

Fiscal Policy for Development in Latin America and the Caribbean

The LAC-OECD Fiscal Initiative

The OECD is developing a new regional initiative to strengthen relations with Latin American and Caribbean countries (LAC Initiative). This initiative will develop an OECD platform for policy dialogue and peer review in the LAC region, and will initially cover fiscal, investment, public governance and innovation policies. This document gives an overview of the fiscal pillar of the initiative, which aims to improve taxation and public expenditure policies in the LAC region. The fiscal pillar is a joint project between the Centre for Tax Policy and Administration and the Development Centre.

Rationale and start up

The need for fiscal reforms supportive of economic growth and income distribution in Latin American and Caribbean (LAC) countries is an urgent issue, reinforced with the economic crisis, with higher volatility of non-tax revenues and potentially tighter fiscal constraints in many countries.

Several Ministers of Finance in the LAC region expressed interest in working with the OECD on fiscal policy issues, including Argentina, Brazil, Chile, Costa Rica, Guatemala, Mexico, Peru, Uruguay and the Dominican Republic.

The fiscal component of the LAC-OECD Initiative was publicly launched at the II International Economic Forum for Latin America and the Caribbean in Paris, 25 January 2010.

It was attended by Ministers of Finance from Latin America and the Caribbean and OECD countries, international organisations, fiscal policy think-tanks, and representatives from 23 countries: 13 Latin American (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Mexico, Panama, Paraguay, Peru and Uruguay) and 10 non-Latin American member states of the OECD.

Potential partners

The LAC-OECD Fiscal Initiative is building on and complementing existing initiatives in the region, working closely with key regional tax administration and public policy evaluation organisations, such as FIAS, IMF, CIAT, the Spanish Institute for Fiscal Studies, the European Union through the EUROsociAL Programme and ECLAC.

The Initiative is also strengthening DEV's current collaboration with research centers and other leading international organisations active in the region, such as BNDES, CABEI, CAF, ECLAC, IDB, IBRD, OAS, SEGIB and UNDP.

Objectives

- To establish a regional forum for dialogue on fiscal (tax and public expenditure) policy amongst senior fiscal policy officials of LAC countries, where they will be encouraged to share practical experiences and insights into alternative policies and administrative approaches, as well as analytical tools, data and analysis to help guide policy decisions.

Its main aim is to help LAC countries to improve their tax systems, public expenditure structures and strengthening fiscal consolidation through, in particular, evaluating how tax systems and public expenditures can help foster development, strengthen fiscal legitimacy, consolidate democratic institutions, reduce inequality, reduce informality, facilitate trade and promote cross-border investment.

- To build internationally comparable data on government sector receipts and on the main taxes, as well as comparable tax burden indicators across countries in the LAC region and with OECD countries, to facilitate the fiscal policy dialogue and the assessment of alternative fiscal reforms supportive of economic growth and income distribution.

- To assist as required with design and implementation of reform measures. The Initiative will cover policy formulation, legislative development, implementation, and monitoring of reforms.

Project overview

The first year work programme (November 2009–November 2010), out of a three-year renewable project, is presently supported by Spanish, Mexican and Chilean contributions, and will be mainly focused on:

- tax policy formulation (moving in a later stage to the public expenditure side) through the activity of a Working Group on Tax Policy (Heads/Directors/Deputy Directors of tax policy units); several technical workshops for LAC fiscal officials are also being delivered.

- and the development of a Latin American Revenue Statistics database.

LAC-OECD Fiscal Initiative Deliverables

Short-term deliverables

• A Latin American Revenue Statistics database is being developed to facilitate fiscal policy dialogue and support the assessment of alternative fiscal reforms supportive to economic growth and income distribution.

• A web platform will be created to share a LAC database and to foster virtual dialogue on fiscal issues.

• Working groups and Workshops for senior tax policy officials in LAC countries that are going to take place in the near future are:

• Micro-simulation analysis and forecasting (CIT, PIT, VAT) workshop:

Panama, 13-15 September 2010.

This workshop, organised with CIAT and the Spanish Institute for Fiscal Studies, will consider models to assess who pays more and who pays less (“winners” and “losers”) under a given tax reform, as well as the revenue impact of policy options to provide a balanced outcome of tax reform.

• First meeting of the Working Group on Tax Policy:

Panama, 16 September 2010.

This meeting, organised with CIAT, will be focused on the role of the tax system in reducing inequality and promoting social cohesion, and will also set up the Group’s programme of work for the next year.

• Fiscal Federalism Workshop:

Cartagena de Indias (Colombia), November 2010 (tbc).

This workshop will help to better understand the design of fiscal relations across levels of government, its impact on territorial development, or the establishment of a consolidated statistical database.

Additional deliverables (dependent on donations):

• First meeting of the Working Group on Expenditure Policy:

Senior fiscal policy officials and senior economic advisers of LAC countries will be invited to participate in a policy workshop on methodologies to measure cyclically-adjusted fiscal balances, best practices in design and implementation of structural budgeting from a macroeconomic perspective, fiscal rules and institutions, and related political economy aspects.

• Taxing Wages in LAC, and LAC Revenue Statistics (periodical) publications:

Two periodical publications will be delivered in the first quarter of 2011 if additional funding is raised.

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Potential areas of work:

- Taxation and employment policies.
 - Taxation and investment policies.
 - Taxation and innovation policies.
 - Taxation and small and medium-sized enterprises (SMEs) formation and growth.
 - Taxation and multinationals.
 - The importance and challenges of fiscal relations across different levels of government in enhancing growth and tackling inequality.
 - The impact of tax levels and structures on long-term growth.
 - The use of taxes to achieve a fair sharing of the costs and benefits of globalisation.
 - The increasing pressure on revenue administrations to provide a better service and at the same time to maintain their enforcement activities.
 - Tax avoidance and evasion and the role of exchange of information between tax administrations.
 - The impact of social public expenditure on development and income distribution.
 - The use and implementation of counter-cyclical fiscal policies and macroeconomic fiscal rules.
 - The political economy of introducing fiscal reforms and promoting fiscal legitimacy.
 - Social expenditure and taxation: interaction and effects on poverty, informality and inequality.
 - Social expenditure, taxation and labor market informality.
- Meetings could be reinforced by the creation of databases on:
- Effective tax rates (METR/AETR) on labour and capital income.
 - Net effect of tax and benefit system on, for example, income distribution, the tax bias against the transition from unemployment to work.
 - Net effects of social expenditure on income distribution.

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