage (shared)	Public squares and green areas; Waste management; Regulation of pollution; Sewerage (shared)
<b>5. Housing and community amenities</b>	Water management (shared)	Street lightning; Water management (shared)
<b>6. Health</b>	Healthcare (shared)	Primary healthcare (shared); Health prevention (shared)
<b>7. Recreation, culture &amp; religion</b>		Sport
<b>8. Education</b>	Secondary education, including vocational education and technical training; Tertiary education (shared)	Primary education
<b>9. Social protection</b>	Unemployment subsidies (shared)	

## SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

**Scope of fiscal data:** provinces and the Capital City of Buenos Aires at the provincial level, and municipalities and other forms of local governments at the local level.

Other

Availability of fiscal data:  
**Medium**

Quality/reliability of fiscal data :  
**Medium**

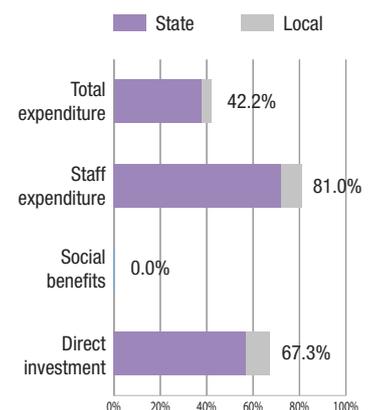
**GENERAL INTRODUCTION.** Argentina is one of the most decentralised countries on the American continent. Subnational governments are heavily involved in the design and implementation of public policies and the provision of public services. In addition to Article 14 of the Federal Constitution, law no. 23 458 of 1988 and the 2017 Fiscal Responsibility Law both regulate intergovernmental fiscal relations between and among the provinces, the municipalities and the federal government.

Expenditure assignments are generally financed out of own-source taxes, fiscal transfers from the federal government and royalties on natural resources. However, Argentina's level of revenue decentralisation is much lower than that of expenditure decentralisation, and the fiscal asymmetries in revenues and expenditure across municipalities add to the challenges of horizontal imbalances due to regional disparities. Tax collection is highly concentrated at the federal level, and the economic and social disparities across provinces make assigning taxing powers to subnational governments a major challenge. Hence, subnational governments remain highly reliant on fiscal transfers to carry out their spending obligations, and provincial governments resort to borrowing. In 2017, a Fiscal Consensus was ratified by all Argentinian provinces (except for San Luis) with the intention of harmonising the tax structures among different jurisdictions.

The local legislative council oversees all local government acts including the budgetary planning process, which is then overseen by the Audit office at the provincial level. The federal secretariat of municipal affairs also oversees the work of the municipalities.

## SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

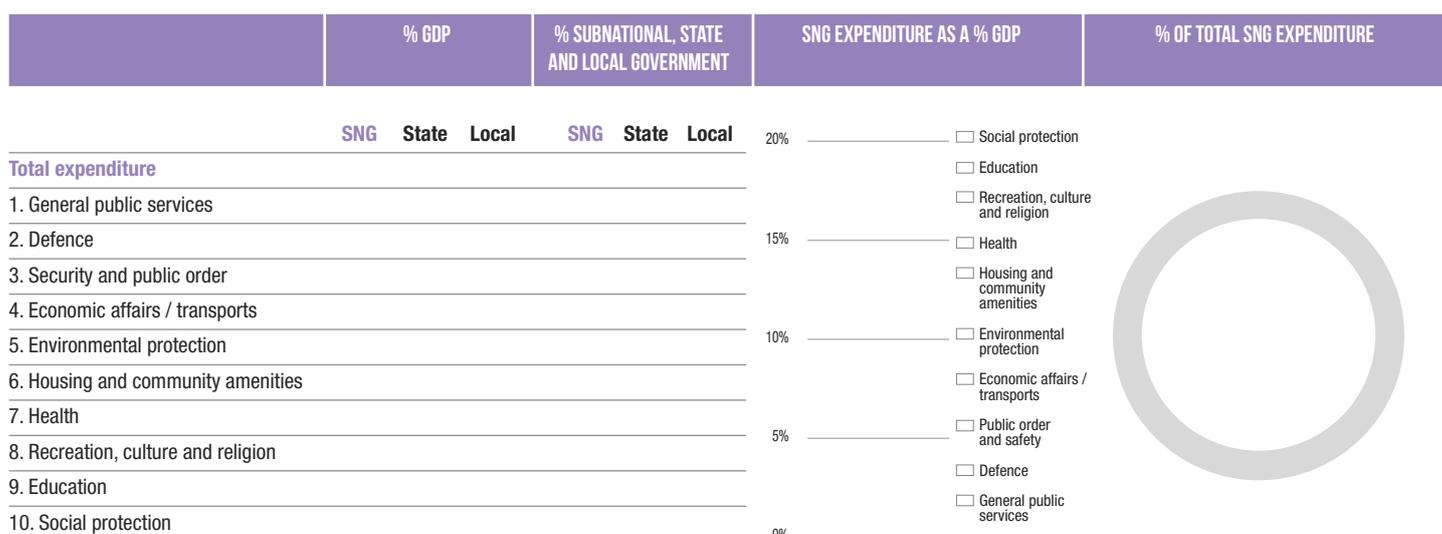
2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE			% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	State	Local	
Total expenditure	3 530	3149	381	17.6%	15.7%	1.9%	100%	100%	100%			
<b>Inc. current expenditure</b>	<b>3 072</b>	<b>2744</b>	<b>328</b>	<b>15.3%</b>	<b>13.7%</b>	<b>1.6%</b>	<b>87.0%</b>	<b>87.2%</b>	<b>86.0%</b>			
Staff expenditure	1 899	1688	212	9.5%	8.4%	1.1%	53.8%	53.6%	55.6%			
Intermediate consumption	361	275	86	1.8%	1.4%	0.4%	10.2%	8.7%	22.5%			
Social expenditure	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			
Subsidies and current transfers	745	715	29	3.7%	3.6%	0.1%	21.1%	22.7%	7.7%			
Financial charges	68	66	1	0.3%	0.3%	0.0%	1.9%	2.1%	0.3%			
Others	0	0	0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			
<b>Incl. capital expenditure</b>	<b>458</b>	<b>404</b>	<b>53</b>	<b>2.3%</b>	<b>2.0%</b>	<b>0.3%</b>	<b>13.0%</b>	<b>12.8%</b>	<b>14.0%</b>			
Capital transfers	130	127	2	0.6%	0.6%	0.0%	3.7%	4.0%	0.6%			
Direct investment (or GFCF)	328	277	51	1.6%	1.4%	0.3%	9.3%	8.8%	13.4%			



**EXPENDITURE.** In 2016, SNG expenditure in Argentina reached 17.6% of GDP and 42.2% of public expenditure, below the OECD average for federal countries, which in 2016 was 19.2% of GDP, 50% of public expenditure. They are major employers with staff expenditure representing more than 81% of public staff expenditure and 53.8% of total SNG expenditure. Among other current expenditure lines, subsidies and transfers came in second and reached 21.1% of total SNG expenditure. These expenditures are generally all made at the provincial level, responsible for 89.2% of SNG expenditure overall. In particular, state government expenditure accounted for 37.6% of public expenditure and 15.7% of GDP, while municipal-related spending only stood at 4.5% of public expenditure and 1.9% of GDP in 2016. The weight of current expenditure in the subnational budget is very high, leaving a small window for capital expenditure (13%) and more specifically investment (9.3%).

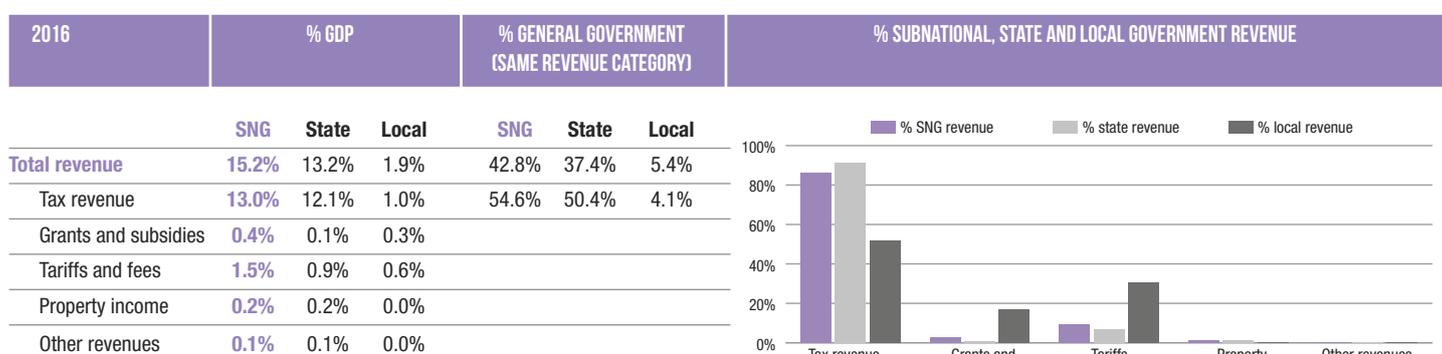
**DIRECT INVESTMENT.** In Argentina, public investment is a shared responsibility among levels of government in several sectors (for instance transport), and therefore it relies on effective federal-provincial cooperation. In 2016, SNG investment represented a level of their total expenditure in line with the OECD average for federal countries (9.2% in 2016). In addition, their involvement accounted for a significant share of total public investment (67.3%) with provincial governments carrying, altogether, 84.5% of total SNG investment, accounting for 56.8% of the total public investment. On the other hand, municipalities represented 15.5% of SNG investment, accounting for 10.4% of total public investment. In the energy sector, the federal-level control over prices and quotas of biofuels, among other regulatory measures, is also discouraging investment in several provinces (e.g. Córdoba). Overall, provinces lack comprehensive infrastructure master plans and regional development strategies aligned with national infrastructure policies and coordinated with local authorities.

#### SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG



At the provincial level, key sectors of expenditure are education, health and social assistance. Economic infrastructure, social insurance/poverty-related spending are jointly borne by the federal and provincial governments, and provinces and the CABA are primarily responsible for financing road construction and maintenance, as well as the purchase of equipment for investments in railway and other infrastructure projects. Since Argentina's financial crisis in 2001, municipalities in several provinces have undertaken spending related to environmental conservation, economic and social programmes, as well as implementing policies in favour of minority groups.

#### SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY



**OVERALL DESCRIPTION.** SNGs revenue sources include taxes, intergovernmental transfers from the federal government, tariffs and fees, property income and some other small revenue sources. According to existing legislation, provincial governments are the only level of government allowed to directly tax its residents. Indirect taxes can be set either by the federal government or by provincial authorities. The federal government has retained the exclusive right to tax foreign trade. However, the Federal Government can constitutionally set direct taxes under "special circumstances". Initially, during the 19th and the beginning of the 20th century, the Federal Government mainly focused on raising taxes on international trade. The Great Depression induced a sharp decrease in federal revenues, leading the federal government to evoke "special circumstances" and to start collecting taxes previously assigned to the provinces. At the same time, provinces had to delegate to the federal government the administration of some of the most essential taxes (including personal and corporate income tax, consumption tax and wealth taxes). This delegation persists. Provinces also collected revenues from natural resource exploitation.

# ARGENTINA

FEDERAL COUNTRY

The primary source of municipal revenue is fees for the provision of services. Provinces can grant fiscal taxation power to their municipalities, although these are very limited and vary depending on the category of municipality and each province's tax-sharing laws. In some provinces, local governments are limited to taxing vehicles and urban properties. In 2016, SNGs revenues accounted for 42.8% of total public revenues, of which a large share is collected at the provincial level including the City of Buenos Aires (37.4% of public revenues). Tax revenues represented the largest share and stood at 86.1% of total SNG revenues, 54.6% of total public tax revenues and 13% of GDP.

**TAX REVENUE.** Tax revenues represented the bulk of SNGs revenues in 2016, accounting for 91% of total provincial government revenues and slightly more than half of local government revenues. This is explained by the fact that in the Argentinian accounting system the tax revenue category comprises both exclusive and shared taxes determined under a co-participation system, which represent almost half of SNG tax revenue. The tax system is complex, with more than 35 taxes and a complicated system of cross-exemptions. Indirect taxes are under the domain of national and provincial authorities, and provinces have the monopoly to set direct taxes on their respective populations (the federal government can set direct taxes under special circumstances). While the taxes applied are very similar across provinces, their shares in provincial tax revenues vary based on a number of criteria (e.g. population, business density, size of urban centres, etc.). In December 2018, several laws were passed – by consensus between the Federal and certain provincial governments – including a number of tax provisions (no. 27 467 and no. 27 469). Upon ratification at the provincial level, the agreement would postpone the reduction of the provincial stamp tax for an additional year. The primary source of tax revenue for provinces comes from their share of sales tax, which accounted for 32.2% of provinces' tax revenue in 2016 (3.9% of GDP). Provincial revenues from shared taxes also include a part of the income tax (of which 4% of income tax revenues are allocated to the provinces and an additional share is allocated to the Province of Buenos Aires), 6.3% of the tax on personal goods, and revenue from natural gas taxes. Besides, the own taxes of provinces include the property tax (7% of provincial tax revenue and 0.9% of GDP, compared to 1.1% of GDP on average in the OECD), gross income tax, tax on motor vehicles and stamp and gift taxes.

The reliance of Argentinian provinces on a tax on gross sales (*Impuesto a las Actividades Lucrativas*) is longstanding. With the introduction of a VAT in 1975, provinces agreed to remove the sales tax and receive a share of the VAT revenues collected by the federal government. The gross sales tax at the provincial level was however reintroduced with a different name (*Ingresos Brutos*) in the 1980s when provincial authorities ran up sizeable deficits. In the 1990s, the federal government initiated new fiscal agreements with the provinces with the objective of reducing the gross sales tax. Provinces agreed to exempt primary activities, manufacturing, construction and financial services from the tax, yet they did not all comply with these agreements. In addition, while fiscal agreements were abandoned in the 2000s, provincial authorities resumed their collections on previously exempted sectors. While some provinces have reduced their rates for small firms or provided fiscal incentives for industrialisation, substantial differences in tax rates for similar economic activities across provinces, especially in the manufacturing sector, remain. Furthermore, regional and local authorities often impose extra requirements on firms from other provinces. In the province of Buenos Aires, out-of-province manufacturers have a rate of 3% compared with 0.57% for in-province manufacturers; in Córdoba, the difference is 3.5% compared to 0.46%. Withholding regimes are also very different across the provinces (more than 60 different regimes). The Convenio Multilateral signed by the provinces is the mechanism used to distribute collections from large taxpayers with sales in more than one jurisdiction among the provinces.

Municipalities in general have very limited taxing powers, and only a small number of municipalities (Córdoba, Chaco, Chubut, Formosa, and Salta) are allowed to collect taxes. These taxes are mostly related to municipal services, vehicles, business and environmental tax, and property tax. Each province and most local governments have their own tax administration department or agency (either centralised or decentralised). Some provinces agree to share information with the federal tax agency, but there are no joint audits. The operation and degree of administrative autonomy may differ significantly. For instance, in some provinces the tax authorities are organised as independent offices deciding on their own budget and reporting to the Provincial Ministry of Finance or Economy while others are administrative branches or provincial Directorates, as in Santa Fe and Mendoza, under the corresponding unit of the Ministry of Economy or Finance.

**GRANTS AND SUBSIDIES.** Intergovernmental transfer agreements between the federal government and the 23 provinces and Capital City of Buenos Aires are regulated according to the 1988 Law no. 25 548 of Co-participation (*Coparticipación Federal de Impuestos*), as amended in 2002. This law established an equalisation scheme between the federal and provincial level, funded through the withholding of a specified percentage of provincial tax revenues (64% of the income tax, 89% of VAT revenue, 93.7% of taxes on personal goods, 30% of tax on financial transactions and 30% of the self-employment tax). In addition, national level block grants are used to finance provincial funds (e.g. Energy Fund, Housing Fund, Road Fund).

As of 2016, transfers represented barely 2.7% of SNG total revenue (compared to 37.2% on average in the OECD), and 0.4% of GDP. These shares have been decreasing in recent years, and are expected to decrease further as revenues are recentralised and as a result of changes in the composition of taxes that have favoured the federal government. In 2016, grants accounted for 17.1% of local government revenue, compared to 0.6% for provinces and the CABA. Overall, 58% of grants from the federal governments are current, versus 41.9% of capital grants.

Law no. 25 548 sets the percentages of funding allocated to each province, although it does not specify the shares to be transferred to the municipalities. According to the Co-Participation Law, and with very few exceptions (e.g., taxes on international trade), taxes collected by the Federal Government form a common pool (*Masa Coparticipable*). The primary distribution of this common pool is set as follows: 42.3% to the Federal Government, 54.7% to be shared among all provinces, and 2% to be divided among certain provinces to compensate for losses caused by prior co-participation arrangements (1.57% to Buenos Aires, 0.14% to Chubut, 0.14% to Neuquén, 0.14% to Santa Cruz). The remaining 1% makes up a special fund dedicated to provinces facing unforeseen contingencies (*Fondo de Aportes del Tesoro Nacional*). From the part of the common pool assigned to all provinces, each of them receives a fixed share set by the law. Each province determines the composition and distribution of these revenues to the municipalities based on provincial disposable revenues. In 2016, transfers to the municipalities represented 17% of their total revenues. Until 2015, 15% of total tax revenues subject to the co-participation regime were withheld by the Government to fund the social security system. In 2015, this agreement was repealed for the provinces of Córdoba, San Luis and Santa Fe, and the federal government had to return the funds. Besides, the Joint Federal Fund (*Fondo Federal Solidario*), created in 2009 part of the Co-Participation Law and financed by 30% of taxation of soy exports, allocated funds for infrastructure expenditure to provinces and municipalities.

Unlike tax sharing or equalisation mechanisms in other countries, the equalisation coefficients are related neither to observable exogenous provincial characteristics (geographic, demographic, socioeconomic) nor to provincial expenditure needs or plans. Shared revenues are rather close-ended as there are no limits on the absolute amount of resources that a province can receive or on the share of its revenues that can come from the Federal Government. Besides, any agreement to amend the formula and reassign funds from one province to another requires unanimity among all parties involved, which has proven difficult to achieve so far.

**OTHER REVENUES.** Other revenue sources differ from one municipality to another and depend on provincial regulations. More generally, they include property rents, business licenses or user fees and charges. In addition to direct and indirect taxes, authorities in resource-rich provinces also receive significant amounts of funding from royalties from natural resource exploitation, and particularly from mining, electricity and the production of crude oil and natural gas. The rates on natural resource exploitation vary across some provinces, which agreed on different rates in bilateral negotiations with private firms in order to grant concessions. The regime of royalty payments is determined by the 1967 law no.17319, which establishes standard procedures for revenue mobilisation on natural resources, and is applicable to all provinces. However, this source of revenue is highly volatile, and subject to change in international prices. In some cases, royalties are collected by federal authorities and then transferred to the provincial units where the production takes place according to the devolution criteria. In 2016, tariffs and fees represented the second most important revenue sources of the municipalities – 30% of the total revenues. The tariffs, fees and user charges are collected on public services including lighting, sanitation services, safety and hygiene, building permits, street cleaning, etc. Property income represented only a small share of SNGs revenues, be it at the provincial (1.3% of state revenues) or at the local level (0.4% of municipal revenues).

## SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
<b>Total outstanding debt</b>	<b>1 126</b>			<b>5.6%</b>			<b>10.5%</b>			<b>100%</b>		
Financial debt*	1 126			5.6%			10.5%			100%		

\* Currency and deposits, loans and bonds

**FISCAL RULES.** Fiscal rules are set out in the Fiscal Responsibility Law (FRL) adopted in 1999, and amended successively in 2001, 2004 and 2017. All jurisdictions were required to maintain balanced budgets, excluding investment in basic social and economic infrastructure and IFI-financed projects, and to prepare annual fiscal programs setting forth certain fiscal policies. In 2000, a Fiscal Responsibility Council was created to monitor the implementation of the rules and impose penalties for non-compliance, ranging from public disclosure to partial withholding of budgetary transfers. However, the effectiveness of fiscal control was relatively weak due to the lack of independence of the Council. In 2009, at the height of the financial crisis, and as national and provincial governments were not able to meet the requirements for fiscal responsibility, the FRL was de facto suspended, and the monitoring of fiscal responsibility lost much of its transparency. From 2012 until 2016, internal improvements were made to improve access and reliability of information, and in 2017, the federal government and provinces agreed to a new Fiscal Responsibility Law. The new Law limits the increase in public employees at the provincial level with population growth, and commits provinces to maintain non-wage current primary spending flat in real terms. In 2018, following a sharp depreciation of its currency by 50%, Argentina agreed a USD 56.3 billion financing arrangement with the International Monetary Fund to reduce the country's dependence on market financing over the period 2019-2020. In this framework, new primary fiscal targets of 0% of GDP in 2019 and 1% in 2020 were set for the country. The arrangement also enacted the allocation of resources to the newly created Congress Budgetary Office, the strengthening of tax authorities and of the social safety net, including the redesign of the assistance program.

**DEBT.** Argentina stands as one of the most decentralised countries in Latin America in terms of subnational fiscal borrowing, as subnational governments in Argentina tend to use debt to finance many of their assigned public expenditures. Provinces are granted borrowing rights through the federal constitution, and provincial debt is subjected to provincial legislatures, while municipal debt is subjected to municipal legislatures. As a result, Argentina's federal government has limited means to interfere in subnational borrowing, except in the case of foreign loans that need Congressional approval. During the 1980s-1990s, most subnational borrowing went through provincial banks, resulting in an unsustainable debt level, which exacerbated the financial crisis of 1999. As the crisis abated, notably through the relief of public debt of the provinces, and subnational borrowing resumed, a Fiscal Solvency Law was passed in 1999 at the national level. Provinces were encouraged to pass similar laws on their own. In 2004, the Congress approved law no. 25917, which set forth new fiscal responsibility and transparency measures limiting provincial debt levels within provincial jurisdictions to 15% of the net current resources of municipalities (after deduction of revenue-sharing transfers to municipalities). In the case of domestic borrowing, for which inter-governmental transfers are used as collateral, the loans are registered with the Ministry of Economy and with the National Bank (*Banco de la Nación*). The latter has the authority to deduct any debt payment on guaranteed loans from the amount allocated as intergovernmental transfers. The Ministry of Economy must authorise all provincial loans that use co-participation funds as a guarantee. In 2010, the national government restructured almost all provincial debt within the Fiduciary Fund for Provincial Development Programme (*Fondo Fiduciario para el Desarrollo Provincial*). This preventive measure led to a reduction in the subnational debt level between 2003 and 2015. In 2016, according to our estimates, SNG total outstanding debt reached 5.6% of GDP, an increase compared to 2013 (4.3%). The weight of SNG debt in total debt has slightly increased, standing at 10.5% of public debt in 2016 compared to 10% in 2013. SNG's debt was mostly composed of bonds and debt securities and a tiny share coming from loans.



Lead responsible: OECD  
Last update: 02/2019

[www.sng-wofi.org](http://www.sng-wofi.org)

**Socio-economic indicators:** World Bank // UNDP // UN Desa // ILO // INDEC (2017) Anuario Estadístico de la República Argentina.

**Fiscal data:** Ministerio de Hacienda y Finanzas Públicas, Oficina Nacional de Presupuesto, INDEC : Sector Público. // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data // IMF GFS.

**Other sources of information:** OECD (2019) OECD Economic Surveys: Argentina 2019 // Rosales, Mario (2017) Descentralización y Municipios en República Argentina. In FLACMA(2017) Municipalismo : Perspectivas da descentralização na América Latina, na Europa e no Mundo // M. Besfamille, N. Grosman, D. Jorrat, Manzano, Sanguinetti (2017) Public expenditures and debt at the subnational level: Evidence of fiscal smoothing from Argentina // OECD (2017) OECD Economic Surveys: Argentina 2017: Multi-dimensional Economic Survey // OECD (2016) OECD Territorial Reviews: Córdoba, Argentina // Cetrángolo, Gómez Sabaini & Morán (2015) Argentina: reformas fiscales, crecimiento e inversión (2000-2014) // Cetrángolo, O. & Goldschmit, A. (2013) La descentralización y el financiamiento de políticas sociales eficaces : impactos, desafíos y reformas. // M. Astudillo Moya, M. Garcia Morales (2013) Inter-Governmental fiscal relationships of municipalities and provinces in Argentina and Mexico // Beltrán Toro & González Catalán (2013) Disparidades territoriales y desempeño exportador al MERCOSUR : evidencia a nivel de las provincias argentinas.