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 Fiscal Initiative is financed by voluntary contributions from OECD and participating countries.

Objectives

- To establish a regional forum for dialogue on fiscal (tax and public expenditure) policy amongst senior fiscal policy officials of 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 build internationally comparable data (not only among LAC countries but also, for the first time, between them and OECD countries) on tax levels and tax structures of a selection of LAC countries, as well as comparable tax burden indicators across countries in the LAC region and with OECD member countries. This will facilitate the fiscal policy dialogue and the assessment of alternative fiscal reforms that support economic growth and income redistribution.
- To assist 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 Eurosocial 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, CABI, 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 deliverables**

- **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.

- **LAC Tax Policy workshops**
  With the aim of complementing tax policy discussions, several technical workshops were delivered in 2010:
  - Tax Policy Modeling (Mexico MTC)
  - Micro-simulation analysis and forecasting (Panama)
  - Fiscal federalism (AECID Centre, Colombia)

**2011 deliverables**

- **New Revenue Statistics in Latin America publication**
  This publication will provide comparable data from 1990 to 2009 on tax levels and tax structures of Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Mexico, Peru, Uruguay and Venezuela. More countries will be added as resources increase. The publication will also include data at sub-national governments’ level. This work is the result of the collaboration of the OECD, CIAT and ECLAC, and is expected to be launched at the ECLAC’s XXIV Regional Seminar on Fiscal Policy that will take place in Santiago de Chile on 24-26 January 2012.

- **A web platform** is being developed to share the Revenue Statistics in Latin America database (free access to all fiscal data) and to foster virtual dialogue on fiscal issues.

- **Micro-simulation tax modelling workshop (CIT, PIT, VAT):** Brasilia (Brazil), 17-21 October 2011, organised with CIAT and ESAF (Brazilian Escola de Administração Fazendária)

- **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.

- **Publications:** several papers produced under this programme will contribute to the debate on fiscal policy in Latin America.

**2012 deliverables**

- **Second meeting of the LAC Tax Policy Forum**
  Bogota (Colombia), 13-14 July 2012
  This second meeting will focus on tax incentives, in particular those designed to attract foreign direct investment and to curb informality.

- **Revenue Statistics in Latin America (new edition)**
  OECD, CIAT and ECLAC will produce a second edition adding 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 the region.

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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.

**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.