

# Fiscal Policy for Development in Latin America and the Caribbean

## The LAC Fiscal Initiative

The OECD's Latin American and Caribbean (LAC) Initiative fosters policy dialogue and peer review in the LAC region. It covers fiscal, investment, public governance and innovation policies. This document describes the fiscal pillar of the Initiative, which aims to **improve taxation and public expenditure policies** in the region to support economic growth and income redistribution.

### General overview

- ❑ The fiscal component of the LAC Initiative was publicly launched at the II International Economic Forum for Latin America and the Caribbean in Paris on 25 January 2010 which was attended by Ministers of Finance from the LAC region, OECD member countries, heads of international organisations, fiscal policy think-tanks, and representatives from 23 countries.
- ❑ It is a demand driven programme that attends to the specific needs of LAC countries on fiscal policy issues, combining both regional and country by country approaches: the former for exchange of views, and the latter for the identification of demand and assistance in target reforms.
- ❑ It provides a unique opportunity for LAC countries to engage in dialogue with experts from the relevant OECD Committees and other key regional organisations on fiscal policy issues.
- ❑ The LAC Fiscal Initiative is financed by voluntary contributions from OECD and participating countries.

### Objectives

- ❑ To consolidate a regional forum for dialogue on fiscal policy (tax and public expenditure) amongst senior fiscal policy officials from LAC countries, 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. When necessary, and if possible, the aim is to set up working groups with a limited number of countries on specific issues of their interest.
- ❑ To facilitate fiscal policy dialogue and the assessment of alternative fiscal reforms supportive of economic growth and income redistribution, through the development of internationally comparable data on tax levels and structures of LAC countries or other comparable tax burden indicators; and through delivering tax policy workshops and research papers.
- ❑ To assist countries with the design and implementation of fiscal reform measures. The Initiative covers policy formulation, legislative development, implementation and monitoring of reforms.

### Key partners of the LAC Fiscal Initiative

The LAC Fiscal Initiative integrates its work in close co-operation with other key regional tax administration and public policy evaluation organisations working in the LAC region, such as CIAT, FIAS, IADB, IMF, the European Union's Eurosocietal Programme, ECLAC, and the Spanish Institute for Fiscal Studies.

The Initiative also strengthens the Development Centre's current collaboration with research centres and other leading international organisations active in the region, such as BNDES, CABEL, CAF, ECLAC, IDB, IBRD, OAS, SEGIB and UNDP.

### Did you know...?

The LAC Tax Policy Forum is currently co-chaired by Spain and Brazil, and includes 17 LAC countries.

# LAC Fiscal Initiative Deliverables

## ❖ 2010-2011 deliverables

### 1) Creation of a regional forum for fiscal policy dialogue:

#### ○ First meeting of the LAC Tax Policy Forum

Panama, 16-17 September 2010

This [meeting](#), organised with CIAT and the MEF of Panama, focused on the role of the tax system in reducing income inequality and promoting social cohesion, and established the Forum's programme of work for the next year. Fourteen LAC countries, several OECD member countries, and numerous national and international organisations (ADETEF, CIAT, ECLAC, FGV, IADB, ICEFI, Spanish IEF, IMF, USAID) participated.

### 2) Tools to facilitate policy dialogue:

#### ○ New Revenue Statistics in Latin America publication

This joint [publication](#) by CIAT, ECLAC and the OECD was launched in Santiago (Chile) on 25 January 2012 at the ECLAC's XXIV Regional Seminar on Fiscal Policy. It aims at helping fiscal policy dialogue and the assessment of alternative fiscal reforms by providing internationally comparable data from 1990 to 2009 on tax levels and structures for 12 representative countries of the region (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Mexico, Peru, Uruguay, Venezuela), including data at sub-national government level. It enables meaningful cross-country comparisons not only between LAC economies, but also, for the first time, between them and their industrialised peers.

A [web platform](#) to share this database and to foster virtual dialogue on fiscal issues has also been developed.

#### ○ LAC Tax Policy workshops

- Seminar on Tax Policy Modeling: Mexico 8-12 March 2010
- Micro-simulation analysis and forecasting (CIT, PIT, VAT) workshop: Panama 13-15 September 2010
- Seminar on Fiscal Federalism: Colombia, 2-5 Nov. 2010
- Micro-simulation tax modeling workshop (CIT, PIT, VAT): Brazil, 17-21 October 2011

#### ○ Publications

Several papers produced under this programme will contribute to the debate on fiscal policy in Latin America.

### 3) Assistance in the design and implementation of reform measures:

on a demand driven basis, two LAC countries have been assisted in the process of reform of their fiscal rules.

## ❖ 2012 deliverables

#### ○ Second meeting of the LAC Tax Policy Forum

Bogota (Colombia), 12-13 July 2012

This second meeting will focus on the issue of addressing tax incentives (in particular those designed to attract foreign direct investment) and informality, to support fiscal consolidation.

#### ○ Revenue Statistics in Latin America (new edition)

OECD, CIAT and ECLAC are preparing a second edition adding 3 new countries to the previous 12 already included in the first edition. The aim is to publish this on an annual basis so that it becomes a regular point of reference for fiscal policy makers in region.

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## ❖ Possible additional deliverables

#### ○ Working Group on Fiscal 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.

○ **Publications:** *Revenue Statistics in Latin America (periodical)*, *Taxing Wages in Latin America*, *Consumption Tax Trends in Latin America*, and other tax indicators/measures for LAC (effective tax rates on labour, capital and consumption), often used to assess and guide tax policy, could be delivered.

### Additional databases

Meetings could be reinforced by creating databases on:

- ✓ 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.

### Potential areas of work

- Taxation and employment, or investment, or 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 labour market informality.

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