



## Payroll Taxes for Child Development: Lessons from Colombia

As nations develop early childhood development (ECD) policies and plans, they identify urgent priorities and seek to expand their investments in children.<sup>1</sup> ECD payroll taxes are one option for increasing private and public support for vulnerable children and families. This Policy Brief analyzes the history, achievements and challenges of Colombia's 30-year old ECD payroll tax and provides important lessons for other nations.

### *Brief history of the ECD payroll tax in Colombia*

With strong presidential support, Article 53 of Law 75 of 1968 established the Colombian Institute for Family Welfare (ICBF), a semi-autonomous service agency affiliated with the Ministry of Health.<sup>2</sup> Headed by a Director and a Board, ICBF is administratively and financially autonomous and accepts private sector funds. Its integrated services include: child care; parent education; protective services; and nutritional supplements for pregnant and lactating women, preschools and schools.<sup>3</sup> Since 1968, the health and education ministries have worked with ICBF.<sup>4</sup>

To guide service design, in 1972 ICBF specialists conducted the world's first research project uniting infant psychosocial stimulation and parent education with health and nutrition care.<sup>5</sup> This project demonstrated that stimulation is critical to helping children from malnourished families achieve improved physical and cognitive development.<sup>6</sup> This research and advocacy by Colombian nutritionists and labour leaders concerned about women's and children's rights increased demand for ICBF services, leading to Law 27 of 1974 that established a two percent payroll tax. In 1988, Law 89 raised the tax to three percent.<sup>7</sup> These laws authorize ICBF to collect monthly payroll taxes for ECD. All private and public institutions of all sizes must deposit three percent of their

total payrolls each month into a central bank account managed by ICBF.<sup>8</sup> (Employees do not pay the tax.) This account pays for ICBF's direct services for children and contracts with NGOs and others to provide local services.

ICBF's ECD tax income for 2004 was US\$540,547,000, yielding close to 0.6 percent of annual GDP.<sup>9</sup> ICBF has begun to diversify its income by establishing agreements with 13 international and 26 national organizations, that contributed approximately US\$66,028,000 in 2004.

### *Impacts of the ECD payroll tax*

Despite continuing violence in Colombia, ICBF has achieved nation-wide geographic coverage. In 2004, 9,120,144 participants (21 percent of the population) received services. ICBF reported the following services:

- Community Child Care Homes served 957,238 children, about 50 percent of needy children aged zero to six.
- Parent education for 765,513 parents.
- Nutritional supplements given to 726,500 women.
- School feeding services for thousands of children.
- Protective services for 1,107,409 children up to age 18.
- Reintegration services for over 1,400 child soldiers.

A 1993 external evaluation showed ICBF programmes strengthened families, expanded women's employment, improved children's cognitive and social development, and protected children but surprisingly did not improve their nutritional status.<sup>10</sup> A 1997 external evaluation revealed ICBF programmes protected children but needed to improve home child care environments, mother educator training, and child development, nutrition and health services.<sup>11</sup> ICBF is now collaborating with national NGOs to improve programme quality, establish standards, refine food supplementation systems, and expand training and supervision. In violence zones and for displaced populations, ICBF mother educators help sustain families and communities.<sup>12</sup> Mother educators fiercely defend the ECD payroll tax and advocate for ICBF services.<sup>13</sup>

<sup>1</sup> Vargas-Barón, E. (2005). *Planning Policies for Early Childhood Development: Guidelines for Action*. Paris: UNICEF, ADEA and UNESCO.

<sup>2</sup> Alm, J. and López-Castaño, H. (December 2003). "Payroll Taxes in Colombia." Bogotá: Fedesarrollo.

<sup>3</sup> ICBF has a decentralised structure with a national office, 28 regional offices, 5 additional departmental (state) agencies and 199 zone centres.

<sup>4</sup> ICBF's child care homes complement formal preschools of Ministry of Education and health services of Ministry of Health.

<sup>5</sup> Collaborators: ICBF, Harvard School of Public Health, High/Scope, and Ford Foundation's Office for Colombia and Venezuela.

<sup>6</sup> Super, C.M, Herrera, G. and Mora, J.O. (1992). "Long-Term Effects of Food Supplementation and Psychosocial Intervention on the Physical Growth of Colombian Infants at Risk of Malnutrition," *Annual Progress in Child Psychiatry and Child Development 1991*, pp. 160-189. New York: Bruner/Mazel Publishers.

<sup>7</sup> The ECD payroll tax is part of a larger package including two percent for National Training Service and four percent for worker subsidies.

<sup>8</sup> ICBF website: <http://www.icbf.gov.co>. (See administrative details.)

<sup>9</sup> *Informe ICBF presentado al Ministerio de Protección Social*. (June 2005). Bogotá: ICBF. (Source of most ICBF statistics presented in text.)

<sup>10</sup> Castillo, C., Ortiz, N. and González A. (1993). "Home-based Community Day Care and Children's Rights: The Colombian Case." *Innocenti Occasional Papers, Child Rights Series 3*. Florence: UNICEF.

<sup>11</sup> *Primera Encuesta Sistema de Evaluación de Impacto de Hogares Comunitarios de Bienestar*. (1997). Bogotá: ICBF.

<sup>12</sup> Informal communication, Acosta, A. Director, Bogotá Regional Office, International Centre of Education and Human Development (CINDE).

<sup>13</sup> Urrutia Montoya, M., (1999). "El impacto de los programas de intervención para la niñez sobre el crecimiento económico y la igualdad." Bogotá: Banco de la República.

Most Colombians feel the payroll tax is beneficial and enables millions of vulnerable children to be served. Some Colombian ECD specialists believe ICBF should expand and improve its programmes, offer home visits as well as centre-based services, provide continuous in-service training, and improve evaluation and accountability.

### **Remaining challenges**

#### *Financial instability*

Income from payroll taxes rises and falls according to national employment levels and economic crises. Also, some organisations evade their tax payments; however, with the help of the Attorney General of Colombia, ICBF recouped large sums of money that it was owed and needed to provide services.<sup>14</sup> Income instability has made budget preparation and financial reporting difficult.

#### *Decentralisation*

According to Colombia's 1991 Constitution, ICBF should decentralise services, sending funds to *municipios* (counties) for them to administer programmes for children. The ICBF Workers Union strongly defends the payroll tax and rejects decentralisation, fearing a loss of services and employment.<sup>15</sup> ICBF managers say they have not decentralised payroll tax management to ensure efficiency and accountability; however, they are seeking to further decentralise ICBF services by assisting *municipios* to improve comprehensive local ECD planning.

#### *Inter-ministerial competition*

Several ministries seek increased funding and look enviously at ICBF's payroll tax. This has exacerbated inter-ministerial competition regarding ECD policies and programmes. Colombia's proposed ECD Policy should provide guidance regarding sectoral and inter-sectoral roles, responsibilities and coordination.

#### *Private sector opposition*

Some business people claim that payroll taxes keep them from increasing corporate profit. A few economic planners assert payroll taxes reduce employment, increase labour costs, and retard private sector development.<sup>16</sup> They suggest ICBF be funded "some other way" but propose no alternatives. Without the payroll tax, ICBF would cease to exist, resulting in millions of un-served vulnerable and violence-affected children and parents as well as thousands of unemployed ICBF workers. Many fear that if the "safety net" of ICBF services were to disappear, rates of low birth weight, child mortality, morbidity, malnutrition, developmental delay, and abuse might rise rapidly.

### **Conclusions and Lessons Learned**

The ECD payroll tax helped Colombia attain greater equity through expanding investments in vulnerable children. It

also revealed that nationwide integrated ECD services are possible. A Colombian report stated, "*The availability of a tax whose sole goal is the provision of programmes for children and families has been one of the major achievements of the country. Because of this, in spite of fiscal crises at every level, ICBF has been able to maintain its programmes and has even increased coverage in a manner consistent with national economic growth.*"<sup>17</sup>

Some valuable lessons have been learned:

- The objectives, responsibilities and procedures of ECD payroll tax systems must be clearly specified in national policies, plans or legislation in order to prevent diversion to other uses.
- ECD payroll taxes should complement and not replace national education and health budgets for ECD.
- Monthly payroll taxes and their collection can be unstable. Nations should provide core funding for ECD services from national budgets to achieve stable service delivery.
- An efficient system of tax collection, management and accountability will need to be complemented by an effective system of decentralised services for children.
- Other government agencies will compete for the funds and try to divert them away from ECD.
- Private sector leaders may oppose ECD payroll taxes, claiming they decrease economic growth but by building strong citizen support, they can be defended.

Finally, to ensure ECD payroll taxes are managed well and achieve expected results, some countries may wish to develop a semi-autonomous institute, such as ICBF, to provide essential ECD services.

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<sup>14</sup> "ICFB y Procuraduría controlan pago de parafiscales." (17 February 2005). Bogotá: Procuraduría General de la Nación. Over US\$8 million dollars were recovered from 1,762 public entities.

<sup>15</sup> Comments of Vicky Forero, President of the Union of ICBF Workers, SinBienestar, in *Los retos del sindicalismo*. (2001). Bogotá: Centro de Estudios del Trabajo (CEDETRABAJO)

<sup>16</sup> Hispanic American Center for Economic Research, Weekly Latin American News Report by email, 2003.

<sup>17</sup> "Informe de Colombia: Seguimiento de la Cumbre Mundial a Favor de la Infancia," 1990 – 2000. (2000). New York: Colombian Mission to the United Nations. <http://www.un.int/colombia/informeinfancia.htm>