

# Fiscal Panorama of Latin America and the Caribbean

2021

Fiscal policy challenges for  
transformative recovery  
post-COVID-19



**COVID-19  
RESPONSE**





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RESPONSE**



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### *In memoriam*

Juan Carlos Gómez Sabaini (“Bebe”), who passed away in March 2021, left an indelible mark on the study and practice of tax policy in Latin America and the Caribbean. Over the course of his career, he worked as a researcher, professor and policymaker in his native Argentina and served as a staff member of the Organization of American States (OAS) and a consultant to the Inter-American Development Bank (IDB), the International Monetary Fund (IMF) and the Economic Commission for Latin America and the Caribbean (ECLAC), among other institutions. At ECLAC, he made a great contribution to the analysis of tax policy issues and challenges and their impact on equity, both in his publications and in his involvement in regional fiscal policy seminars. His ideas played an incalculable part in improving tax policy in the region and he provided extensive and invaluable training to new generations of taxation experts, through whom his legacy will endure. He will be remembered for his great humanity and commitment to social justice, his openness to points of view other than his own and his tireless encouragement of those around him.



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## Foreword

In 2021, Latin America and the Caribbean faces an economic context that remains complex and uncertain. The coronavirus disease (COVID-19) pandemic continues to impact the region, with a fresh wave of cases that has led to the implementation of new public health measures to curb the spread of the virus. Vaccination campaigns, which are a priority, have been hampered by unequal access to vaccines globally and challenges in vaccine production and distribution.

Economic growth prospects are cast into even greater uncertainty by the persistence of the pandemic, the slow roll-out of vaccination campaigns and questions over the capacity to sustain expansionary fiscal and monetary policies. The Economic Commission for Latin America and the Caribbean (ECLAC) has estimated that most countries of the region will not regain pre-pandemic GDP levels before 2023.

Sustainable recovery with equality requires equitable access to vaccines, increased availability of financing to expand fiscal space and reform of the international financial architecture to ensure access to financing for all developing countries, regardless of their income level.

In 2020, Latin America and the Caribbean was the developing region most affected by the pandemic, whose impacts deepened the region's structural development gaps in terms of inequality, limited fiscal space, low productivity, informality and fragmentation of social protection and health systems. Countries in the region adopted expansionary fiscal policies to address the social and economic effects of the pandemic, with the fiscal efforts announced in 2020 —aimed at strengthening public health systems, supporting families and protecting the productive structure— representing 4.6% of GDP on average in Latin America.

The expansion of public spending to cope with the crisis, together with the fall in tax revenues, significantly pushed up fiscal deficits and debt levels in the region. Latin America and the Caribbean is one of the world's most indebted regions and has the highest ratio of external debt service to exports of goods and services, at 59%.

In a complex macroeconomic context, aggravated by the persistence of the COVID-19 pandemic, *Fiscal Panorama of Latin America and the Caribbean, 2021* analyses the challenges for fiscal policy in the region in a transformative post-pandemic recovery. Given the evident fragility of the economic recovery process, an expansionary fiscal policy must be maintained in order to promote a transformative economic revival while continuing to mitigate the negative effects of the pandemic. On the public spending side, this requires not only a fiscal impulse to support domestic demand, but also a strategic perspective that supports progress in sustainable and employment-intensive investment, productive transformation and the strengthening and universalization of social protection systems.

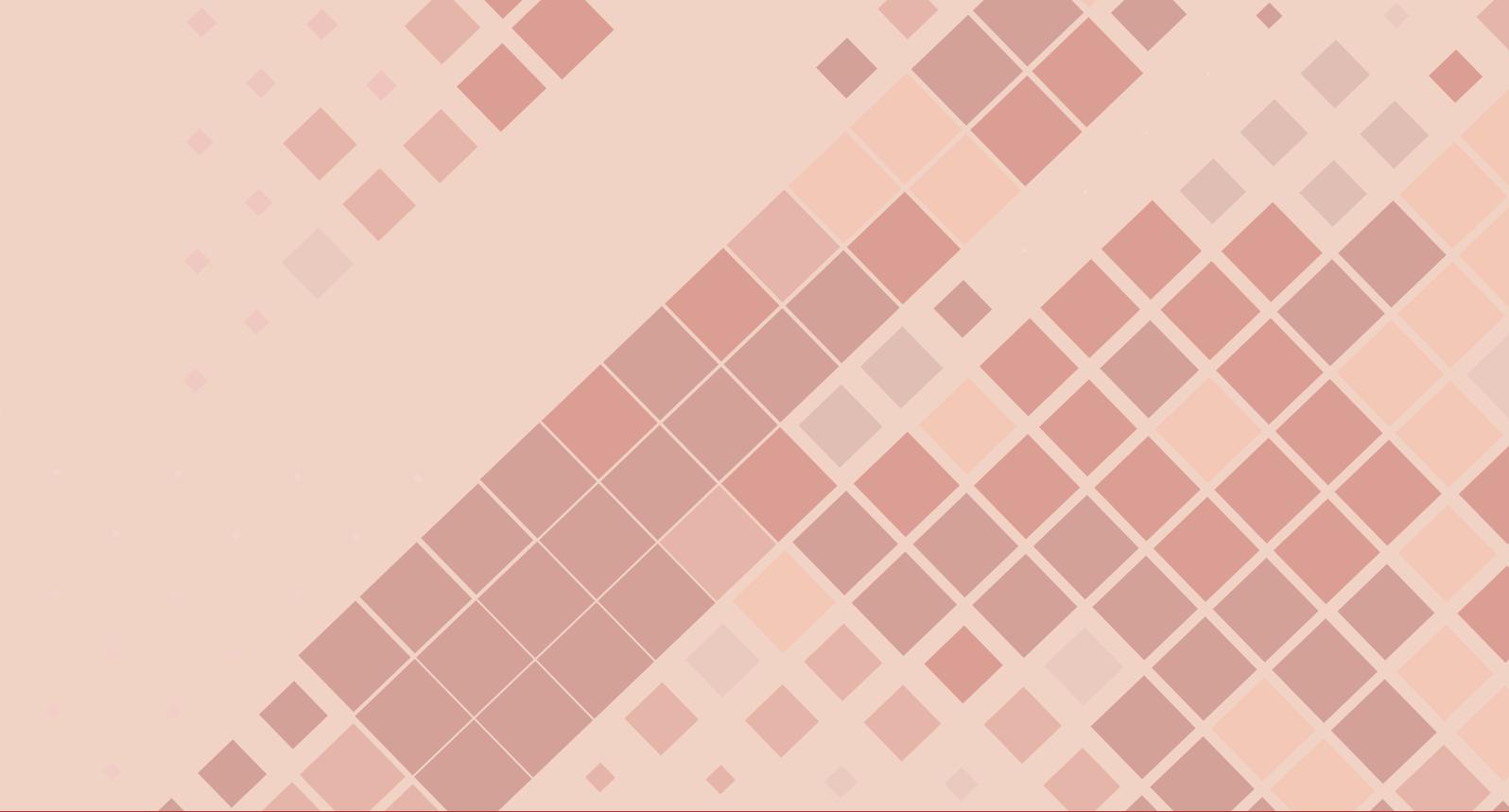
On the revenue side, it will be necessary to strengthen the fiscal capacity of the State through a progressive tax policy that not only increases tax collection to expand fiscal space, but also has a positive impact on income distribution. This is essential in order to be able to maintain public spending trajectories in a context of fiscal sustainability. In this regard, chapter II of this edition of *Fiscal Panorama of Latin America and the Caribbean* analyses the challenges of implementing a wealth tax and its potential for strengthening tax collection and making tax policy more progressive amid greater heightened needs in the countries of the region.

The widespread rise in indebtedness levels has greatly increased the need for other sources of financing in the region. It is therefore essential that international cooperation, through development financing, support the expansion of countries' fiscal space in the short and medium terms. With that in mind, ECLAC has pointed to the need to expand and redistribute liquidity from developed to developing countries; analyse the increased debt levels in greater depth, in order to address them through relief and revisions of repayment terms and rates; improve the lending and response capacity of multilateral, regional and national development banks; promote institutional reform the multilateral debt architecture; and expand the toolbox of innovative instruments to improve debt repayment capacity and link it to growth, sustainability and social inclusion.

Lastly, this edition of *Fiscal Panorama of Latin America and the Caribbean* examines the importance of mainstreaming a gender perspective in the design of fiscal policies. As discussed in chapter III, there is growing recognition of the gender-differentiated impacts of fiscal policy. The countries of the region have made progress in this area through the adoption of legal mandates for gender-sensitive budgeting, as well as the creation of various instruments —programmatic budget structures, budget classifiers and accountability reports, among others— with a gender perspective. However, much remains to be done to fully mainstream a gender perspective into fiscal policy in the region. Moving in this direction will be key to ensuring an equitable and sustainable post-crisis recovery.

**Alicia Bárcena**

Executive Secretary  
Economic Commission  
for Latin America and the Caribbean (ECLAC)



CHAPTER

1

# Challenges of maintaining expansionary fiscal policy to drive transformative recovery post-COVID-19

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Introduction

- A. An unprecedented fiscal context: Latin America and the Caribbean in the face of the COVID-19 pandemic
- B. Fiscal policy challenges in the recovery and transition to sustainable development

Bibliography



## Introduction

The coronavirus disease (COVID-19) pandemic unleashed the most severe economic and social crisis in the recent history of Latin America and the Caribbean. GDP is estimated to have declined by 7.7% in 2020, representing the largest contraction in the past 120 years (ECLAC, 2020b). Mutually reinforcing supply- and demand-side shocks had major negative effects on the production structure, employment, poverty and inequality. The widespread closure of businesses, particularly micro-, small and medium-sized enterprises (MSMEs), led to a sharp increase in the unemployment rate, which is estimated to have risen from 8.1% in 2019 to 10.7% in 2020 (ECLAC, 2020b). In turn, job losses and the concomitant decline in household incomes resulted in an unprecedented increase in poverty levels. The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that the poverty rate increased from 30.5% in 2019 to 33.7% in 2020, and that the extreme poverty rate increased from 11.3% to 12.5% (ECLAC, 2021a). Given the seriousness of the situation, the countries of the region took significant fiscal measures to mitigate the social, productive and economic impact of the pandemic (ECLAC, 2020d).

The crisis has magnified and exposed the weaknesses of the existing development model, characterized by the persistence of large structural gaps, high levels of inequality, poverty and informality, weak growth, low productivity, and vulnerabilities to climate change and natural disasters, among other factors. Against this backdrop, ECLAC (2020c) has underscored the need for a transformative recovery aimed at building sustainable economies and inclusive societies. This agenda is based on a series of public policies that should give rise to a virtuous circle of sustainable economic growth that would reduce inequality and poverty. To that end, consideration should be given to opportunities in strategic sectors that can drive this development model, such as the transformation of the energy matrix based on renewable energies, sustainable mobility and urban space, the digital revolution for sustainability, the health-care manufacturing industry, the bioeconomy, the circular economy and sustainable tourism (ECLAC, 2020c).

As was the case in the rest of the world, the countries of the region made a significant fiscal effort to address the crisis resulting from the COVID-19 pandemic. Globally, emergency measures to address the pandemic—including additional spending and tax relief measures—are estimated at US\$ 7.8 trillion (IMF, 2021). In the region, meanwhile, public spending reached record high levels, driven by a significant increase in primary spending. In this regard, the dynamism of subsidies and cash transfers to support families and the productive sector is noteworthy. These efforts to expand spending helped to mitigate the impact of the social and economic crisis and occurred against the backdrop of declining public revenues, increasing fiscal deficits and rising levels of public debt.

Going forward, in order to continue to address the effects of the pandemic and lay the groundwork for a transformative recovery, it is necessary to maintain an expansionary fiscal policy that links the spending needed to promote recovery in the short term with the investments required to transform the region's economies and societies in the medium and long term. In order to move forward along this development path, public spending requires a strategic orientation that supports productive transformation, is based on environmental sustainability criteria and, at the same time, prioritizes the development of universal social protection systems.

Promoting a public spending policy that can be maintained over time and is fiscally sustainable entails financing challenges in the short, medium and long term. In the short term, there is a need for international cooperation, for example in terms of increasing and channelling global liquidity to middle-income countries and providing debt relief

for low- and middle-income countries with high debt levels or a heavy interest burden. These measures would expand the fiscal space of countries that need access to concessional financing in the short term to cover the costs of the pandemic and initiate a transformative recovery. There is also room to strengthen public revenues through administrative measures that improve the efficiency of tax collection.

In the medium term, the challenges of financing the transformative recovery lie largely in strengthening tax collection progressively and efficiently to meet the ongoing costs of an active fiscal policy. Likewise, consensus will be needed at the international level to establish public debt restructuring processes for those countries that require it, in an orderly manner and without generating disproportionate costs for the population.

The first section of this chapter analyses the evolution of the fiscal accounts of the countries of Latin America and the Caribbean in 2020, highlighting the main trends in revenues, spending and public debt. The second section presents the challenges faced and policy options proposed by ECLAC to maintain an expansionary fiscal policy that fosters a transformative post-pandemic recovery. This requires a continued increase in public spending on the basis of countercyclical criteria and the adoption of a strategic approach to spending that supports progress towards universal social protection systems and encourages environmentally sustainable and job-intensive investments. A progressive tax revenue policy will also be required, to help reduce income inequalities and finance public spending. In this regard, it is key to increase the share of direct taxes and the leveraging of opportunities for an increase in revenues from digital and environmental taxes. The capacity to mobilize international liquidity and restructure sovereign debt will play an important role in expanding fiscal space and maintaining public spending in the years ahead. These efforts must be complemented with international cooperation to move forward in reducing the scope for tax evasion and avoidance. In this regard, ECLAC has insisted on the need to encourage financing for development strategies for the benefit of the middle-income countries of the region.

## **A. An unprecedented fiscal context: Latin America and the Caribbean in the face of the COVID-19 pandemic**

In 2020, significant fiscal measures were taken in Latin American and Caribbean countries to counteract the social, productive and economic impact of the COVID-19 pandemic. The sharp contraction in economic activity eroded public revenues. The decline in tax revenues limited the resources available to respond to the crisis. Meanwhile, public spending expanded considerably as a result of the major fiscal packages adopted. These revenue and expenditure dynamics resulted in record high overall and primary fiscal deficits. Growing financing needs led to a significant rise in debt levels, although several countries were able to access international bond markets on favourable terms. International financial institutions also played a role in the region by providing emergency financing, particularly to fiscally vulnerable countries.

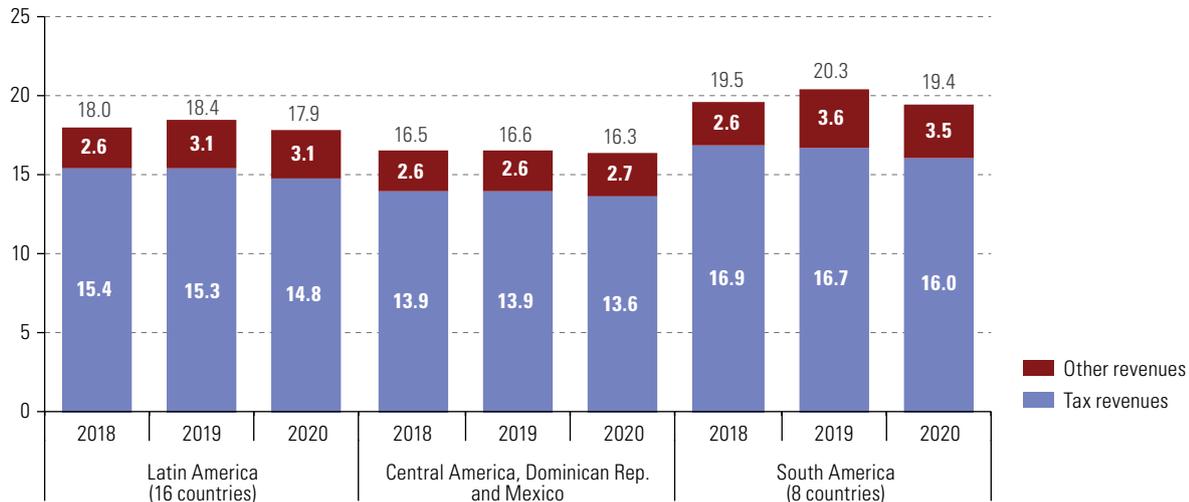
### **1. Government revenues fell in a context marked by the record contraction in economic activity**

The complex macroeconomic backdrop negatively affected public revenues in the region. Figure I.1 includes some stylized facts relating to revenues generated in the various country groups during the year. Tax revenues were particularly hard hit, reflecting the

impact of the pandemic on private consumption, revenues and profits. Revenues from other sources were more stable and reflected smaller declines. At the regional level, the contraction in total revenues, which represented 0.5 percentage points of GDP, was replicated —albeit to different extents— in the group of countries comprising Central America, the Dominican Republic and Mexico (0.3 percentage points of GDP) and in South America (0.9 percentage points of GDP). As discussed below, despite these general trends, situations varied significantly at the country level.

**Figure I.1**

Latin America (16 countries):<sup>a</sup> total central government revenues, by component, 2018–2020<sup>b</sup>  
(Percentages of GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

**Note:** The sum of the figures may not be exact owing to rounding.

<sup>a</sup> The countries included are: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

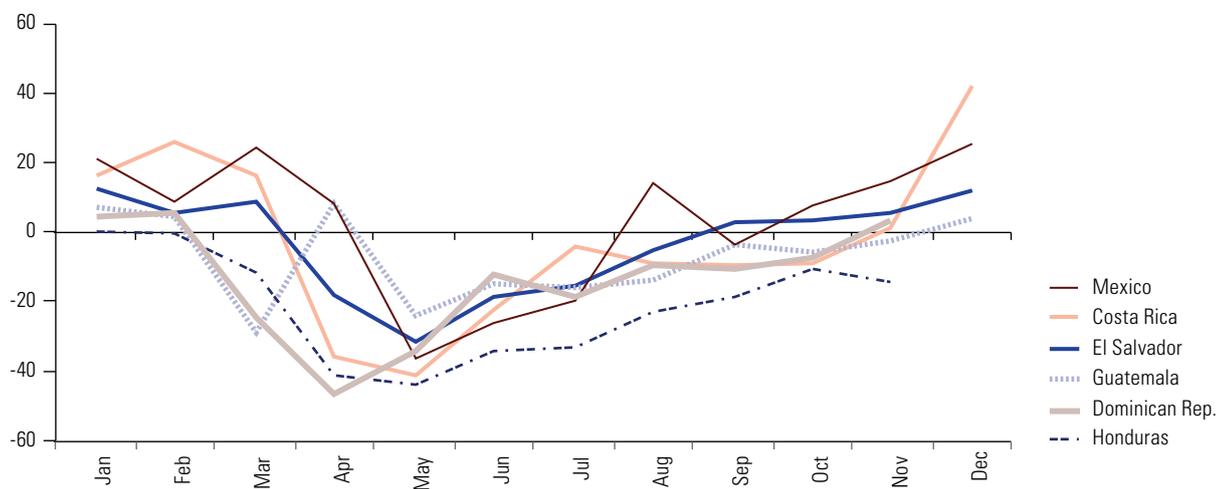
<sup>b</sup> Simple averages. In the cases of Argentina, Mexico and Peru, the figures refer to the national public administration, the federal public sector and general government, respectively.

Tax revenues in Latin America fell by 0.5 percentage points of GDP in 2020. As shown in figure I.2, despite a severe shock in the second quarter of 2020, revenues from the main taxes recovered in the second half of the year, in line with the resumption of economic activity after a period of restrictions on movement and trade. Between March and May, value added tax (VAT) revenues fell by more than 40% in real terms in some countries. Particularly noteworthy is the decline in revenues from VAT on imports during the period, reflecting the collapse of imports and of the international price of crude oil. However, from June onward, the decline in revenues slowed and, from November onward, some countries recorded growth. Another important factor that contributed to the recovery of VAT revenues was the boost to consumption due to cash transfers from the public sector to households.

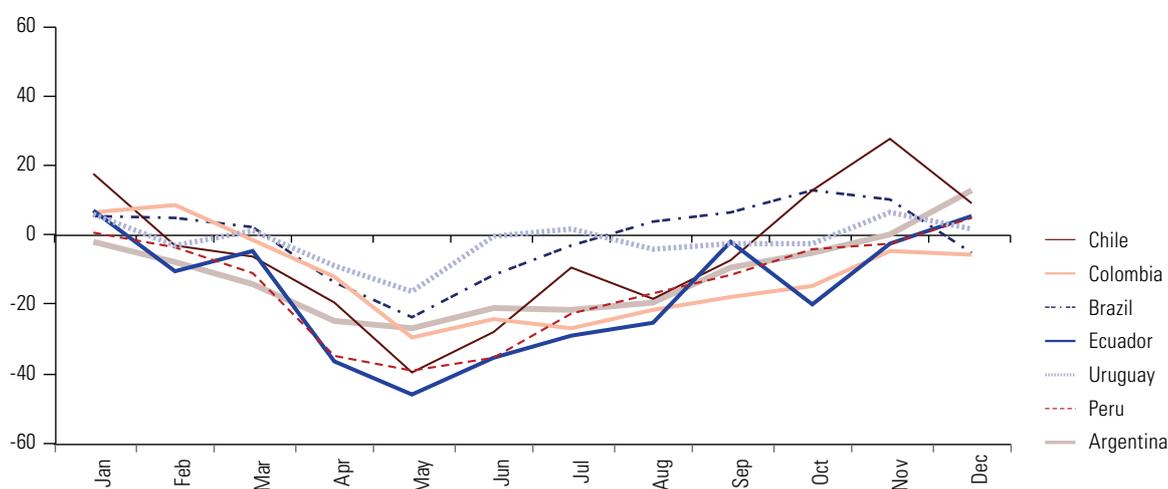
While the rebound in economic activity had an impact on the recovery in tax revenues, it is important to note the effect of tax relief measures implemented in the early months of the pandemic in 2020. Most countries offered the possibility to defer tax liabilities for several months or until the end of the year, depending on the country and the instrument, although some countries reduced rates or implemented exemptions or deductions for certain taxes. Given that taxes were generally not waived, the measures had an intertemporal effect on revenue collection, which in turn influenced year-end tax revenues in some countries. Of particular note was the impact of the deferrals offered to companies in terms of tax liability payments for fiscal year 2019 and estimated income tax and VAT payments for fiscal year 2020.

**Figure I.2**  
Latin America (13 countries): real year-on-year variation in value added tax (VAT) revenues, January–December 2020<sup>a</sup>  
(Percentages)

**A. Central America, Dominican Republic and Mexico**



**B. South America**



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> In the case of Mexico, the figures refer to the federal public sector. In the case of Brazil, the VAT figures refer to revenues collected from the state-level goods and services sales tax.

While countries implemented tax relief measures, they also applied administrative measures and special normalization tax regimes to generate additional resources to mitigate the decline in public revenues. The most striking case is that of Mexico, where the Tax Administration Service (SAT) implemented a series of measures that generated additional resources equivalent to approximately 2.2% of GDP. These measures included tax controls targeting evasion and avoidance, which contributed 1.7 percentage points of GDP (SAT, 2021). As shown in table I.1, in addition to Mexico, several other countries adopted measures before and after the onset of the crisis that affected tax revenue performance. In general, these measures offered benefits to taxpayers to settle their national or subnational taxes, such as waiving the payment of interest, fines and surcharges. In the case of Ecuador, meanwhile, some taxpayers were required to pay income tax in advance for the 2020 fiscal year.

**Table I.1**  
Latin America (7 countries): selected administrative measures and special normalization tax regimes to strengthen tax revenues, 2020–2021

Country	Measure	Period of implementation	Benefit or requirement
Colombia	Legislative Decree No. 678 of 2020	20 May 2020–31 May 2021	Up to 31 October 2020, taxpayers could pay only 80% of the balance of outstanding taxes, fees, contributions and fines owed to local authorities, without being charged interest or penalties. Between 1 November and 31 December 2020, they had to pay 90%, and between 1 January and 31 May 2021, 100%, in each case without interest or penalties.
	Normalization tax applied to undeclared assets or liabilities <sup>a</sup>	Up to 25 September 2020	Single tax at a rate of 15% applied to the taxable base. If assets are repatriated and invested permanently in the country, the taxable base could be reduced by 50% and the taxpayer could benefit from a reduced rate of 7.5%.
Dominican Republic	Law No. 46-20 of 19 February 2020	Effective 19 February 2020 and for a period of 180 days	A normalization tax regime was established to declare or revalue assets. Taxpayers could pay a single rate of 2% to settle their tax liabilities.
Ecuador	Executive Decree No. 1137 of 2 September 2020	Payment due by 12 September 2020	Stipulated mandatory prepayment of income tax for the 2020 fiscal year for taxpayers who earned a profit in the first half of 2020 and reported income of US\$ 5 million or more in 2019.
El Salvador	Legislative Decree No. 643 of 14 May 2020	15 May–30 June 2020	Taxpayers who had not complied with the requirement to file income tax returns or the special contribution to large taxpayers for the Citizen Security Plan could file their returns and settle their tax liabilities without fines, interest or surcharges.
Honduras	Decree 79-2020, No. 35,296 of 27 June 2020	27 June–31 December 2020	Municipalities were authorized to grant a tax amnesty. Taxpayers could settle their tax liabilities without interest, fines or surcharges for non-payment of all municipal taxes and fees.
Panama	Law No. 99 of 11 October 2019, Law No. 134 of 20 March 2020 and Law No. 160 of 1 September 2020	15 October 2019–29 February 2020, extended until 30 June 2020 and then until 31 December 2020	The payment of interest, penalties and surcharges for all types of tax was waived (100% if payments made from October to November 2019, 95% for payments in December 2019, 90% for payments in January 2020, 85% for payments in February 2020, and up to 85% for payments from March to December 2020). Law No. 160 also established an early payment rule whereby a 10% discount of the total amount due was offered to taxpayers with a gross income of less than 2,500,000 balboas and who paid taxes due or payable between 20 March 2020 and 31 July 2020 by 2 December 2020.
Peru	Ordinance No. 2259 of 15 May 2020	15 May–30 November 2020	Discounts were offered for the payment of tax liabilities, as well as fines and interest, corresponding to taxes and fees of the Metropolitan Municipality of Lima.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of national legislation.

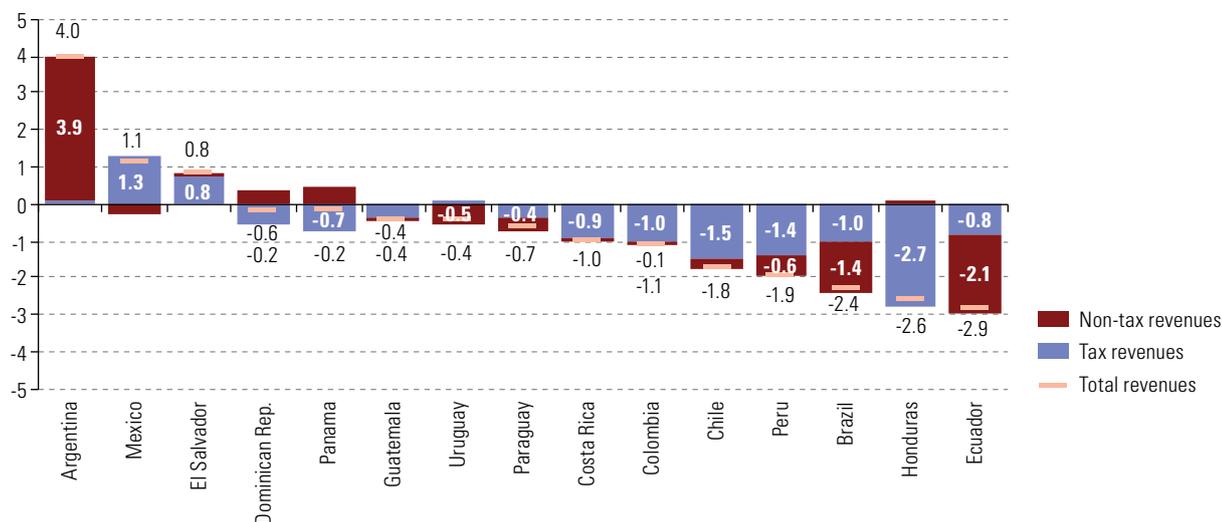
<sup>a</sup> National Directorate of Taxes and Customs (DIAN) of Colombia “El abecé de normalización” [online] <https://www.dian.gov.co/impuestos/personas/Paginas/Normalizacion-Tributaria.aspx>.

The performances in Latin American countries in terms of 2020 tax revenues are mixed. Although most countries recorded a significant reduction in these revenues—with declines equivalent to 0.8 percentage points of GDP or more in seven countries—in others, the tax burden rose during the year (see figure I.3). El Salvador and Mexico stand out in this regard. In El Salvador, although tax revenues decreased in real terms, the decline was mitigated by the increase in corporate income tax revenues as a result of the tax amnesty implemented during the year (see table I.1). In Mexico, meanwhile, tax revenues increased in relative terms (1.3 percentage points of GDP) and in absolute terms (0.8% in real terms) as a result of the abovementioned efforts by the Tax Administration Service (SAT).

The decline in tax revenues in 2020, although significant, was smaller than that observed during the 2008–2009 subprime crisis in several countries in the region. In this regard, Chile and Peru stand out, as the smaller decline in those countries is explained mainly by the performance of mining tax revenues. In Chile, for example, mining tax revenues fell from 3.5% of GDP in 2008 to 1.5% of GDP in 2009 (2.0 percentage points), and from 1.0% of GDP to 0.7% of GDP in 2020 (0.3 percentage points). The situation was similar in Peru, where mining tax revenues fell from 1.9% of GDP in 2008 to 0.8% of GDP in 2009 (1.1 percentage points), but remained stable at 0.4% of GDP between 2019 and 2020. While international prices of minerals and metals had fallen sharply in 2009, the prices of several commodities increased in 2020, including that of copper, despite the sharp contraction in the first half of the year.

**Figure I.3**

Latin America (15 countries): total central government revenues, by component, 2019–2020<sup>a</sup>  
(Percentage points of GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> In the cases of Argentina, Mexico and Peru, the figures refer to the national public administration, the federal public sector and general government, respectively.

Revenues from other sources —non-tax, capital and grants— remained stable, although this result was skewed by Argentina (see figure I.3). In that country, these revenues increased by 3.9 percentage points of GDP. Of note was the contribution of 5.9 percentage points of GDP in income transferred from the Central Bank of the Republic of Argentina, which offset the fall in public revenues from other sources. In the Dominican Republic, meanwhile, revenues from other sources also increased, owing partly to dividends from the corporate investments of the Fondo Patrimonial de las Empresas Reformadas (FONPER) and contributions from public financial institutions (Ministry of Finance of the Dominican Republic, 2020). Although income from other sources fell in most countries, in several the declines were mitigated by capital inflows from central banks or other public financial institutions. In Colombia, for example, the decrease in dividends from Empresa Colombiana de Petróleos (Ecopetrol) and in central government financial returns in the first nine months of 2020 was offset by an increase (0.5 percentage points of GDP) in profits transferred to the central government by Bank of the Republic (Ministry of Finance and Public Credit of Colombia, 2021).

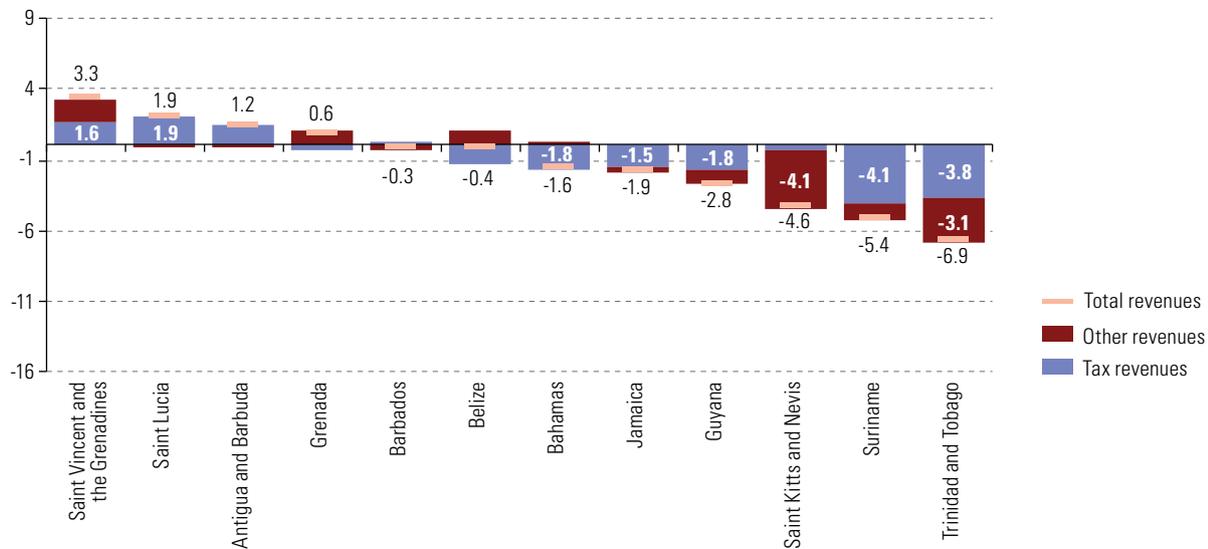
Although in most countries the decline in income from other sources was slight, Brazil, Ecuador, Peru and Uruguay recorded larger decreases. In Brazil, this contraction derived mainly from the base effect of extraordinary revenues in 2019, when the country received about 1.0 percentage points of GDP in signature bonuses from the auction of exploration and extraction rights. However, property income generated by Brazil's oil sector, as well as by other hydrocarbon producers, such as Ecuador and Mexico, were hit by the collapse in crude oil prices. In Peru, meanwhile, the drop in revenues from other sources also stemmed partly from a statistical effect caused by exceptional revenues received in 2019. In Uruguay, the reduction was mainly the result of lower revenues from the Social Security Trust Fund (FSS) (Ministry of Economy and Finance of Uruguay, 2020).

The Caribbean also recorded a contraction in public revenues in 2020, against the backdrop of a sharp drop in tourism and the impact of falling oil prices on revenues in countries such as Suriname and Trinidad and Tobago. As figure I.4 shows, tax revenues fell by 1 percentage point of GDP or more in six countries. In Suriname, this result

was accentuated by high nominal GDP growth. In most countries, lower revenues derived from the performance of value added and selective taxes. In Trinidad and Tobago, however, income tax revenues fell sharply, which was exacerbated by the contraction in non-tax revenues. However, in some countries, tax revenues increased. For example, Saint Vincent and the Grenadines recorded an increase in tax revenues as a result of higher grants and the payment of tax liabilities related to the 2019 excise duty on imports (Ministry of Finance, Economic Planning, Sustainable Development and Information Technology of Saint Vincent and the Grenadines, 2020). With regard to income from other sources, the contraction in Saint Kitts and Nevis as a result of lower income from the Citizenship by Investment programme is notable.

**Figure I.4**

The Caribbean (12 countries): variation in total central government revenues, by component, 2019–2020<sup>a</sup>  
(Percentage points of GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> The figures for Suriname refer to January–September 2020; Barbados, to April–December 2020, and Belize and Jamaica, to January–December 2020.

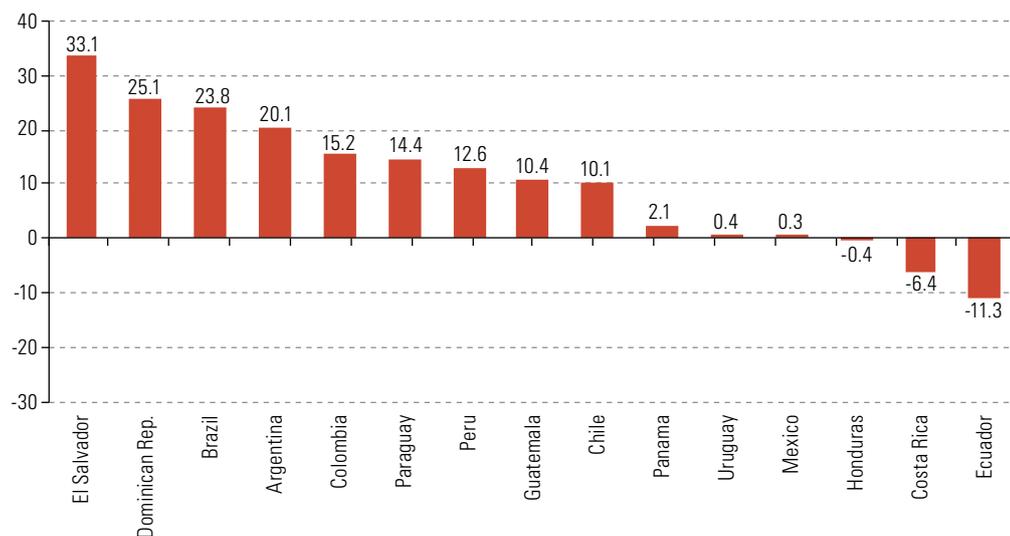
## 2. Public spending reached record high levels, which cushioned the impact of the social and economic crisis

The packages of measures adopted to deal with the COVID-19 pandemic entailed a sharp increase in public spending in 2020. Estimates made during the first months of the crisis pointed to a significant increase in public spending, given the size and scale of the fiscal packages announced in response to the pandemic, which on average amounted to 4.6% of GDP in the region. These projections were largely realized, and the countries of the region recorded unprecedented rates of real growth in primary spending: some countries recorded rates of more than 10%, and in four of them the rates were at least 20% (see figure I.5).

Public spending reached record high levels in 2020. For example, total central government spending in Latin America reached its highest level (24.7% of GDP) since comprehensive fiscal data began to be published in 1950 (ECLAC, 2020a). The last time it was at a similar level was in the midst of the 1980s debt crisis, when it peaked at 23.3% of GDP in 1983. The region's experience is reflected in the spending dynamics of other regions, most notably developed countries (see box I.1). The similarity in the scale

of spending between countries in the region and developed countries is remarkable considering that countries that issue widely accepted reserve currencies have much greater scope to increase spending than countries in the region, which in many cases must borrow in foreign currency (see box I.1).

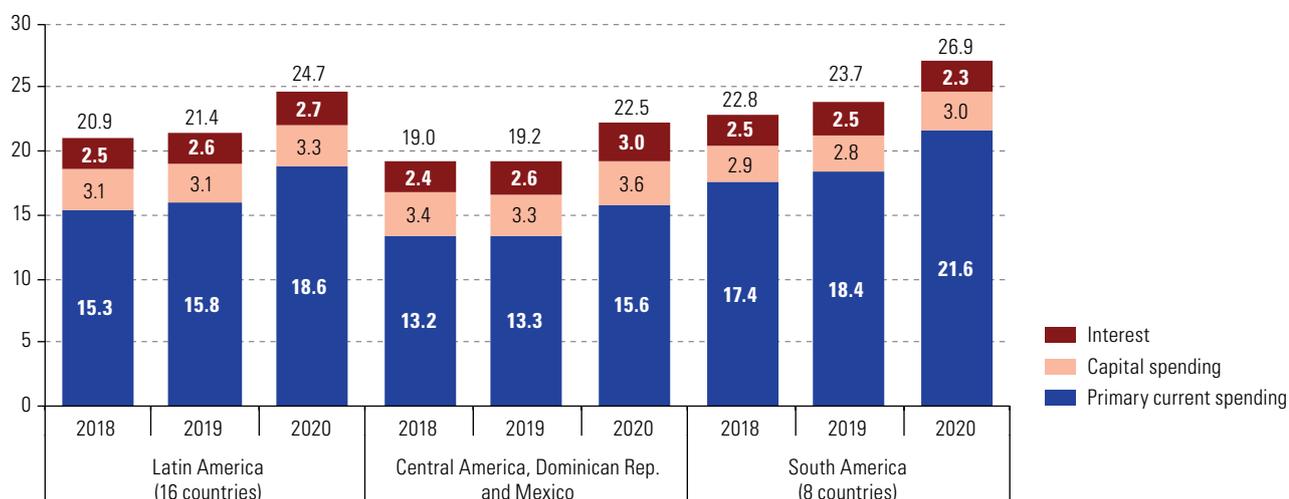
**Figure I.5**  
Latin America (15 countries): real year-on-year variation in central government primary spending, 2019–2020<sup>a</sup>  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> In the cases of Argentina, Mexico and Peru, the figures refer to the national public administration, the federal public sector and general government, respectively.

**Figure I.6**  
Latin America (16 countries):<sup>a</sup> composition of total central government spending, by component, 2018–2020<sup>b</sup>  
(Percentages of GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

**Note:** The sum of the figures may not be exact owing to rounding.

<sup>a</sup> The countries included are: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

<sup>b</sup> Simple averages. In the cases of Argentina, Mexico and Peru, the figures refer to the national public administration, the federal public sector and general government, respectively.

**Box I.1**

## Measures taken in developed countries to respond to the crisis and drive the economic recovery

In 2020, advanced economies mobilized US\$ 6.3 trillion in spending and tax relief measures and US\$ 5.2 trillion in liquidity instruments, equivalent to 12.7% and 11.3% of GDP on average. The countries reflecting the strongest momentum in additional spending and deferred revenues are Australia, Canada, Japan, New Zealand, Singapore, the United Kingdom and the United States, where direct support amounted to more than 14% of GDP (see figure). Significant liquidity instruments were implemented in a number of countries to complement support programmes for businesses and households: among these countries, the most striking cases are Germany, Italy and Japan.

**Advanced economies (20 countries): fiscal responses to mitigate the impact of the COVID-19 pandemic, 2020**  
(Percentages of GDP)

**A. Additional spending and deferred revenues****B. Capitalizations, loans and State credit guarantees**

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), "Fiscal Monitor Update", Washington D.C., January 2021 [online] <https://www.imf.org/en/Publications/FM/Issues/2021/01/20/fiscal-monitor-update-january-2021>.

Most of the resources mobilized in advanced countries consisted of direct budgetary support, either through the redirection or increase of public spending, or tax relief measures (foregone revenue). First, in this group of countries, the health sector budget was strengthened in response to the need to contain the rapid development of the pandemic. In total, US\$ 0.9 trillion, equivalent to 1.8% of GDP, has been spent in advanced countries to strengthen the health sector.

Second, major mechanisms were implemented to provide direct support to the households and businesses hit hardest by the sudden interruption of economic activity. These measures totalled US\$ 5.4 trillion, equivalent to about 11% of GDP on average. The focus was largely on workers and their employers through employment subsidies, for example, through partial employment programmes and moratoriums on loan repayments contingent upon financing of jobs. Deadlines were also extended and the conditions for granting unemployment benefits were made more flexible, particularly to include temporary and independent workers. With regard to income support for vulnerable households, measures included numerous unconditional transfer programmes targeting people with chronic illnesses, provision of childcare and low-income families, for example.

In addition, tax relief measures were adopted in a large number of advanced countries to support the liquidity of households and businesses. These measures consisted mainly of the extension of deadlines and the deferral of tax payments (OECD, 2020b). However, their impact was limited given the reduction in the tax base owing to the slowdown in economic activity.

Finally, in advanced economies, considerable support was provided through credit, State guarantees and capitalization of public or private entities. This support amounted to 11.3% of GDP on average (see figure). These mechanisms were key to maintaining the flow of liquidity to the companies that recorded the biggest losses and for which financing conditions were likely to deteriorate. In some countries, these measures were complemented by quantitative easing programmes implemented by central banks and targeting corporate bond purchases. Quasi-fiscal activities were also implemented, such as participation in bank lending to businesses or the purchase of corporate bonds in the primary or secondary market.

## Box I.1 (concluded)

With a view to a possible return to normal in terms of health, new packages of measures aimed at sustaining economic activity in the short and medium term have been approved in many advanced economies. In the European Union, for example, an unprecedented multi-year financial framework has just been adopted for 2021–2027, amounting to 1,824 trillion euros, which represents almost double the resources of the previous multi-year financial framework. The 2021–2027 framework includes a new temporary facility (NextGenerationEU) to finance an ambitious economic recovery plan worth roughly 750 billion euros. Within this mechanism, 672.5 billion euros will be used to support European Union countries to advance in building societies that are more sustainable, more resilient and better prepared for the challenges and opportunities arising from ecological and digital transitions.<sup>a</sup>

Another example is the American Rescue Plan Act of 2021 of the United States, which includes a stimulus of US\$ 1.9 trillion to finance a major vaccination programme, strengthen health networks, provide immediate relief to families through a US\$ 1,400 per-person cheque, extend unemployment insurance benefits, and maintain support for businesses, especially micro-, small and medium-sized enterprises (MSMEs).<sup>b</sup> Together with the measures put in place in 2020 to address the emergency, this new stimulus plan is expected to increase the United States fiscal response to COVID-19 to about 25% of GDP.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

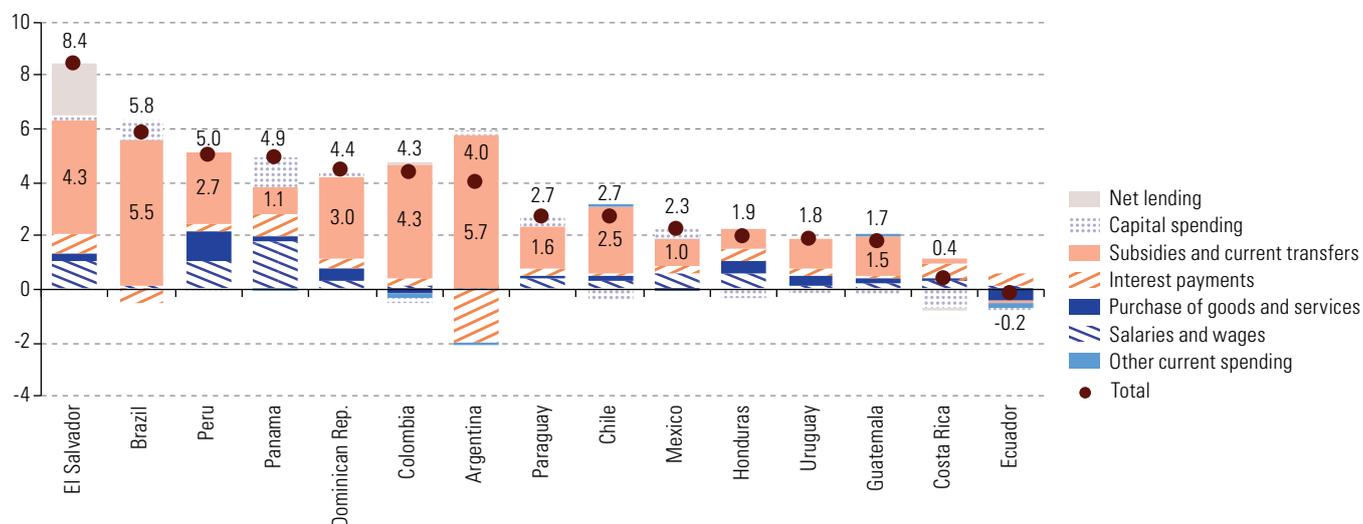
<sup>a</sup> See [online] [https://ec.europa.eu/info/strategy/recovery-plan-europe\\_en](https://ec.europa.eu/info/strategy/recovery-plan-europe_en).

<sup>b</sup> See [online] <https://www.whitehouse.gov/briefing-room/legislation/2021/01/20/president-biden-announces-american-rescue-plan/>.

As shown in figure I.7, the increase in primary current spending in Latin America was driven by the growth in cash transfers and subsidies. Of particular note are Argentina, Brazil, Chile, Colombia, the Dominican Republic, El Salvador and Peru, where subsidies and current transfers increased by 2.5 percentage points of GDP or more. As mentioned above, these instruments were widely used to channel resources directly to households, businesses and subnational governments as part of fiscal packages designed to address the crisis (ECLAC, 2020d).

**Figure I.7**

Latin America (15 countries): year-on-year variation in the components of total central government spending, 2019–2020<sup>a</sup>  
(Percentage points of GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> In the cases of Argentina, Mexico and Peru, the figures refer to the national public administration, the federal public sector and general government, respectively.

In Argentina, the increase in current transfers stems partly from disbursements for new instruments created to address the crisis, such as the Emergency Family Income (1.0% of GDP) and the Emergency Assistance Programme for Work and Production (0.6% of GDP) (Ministry of Economy of Argentina, 2020). Similarly, the main drivers of current transfers in Brazil were the Auxílio Emergencial de Proteção Social a Pessoas em Situação de Vulnerabilidade, Devido à Pandemia da COVID-19 and the Auxílio Financeiro Emergencial Federativo (which together accounted for spending equivalent to 3.9% of GDP) (Office of the Comptroller-General of the Republic of Brazil, 2020). In Colombia, there was an increase in spending on pensions and of the Emergency Mitigation Fund (FOME), created as a financial vehicle to support the health sector and finance social spending on programmes targeting the most vulnerable population segments.

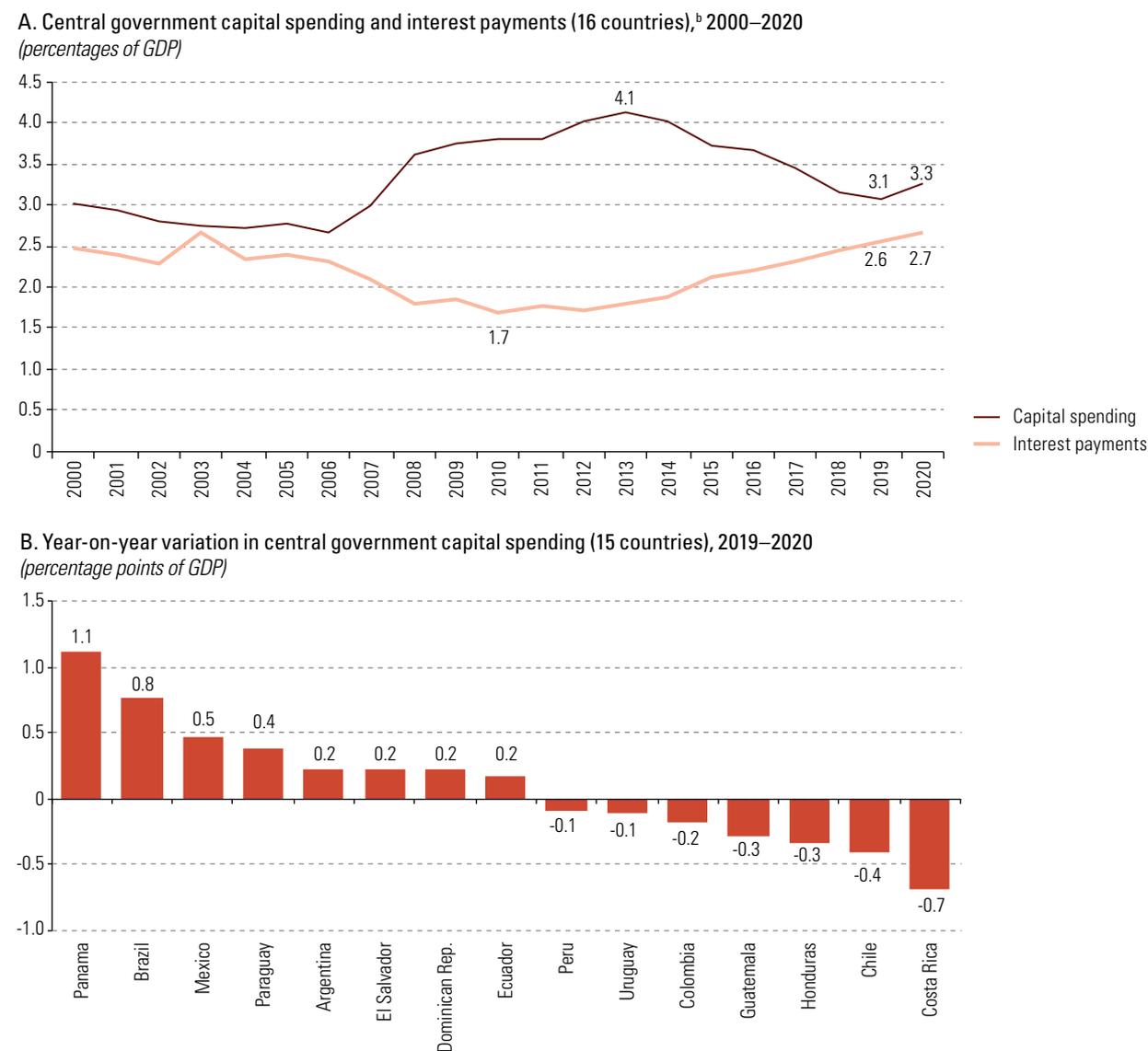
In Chile, there was a boost to current transfers through phases 1 and 2 of the Emergency Family Income (1.3% of GDP), support for the middle class (0.4% of GDP) and transfers to strengthen primary health-care institutions (Budget Office of the Ministry of Finance of Chile, 2021). In El Salvador, the increase in current transfers from the central government stems from the greater resources transferred to decentralized institutions (including public hospitals), the Development Bank of El Salvador (BANDESAL) to finance the Trust for the Economic Recovery of Salvadoran Businesses, and municipal governments to support the provision of public services in a context of greater demand owing to the pandemic. In Peru, the largest outlays were for new subsidy payments, which accounted for 1.9% of GDP and included the “Yo me quedo en casa” grant, the Independent Grant, the Rural Grant and the Universal Family Grant (Ministry of Economy and Finance of Peru, 2020). Similarly, in the Dominican Republic, spending targeted the “Stay at home” programme (1.6% of GDP) and the Employee Solidarity Assistance Fund (1.1% of GDP) (Ministry of Finance of the Dominican Republic, 2020).

The change in current transfers does not necessarily reflect responses to the crisis, but in some cases represents a redirection of the current budget. In Costa Rica, the increase in transfers to the private sector, which were granted mainly through the Bono Proteger programme (0.7% of GDP), was offset by a decrease in resources transferred to other public sector institutions, resulting in a net increase in current transfers of 0.1 percentage points of GDP (Ministry of Labour and Social Security of Costa Rica, 2021). The situation is similar in Ecuador, where spending associated with the COVID-19 Emergency Family Protection Grant (0.1% of GDP) was offset by the decline in other current transfers (Ministry of Economy and Finance of Ecuador, 2020).

Capital spending in Latin America rose (0.2 percentage points of GDP), marking a break with the downward trend observed between 2013 and 2019, as they served as the principal adjustment variable, offsetting in part the rise in interest payments (see figure I.8). However, outcomes in the various countries in 2020 were mixed. On the one hand, increases were recorded in Brazil, Mexico, Panama and Paraguay. In Brazil, the increase derived from capital injections into credit guarantee programmes (National Treasury of Brazil, 2021). In Mexico, the increase in spending associated with physical investment was notable. In Panama, capital expenditure rose in relative terms, although it contracted slightly in absolute terms, reflecting the increase in investments made by the Ministry of Social Development. The increase in Paraguay derived from stronger investment through programmes aimed at supporting the economy. On the other hand, capital spending fell in Chile, Colombia, Costa Rica, Guatemala, Honduras, Peru and Uruguay. In Costa Rica, the decline stemmed from the contraction of capital transfers to other public sector entities and lower transfers deriving from external resources.

**Figure I.8**

Latin America (16 countries): central government capital spending and interest payments, 2000–2020, and year-on-year variation in central government capital spending, 2019–2020<sup>a</sup>  
(Percentages and percentage points of GDP)



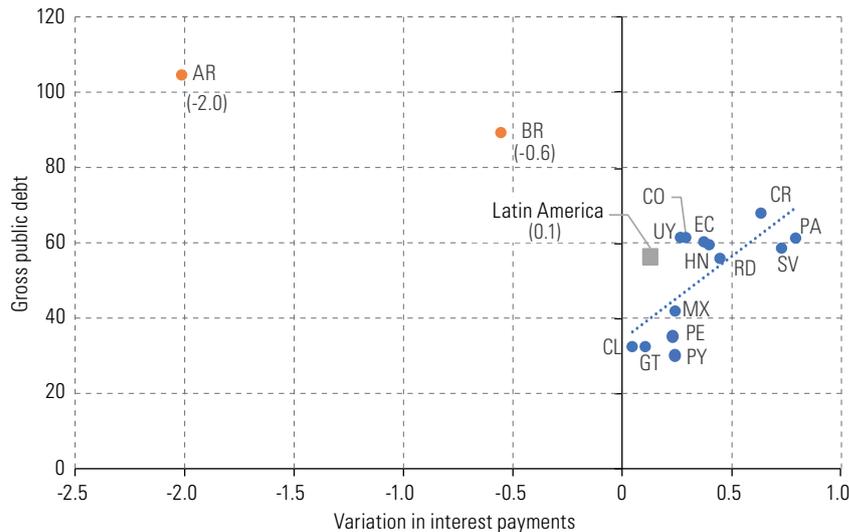
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Simple averages. In the cases of Argentina, Mexico and Peru, the figures refer to the national public administration, the federal public sector and general government, respectively.

<sup>b</sup> The countries included are: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

Despite the unfavourable debt environment in Latin America, weighed down by a record high primary deficit and the largest contraction in economic activity in 120 years, interest payments rose slightly on average (0.1 percentage points of GDP) (see figure I.9). However, this result was skewed by the contractions in Argentina and Brazil. In Argentina, the fall in interest payments (2.0 percentage points of GDP) stemmed from the implementation of Decree 346/2020, which established the deferral until 2021 of interest payments and amortization of dollar-denominated national public debt as part of the central government's public debt restructuring process (Boletín Oficial de la República Argentina, 2020). In Brazil, meanwhile, these outlays declined

by 0.6 percentage points of GDP as the benchmark interest rate (SELIC) was reduced by 250 basis points between January and September 2020, and as the Treasury carried out a progressive debt reprofiling through the repurchase of long-term bonds and the issuance of SELIC-linked bonds. Apart from these cases, interest payments rose in the countries of Latin America. This increase was largely in line with debt levels and country-specific factors that affect debt dynamics, such as the exchange rate and interest rates, among others.



**Figure I.9**  
Latin America (16 countries): year-on-year variation in central government interest payments, 2019–2020, and central government gross public debt, 2020<sup>a</sup> (Percentage points of GDP and percentages of GDP)

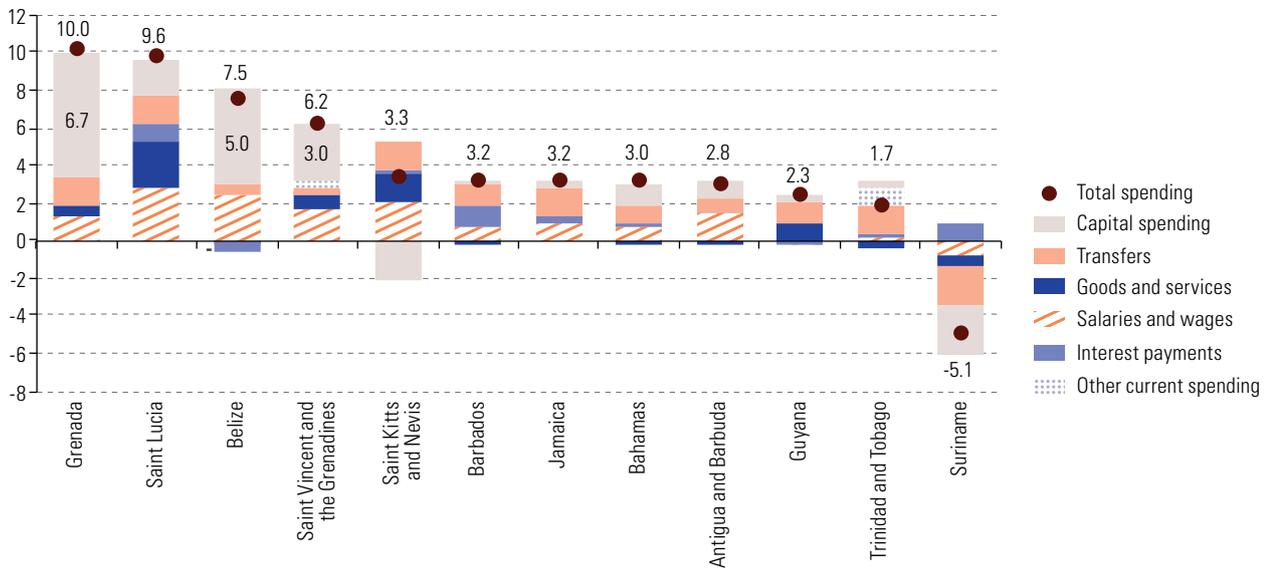
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> In the cases of Argentina, Mexico and Peru, the figures refer to the national public administration, the federal public sector and general government, respectively. Brazil's gross public debt figures refer to general government.

In the Caribbean, public spending also rose in most countries, but this increase reflected differences in the composition of this type of spending compared to Latin American countries. In this regard, the higher capital spending in several countries stands out, particularly in Belize, Grenada and Saint Vincent and the Grenadines (see figure I.10). In Belize, spending was associated with investment projects aimed at addressing the COVID-19 crisis (Central Bank of Belize, 2020) and, in Grenada, the existing public investment programme drove capital spending. In Saint Vincent and the Grenadines, the increase stemmed partly from spending on projects aimed at reducing vulnerability to disasters, the acquisition of the Buccament Bay Resort and various road projects (Ministry of Finance, Economic Planning, Sustainable Development and Information Technology of Saint Vincent and the Grenadines, 2020). Current transfers and subsidies increased in several countries, reflecting the implementation of programmes aimed at supporting households and the economy during the crisis. In Barbados, for example, notable measures included the monthly grant for vulnerable families under the Household Survival Programme, the creation of programmes to support the unemployed, and transfers to public institutions to carry out reactivation programmes. Similarly, in Grenada, current transfers were boosted by spending associated with programmes to support household income and companies' payrolls in the face of COVID-19 (0.5% of GDP) (Ministry of Finance, Economic Development, Physical Development, Public Utilities and Energy of Grenada, 2020). In Jamaica, the increase derived partly from spending on the COVID-19 Allocation of Resources for Employees (CARE) programme, equivalent to 0.8% of GDP, which provided temporary cash transfers to individuals and businesses affected by the crisis. Interest payments in Barbados rose as a result of the resumption of external debt servicing.

**Figure I.10**

The Caribbean (12 countries): year-on-year variation in total central government spending, by component, 2019–2020<sup>a</sup>  
(Percentage points of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

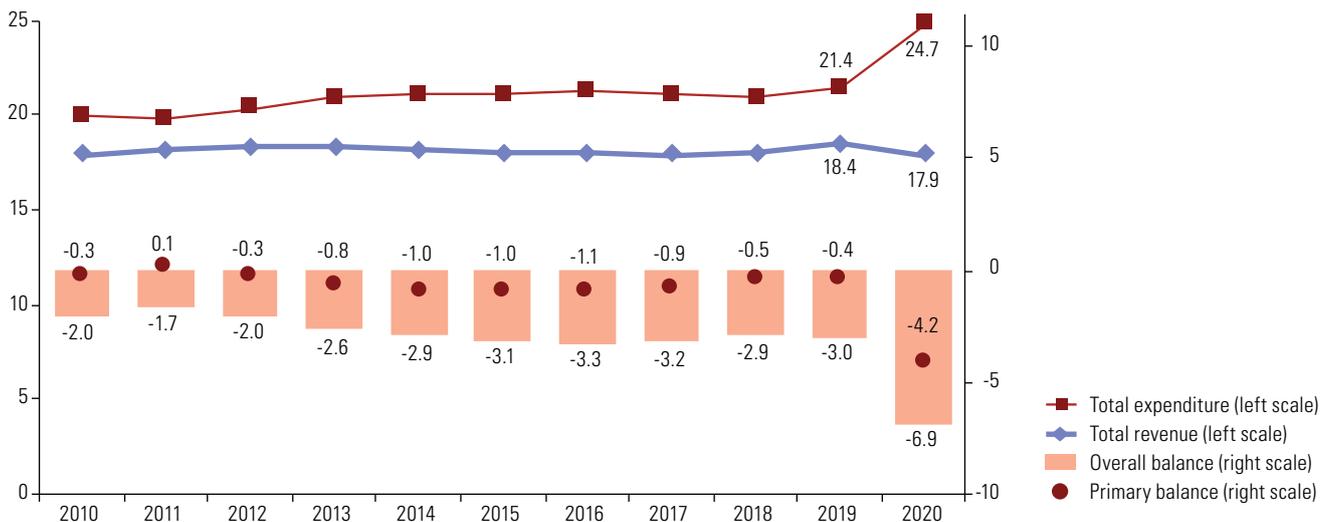
<sup>a</sup> The figures for Suriname refer to January–September 2020; those for Barbados refer to April–December 2020; and those for Belize and Jamaica, to January–December 2020.

### 3. Fiscal balances showed significant deficits at year end

At the end of the year, the region's fiscal accounts showed significant deficits. In Latin America, the average overall deficit was -6.9% of GDP. Although the contraction in public revenue (0.5 percentage points of GDP) played a role in this, the key factor was the increase in public spending (3.3 percentage points of GDP) to respond to the crisis (see figure I.11). These fiscal deficits drove up public borrowing, which in turn pushed up debt levels in 2020.

**Figure I.11**

Latin America (16 countries):<sup>a</sup> central government fiscal indicators, 2010–2020<sup>b</sup>  
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

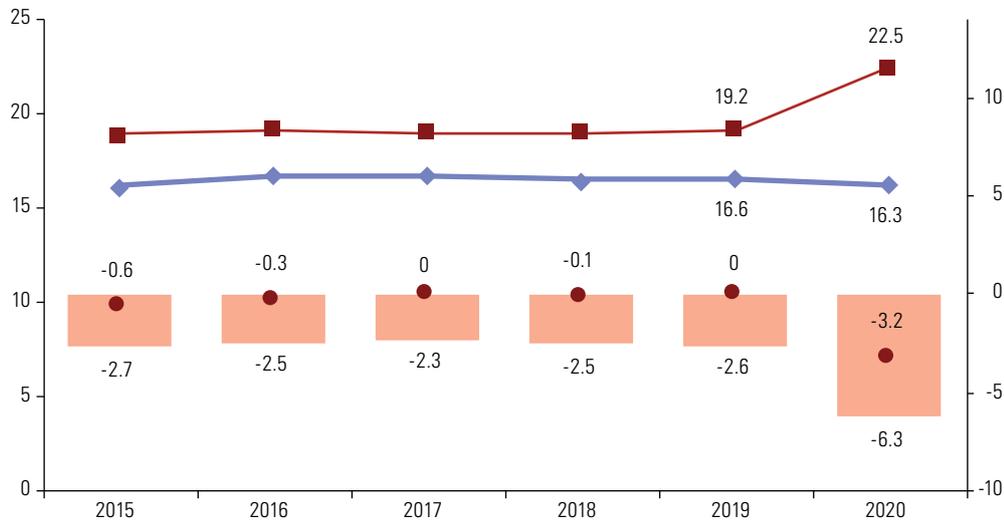
<sup>a</sup> The countries included are: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

<sup>b</sup> Simple averages. In the cases of Argentina, Mexico and Peru, the figures refer to the national public administration, the federal public sector and general government, respectively.

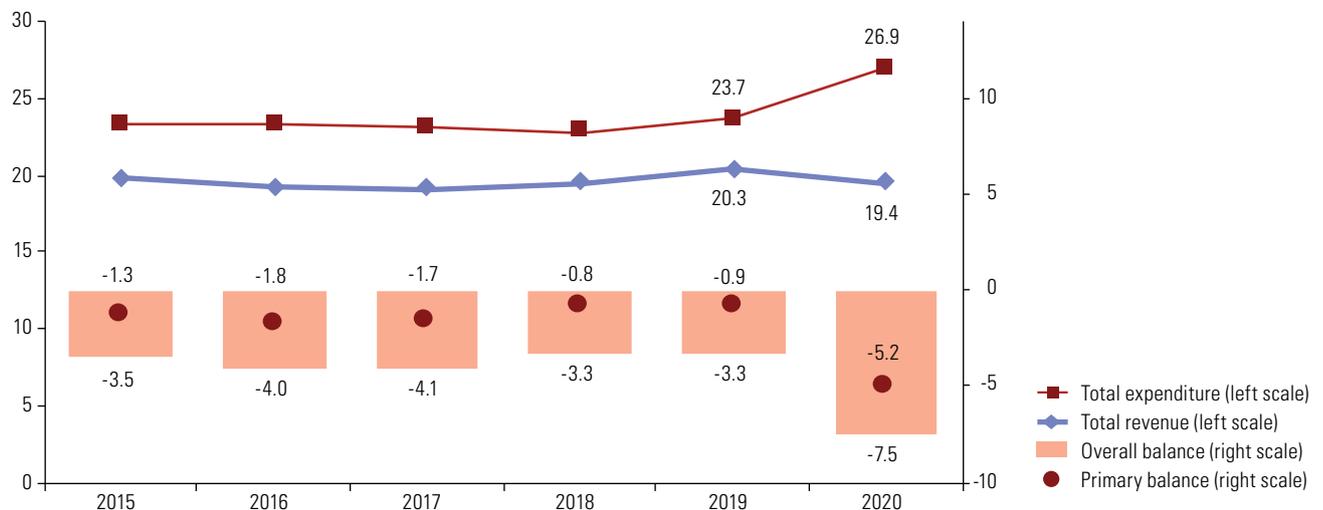
These trends have been seen in both groups of Latin American countries, albeit with different nuances. The rise in total expenditure was similar for the two groups (around 3.3 percentage points of GDP), reflecting some parallels in terms of the impact of the crisis on primary current expenditures (see figure I.12). However, in Central America, Mexico and the Dominican Republic, total revenue declined less than it did in South America: 0.3 percentage points of GDP in the former, as opposed to 0.9 in the latter. The impact of the crisis on the primary balances of the countries of Central America, Mexico and the Dominican Republic is noteworthy, because they had been close to equilibrium in recent years.

**Figure I.12**  
Latin America: central government fiscal indicators, by subregion, 2015–2020<sup>a</sup>  
(Percentages of GDP)

**A. Central America (6 countries),<sup>b</sup> Dominican Republic and Mexico**



**B. South America (8 countries)<sup>c</sup>**



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Simple averages. In the cases of Argentina, Mexico and Peru, the figures refer to the national public administration, the federal public sector and general government, respectively.

<sup>b</sup> The countries included are: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

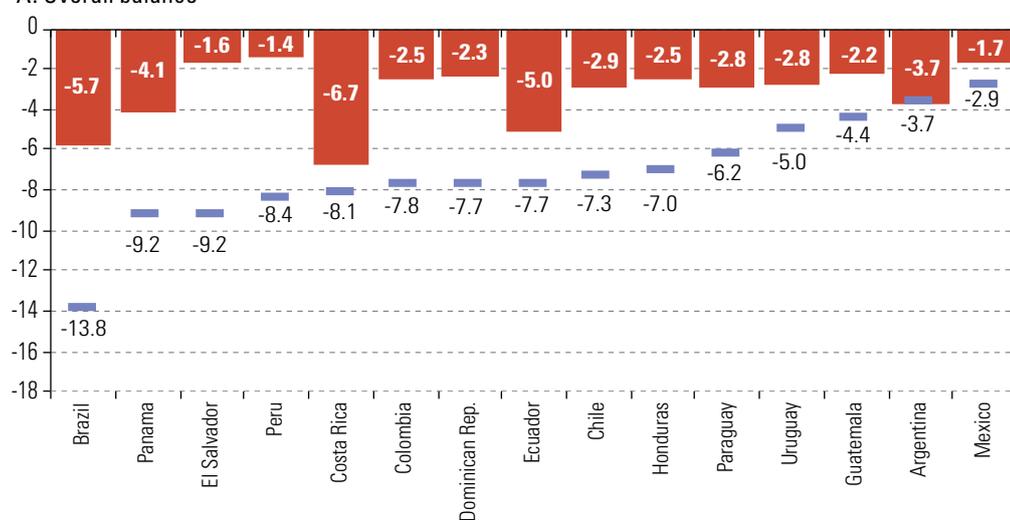
<sup>c</sup> The countries included are: Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay.

At the country level, there has been a significant increase in fiscal deficits. As figure I.13 shows, several of the region's countries have overall and primary deficits that are substantially larger than regional averages. While the regional trend was seen across the board, the impact of the increase in deficits differed from country to country. Expansion of overall deficits added fiscal stress in those with pre-existing vulnerabilities, such as high debt, large gross financing needs, and limited access to financing. However, other countries such as Chile and Peru—which had low levels of debt at the onset of the crisis and maintained their access to international financing on favourable terms—were able to better accommodate the rises in their deficits.

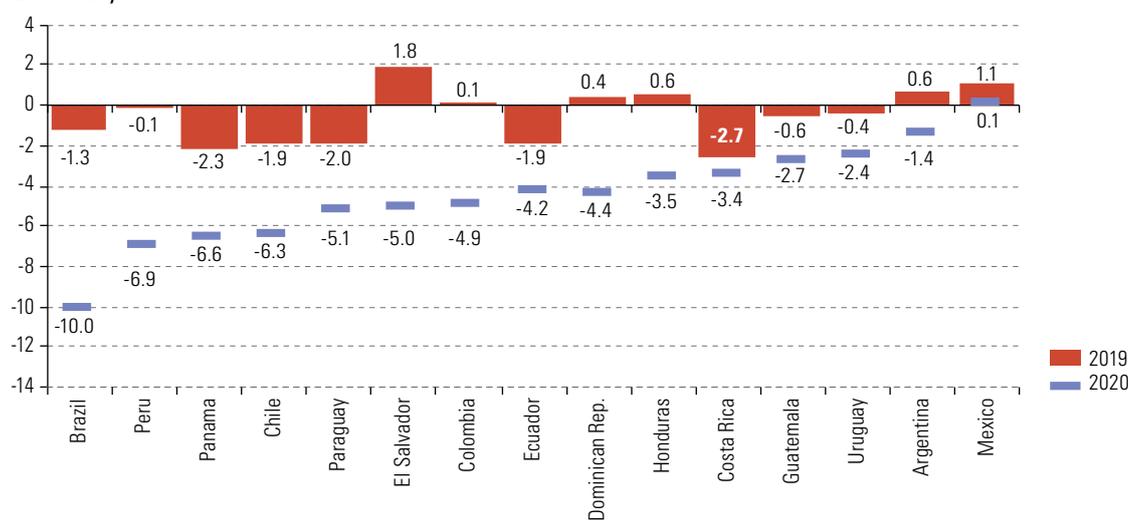
**Figure I.13**

Latin America (15 countries): central government overall and primary balance, 2019–2020<sup>a</sup>  
(Percentages of GDP)

**A. Overall balance**



**B. Primary balance**



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

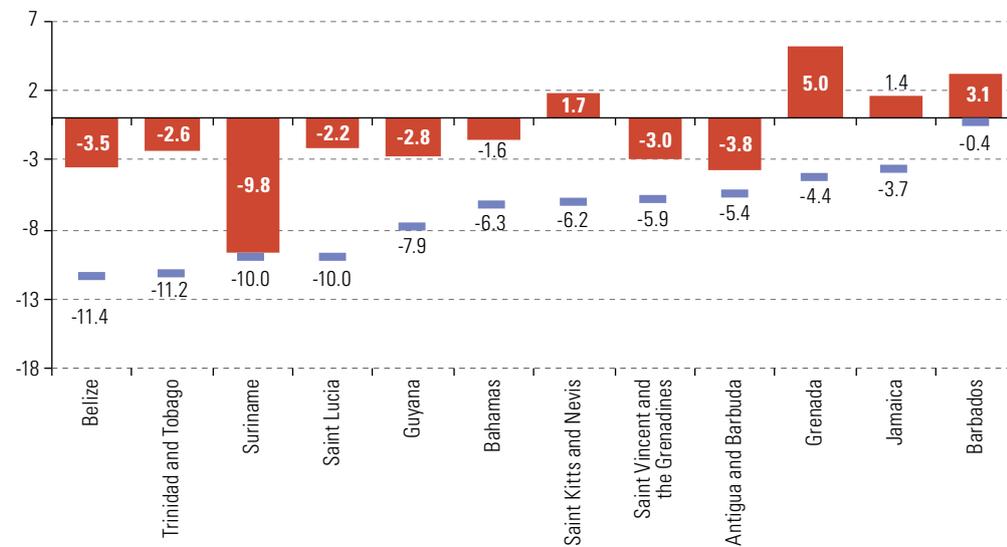
<sup>a</sup> In the cases of Argentina, Mexico and Peru, the figures refer to the national public administration, the federal public sector and general government, respectively.

The fiscal deficits of the Caribbean grew significantly in 2020, putting additional pressure on countries that already had fiscal vulnerabilities. Overall deficits were either unchanged or grew, significantly increasing gross financing needs in the subregion, especially in countries with high levels of debt (see figure I.14). The cases of Barbados, Belize and Jamaica stand out, where public debt exceeds 100% of GDP. For example, in Belize, gross financing needs in the first nine months of fiscal year 2020/21 amounted to 10.3% of GDP, more than 100% higher than in the same period of fiscal year 2019/20 (Central Bank of Belize, 2020). The larger primary deficit also exacerbated negative debt dynamics, as GDP contracted.

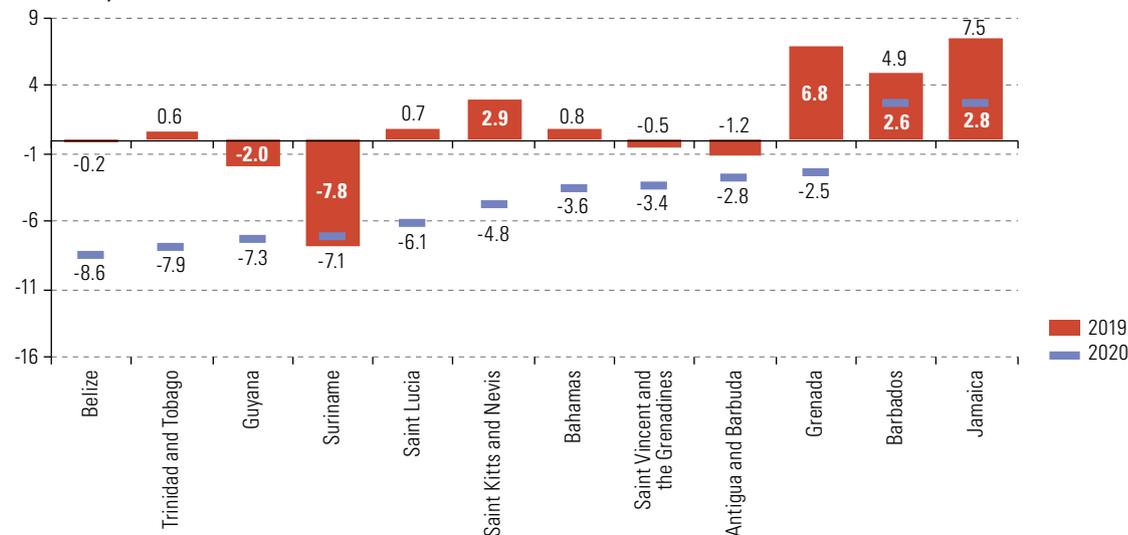
**Figure I.14**

The Caribbean (12 countries): overall and primary central government balances, 2019–2020<sup>a</sup>  
(Percentages of GDP)

**A. Overall balance**



**B. Primary balance**



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

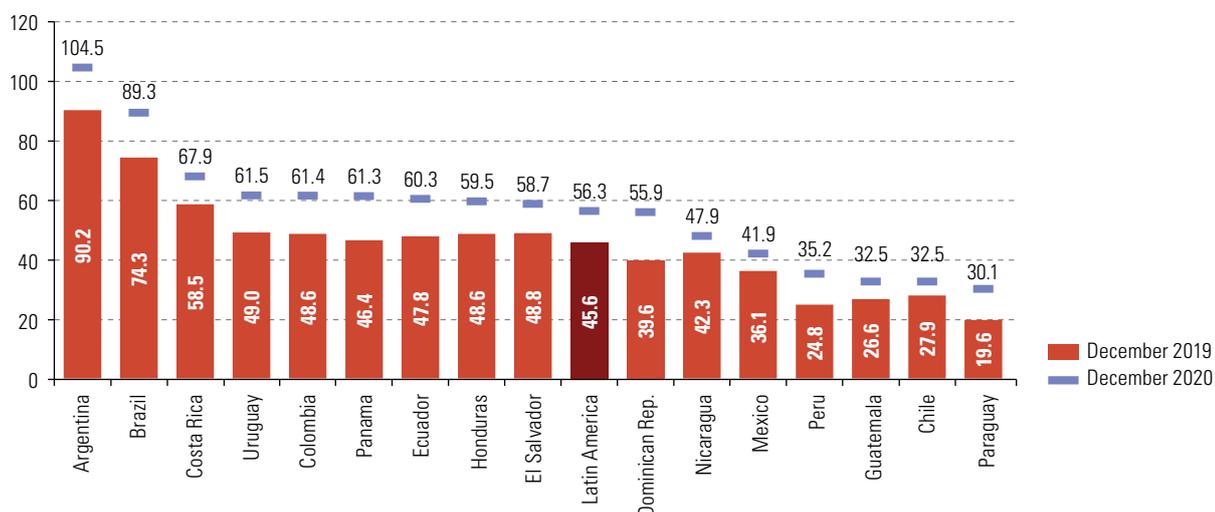
<sup>a</sup> The figures for Suriname are for January–September 2020; those for Barbados are for April–December 2020; and for Belize and Jamaica, for January–December 2020.

## 4. Owing to the complex fiscal circumstances, public debt has continued to trend upward

Gross central government public debt in Latin America and the Caribbean rose sharply throughout 2020, driven up by historic fiscal deficits following implementation of targeted assistance packages for the public and businesses. At the end of 2020, gross central government public debt averaged 56.3% of GDP in Latin America, 10.7 percentage points of GDP higher than at year end 2019 (see figure I.15). At the subregional level, public debt levels in South America and the group of countries composed of Central America, Dominican Republic and Mexico reached 59.3% and 53.2% of GDP, respectively, in the fourth quarter of 2020. At the country level, Argentina's debt-to-GDP ratio was 104.5%, followed by Brazil's at 89.3%, Costa Rica's at 67.9% and Uruguay's at 61.5%. At the other extreme are the countries with the lowest levels of public debt, such as Peru, at 35.2% of GDP; Guatemala and Chile, at 32.5% of GDP; and Paraguay, at 30.1% of GDP. During the year, Argentina, Ecuador and Suriname concluded public debt restructuring processes.<sup>1</sup>

**Figure I.15**

Latin America (16 countries): gross central government public debt, December 2019 and 2020<sup>a</sup>  
(Percentages of GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> In the case of Brazil, these are general government figures.

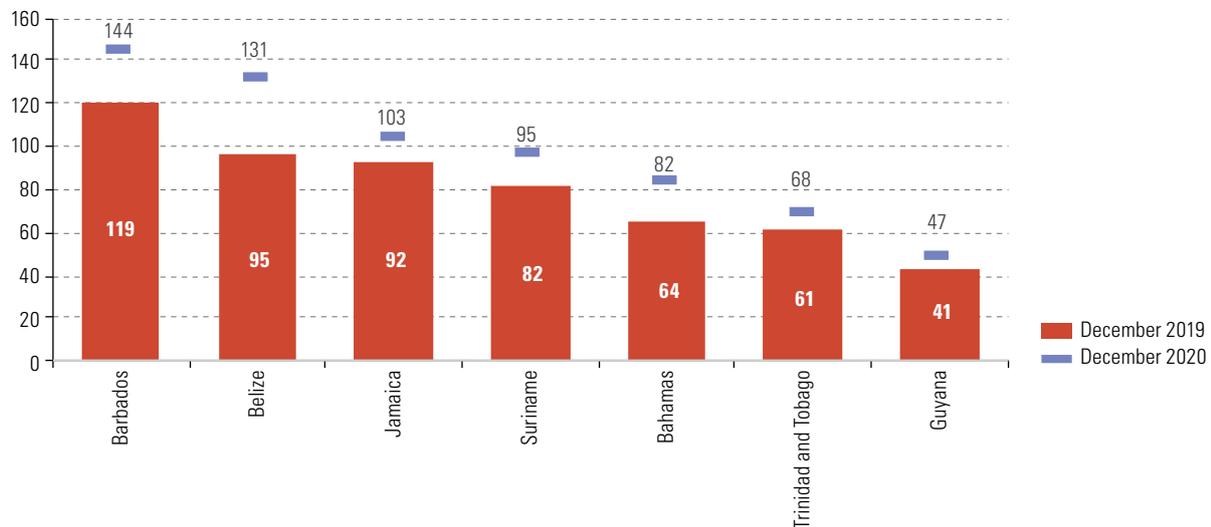
As figure I.15 shows, gross public debt of the central government rose sharply in all the countries of the region compared with the end of 2019. In 8 countries the increase was greater than that for the region as a whole (10.7 percentage points of GDP). The Dominican Republic was the country with the largest increase (16.3 percentage points of GDP), followed by Brazil (15.0 percentage points of GDP), Panama (14.9 percentage points of GDP) and Argentina (14.3 percentage points of GDP). In some countries, the increase was around 12 percentage points of GDP, namely Colombia (12.8 percentage points), Ecuador (12.5 percentage points) and Uruguay (12.5 percentage points), while in others it was close to 10 percentage points, specifically Honduras (10.9 percentage points), Paraguay (10.5 percentage points) and Peru (10.4 percentage points). The country with the smallest increase in public debt was Chile, at 4.6 percentage points of GDP. At the subregional level, South America and Central America recorded increases of 11.6 and 9.8 percentage points of GDP, respectively.

<sup>1</sup> In the case of Argentina and Ecuador, this included bilateral sovereign debt restructuring agreements with private creditors. In Argentina, the agreement covered US\$ 65 billion of external debt and around US\$ 15 billion with domestic creditors. In Ecuador, the agreement covered a total of US\$ 17 billion of bonds issued on the international market.

In the case of the Caribbean, at the time of writing, only seven countries in the subregion had information on gross central government public debt in December 2020 (see figure I.16). Of these countries, three had debt-to-GDP ratios of over 100% at year end 2020, including Barbados, with a ratio of 144%. In all the countries there was a considerable increase in debt, with rises relative to GDP of 24 and 36 percentage points in Barbados and Belize, respectively. As will be examined later, unlike Latin America, the Caribbean mainly financed the costs of the COVID-19 crisis with loans from multilateral agencies; only the Bahamas and Trinidad and Tobago were able to issue sovereign debt on the international market, for US\$ 825 million and US\$ 500 million, respectively, between January and December 2020.

**Figure I.16**

The Caribbean (7 countries): gross central government public debt, December 2019 and 2020 (Percentages of GDP)



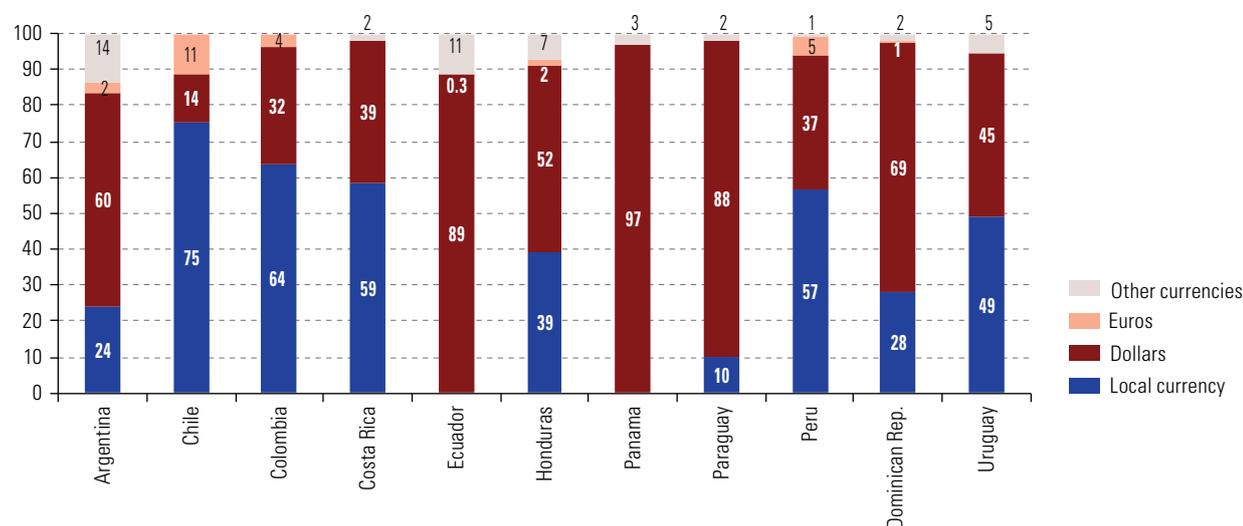
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The build-up of gross central government public debt reflects various internal and external factors such as primary fiscal deficits, GDP growth, implicit interest rates and exchange rates. Based on the above and available data, the composition of public debt by currency and residence of creditors gives an overview of the exposure of national public debt to external factors.

Figure I.17, which lists the gross central government debt stock of 11 countries from the region by currency, shows that a substantial proportion of the public debt is denominated in dollars. In Argentina and Paraguay, foreign-currency-denominated debt accounts for around 80% of the total. A significant percentage of this debt is denominated in dollars: in the case of Paraguay, 88%. In Chile and Colombia, which have low levels of external debt, debt in foreign currency accounts for less than 40% of the total. In dollarized countries, such as Ecuador and Panama, all debt is financed by other economies.

On average, gross central government public debt, classified by creditor residence, is evenly distributed between external and domestic debt, which contrasts with the heterogeneous situations in individual Latin American countries (see figure I.18). From the 16 countries with data for December 2020, Nicaragua and Paraguay have external debt close to 90% of the total, while the Dominican Republic, Ecuador, El Salvador and Panama have levels close to 70%. As previously stated, this proportion of external debt puts additional pressure on fiscal accounts. At the other extreme is Brazil, the country with the highest proportion of internal debt (almost 88% of the total). Brazil is followed by Chile, Costa Rica and Mexico, whose debt is also mostly from the domestic market.

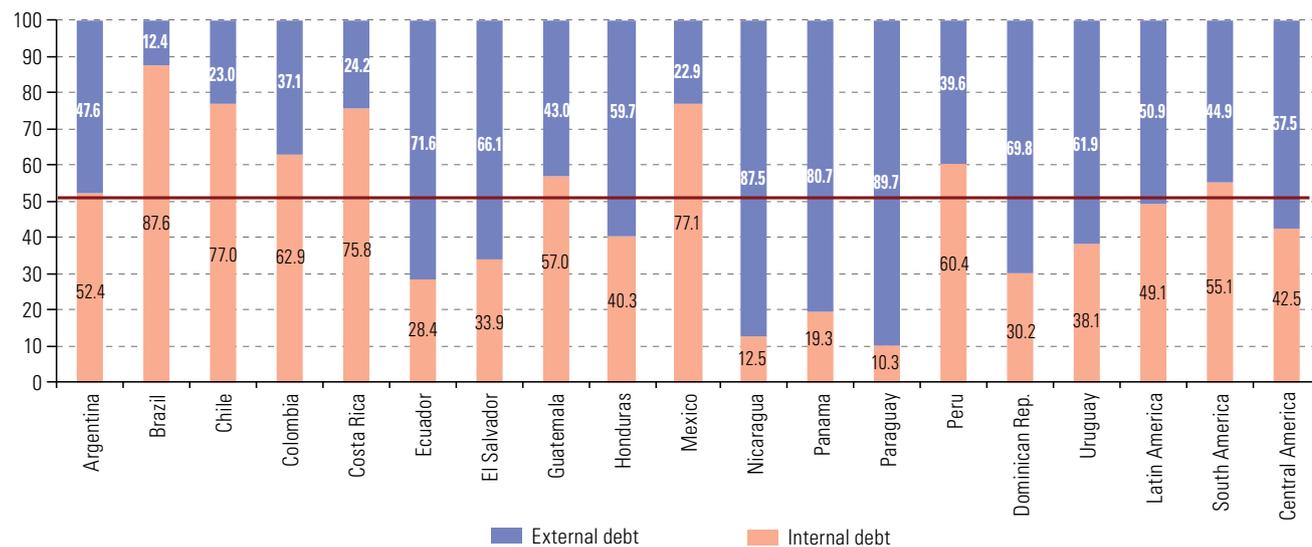
**Figure I.17**  
Latin America (11 countries): gross central government public debt, by currency, December 2020<sup>a</sup>  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> In the case of Argentina, Chile, Costa Rica, and Honduras, the figures are for the central government; in the case of Paraguay, they are for the central administration; in the case of Colombia, they refer to the national central government; for Peru and the Dominican Republic, they refer to the non-financial public sector; and for Ecuador, Panama and Uruguay, they refer to the public sector. In the case of Argentina, Chile, Honduras, Peru and Uruguay, the figures are for September 2020.

**Figure I.18**  
Latin America (16 countries): gross central government public debt and subregional averages, by creditor residence, December 2020<sup>a</sup>  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> In the case of Brazil, these are general government figures. The figures for Argentina are for September 2020, and those for Honduras and Peru are for November 2020.

The crisis has also accentuated the differences between the levels of access that countries of the region have to debt financing. Favourable conditions on international markets, with low interest rates and long maturities, prompted 12 countries in the region to issue sovereign debt in those markets in order to obtain financing rapidly. The sovereign debt issued by the region between January and December 2020 amounted to nearly US\$ 64 billion. Mexico issued a total of US\$ 18 billion in sovereign bonds on international markets, in accordance with its annual financing programme. Behind Mexico is Chile, which issued US\$ 8 billion.

Emergency financing from international financial institutions was crucial for countries in the region that had limited or no access to international financial markets. The various loan programmes of the International Monetary Fund (IMF) were crucial, granting funds to the region through two mechanisms: the Rapid Credit Facility (RCF), which is focused on low-income countries, and the Rapid Financing Instrument (RFI). In other countries, resources were already available through Stand-by Arrangements with IMF. Some regional bodies, such as the Inter-American Development Bank (IDB), the Central American Bank for Economic Integration (CABEI) and the Development Bank of Latin America (CAF) also made emergency loans available to member countries.

## 5. Financing through innovative instruments such as green and social bonds became more important in 2020

In a context of increasing financing needs, the market for green, social and sustainable bonds has grown. These bonds are fixed-income instruments linked to projects that are aligned with green transition or inclusive social development goals.

Transactions categorized as sustainable began in 2007, when the European Investment Bank (EIB) issued its first green bond. Since then, close to US\$ 1 trillion has been issued globally in green bonds, mainly by the corporate financial and non-financial sectors (Jones, 2020). In 2020, there was a notable increase in issuance of green bonds compared to previous years: by the end of November, US\$ 287.7 billion had been issued. However, the boom in green, social and sustainable bonds in 2020 was largely a result of growth in social bonds, which totalled US\$ 145.6 billion, eight times more than at year end 2019 (SEB, 2020).

The market for green, social and sustainable bonds in Latin America and the Caribbean followed the same growth pattern as for the world, although it accounted for just 2% of global transactions in these bonds (SEB, 2020). During 2020, the volume of green, social and sustainable bonds issued in the region doubled to US\$ 12.693 billion. This growth is attributable to the first social bond issues, which totalled US\$ 3.876 billion, and the first sustainable bond issues, which amounted to US\$ 1.689 billion.

In 2020, the profile of regional issuers changed significantly, as the sovereign sector accounted for the majority. In January 2020, Ecuador issued a US\$ 400 million sovereign social bond on the international market to finance the government's Casa para Todos programme (IDB, 2020). Another sovereign social bond issuer in the region was Guatemala, with the placement of US\$ 1.2 billion worth of Eurobonds in April 2020, including a first tranche of US\$ 500 million that was structured as a social bond for projects to respond to the effects of COVID-19 in the country (Ministry of Public Finance of Guatemala, 2020).

Chile placed two green bonds in United States dollars in January 2020 for a total of US\$ 1.65 billion and two other bonds in euros for US\$ 2.18 billion. The country had already issued sovereign green bonds in June 2019. The first bond was in dollars (US\$ 1.418 billion) and the second in euros (861 million euros, equivalent to US\$ 981 million). In November 2020, Chile also issued its first social bonds in Chilean pesos for an equivalent of US\$ 2.111 billion and the country also recently placed its first sovereign sustainable bond, in March 2021, for US\$ 1.5 billion. Thus, Chile placed around US\$ 14.4 billion in social and sustainable green bonds between June 2019 and March 2021, representing 15.5% of the stock of central government debt (Ministry of Finance of Chile, 2021).

In September 2020, Mexico issued the first sovereign bond linked to the Sustainable Development Goals (SDGs). The issue, for a total of 750 million euros (equivalent to US\$ 890 million), attracted record demand of 4.8 billion euros. It will be used to

finance projects in education, health services, water, energy and social infrastructure in the most underdeveloped areas (SHCP, 2020). The placement closed with a coupon of 1.350%, the second lowest of all euro-denominated bonds issued by the federal government of Mexico.

In 2020, Chile and Mexico presented their sustainable financing strategies by publishing their frameworks for issuing sustainable bonds. These documents detail the institutional underpinnings of each country's sustainable bond issuance strategy.

The frameworks cover governance of national SDG implementation systems, commitments under international agreements, national policy frameworks, and the main inter-agency coordination mechanisms and their linkages with the national planning and public financial management systems. They focus on the characteristics of national budget management, including monitoring and evaluation systems, to describe how resources raised through sustainable bonds will be integrated into budget management architectures.

The documents then spell out the countries' main commitments in terms of the four key components of sustainable bonds: (i) use of resources (eligibility criteria); (ii) the project evaluation and selection process; (iii) resource management; and (iv) reporting, including external reviews (ICMA, 2018 and 2020).

The sustainable bond framework presented in 2020 by the Chilean Ministry of Finance updates and expands on the green bond framework it developed in 2019 by including the requirements that social projects must meet in order to be considered. Sustainable expenditures are all those costs included in Chile's central government budget that meet the criteria of the green or social categories. The sustainable bond framework developed by the Ministry of Finance thus proposes six categories of green projects: clean transport; energy efficiency; renewable energy; natural resources, land use and marine protected areas; efficient and climate-resilient management of water resources; and green (sustainable) buildings. There are more categories of social projects (nine), which include: support for vulnerable older persons, support for the community through job creation, support for victims of human rights abuses, access to affordable basic housing, access to education, and food security. Funds raised through sustainable bonds could be used for all economic classifications of public expenditures, except those related to interest payments on public debt.

The selection and evaluation of eligible projects is the responsibility of the Ministry of Finance, which chairs an interministerial committee called the Sustainable Bond Committee. The role of this Committee is to oversee full implementation of the framework, including allocation of funds raised to projects and reporting to investors. The Committee is composed of representatives of the main ministries responsible for execution of the public budget that are linked to environmental or social issues. After a sustainable bond is placed, the net resources are transferred to the General Account of the Republic. The Ministry of Finance has committed to performing the relevant processes to ensure resources are traceable.

Regarding accountable use of funds, the Ministry of Finance must provide investors and the general public with three reports, to be published every April on its official web page. The first report concerns allocation of funds and is to be reviewed by an external auditor. The report includes: (i) a brief description of the projects and amounts disbursed; (ii) the percentage of earmarked income by project or programme; (iii) the percentage of income earmarked for financing and refinancing; (iv) the remaining balance of unearmarked income; and (v) the percentage of co-financing by project or programme. The second report relates to projects' compliance with the framework's eligible categories. The third report, prepared as part of the management of sustainable bonds in Chile, is an annual impact report, which describes the expected impact of the projects (targets), their indicators and methodology, and the results of metrics. The impact reports are prepared by the Ministry of Environment in the case of green bonds and by the Ministry of Finance in the case of social bonds.

The framework for SDG-aligned sovereign bonds, presented by Mexico's Secretariat of Finance and Public Credit (SHCP), stipulates that such bonds may be issued as green bonds or social bonds, or as sustainable bonds if they pursue both green and social goals. Projects must meet two key requirements to be eligible. Firstly, they must be in line with one of the 11 SDGs listed in the framework and, secondly, they must be based on the principle of zoning "priority areas" as well as the social gap index (IRS), in order to determine the target populations more accurately. The social gap index has 11 subindicators that are based on the population and housing census.

The Secretariat of Finance and Public Credit oversees evaluation and selection of projects, in coordination with the Committee of Inclusive and Sustainable Economy, with direct participation by the ministries that contribute to implementing the programmes. Funds raised through SDG bonds are allocated to specific programmes in the national budget. Therefore, the unit for monitoring implementation of SDG bonds is a budget programme. The Secretariat of Finance and Public Credit manages the funds raised through SDG bonds and monitors the progress of the budget programme on a quarterly basis, ensuring that the proceeds are used for eligible expenditures, as established. The Secretariat prepares two reports: an allocation report and an impact report. Both reports are prepared by the Public Credit Unit of the Secretariat, while the Specialized Technical Committee for the Sustainable Development Goals (CTEODS), which was created in 2015, reviews the reports and coordinates the different public agencies involved. Mexico's SDG-aligned sovereign bond framework also includes a commitment to conduct external reviews of each of its offerings and its published reports.

Both the Chilean and Mexican frameworks received a positive Second-Party Opinion (SPO), confirming their alignment with the United Nations SDGs, as well as with the principles issued by the International Capital Market Association (ICMA, 2018 and 2020). IDB and the United Nations Development Programme (UNDP) provided technical support for the formulation of the frameworks, to bring them into line with international best practices.

## 6. Before the COVID-19 crisis, the fiscal performance of subnational governments was showing slight improvement

Over the course of 2019, the finances of intermediate and local governments showed gradual improvement, reflected in balanced fiscal results. However, because of the health emergency caused by the COVID-19 pandemic, these levels of government have faced unprecedented demands relating to public health services and local economic recovery. To bolster the capacity of subnational governments to tackle the crisis, in 2020, the central governments of the region made efforts to maintain and increase the use of intergovernmental transfers, as well as to make fiscal rules more flexible to redirect resources towards the emergency response.

In Argentina, priority was given to lines of financing with international organizations, to support the most affected provincial and municipal governments. In Brazil, Provisional Measure 938/2020 and complementary bill No. 39/2020 were passed, with the aim of supporting municipal and state governments with financial resources to address the crisis. In Paraguay, Peru and Uruguay, resources were reallocated from the general budget to provide more resources to subnational governments and mitigate the effects of the crisis. In Costa Rica, fiscal rules were relaxed to allow local governments to increase spending to cope with the emergency. In Mexico, the federal government maintained timely payment of the transfers provided for in the Fiscal Coordination Law, to ensure state and municipal governments were liquid (OECD, 2020c; Radics and Rodríguez Ramírez, 2020).

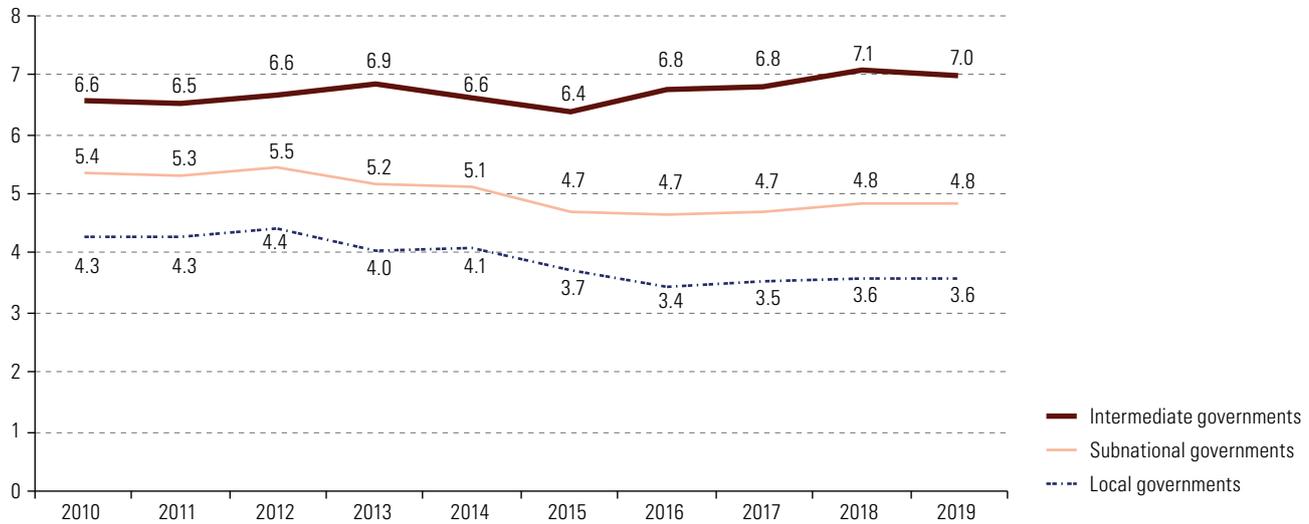
### (a) Public revenues of subnational governments were stable in 2019

Prior to the crisis, subnational governments had maintained a revenue level of 4.8% of GDP in both 2018 and 2019 (see figure I.19). However, total revenues worsened slightly for intermediate governments, from 7.1% of GDP in 2018 to 7.0% of GDP in 2019. Meanwhile, local government revenues stood at 3.6% of GDP, in both 2018 and 2019. The decrease recorded by intermediate governments came from the transfer side. Tax revenues, in contrast, remained steady for both intermediate and local governments.

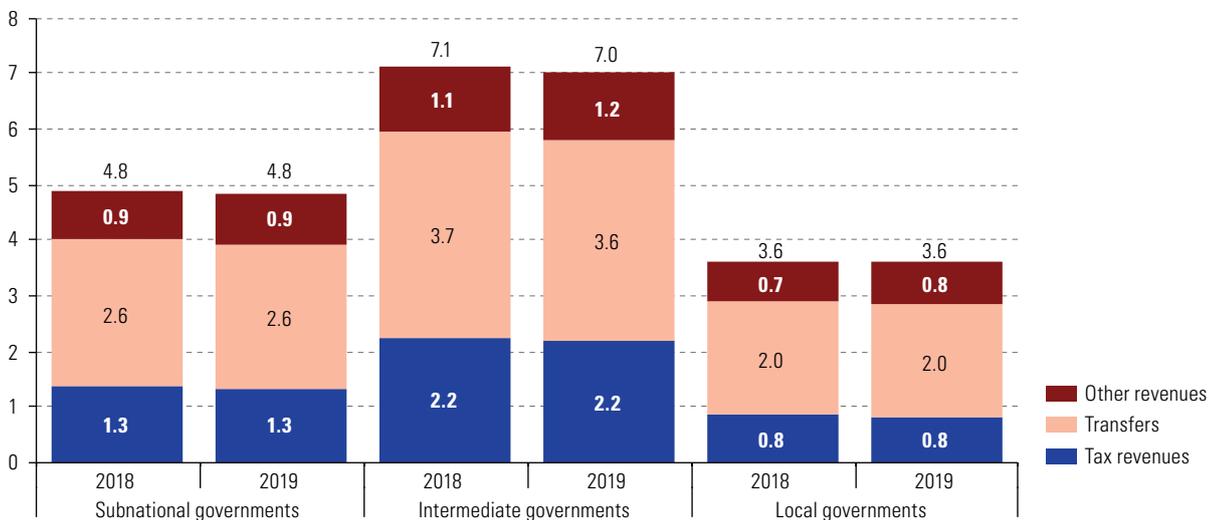
**Figure I.19**

Latin America (16 countries):<sup>a</sup> total revenues of subnational governments, 2010–2019  
(Percentages of GDP)

#### A. Total revenues



#### B. Total revenues by component



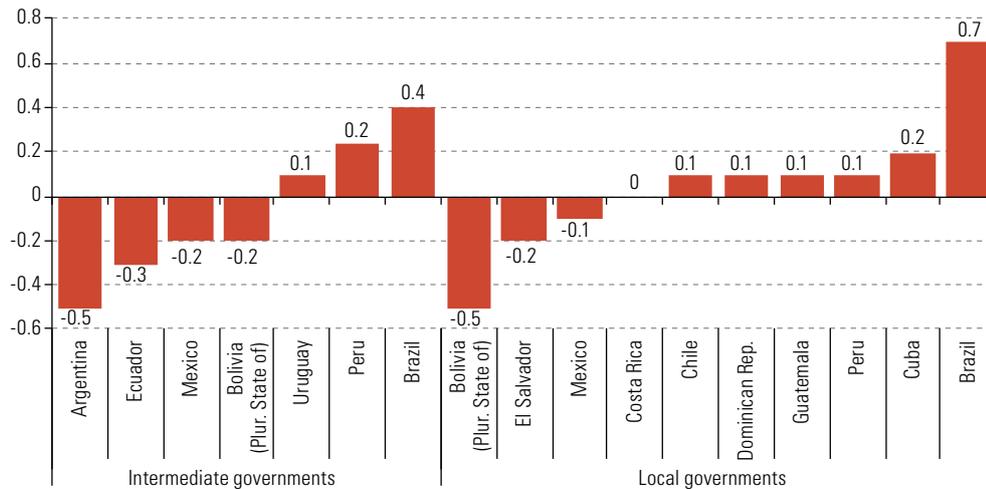
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

**Note:** The sum of the figures may not be exact owing to rounding.

<sup>a</sup> The countries included are: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Plurinational State of Bolivia and Uruguay.

Comparing the different countries, the rises were led by state and local governments in Brazil, with increases of 0.4 and 0.7 percentage points of GDP, respectively (see figure I.20). These improvements in Brazil mainly came from the transfer side. Declines were led by the provincial governments of Argentina and the autonomous municipal

governments of the Plurinational State of Bolivia, with revenue falls of 0.5 percentage points of GDP in both cases. In the case of Argentina, the decreases reflect changes made between 2016 and 2017 to reduce transfers and standardize tax structures. In Brazil, the improvements are partly a result of adoption of the Fiscal Recovery System, an instrument whereby Brazilian states under heavy fiscal pressure can request support from the central government, provided that they make fiscal adjustments and changes to their pension systems.



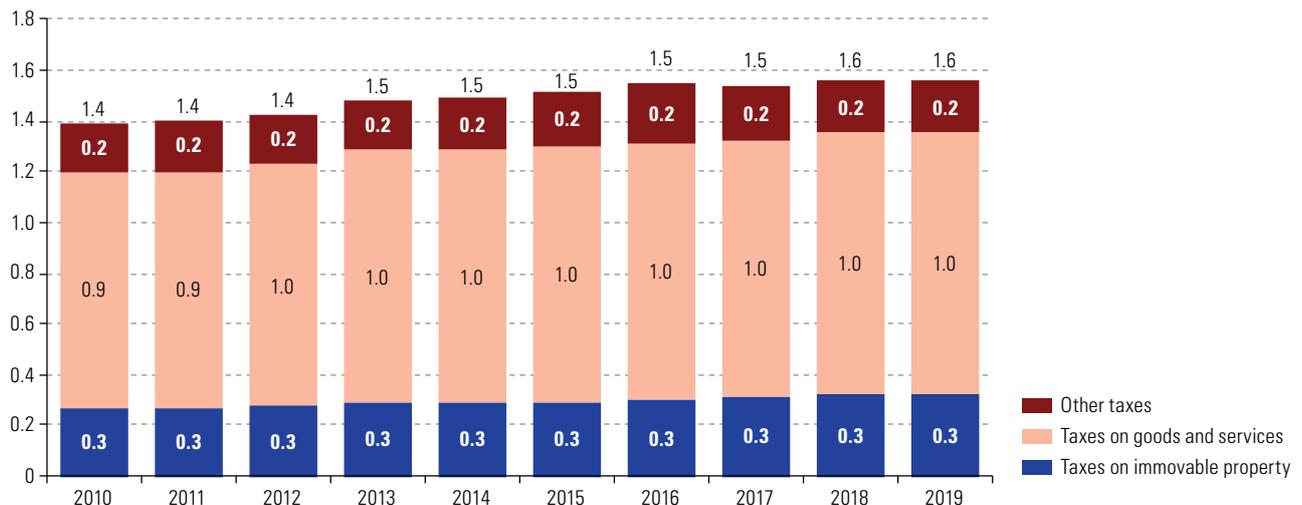
**Figure I.20**  
Latin America  
(13 countries): year-  
on-year variation in  
intermediate and local  
government total  
revenues, 2018–2019  
(Percentages of GDP)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

In recent years, tax revenues have shown meagre rises, reflecting a lack of use of tax bases and tax powers by intermediate and local governments. As figure I.21 shows from a broader perspective, from 2010 to 2019, these revenues rose by 0.2 percentage points of GDP. The increase was across the board in revenues from real estate tax and taxes on consumption of goods and services. Revenues from these two taxes averaged more than 80% of total tax revenues of subnational governments: 66.1% came from taxes on consumption and economic activity, and 19.7% from real estate taxes.

**Figure I.21**

Latin America (15 countries): tax revenues of subnational governments, by tax instrument, 2010–2019<sup>a</sup>  
(Percentages of GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD), OECD Statistics [online database] <https://stats.oecd.org/> and official figures.

**Note:** The sum of the figures may not be exact owing to rounding.

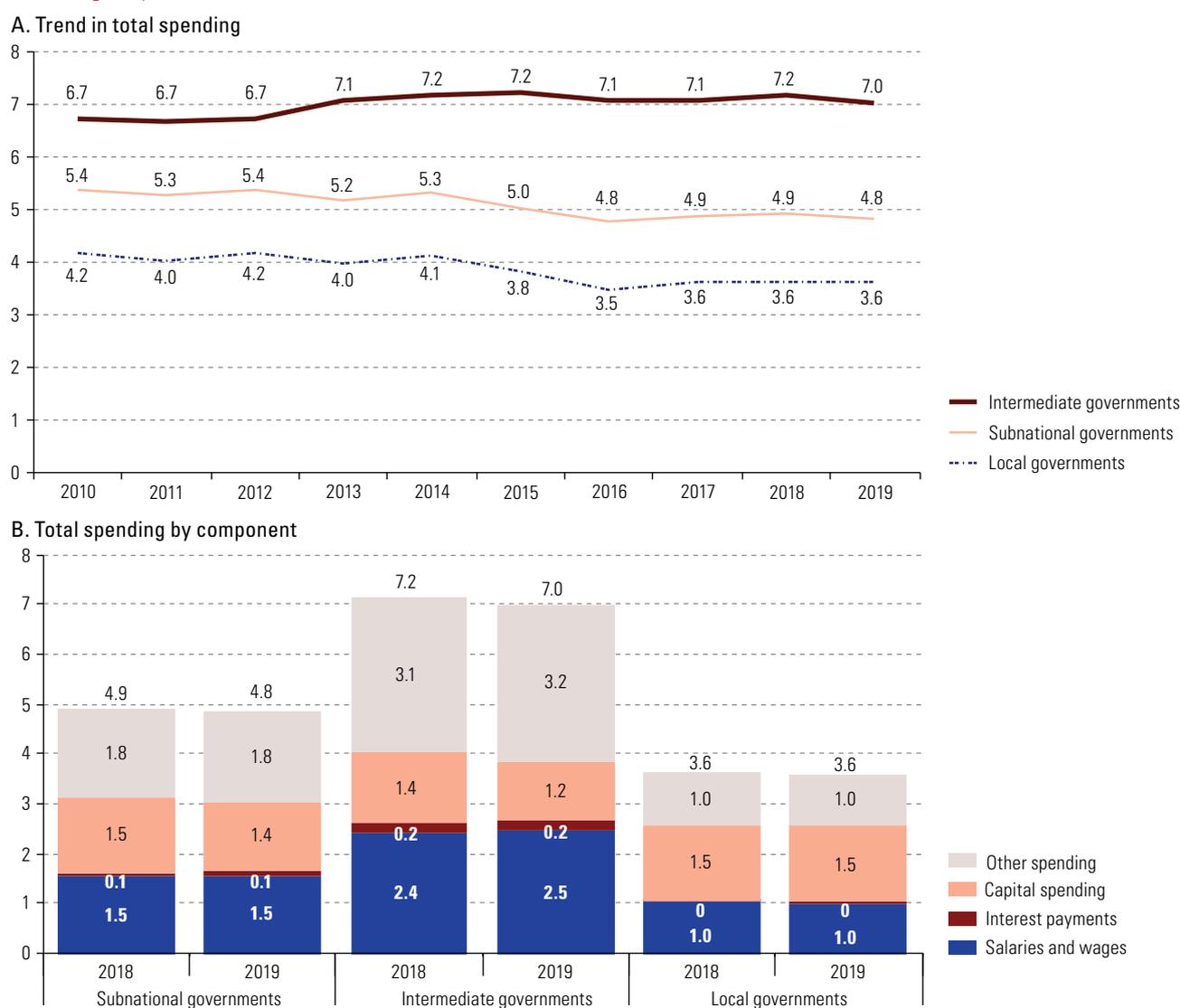
<sup>a</sup> Data for 2019 are preliminary. The figures refer to: Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

### (b) Intermediate and local government spending increased slightly because of the payment of salaries and wages

Subnational government spending edged down, by 0.1 percentage points, from 4.9% of GDP in 2018 to 4.8% of GDP in 2019 (see figure I.22). Similarly, intermediate government spending declined by 0.2 percentage points, from 7.2% of GDP in 2018 to 7.0% of GDP in 2019. Local government spending remained at 3.6% of GDP in 2019, unchanged from 2018. The declines generally stemmed from adjustments to capital spending. Beyond the structure of spending by economic classification, statistics on spending by function also contribute to the analysis of the objectives of subnational governments' fiscal policy (see box I.2).

**Figure I.22**

Latin America (16 countries):<sup>a</sup> total spending of subnational governments, 2010–2019  
(Percentages of GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

**Note:** The sum of the figures may not be exact owing to rounding.

<sup>a</sup> The countries included are: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Plurinational State of Bolivia and Uruguay.

**Box I.2****Availability and comparability of functional spending figures at the subnational level**

One of the greatest methodological challenges in the analysis of decentralization and intergovernmental fiscal relations in Latin American countries lies in the need for information to comprehensively determine the distribution of spending responsibilities among the different levels of government. So far, this conversation has focused mainly on the normative aspect, with no complementary empirical support at this stage. The emphasis is therefore on identifying the social and economic objectives prioritized by local and intermediate governments through public spending.

The most common way to do this is through functional classification, or the Classification of the Functions of Government (COFOG), as it is called by the United Nations Statistics Division. This classification makes it possible to examine trends in government spending on particular functions or policy objectives over time. It also facilitates international comparisons with respect to the scope of economic and social functions carried out by institutional subsectors of government within a single country (non-financial public sector, general government, central government, intermediate government and local government). Finally, the functional classification neutralizes the effects of changes in institutional organization within a government and differences in institutional organization across countries on the social and economic impact of public spending.

Generally speaking, it is difficult to find aggregate figures for subnational spending from a functional perspective. Economic classification is most commonly used by these governments. However, some countries have made progress in this area and provide a breakdown of spending according to the social and economic functions and responsibilities acquired over time. Examples are Argentina, Brazil, the Dominican Republic and Peru.

In Argentina, the Ministry of Economy provides information on its website on consolidated public spending covering the national government, provinces, the Autonomous City of Buenos Aires and municipalities. This spending is presented according to its purpose and disaggregated into about 15 functions.

Each year, authorities in Brazil publish the *Balanço do Setor Público Nacional*, a report that presents the consolidated budget and assets of the public sector, broken down into the following institutional subsectors: the federal government, States and municipalities. This document includes expenditure figures based on the functional classification, in accordance with the provisions of Ordinance No. 42 of 1999, which breaks down public spending into 28 functions (first level) and more than 100 subfunctions of government (second level).

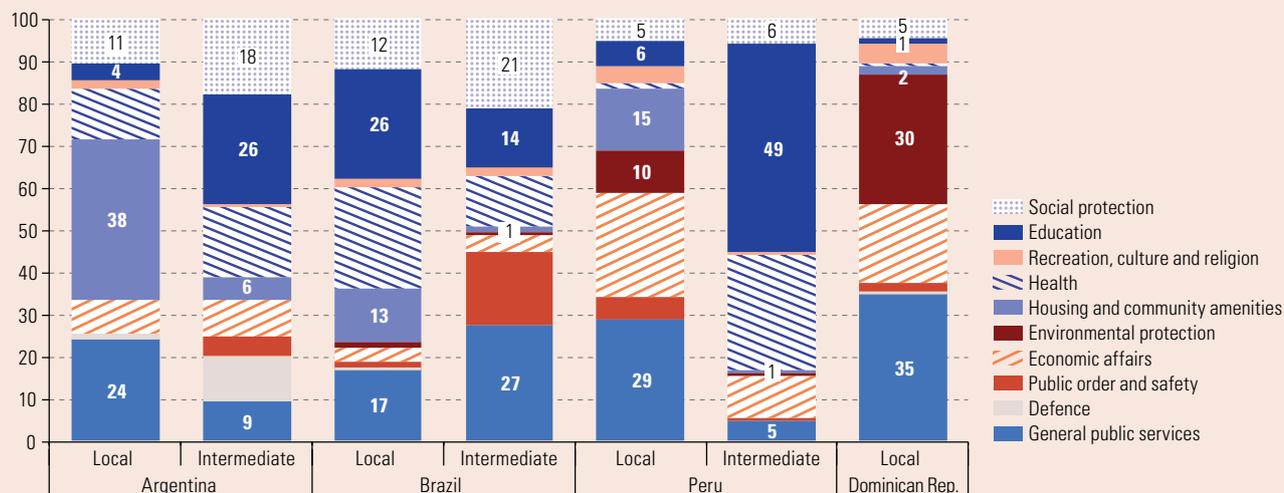
In Peru, the economic transparency website of the Ministry of Economy and Finance presents consolidated financial and budgetary information on the General Account of the Republic. The various formats in which the information is presented include the "EP-3", which refers to the functional classification of spending. This classification breaks down spending by the public sector, national government, regional governments, local governments, State enterprises and other forms of organization.

In the Dominican Republic, the report sent annually by the Chamber of Accounts to the National Congress includes budget figures for municipalities, which incorporate the analysis of public spending based on five government functions, in line with the number of municipalities that provided complete information (Chamber of Accounts of the Republic, 2019). This classification is also used by the General Budget Directorate of the Ministry of Finance, which breaks it down into 21 more subfunctions.

On the basis of available information adjusted to the first level of the COFOG (10 functions), the composition of spending according to the social and economic objectives of subnational governments is not homogeneous. As can be seen in the following figure, the relative weights of each function differ both among countries and among levels of government within the same country. It highlights, for example, the fact that more than one third of spending by municipalities in Argentina targets housing and community amenities functions. More than half of provincial government spending in Argentina is focused on social functions such as education, health and social protection. In Brazil, half of local government spending targets health and education, while one third of state government spending focuses on general public services. Similarly, one third of spending by Peru's local governments targets general public services, while almost half of regional government spending focuses on education. In the Dominican Republic, almost one third goes to environmental protection programmes.

## Box I.2 (concluded)

Latin America (4 countries): composition of subnational spending according to the Classification of the Functions of Government (COFOG), around 2019  
(Percentages of total spending)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

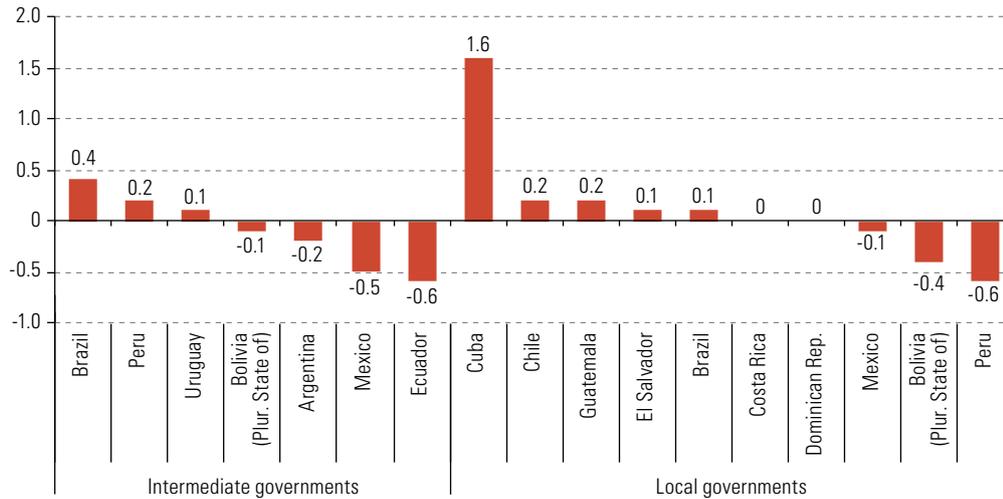
**Note:** Subnational government spending by function cannot be added to that of central governments, since the available statistical information does not allow for the consolidation of transfers between the different levels of government.

One of the advantages of using the functional classification of public spending is that it allows for an estimate of social spending. Once public spending has been broken down into each of the 10 functions mentioned above, in order to offer a more concise overview, the following six functions considered social in the different methodological manuals and documents are included:<sup>a</sup> spending on environmental protection; housing and community amenities; health; recreation, culture and religion; education and social protection. Social spending represents a significant share of total government spending in the small sample examined. Argentina's provincial and local governments allocate almost 70% of their spending to these objectives. State and local governments in Brazil, meanwhile, allocate between 50% and 80% of spending to social responsibilities. Peru's regional and local governments allocate, respectively, 40% and more than 85% of spending to social functions. Finally, local governments in the Dominican Republic spend almost 43% on social objectives.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

<sup>a</sup> Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America, 2020* (LC/PUB.2021/2-P/Rev.1), Santiago, 2021.

Between 2018 and 2019, spending decreased considerably in some countries, led by the local governments of Peru, the decentralized autonomous governments of Ecuador and the State governments of Mexico (see figure I.23). In Mexico and Peru, fiscal rules were recently approved that aim to achieve balanced budgets in intermediate and local governments. In all three countries, declines also derived from adjustments to capital spending. With regard to increases, a notable example are local governments in Cuba, a country which presents aggregate figures, making it difficult to analyse the composition of spending and to draw conclusions on the main determinants of the observed increase.



**Figure I.23**  
Latin America (13 countries): year-on-year variation in total spending of intermediate and local governments, 2018–2019 (Percentages of GDP)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

### (c) Prior to the pandemic, intermediate and local governments' fiscal accounts were balanced

In 2019, subnational governments' fiscal accounts were balanced and showed an improvement over 2018 (see figure I.24). Primary balances were even positive (0.1% of GDP), representing an advance of 0.1 percentage points of GDP compared to 2018. The fiscal accounts of intermediate governments were also balanced and reflected primary surpluses, with an improvement of 0.1 percentage points of GDP in the primary balance. The public accounts of local governments were sound as well, in terms of both the primary balance and the overall balance.

**Figure I.24**  
Latin America (16 countries): fiscal indicators of subnational governments, intermediate and local, 2010–2019 (Percentages of GDP)

#### A. Subnational governments (16 countries)<sup>a</sup>

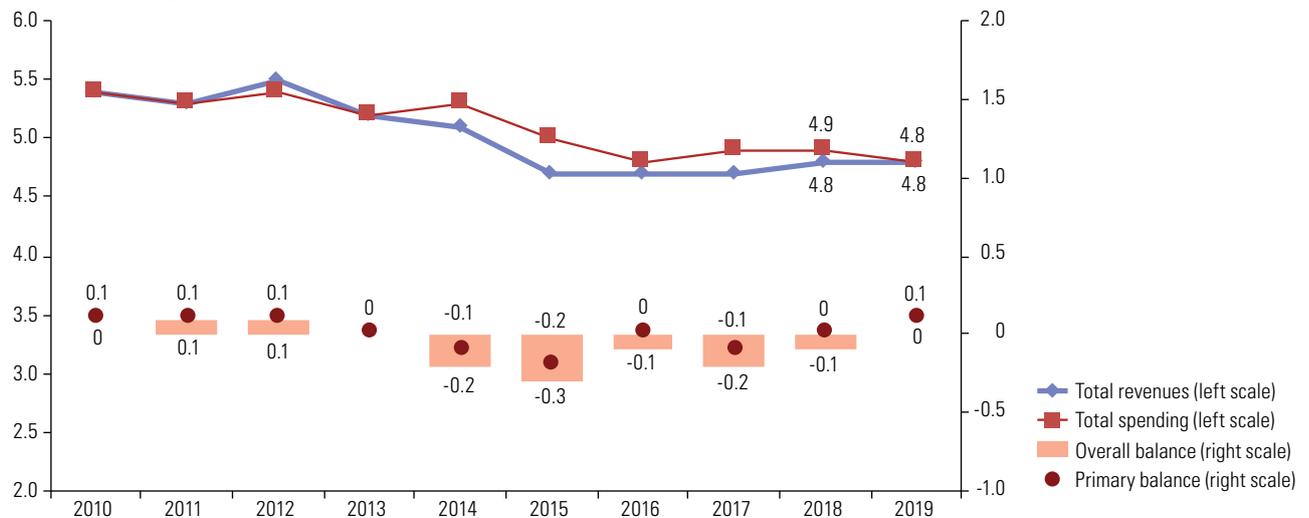
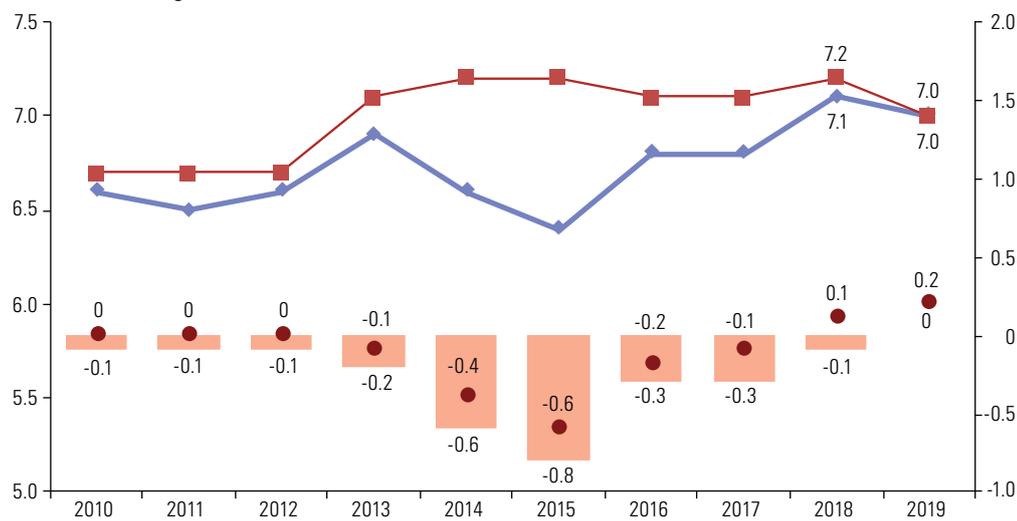
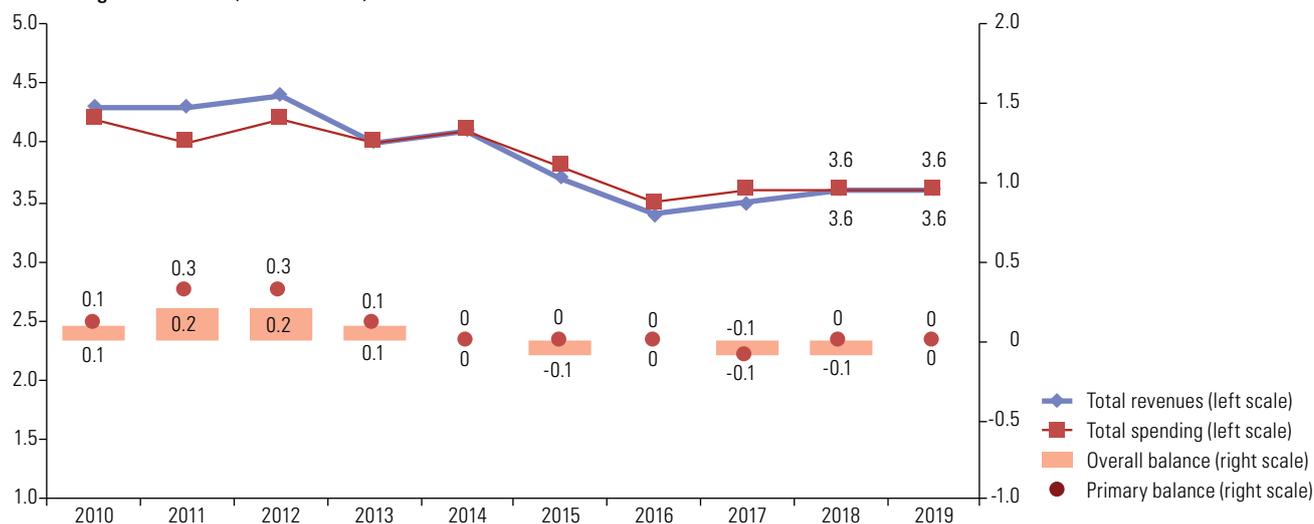


Figure I.24 (concluded)

B. Intermediate governments (8 countries)<sup>b</sup>C. Local governments (14 countries)<sup>c</sup>

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

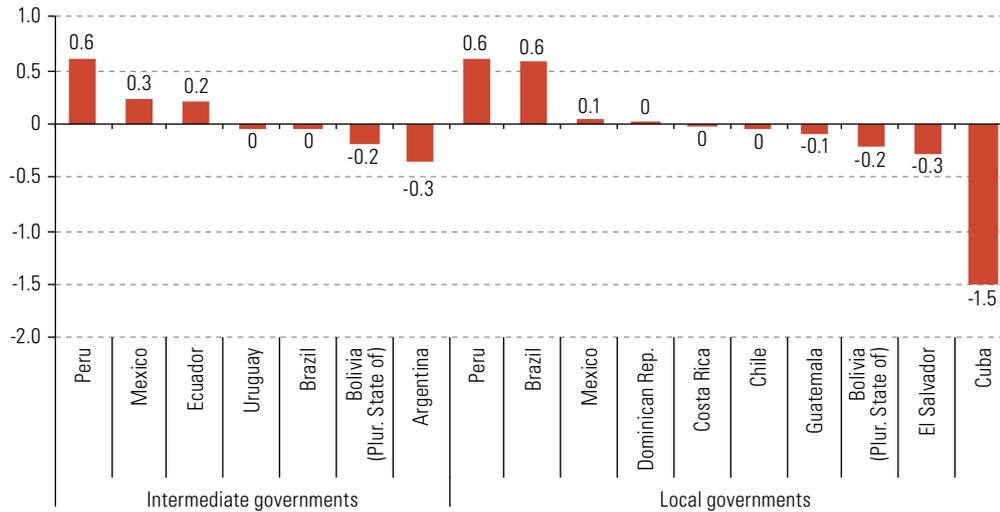
<sup>a</sup> Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru, Plurinational State of Bolivia and Uruguay.

<sup>b</sup> Argentina, Brazil, Colombia, Ecuador, Mexico, Peru, Plurinational State of Bolivia and Uruguay.

<sup>c</sup> Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Peru and Plurinational State of Bolivia.

These performances were undoubtedly influenced by external and institutional factors that have shaped the state of intergovernmental fiscal relations in the region over the past decade. There was a recovery between 2017 and 2019, reflected in the overall balance of intermediate and local governments and, of course, in their positive primary balances. This recovery derived from the spending restrictions adopted by the countries, the increase in their revenues and the adoption or strengthening of debt controls (ECLAC, 2018 and 2019a).

As shown in figure I.25, the fiscal performance improved for Peru's regional and local governments, Brazil's municipal governments and Mexico's State governments. In Peru and Mexico, the improvements in public accounts are in line with the fiscal rules adopted and implemented between 2015 and 2017, which involved legal changes that were reinforced by governments' adjustments to public spending. In Brazil, the improvements stemmed from an increase in revenues from transfers.



**Figure I.25**  
Latin America (13 countries): year-on-year variation in overall balances of intermediate and local governments, 2018–2019 (Percentages of GDP)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

**(d) Debt levels have remained stable**

In 2019, subnational government debt represented 2.6% of GDP, after increasing by 0.1 percentage points from 2018 (see figure I.26). This average masks significant heterogeneity in debt levels across countries and levels of government. For example, the largest debt burden averaged 11.2% of GDP in 2019. By contrast, the lowest debt levels were equivalent to 0.02% of GDP. At the country level, the largest increases occurred in the subnational governments of the Plurinational State of Bolivia, Colombia and Honduras. Meanwhile, the largest declines were in Brazil, Argentina and Mexico. These declines occurred in three countries with federal governments that have recently taken action to control rising debt levels.

**Figure I.26**  
Latin America (12 countries): gross public debt of subnational governments, 2010–2019, and year-on-year variation in gross public debt, 2018–2019 (Percentages of GDP and percentage points of GDP)

**A. Gross public debt of subnational governments, 2010–2019<sup>a</sup>**  
(percentages of GDP)

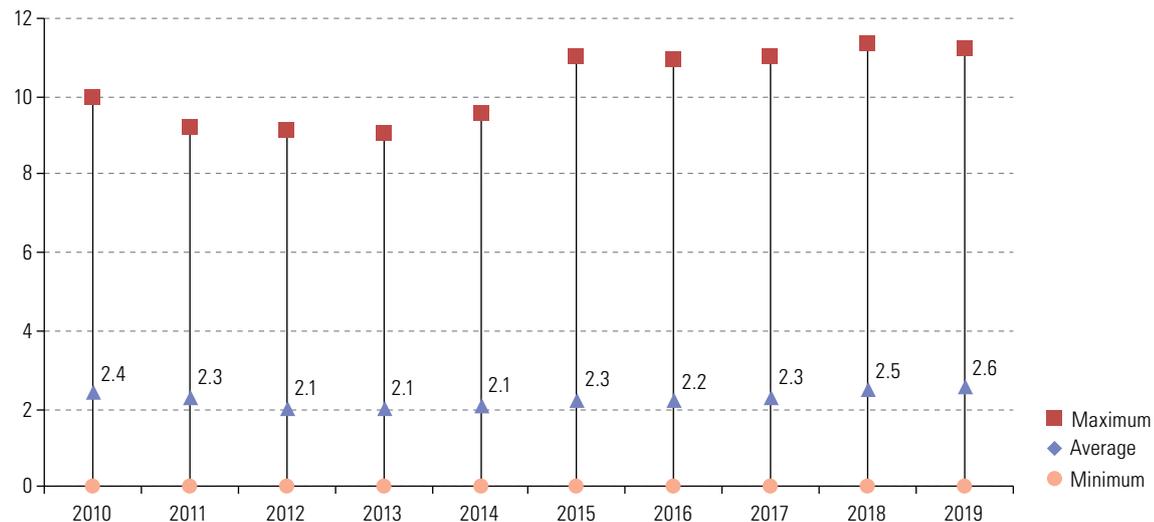
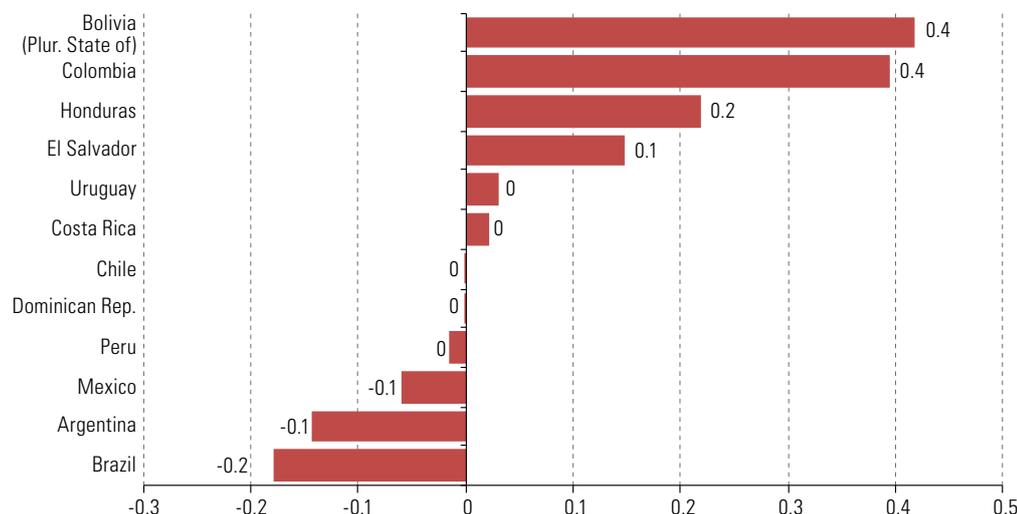


Figure I.26 (concluded)

**B. Year-on-year variation in gross public debt, 2018–2019***(percentage points of GDP)*

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Honduras, Mexico, Peru, Plurinational State of Bolivia and Uruguay.

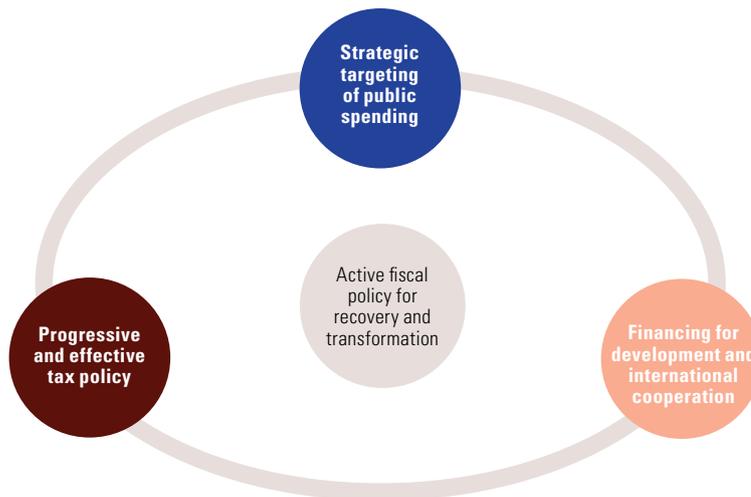
Subnational governments' sources of financing are also mixed. In Colombia, Mexico, Peru and the countries of Central America, the largest source of financing is the banking sector. In Argentina, the main source of financing is the domestic and international bond market. And in Brazil, most of subnational governments' debt is owed to the federal government, following the bailouts from 1997–2003.

## B. Fiscal policy challenges in the recovery and transition to sustainable development

For many years, ECLAC has championed the need to pursue fiscal policy that favours sustainable development and public investment in the region. This approach recognizes the role that fiscal policy plays in stabilizing the economic cycle, redistributing to improve equity, providing public goods and services, and boosting public investment as a driver of economic growth. These fiscal policy functions are critical in the region, where growth is slow and there is a need to close structural gaps in areas such as social protection, production structures, infrastructure, digital technologies and regional integration.

In 2020, the countries of the region applied expansionary fiscal policies, to strengthen public health systems, support household incomes and protect the production structure. In addition, the crisis exposed weaknesses in fiscal policy design, such as the widespread lack of transfer mechanisms with universal coverage or countercyclical instruments—such as automatic stabilizers—to respond to supply and demand shocks.

In view of the evident fragility of the post-pandemic recovery and in order to drive the economic revival, expansionary fiscal policy must be maintained, moving forward from the emergency with actions linked to sought-after medium- and long-term transformations, to build back with more inclusive, egalitarian and resilient societies (see diagram I.1). To achieve this, it is crucial to establish a strategic perspective for fiscal policy that promotes public spending to create universal social protection systems and incentivize employment-intensive investments that are environmentally sustainable and target strategic sectors. Progressive tax policy will also be required, to help reduce income inequalities and finance public spending.



**Diagram I.1**  
Pillars for active fiscal policy  
in the post-pandemic  
recovery and transformation

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

In this context, multilateralism and international cooperation play a key role in boosting financing for development. In that regard, ECLAC has emphasized pursuing strategies that foster this type of financing, including issuing special drawing rights, to benefit the region's middle-income countries. Debt relief and restructuring efforts should be stepped up, to free up substantial resources to finance the recoveries of the region's heavily indebted countries, those that are vulnerable to weather events, and those which have a heavy burden of interest payments.

## 1. Expanded public spending with a strategic approach

In 2020, public spending became the main economic policy tool in the response to the macroeconomic and social shocks from the pandemic. Given the need to use public resources to address the health emergency, the spending policies of the countries of the region were geared towards strengthening public health systems, supporting households to compensate for the loss of income, and providing liquidity to small and medium-sized enterprises. To drive the recovery, it is important to maintain these support measures and to take a strategic approach to public spending policy, linking short-term emergency measures with medium- and long-term economic, social and production transformations that will enable the region to move towards a sustainable development model.

### (a) Promote employment-intensive and environmentally sustainable investment in strategic sectors

Public investment is a vital tool for a successful recovery and transformation of the region's economies and societies. It is therefore important to direct efforts towards sectors that reduce the environmental footprint of economic activity, create productive quality employment, and promote development of value chains. As ECLAC (2020c) has indicated, there are several sectors that could drive progressive structural change. They include an energy transition to non-conventional renewable energies; sustainable mobility and urban space; the digital revolution for sustainability; the health-care manufacturing industry; the bioeconomy; the circular economy; and sustainable recovery in the tourism sector. For example, an annual investment equivalent to 1.35% of GDP

in transforming the energy matrix based on renewable energies would lead to a 30% reduction in cumulative CO<sub>2</sub> emissions and would generate 7 million jobs between 2020 and 2032.<sup>2</sup> Similarly, promoting activities related to the circular economy, based on local production chains and waste management and recycling, could create up to 450,000 jobs and increase regional GDP by 0.35%.

### **(b) Establish a basic income for people living in poverty**

Sustainable and inclusive development requires concerted public sector efforts to achieve zero poverty, as set out in the Sustainable Development Goals (SDGs). Economic stagnation over the last decade has driven up poverty rates, from a recent low of 27.8% of the population in 2014 to 33.7% in 2020 (ECLAC, 2021a). Given the continuing impact of the pandemic and the fragile outlook for growth, it is vital for there to be mechanisms to support households and strengthen aggregate demand. In this regard, establishing a universal basic income for people living in poverty—a cash transfer equivalent to one poverty line—would create an important tool that contributed to achieving SDG 1 (ECLAC, 2020c). Such an instrument would also bring macroeconomic benefits and strengthen aggregate demand in times of economic difficulty.

### **(c) Provide financing to MSMEs in strategic sectors.**

Although the crisis affected companies of all sizes, MSMEs were particularly hard hit. Because of their size, they typically operate with limited cash flow and small profit margins, leaving them highly exposed to the economic downturn. Moreover, access to liquidity, which could help these enterprises overcome short-term crises, is often limited by lack of access to finance from the formal banking system. The danger of widespread closures of MSMEs, which account for 88.4% of all enterprises and 27.4% of all employment in the region, led countries to take measures to provide liquidity on preferential terms to these businesses (ECLAC, 2020e).

While these measures have provided vital short-term assistance to these companies, the fact that they will emerge from this crisis with more debt is a major challenge. This is because most of the programmes to protect the production structure during the pandemic involved taking on new liabilities by deferring tax liabilities or receiving preferential loans or State credit guarantees. Looking beyond the urgent needs created by the crisis, complementary financing mechanisms should be considered, to help MSMEs increase their productivity and encourage them to participate in strategic sectors.

### **(d) Design incentives that promote productive development: digital revolution for sustainability and clean technologies**

Despite its enormous potential, the Latin American and Caribbean region is characterized by historical productivity gaps. There are several reasons for this, related to numerous deficits in areas such as infrastructure, productive innovation, worker training and incorporation of technologies into production processes. To address the post-pandemic phase and put countries on a path of sustained growth, it will be essential to identify the gaps that hinder robust deployment of the region's production capacities. In this process, countries should foster strategic partnerships with the private sector to better identify opportunities, design projects better suited to the solutions under consideration, and build sound financial strategies capable of sustaining this work over time. In terms of government action, there are several areas that could drive a new

<sup>2</sup> "Construir un nuevo futuro: una recuperación transformadora con igualdad y sostenibilidad", 2020 [online] [https://periododesesiones.cepal.org/38/sites/pses38/files/presentations/201026\\_version\\_final\\_alicia\\_barcelona\\_pses-construir\\_el\\_futuro.pdf](https://periododesesiones.cepal.org/38/sites/pses38/files/presentations/201026_version_final_alicia_barcelona_pses-construir_el_futuro.pdf).

model of productive development, based on a digital revolution and the use of clean technologies. Regulatory, tax and public investment spending measures are particularly important. The complementarity of each of these areas should be leveraged, and care should be taken to ensure that projects are consistent with the imperatives of building back better; in other words, that they are aligned with an inclusive and sustainable development model.

### (e) Universalize social protection systems

Expansionary fiscal policy should promote construction of universal social security systems to address the high level of inequality that characterizes the region (ECLAC, 2020c). Therefore, fiscal policy goals must include the capacity to generate the revenue needed for the financial viability of measures such as universal basic income, universal transfers for children, social pensions, unemployment insurance and universal access to quality education and health services. These measures would enable progress towards welfare states that guarantee the effective enjoyment of human rights and contribute to strengthening the productivity, capacities and resilience of our societies (ECLAC, 2021a).

## 2. Strategies to strengthen public revenues progressively and effectively

To ensure expansionary fiscal policy is sustainable, tax revenues must be generated to finance public spending. Historically, however, public revenues in Latin America and the Caribbean have been insufficient to meet the demands of public spending, which has led to tendency towards deficits and a procyclical bias in fiscal policy. However, the tax burden is low, even when compared with other countries at a similar level of development (ECLAC, 2016b). In 2018, general government tax revenue in Latin America and the Caribbean was equivalent to 23.1% of GDP on average, well below the average of 33.9% for Organisation for Economic Co-operation and Development (OECD) countries (OECD and others, 2020). In addition, the region's tax systems tend to be regressive, with indirect taxes accounting for more than 50% of total revenue. In that regard, strengthening public revenues is a short- and medium-term challenge that must be addressed as a priority to turn tax systems into active instruments for achieving the SDGs.

### (a) Reduce opportunities for tax evasion and avoidance

In Latin America and the Caribbean, the tax losses from tax evasion are staggering. ECLAC estimates that evasion of income tax and value added tax resulted in a loss of US\$ 325 billion in 2018, equivalent to 6.1% of the region's GDP (ECLAC, 2020d). Available studies suggest that income tax non-compliance is particularly serious: many countries collect less than half of the revenue that their systems should theoretically generate (ECLAC, 2020d). ECLAC estimates for illicit financial flows in the region from trade misinvoicing suggest that many of these flows are linked to products that are part of global value chains, pointing to possible abuses related to transfer pricing (ECLAC, 2016a). Limiting these losses will require greater investment in tax and customs authorities, and even international support, as outlined in SDG target 17.1.

### **(b) Evaluate the use of tax expenditures and tax incentives, and focus them on SDGs**

Tax expenditures and other preferential tax treatments are widely used in the region. They account for a significant amount of foregone revenues, which in the 2013–2017 period averaged 3.7% of Latin America's GDP (ECLAC, 2019a). These foregone revenues are in turn equivalent to more than 15% of the region's central government budget expenditure, and in some countries they represent more than 25%. However, it is not clear whether tax expenditures give rise to the benefits for which they were created (ECLAC, 2019a; ECLAC/Oxfam International, 2019). In this regard, it is essential that countries take measures to strengthen governance of tax expenditures, to maximize their impact and limit the losses associated with their use, which are sometimes unnecessary.

### **(c) Strengthen personal income tax**

Personal income tax accounts for one of the key tax gaps between the region and OECD countries. In 2018, in the countries of Latin America and the Caribbean, revenue from personal income tax was equivalent to 2.3% of GDP, compared with 8.1% in OECD countries. Structural weaknesses are largely responsible for the poor performance of this instrument. For example, the tax base is narrow, because of high non-taxable income thresholds and generous preferential tax treatments, low marginal tax rates and widespread tax non-compliance. Reformulating the tax would allow it to contribute significantly to reducing inequality and fulfil its potential as an automatic stabilizer. In addition, countries could require individuals to file returns even if they have no tax liabilities, as a means of identifying potential beneficiaries of social welfare programmes.

### **(d) Extend the scope of property and wealth taxes**

Property taxes are underdeveloped in the region and perform significantly worse than they could. Taxes on immovable property, which are a crucial source of resources for local governments in the region, generated revenues equivalent to 0.4% of GDP in 2018, while in OECD countries the revenues amounted to 1.1%. Eleven countries in the region collected 0.2% of GDP or less (OECD and others, 2020). Building local capacity to manage these taxes would significantly strengthen subnational governments' ability to contribute to the SDGs (United Nations, 2015). Taxation of net wealth in the region is also low. As described in chapter II, managing wealth taxes entails challenges, but countries are considering using them because of the potential gains in terms of addressing inequality and generating resources.

### **(e) Adopt taxes for the digital economy, apply corrective taxes such as green taxes and those related to public health, and strengthen existing taxes**

The COVID-19 pandemic has further accelerated the rapid growth of the digital economy, raising concerns about the progressive erosion of national tax bases. As a result, several countries have taken steps to apply value added tax to digital goods and services (ECLAC, 2019a; ECLAC, 2020d). However, taxation of income from these transactions remains limited and will require international solutions, such as those proposed in the Inclusive Framework on Base Erosion and Profit Shifting (BEPS).

Use of the tax system to encourage responsible production and consumption is uneven in the region. While there are several key environment-related tax bases in the countries of the region—for example, on fuel consumption—there are few cases of taxes on emissions of CO<sub>2</sub> or other harmful pollutants (Bárcena and others, 2020; Galindo and Lorenzo, 2020; ECLAC, 2019a; ECLAC, 2017). Similarly, most of the countries tax consumption of products that are potentially harmful to health, such as alcohol and tobacco, but the lack of uniform criteria for these taxes in the region suggests that their use can be improved by applying best practices (ECLAC, 2019a). Taxes on unhealthy foods and sugar-sweetened beverages are not yet widely applied in the region, despite their potential to improve long-term health outcomes and, consequently, to reduce future public health-care spending.

### 3. Financing for development and international cooperation

Financing for development can play a key role in supporting and expanding countries' ability to maintain short-term expansionary fiscal policies and to strengthen the debt architecture so that it is more conducive to sustainable economic development. In this regard, ECLAC (2021b) has proposed five measures to address short-term challenges—including maintaining expansionary spending to respond to the repercussions of the crisis—and the medium- and long-term challenges—including promoting a countercyclical approach—which are: expand and redistribute liquidity from developed to developing countries; focus on strengthening regional cooperation by improving the lending and response capacity of regional/subregional and national financing institutions and strengthening their linkages to multilateral development banks; institutional reform of the multilateral debt architecture; provide countries with a toolbox of innovative instruments to improve debt repayment capacity and avoid debt distress; and make liquidity and debt reduction measures part of a financing for development strategy to build forward better.

#### (a) Expand and redistribute liquidity from developed to developing countries

The most suitable, effective and cost-efficient way to increase liquidity is to allocate special drawing rights (SDRs) from the International Monetary Fund (IMF), which would increase countries' liquidity without generating additional debt. The precedent for this type of measure was set in 2009 during the global economic and financial crisis, when IMF injected US\$ 283 billion of liquidity through an SDR allocation. Concurrently, the international community should seek a consensus that would allow developed countries' unused SDRs to be reallocated to developing countries. Instead of reallocating them to individual countries, a mechanism could be established to pool these SDRs using the existing multilateral architecture and channel them more effectively to developing countries that need them.

Other innovative mechanisms could also be used to transfer resources from developed economies to developing countries, including middle-income economies. In Costa Rica, a proposal was recently put forward to create a solidarity fund financed by high-income countries that would be called the Fund to Alleviate COVID-19 Economics (FACE). It would have working capital of US\$ 516 billion, equivalent to 0.7% of GDP of the developed economies, and would offer concessional loans with a 50-year term and a 5-year grace period, at zero interest or at a fixed rate of interest set according to the prevailing London Interbank Offered Rate (LIBOR), which currently stands at around 0.7%. These loans would be free of fiscal, monetary or structural conditionalities. The proposal suggests that loans be intermediated by multilateral financial institutions.

### **(b) Strengthen regional cooperation by improving the lending and response capacity of regional/subregional and national financing institutions and strengthening their linkages to multilateral development banks**

In 2020, the Inter-American Development Bank (IDB) and the subregional development banks—the Development Bank of Latin America (CAF), the Central American Bank for Economic Integration (CABEI) and the Caribbean Development Bank (CDB)—committed significant resources to supporting countries' responses to the crisis. These funds were used to finance emergency programmes and health-related measures, as well as to provide stand-by lines of credit. National development banks, meanwhile, played a vital role in providing more than US\$ 90 billion in financial support through a variety of instruments, including guarantees, grants and refinancing. Going forward, these institutions should continue to play a catalytic role in the provision of financing for development, but to do so they will need to cooperate more with each other, increase their capitalization and adopt more flexible lending standards.

### **(c) Institutional reform of the multilateral debt architecture**

The COVID-19 pandemic has increased concerns about debt levels and the related vulnerabilities. At the start of the crisis, Latin America's debt levels had already been rising steadily, and in some Caribbean countries they were close to 100% of GDP (ECLAC, 2020d). Severe macroeconomic and fiscal stress forced several countries in the region to engage in debt restructuring negotiations in 2020. These processes are often characterized by significant uncertainties and power asymmetries that can delay the needed relief and limit the potential for improved debt sustainability (Guzman and Stiglitz, 2016). In this context, adoption of an international debt restructuring mechanism would provide a predictable and orderly process that would benefit both countries and creditors and limit the negative effects of sovereign default (Asonuma and others, 2020).

The efficiency of debt reduction initiatives should also be improved. In April 2020, the G20 group of countries launched the Debt Service Suspension Initiative (DSSI). It provided for temporary suspension of the debt service paid to official bilateral creditors between March and December 2020 (later extended by six months to June 2021). However, the scope of this important initiative has been limited and it currently covers 44.4% of total global debt service. The main reason for this limited scope has been the lack of participation by multilateral financial institutions and private creditors, which account for 25.5% and 30.1% of total debt service, respectively. For DSSI to be effective, it must become a global and wide-ranging initiative covering low- and middle-income countries and most of each country's debt.

In November 2020, G20 approved the Common Framework for Debt Treatments beyond the DSSI, which aims to fill some of the gaps in DSSI, for example by including non-Paris Club official creditors (notably China) more comprehensively. It also entails official bilateral creditors negotiating jointly with each debtor country. There is also the possibility for debtor countries to request that the private sector apply treatment comparable to that provided by official bilateral creditors.

### **(d) Provide countries with a toolbox of innovative instruments to improve debt repayment capacity and avoid debt distress**

Caribbean countries, whose gross public debt exceeds 100% of GDP in some cases, are constantly exposed to natural hazards that can negatively affect their fiscal position and indebtedness. In this regard, some mechanisms—such as hurricane clauses—are crucial to ensuring fiscal sustainability in the short and long term, by providing opportunities for

countries to defer debt service or to accelerate debt restructuring processes. However, to be effective, these clauses must cover a substantial portion of a country's debt stock and have a sufficiently long term to allow it to readjust its fiscal accounts after a crisis. To succeed, such mechanisms require the support of multilateral and bilateral creditors, to lend credibility to the initiative and to ensure private creditors participate. Lastly, it is crucial to consider that innovative instruments, such as hurricane clauses, necessarily include economic and financial trade-offs. It is therefore essential to look for ways to increase the repayment capacity needed to settle liabilities over time; otherwise, any relief provided by these instruments would serve only to postpone structural repayment problems.

In light of the regional experience with hurricane clauses, consideration must be given to other innovative mechanisms that link public debt repayment capacity to key economic indicators. For example, bonds linked to national income would provide countries with countercyclical relief, reducing public debt burdens in times of slow growth or contractions, which often coincide with declines in government revenues. As with hurricane clauses, it is important to have the support of other creditors to ensure these bonds are issued on markets on concessional terms. Bonds linked to national income are just one example of a whole class of potential innovative instruments that could reduce the likelihood of a default on debt service or the need for debt restructuring.

### **(e) Make liquidity and debt reduction measures part of a financing for development strategy to build forward better**

The economic and social crisis triggered by the COVID-19 pandemic has put intense pressure on public spending, as countries have taken measures to strengthen their public health systems, support families and protect production structures. These actions lead to simultaneous increases in financing needs. In this regard, access to resources from international financial institutions and development banks is key to closing fiscal gaps in the short term. However, in the medium to long term, a financing agenda must be pursued that increases the resilience of the countries of the region. In particular, green finance is crucial, to jumpstart the investments needed to decarbonize economies and respond to the challenges posed by climate change. In addition to restructuring the loan portfolios of international financial institutions, innovative instruments, such as green and social bonds, should be considered, to attract resources from the private sector.

A specific example of an initiative in the region is the Caribbean Resilience Fund, which aims to attract concessional resources to finance public investment to increase resilience to extreme weather events and climate change, as well as infrastructure projects and green industrial policies that boost the diversification of economies. The fund would be financed with resources linked to debt repayment, equivalent to approximately US\$ 7 billion or 12.2% of the total public debt of Caribbean small island developing States (SIDS).

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## CHAPTER



# Net wealth taxes in Latin America

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### Introduction

- A. Wealth and income inequality, lack of progressive tax structure and insufficient tax collection
- B. Tax on personal net wealth, one of many taxes on property
- C. International and regional wealth tax experiences
- D. Considerations regarding taxes on individual net wealth
- E. Challenges to consider when formulating and implementing net wealth taxes
- F. Concluding remarks

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## Introduction

The coronavirus disease (COVID-19) pandemic has triggered the worst economic and social crisis in Latin America and the Caribbean in 120 years (ECLAC, 2021). This crisis has exposed and magnified the structural gaps in the region, expressed in inequality, poverty, informality, low growth and low productivity, among others, that hinder its development. In response to this, the Economic Commission for Latin America and the Caribbean (ECLAC) (2020b) has presented a policy agenda for a transformative recovery that aims to build sustainable economies and inclusive societies. This last point is particularly important in a region already afflicted by the highest levels of income and wealth inequality in the world, which incurs substantial economic and social costs (ECLAC, 2018).

As established in chapter I, this agenda requires an active —and sustainable— fiscal policy that addresses short-term demands for tackling the emergency and ties them in with the investments needed for a transformative recovery in the medium and long term. The cornerstone of such a fiscal strategy must be greater mobilization of resources to ensure the fiscal viability of greater demands for public spending. Increasing the mobilization of resources requires the gradual and effective strengthening of revenue collection capacity, given the high levels of inequality and the regressive biases in the tax structures in the region's countries.

In this context, the idea of taxing personal wealth is gaining momentum globally. Several studies have shown the unequal distribution of income and wealth, and how wealth has become increasingly concentrated in recent decades. Moreover, these studies show that because income taxes are regressive for top earners, meaning that the top 1% pay lower average tax rates than the middle class, they do not help to lessen this concentration.

One of the instruments under consideration is the net wealth tax, which is a form of property tax. This type of tax is normally levied on an annual basis, the tax base being the difference between the value of all the goods and rights owned by the person (assets) and the value of the debts held (liabilities). Since this is a direct tax, it is possible —and common— for it to be designed as a progressive tax, with an exemption bracket up to a certain threshold of net worth, and thereover a sliding scale of marginal rates.

This tax is not widespread in the region at present. Only Argentina (tax on personal property), Colombia (wealth tax) and Uruguay (wealth tax) have implemented such a tax. Globally, the implementation of wealth taxes has declined in recent decades, particularly among developed countries.

The aim of this chapter is to analyse both the wealth tax as a tax instrument and the existing wealth taxes in the region, with a view to providing a definition thereof so that they can be regarded as a progressive element that could strengthen public revenue in order to meet expenditure needs in the post-pandemic period. Section A examines the regional situation in terms of income and wealth inequality, the progressiveness of tax collection and progressive financing needs in the post-pandemic period. Section B reviews the different types of property taxes, including the net wealth tax, and their use in the region. Section C analyses the potential effects of a net wealth tax on tax system characteristics, such as vertical equity, horizontal equity and economic efficiency, as well as the challenges it represents for tax administration and the control of non-compliance. Section D reviews the design considerations that must inform the implementation of a net wealth tax and the operational challenges it presents to the tax authorities. Lastly, section E examines international and regional experiences in the implementation of net wealth taxes, both from the point of view of design and operation, looking at the determinants of their abolition in several countries, the differences and similarities in their formulation, and any current efforts to implement them.

## A. Wealth and income inequality, lack of progressive tax structure and insufficient tax collection

In the developed world, the idea of levying a net wealth tax on large fortunes was already gaining traction before the pandemic outbreak. This new momentum was driven by two major observations: there has been a significant increase in concentration of income and wealth, and tax bases are increasingly eroded through profit shifting to tax havens. It is clear that the former is largely attributable to the latter.

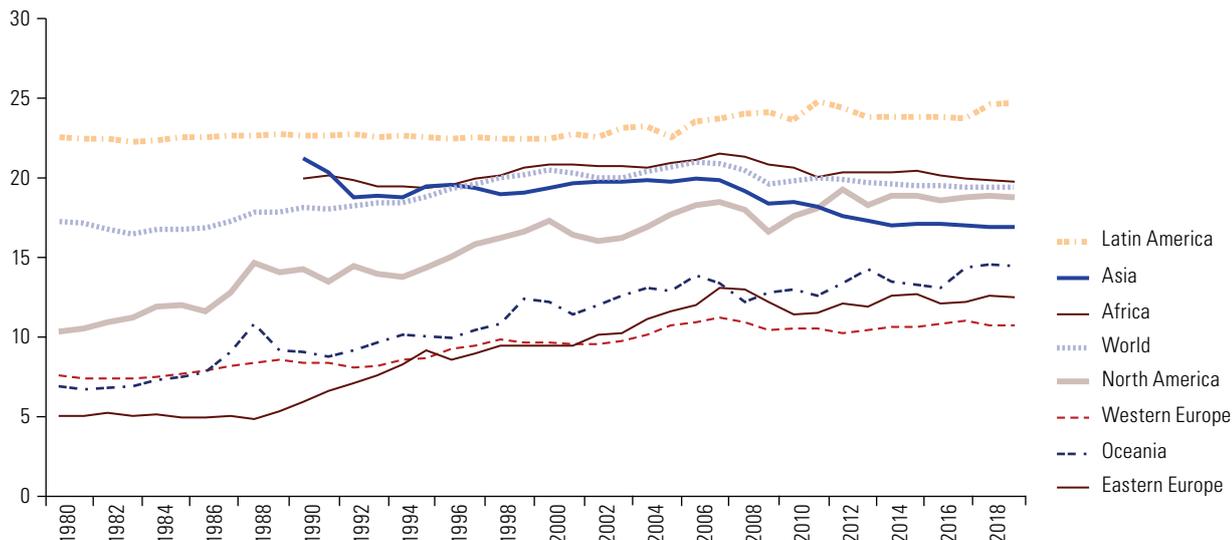
### 1. Persistent inequality

Income distribution within many countries has become more unequal since the early 1980s, despite economic growth. This inequality and its possible causes and impacts have heightened concerns about the concentration of income and wealth, an issue that has risen high on the international agenda (ECLAC, 2018).

For example, income inequality has increased in most countries of the Organisation for Economic Co-operation and Development (OECD) over the past three decades. In the mid-1980s, the Gini coefficient for disposable income stood at 0.29 on average across OECD countries; in 2013, it had risen to 0.32 (OECD, 2018).

This increase in income concentration is perhaps most apparent when the changes in the share of domestic income of the top 1% of income earners are considered (see figure II.1). In Western European countries, while the top 1% accounted for 7.5% of total income in 1980, they accounted for 10.7% in 2019. The increase is even more significant in Eastern Europe, jumping from 5.0% in 1980 to 12.5% in 2019. In North America, the share of the 1% with the highest income earners climbed from 10.3% in 1980 to 18.7% in 2019, while in Oceania, that figure rose from 6.9% in 1980 to 14.5% in 2019.

**Figure II.1**  
Selected regions: share of the highest-income percentile (1%) in national income, 1980–2019<sup>a</sup>  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Inequality Lab, World Inequality Database [online] <https://wid.world/>.  
<sup>a</sup> Refers to the share of net national income, before tax, including retirement and unemployment insurance income but excluding other types of cash transfer.

When this trend is viewed relative to global economic growth, this means that the wealthiest 1% of the global population increased their income steadily in most countries and captured 27% of the total cumulative growth, while the poorest 50% captured only 12% (Alvaredo and others, 2018).

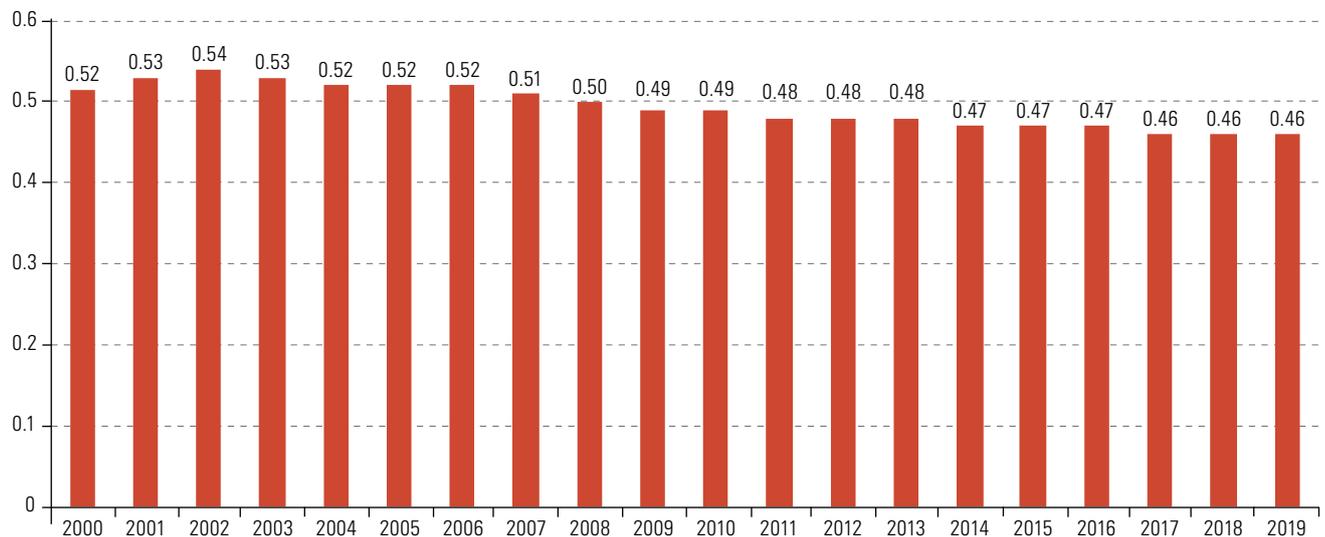
In Latin America, inequality trends are somewhat different. The Gini coefficient of income inequality has declined in recent decades, from an average of 0.53 in the early 2000s to an average of 0.46 in 2019.<sup>1</sup> At the same time, income concentration in the wealthiest 1% has increased less than in the rest of the world, rising from 22.6% in 1980 to 24.6% in 2019. This is because income inequality in Latin America has always been high. As figure II.1 shows, for the whole period concerned, the share of the richest 1% in income was highest in Latin America than all other regions. Over the last three decades, the rest of the world (with the exception of Asia) has been closing the gap with Latin America.

Inequality is a historical and structural characteristic of Latin American and Caribbean societies, and has been maintained and reproduced even in periods of economic growth and prosperity. It is an obstacle to the eradication of poverty, to sustainable development and to the safeguarding of people's rights. It is rooted in a highly heterogeneous and undiversified production system and in a culture of privilege, which has been a historical hallmark of Latin American societies (ECLAC, 2019).

Over the past two decades, income concentration as measured by the Gini coefficient has trended downwards in the region (see figure II.2), although the trend has stalled in the last three years. The projected growth rates for the coming years suggest that inequality will most likely increase or remain stable, at best, if social mechanisms and policies remain unchanged (Maldonado Valera, Marinho and Robles, 2020).

**Figure II.2**

Latin America: income concentration as measured by the Gini coefficient, 2000–2019<sup>a</sup>



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of CEPALSTAT [online database] <https://estadisticas.cepal.org/cepalstat/portada.html?idioma=english>.

<sup>a</sup> Simple average.

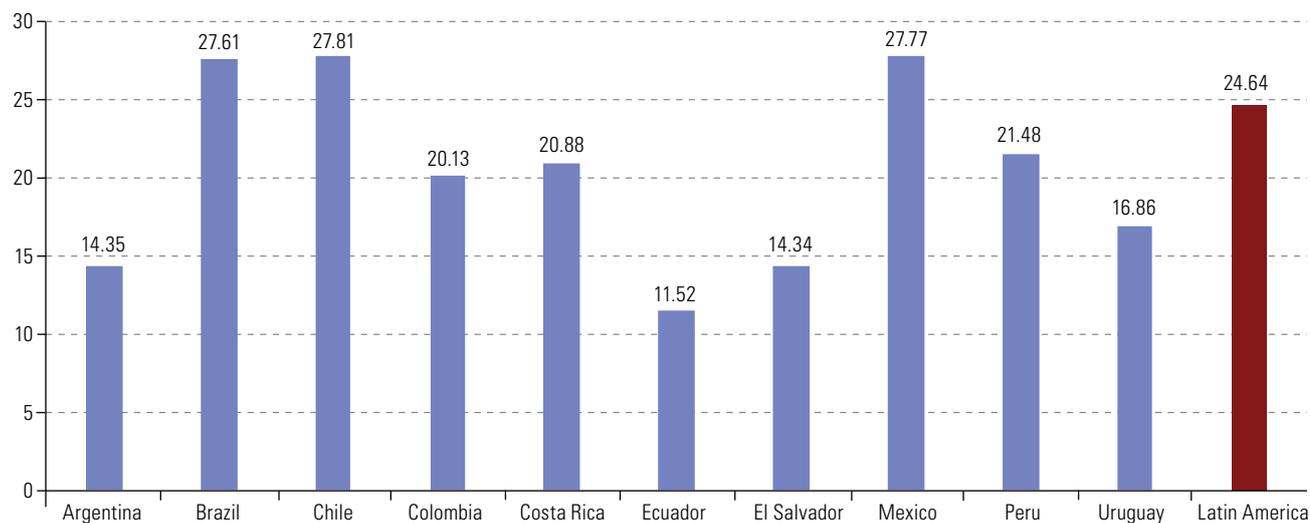
<sup>1</sup> See CEPALSTAT, "Statistics and indicators" [online database] [https://estadisticas.cepal.org/cepalstat/web\\_cepalstat/estadisticasIndicadores.asp?idioma=i](https://estadisticas.cepal.org/cepalstat/web_cepalstat/estadisticasIndicadores.asp?idioma=i).

In addition, reversals in extreme poverty and poverty have been observed. Despite significant progress between the beginning of the 2000s and the middle of the 2010s, there have been setbacks since 2015, particularly the increase in the average regional rate of extreme poverty (ECLAC, 2019). A contributing factor was undoubtedly the end of the commodity export boom, which triggered an economic slowdown and subsequent fiscal adjustments.

In any case, underlying the Latin American average is a diverse scenario. The share of the richest 1% in total income varies widely across countries. Figure II.3 shows this percentage for 2019 for countries for which specific measurements are available. Brazil, Chile and Mexico lead the way, with the top 1% accounting for more than 27% of national income. Argentina, Ecuador, El Salvador and Uruguay rank the lowest, with the top 1% accounting for less than 17% of income, while Colombia, Costa Rica and Peru fall in the middle, with the wealthiest accounting for around 20% of income.

**Figure II.3**

Latin America (selected countries): share of the highest-income percentile (1%) in national income, 2019<sup>a</sup>  
(Percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Inequality Lab, World Inequality Database [online] <https://wid.world/>.  
<sup>a</sup> Refers to the share of net national income, before tax, including retirement and unemployment insurance income but excluding other types of cash transfer.

Equality encompasses equality of means (income and wealth), opportunities, capacities and recognition (ECLAC, 2018). Studies to date have focused only on income inequality. However, inequality is evident in all these dimensions. Although data on wealth inequality in the region are scarce, the available studies point to high levels: the Gini coefficient of total asset distribution (physical and financial) is around 0.72 in Chile and 0.67 in Uruguay (ECLAC, 2019). Similarly, in Mexico, the Gini coefficient for the value of owner-occupied housing is 0.69, while that for distribution of contracts held by individuals in brokerage firms is 0.78 (ECLAC, 2019). Examples of inequality include unequal access to health, which translates into a 19-year difference in life expectancy at birth between countries with low and very high human development; unequal access to education, which is reflected in the fact that only 42% of adults in countries with low human development have completed primary education, compared to 94% of adults in countries with very high human development; or gender inequality, which is

manifested, among others, in higher levels of poverty among women, the burden of unpaid and care work, precarious labour market participation and the persistence of femicide (UNDP, 2019).

ECLAC argues that inequality is inefficient. Access to education, health and social protection should be seen as investments in capacities and as means of realizing rights for the achievement of the greatest possible well-being for all. For this reason, social policies should not be viewed as palliative measures but as key pieces for building the capacities required to integrate all stakeholders into higher productivity formal employment and innovation, thus accelerating technical progress (ECLAC, 2020b).

However, for a change in the development pattern to be feasible, an active fiscal policy is required; this, in turn, is only possible if strong tax systems are in place to provide countries with sufficient revenues. Tax systems must also nurture a fairer, more egalitarian and sustainable society and economy, through taxes that redistribute income and wealth while also altering consumption and production patterns (ECLAC, 2020b).

## 2. The role of tax systems

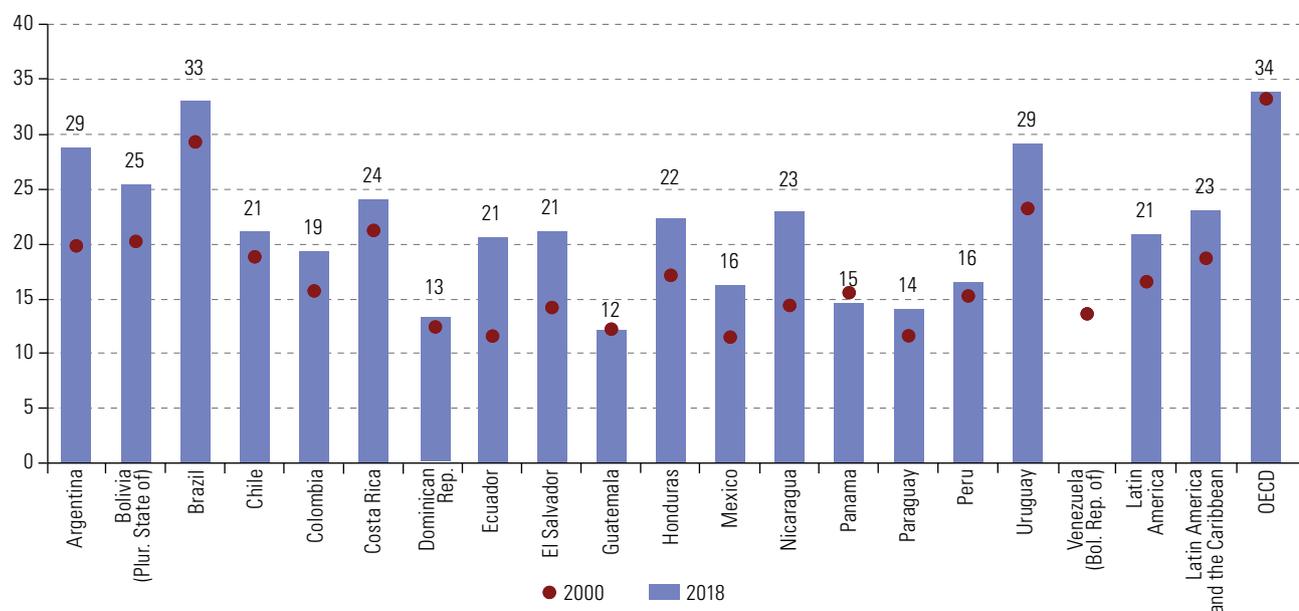
Tax systems must become a pillar of financing for sustainable development (ECLAC, 2017). They play a fundamental role in reducing inequality directly by providing the resources to finance public spending, public investment and social protection systems and through progressive tax collection. However, the region still lags behind developed countries in terms of tax collection and the progressiveness of the tax structure. As noted in ECLAC/Oxfam (2016), the following deficiencies exist in Latin American tax systems: (i) collection levels are low; (ii) tax systems have done little to even out income distribution; (iii) personal income taxation is particularly weak; (iv) tax avoidance is very high and (v) the effective tax rates on top incomes are still very low, with limited impact on income inequality.

With regard to collection levels, general government tax burdens have increased over the last two decades in Latin America, as a result of both economic growth and tax reforms implemented by the countries. In 2000, Latin America's average tax burden stood at 16.5% but rose to 20.8% in 2018 (see figure II.4). Among the countries with the largest increases were Argentina and Ecuador, where there was an uptick of 9.0 percentage points of GDP, followed by Nicaragua, with 8.6 percentage points of GDP. At the other extreme are Panama, whose tax revenues contracted by 1.0 percentage point of GDP, and Guatemala, where the tax burden remained virtually unchanged. However, there is still a large gap in the tax take between Latin America and developed countries. In 2018, the general government tax burden of OECD countries averaged 33.9%, which was 13.1% higher than the average for Latin America.

It is interesting to analyse where the differences lie between Latin America and developed countries, represented here by OECD countries, both in terms of tax burden and tax structure. In terms of the tax burden, the main differences are in what is termed direct taxation. In Latin America, income tax collection averages 5.6% of GDP, while in the OECD countries it averages 11.5% of GDP, representing a difference of 5.9 percentage points of GDP. At the same time, the region collects the equivalent of 4.3% of GDP in social security contributions, while in OECD countries these taxes account for 9.0% of GDP, a difference of 4.7 percentage points of GDP (see table II.1).

**Figure II.4**

Latin America (18 countries) and the countries of the Organisation for Economic Co-operation and Development (OECD): general government tax revenues, 2000 and 2018  
(Percentages of GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), OECD.Stat [online database] <http://stats.oecd.org>.

**Table II.1**

Latin America and the Caribbean and Organisation for Economic Co-operation and Development (OECD): tax burden and structure, 2018  
(Percentages of GDP and total tax revenues)

	Latin America <sup>a</sup>		Latin America and the Caribbean		OECD	
	Percentages of GDP	Percentages of total	Percentages of GDP	Percentages of total	Percentages of GDP	Percentages of total
Income tax	5.6	26.8	6.3	27.3	11.5	34.0
Personal income tax	1.8	8.8	2.3	9.8	8.1	24.0
Corporate income tax	3.2	15.1	3.5	15.2	3.1	9.3
Unallocable	0.6	2.6	0.5	2.2	0.2	0.7
Social security contributions	4.3	20.5	4.0	17.1	9.0	26.6
Payroll taxes	0.2	0.8	0.2	0.7	0.4	1.2
Property taxes	0.8	3.8	0.8	3.6	1.9	5.5
Taxes on goods and services	9.6	46.2	11.5	49.8	10.9	32.3
Other taxes	0.4	1.9	0.4	1.7	0.2	0.4
<b>Total</b>	<b>20.8</b>	<b>100.0</b>	<b>23.1</b>	<b>100.0</b>	<b>33.9</b>	<b>100.0</b>

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), OECD.Stat [online database] <http://stats.oecd.org>.

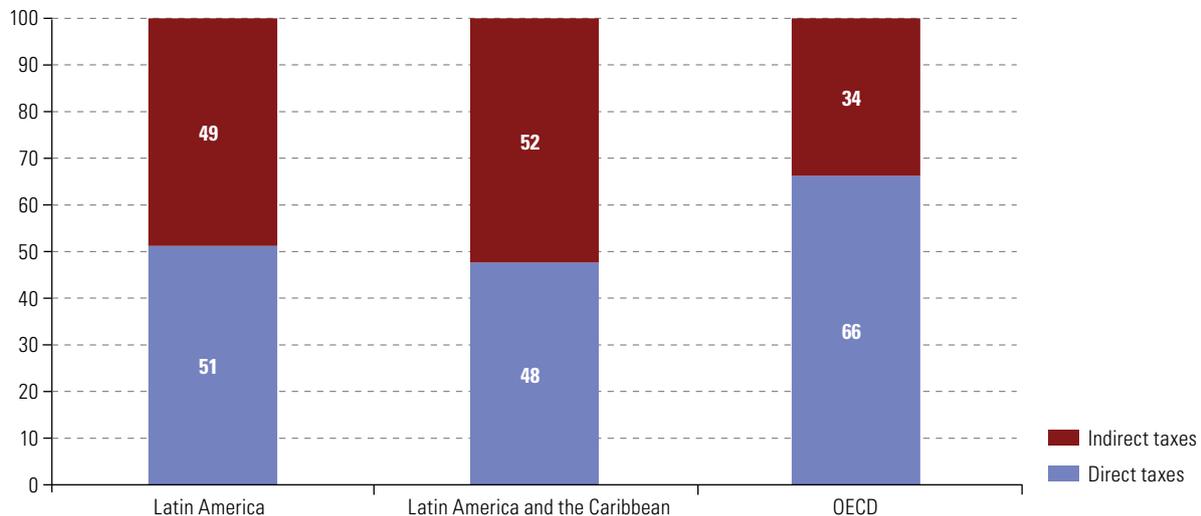
<sup>a</sup> Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

With regard to the tax structure in Latin America, tax revenues come primarily from consumption taxes, which account for 46.2% of total revenues, followed by income tax (26.8% of the total) and social security contributions (20.5% of the total). In the OECD countries, income taxes account for 34.0% of the total and social security contributions for 26.6% of the total, while consumption taxes account for 32.3% of the total.

These differences in the composition of tax revenues are directly related to the limited capacity of tax systems in Latin America to redistribute income. Direct taxes, such as income tax, social security contributions and property taxes, are best suited for progressive taxation, as they can readily be levied proportionally based on taxpayers' ability to pay. In contrast, indirect taxes such as value added tax and other selective consumption taxes are usually regressive. Figure II.5 shows a breakdown of the share of direct and indirect taxes in Latin America and the Caribbean and the OECD countries. In Latin America, the contribution of direct and indirect taxes is virtually equal, with the former being slightly higher. In the OECD countries, however, direct taxes account for two-thirds of revenues, while indirect taxes account for only one-third.

**Figure II.5**

Latin America and the Caribbean and Organisation for Economic Co-operation and Development (OECD): composition of tax collection, by direct and indirect taxation, 2018 (Percentages)



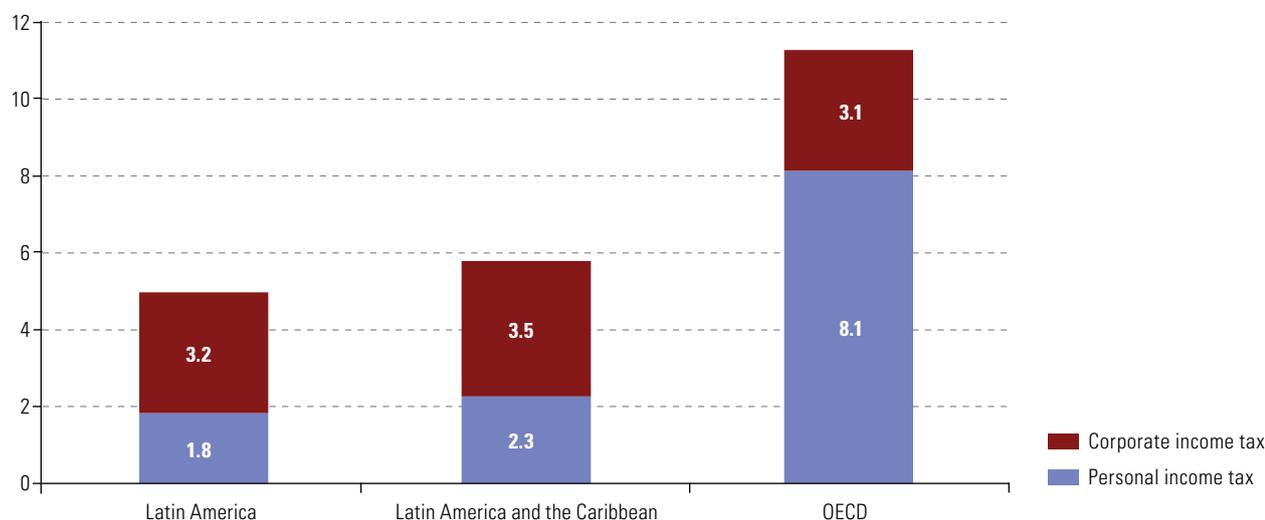
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), OECD.Stat [online database] <http://stats.oecd.org>.

If the countries of Latin America are to move towards progressive tax systems, strengthening direct taxes, particularly personal income tax, is imperative. This is primarily where they differ with countries that successfully redistribute income through taxation. In the region, revenues from personal income tax account for a mere 1.8% of GDP, while in the OECD countries they are equivalent to 8.1% of GDP (see figure II.6). In the area of corporate income tax, by contrast, there is virtually no difference, and the average tax take in Latin America is even slightly higher.<sup>2</sup>

<sup>2</sup> In any case, corporate income tax as levied in most OECD countries would be applicable to limited liability or joint stock companies under Latin American legislation, while partnerships are usually taxed under a transparent system in which corporate income is taken into account for the personal taxation of partners.

**Figure II.6**

Latin America and the Caribbean and Organisation for Economic Co-operation and Development (OECD):  
composition of income tax collection, 2018  
(Percentages of GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), OECD.Stat [online database] <http://stats.oecd.org>.

Weak personal income tax collection reduces the redistributive capacity of taxation. As a result, in Latin America personal income tax leads to a 2.1% reduction in the Gini coefficient, whereas in the European Union this tax reduces the Gini coefficient by 11.6% (ECLAC, 2017).

While the reasons for this difference in the revenue-raising capacity of personal income tax are many,<sup>3</sup> tax evasion and tax avoidance are undoubtedly two of the most significant ones. ECLAC estimates that non-compliance in that region amounts to 2.3% of GDP for VAT and 3.8% of GDP for income tax, representing a total of US\$ 325 billion in 2015 (ECLAC, 2020a).

Since the income tax is progressive in design, it follows that income tax evasion is regressive. In fact, most workers are usually exempt from personal income tax owing to the exemption bracket. In this regard, combating income tax evasion is an effective tool for making tax systems more progressive.

One form of tax evasion at the centre of concerns, especially among developed countries, is the diversion of income to tax havens. Zucman (2015) estimates that in 2014, some US\$ 7.6 trillion was invested in these territories, equivalent to 8% of the global financial wealth of households. That hidden wealth is estimated to have resulted in a loss of tax revenue that year of approximately US\$ 190 billion. The author estimates that in the case of Latin America, approximately US\$ 700 billion—equivalent to 22% of household financial wealth—is held in tax havens, resulting in a loss of income from tax avoidance of around US\$ 21 billion per year (see table II.2). Tax avoidance represents just over 6% of the estimated total non-compliance for VAT and income tax for Latin America. However, it increases inequality significantly, since this loss of revenue is likely to be concentrated in the wealthiest 0.1% of the population.

<sup>3</sup> Other contributing factors include the low statutory tax rates and the numerous exemptions and other tax concessions that lower the tax base (Gómez Sabañi and Morán, 2016); the high levels of minimum non-taxable income, equivalent on average to 1.32 times per capita GDP in the region, compared to 0.12 times per capita GDP in OECD countries; and the high level of informality in the economies (Barreix, Benítez and Pecho, 2017).

**Table II.2**

Offshore financial wealth and tax evasion, 2014  
(Billions of dollars and percentages)

Region	Offshore wealth (billions of dollars)	Proportion of total financial wealth (percentages)	Lost revenues (billions of dollars)
Europe	2 600	10	78
United States	1 200	4	35
Asia	1 300	4	34
Latin America	700	22	21
Africa	500	30	14
Canada	300	9	6
Russian Federation	200	52	1
Persian Gulf countries	800	57	0
<b>Total</b>	<b>7 600</b>	<b>8</b>	<b>190</b>

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of G. Zucman, *The Hidden Wealth of Nations: The Scourge of Tax Havens*, Chicago, University of Chicago Press, 2015.

As stated in ECLAC (2020b), given the inadequacies of the tax systems to finance development and reduce inequalities, it is essential to establish an agenda of reforms that will underpin the active fiscal policies needed for sustainable development. That agenda should end opportunities for tax evasion and avoidance, consolidate personal and corporate income tax, and review the use of fiscal incentives and tax expenditures, retargeting those that do not serve development objectives. The scope of capital and property taxes as tools to mobilize resources and reduce inequality also needs to be expanded.

## B. Tax on personal net wealth, one of many taxes on property

### 1. Description of taxes on property

This section gives a brief description of the different types of taxes on property in force around the world. The taxes described herein are referred to interchangeably as wealth taxes or taxes on property. They are classified as such because the tax base is the value of an individual's wealth or of any asset or element forming part of that wealth.

In taxation theory, there are two principles that are considered when deciding how much tax each citizen should pay: the benefit principle and the ability-to-pay principle. The first assumes that tax collection should be proportional to the benefits that the individual receives from the State. The second establishes that taxes should be levied according to each individual's ability to pay, regardless of the benefits he or she receives from the State. In this case, the ability to pay is not easily measured. Three indicators are generally used: income, consumption and wealth. Taxes with wide tax bases, such as income tax, value added tax and net wealth tax, respectively, can be associated with each indicator.

Table II.3 shows the types of taxes on property that are commonly levied.<sup>4</sup> A first important distinction is between ordinary (or recurrent) taxes and windfall (or non-recurrent) taxes. Ordinary taxes are those that are applied regularly, generally on an annual basis. Windfall taxes are levied occasionally, in special circumstances where the State requires extraordinary resources to respond to a crisis, for example, in post-war or pandemic periods. Ordinary taxes are further categorized into taxes on the ownership of property and taxes on the transfer of property.

**Table II.3**  
Types of property taxes

Ordinary or recurrent taxes		Windfall or non-recurrent taxes
On ownership	On transfers	
Examples - Taxes on individual net wealth - Taxes on corporate net wealth - Taxes on immovable property - Vehicle taxes	Examples - Taxes on inheritance and gifts - Taxes on financial transactions - Taxes on transfers of immovable property - Taxes on vehicle transfers	One-time taxes on ownership, usually levied at a higher rate

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

### (a) Ordinary ownership taxes

In most countries of the region and the developed world, recurring taxes are levied on the ownership of property or some elements of property. Notable examples are the tax on individual net wealth and the tax on immovable property.

#### (i) Tax on individual net wealth

The net wealth tax is an annual tax generally levied on the net wealth of individuals, which is defined as the difference between the value of all property and rights owned by the individual (assets) and the value of debts owed (liabilities). The rate is often low, less than 2%, which facilitates the payment of the tax with the income generated by the property without having to resort to the partial sale of the same.

The sections below will examine a number of aspects pertaining to the use of this instrument, as well as the different options for its design, including: treatment of residents and non-residents, the tax unit, property elements that are included or excluded, valuation of assets and liabilities, and interaction with other wealth taxes.

At present, this tax is levied in only three countries in the region —Argentina, Colombia and Uruguay— although it existed in other countries in the past, namely in El Salvador, Nicaragua and Peru from the mid-1980s to the early 1990s, and Chile in the late 1960s. In the early 1990s, this tax was implemented in 12 OECD countries; currently, it is in force only in Colombia, Norway, Spain and Switzerland.

#### (ii) Tax on ownership of immovable property

This is also known as real estate tax, and the tax base is the value of each property. It is one of what is termed real taxes, since the amount is determined by the value of the property, regardless of the owner's ability to pay. Indeed, one of the common criticisms of the tax is that it does not take into account property-related debts that the owner may have, meaning that the tax is levied on the gross asset value.

This perceived defect can be explained by the fact that this tax is more in line with the principle of benefit than with the ability-to-pay principle: the purpose of real estate taxes, usually levied at the local government level, is for citizens to contribute towards financing the services that they receive from municipalities, and there is an understandable link between these services and the value of the properties.

<sup>4</sup> The following description of wealth taxes is largely based on Sevilla Segura (2006, chapters 13 and 14).

In general, the tax base is considered to be the taxable value of the property, which is established by the tax authority through an appraisal procedure conducted every few years. Although it is not a personal tax, it is usually regarded as progressive, as there are allowable exempt amounts on the assessed value and progressive marginal rates, taking into account that people with higher incomes tend to own homes of higher value.

Real estate taxes are applied in almost all countries in the region, in most cases at municipal level.

### *(iii) Other taxes on ownership*

Other ownership taxes in some countries include a tax on the net wealth of legal persons, such as the tax on corporations levied by local governments in Switzerland or the tax on certain financial sector entities in Norway. This should not be confused with the minimum income tax implemented in several countries in the region, through which a minimum notional tax with a low rate of around 1% is levied on gross assets in an effort to counter income tax non-compliance.

A number of countries also tax vehicle ownership, usually at the local government level, applying a flat or progressive rate on the assessed value.

## **(b) Ordinary transfer taxes**

These taxes are levied on certain asset transfers, either for valuable consideration or free of charge. They include taxes on inheritances and gifts, and taxes on the transfer of immovable property, financial assets and vehicles.

### *(i) Inheritance and gift taxes*

Inheritances and gifts are, with respect to heirs or beneficiaries, capital gains that fall within the broad definition of income. According to the most accepted definition of income by Haig (1921) and Simons (1938), income obtained in a specific period is equal to the change in net worth plus consumption over the period. However, these capital gains are not normally subject to personal income tax, but to inheritance and gift tax, or are simply not taxed at all. Inheritance taxes began to emerge in Europe in the seventeenth century, long before income taxes.<sup>5</sup> This may be the reason why this type of income is still subject to different and, in many cases, preferential treatment. Even if inheritances were subject to the same brackets and marginal rates as income tax (brackets are usually wider and rates lower), by splitting income and applying a different tax to each component, the total tax revenues would be lower than that resulting from combining all income and applying one scale of marginal rates.

The Carter Report of 1967 first put forward the idea of a tax system based on a comprehensive income tax. With respect to inheritances and gifts, the authors expressed their belief that all increases in the economic power of the taxpayer, regardless of their source, generate the same increase in taxpaying capacity. Therefore, all gifts or inheritances received from outside the family unit must be included in the comprehensive tax base (Carter and others, 1967).

Inheritance and gift taxes are generally applied at progressive marginal rates and cover a broad exemption bracket, so their scope is limited to high-value transfers. They are also often linked to a high level of avoidance, through planning to, for example, transfer assets prior to death through undervalued sales of shares or company rights, annuity contracts or other instruments, and thus generate little revenue.

<sup>5</sup> Subsequently, as the inheritance tax was easily avoided through the transfer of assets while the giver was still alive, the tax was extended to cover gifts as well.

Although inheritances and gifts undoubtedly represent a capital gain for the beneficiary, the rationale for taxing them has always been debated. Opponents allege double taxation, since the transferred assets were taxed at the time they were generated. This argument is weak, since it is based on the perspective of the giver, but the target of the tax is the heir or beneficiary, who has not paid taxes on that income. The counterargument is that there would be economic double taxation, which is not very convincing either, since there are many examples of income tax involving economic double or triple taxation and the only way to avoid it would be to exempt all capital income from tax and to exclusively tax labour income. In turn, the arguments of those who support this type of taxation are based on equity and efficiency. For example, the Meade Report states that the citizen who by his own effort and enterprise has built up a fortune is considered to deserve better tax treatment than the citizen who, merely as a result of the fortune of birth, owns an equal property; and to tax the former more lightly than the latter will put a smaller obstacle in the way of effort and enterprise (Meade, 1978).<sup>6</sup>

In the same vein, Piketty, Saez and Zucman (2013) believe there are strong meritocratic reasons why inherited wealth should be taxed more than labour income or wealth generated by people. This implies, in the opinion of these authors, that the ideal tax system should also include a progressive inheritance tax, in addition to progressive taxes on income and assets.

### (ii) Other transfer taxes

Several countries in the region levy taxes on financial asset transactions. These are small taxes based on the value of transactions and are generally restricted to cash movements from current accounts or other banking instruments. This type of tax is also considered important because of the useful information it provides to tax administrations for auditing purposes.

Taxes on immovable property transfers are also fairly widespread. Originally, this type of tax was based more on the principle of profit than on that of the capacity to pay, since it is linked to costs of the administration of property registration systems.

Several countries, especially at the local level, levy taxes on vehicle transfers, for which the taxable base is either the sale value or the assessed value of the vehicle.

## 2. Importance of property taxes in Latin America

Property tax revenues in Latin American countries in 2018 were equivalent to 0.8% of GDP on average (see table II.4). Comparatively, OECD countries generated the equivalent of 1.9% of GDP in the same year, 2.4 times more than the amount collected in the countries of the region.

**Table II.4**  
Latin America and the Caribbean and Organisation for Economic Co-operation and Development (OECD): property tax revenues, 2018 (Percentages of GDP)

	Latin America average <sup>a</sup>	Latin America and the Caribbean average	OECD average
Recurrent taxes			
On immovable property	0.3	0.4	1.1
On net wealth	0.1	0.1	0.2
On inheritances and gifts	-	-	0.1
On financial and capital transactions	0.4	0.4	0.4
Other recurrent taxes	-	-	-
Non-recurrent taxes	-	-	-
<b>Total</b>	<b>0.8</b>	<b>0.8</b>	<b>1.9</b>

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), OECD.Stat [online database] <http://stats.oecd.org>.

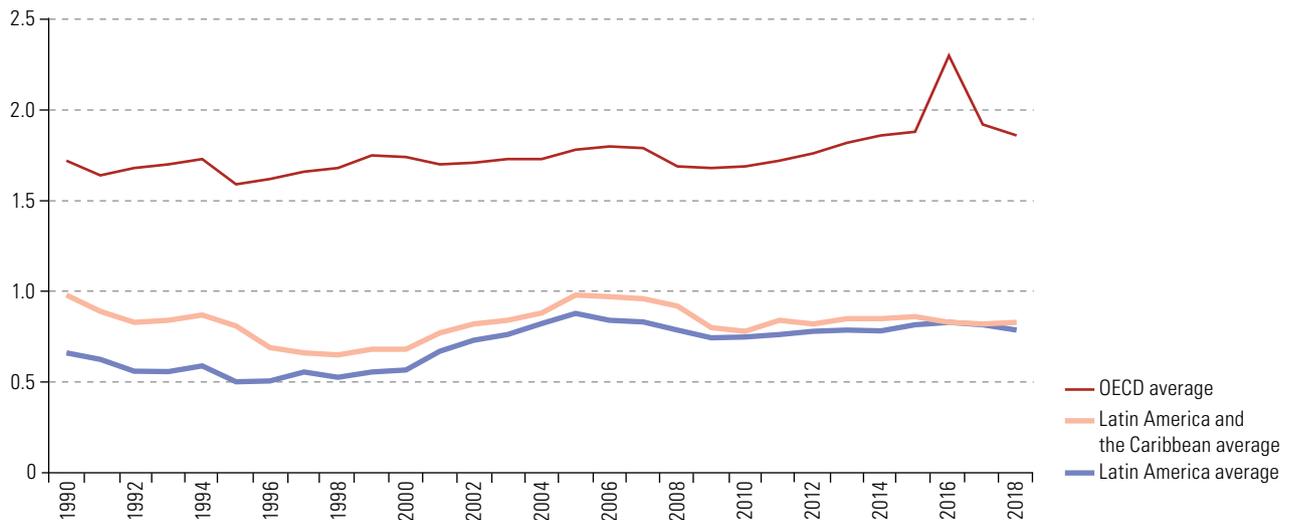
<sup>a</sup> Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

<sup>6</sup> Report published in 1978 by a United Kingdom commission chaired by Professor James Meade.

An analysis of the trend over the past 29 years (see figure II.7) shows that revenues from these taxes in Latin America ranged from 0.5% of GDP to 0.9% of GDP, and trended upward slightly over the period. Meanwhile, in OECD countries these revenues ranged from 1.7% of GDP to 2.0% of GDP,<sup>7</sup> and also reflected a slight upward trend.

**Figure II.7**

Latin America and the Caribbean and Organisation for Economic Co-operation and Development (OECD): general government property tax revenues, 1990–2018 (Percentages of GDP)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), OECD.Stat [online database] <http://stats.oecd.org>.

**Note:** The increase in the OECD average in 2016 derived from exceptional revenues in Iceland.

As shown in table II.4, property tax revenues in Latin America derive in large part from taxes on financial and capital transactions (0.4% of GDP) and on immovable property (0.3% of GDP). This is followed by taxes on net wealth (0.1% of GDP) and, with marginal revenues, taxes on inheritances and gifts, and other recurrent taxes.

In the OECD countries, most property tax revenues come from taxes on immovable property, equivalent to 1.1% of GDP, which is 3.7 times higher than in the region. These are followed by taxes on financial and capital transactions, with similar revenues to those in Latin America, at 0.4% of GDP. Revenues from taxes on inheritances and gifts are moderate, at 0.1% of GDP, although 10 times higher than that of Latin America.

Table II.5 shows statistics on the main wealth taxes in specific Latin American countries. Only three countries currently levy taxes on individual wealth: Argentina, Colombia and Uruguay. Revenues are low in all three countries, with the highest level, 0.1% of GDP, in Argentina.

Taxes on immovable property are the most widespread. This type of tax is levied in all countries, with the exception of El Salvador. In 9 of the 17 countries analysed, the tax is only levied at the local government level; in 2 countries it is a central government tax; and in 5 it is levied at both levels of government, but revenues are significantly higher for local governments. The revenues generated by this tax are, on average, lower in Central America than in South America. They range from a minimum of 0.06% of GDP in the Dominican Republic to a maximum of 0.79% of GDP in Colombia.

<sup>7</sup> With the exception of 2016, when average revenue was higher than usual, owing to exceptional revenues in Iceland.

**Table II.5**  
Latin America: property tax revenues, 2018  
(Percentages of GDP)

Country	On individual net wealth		On immovable property		On motor vehicles		On inheritances and gifts		On immovable property transfers		On financial transactions	
	Level of government	Revenues	Level of government	Revenues	Level of government	Revenues	Level of government	Revenues	Level of government	Revenues	Level of government	Revenues
Argentina	Central	0.10	Local	0.40	Local	0.29			Central	0.04	Central	1.61
Bolivia (Plurinational State of)			Local	...			Central	-			Central	0.19
Brazil			Central	0.02	Local	0.61	Local	0.12	Local	0.17	Central	0.54
			Local	0.67								
Chile			Central	0.01	Local	0.28	Central	0.07				
			Local	0.71								
Colombia	Central	0.05	Local	0.79	Local	0.08					Central	0.78
Costa Rica			Central	0.01	Central	0.49			Central	0.10		
			Local	0.31								
Dominican Republic			Central	0.06	Central	0.06	Central	0.01	Central	0.16	Central	-
Ecuador			Central	-	Central	0.20	Central	0.03			Central	1.12
			Local	0.12								
El Salvador									Central	0.09	Central	0.34
Guatemala			Central	-	Central	0.15			Central	-		
			Local	0.15								
Honduras			Local	0.08					Central	...	Central	0.44
Mexico			Local	0.21					Local	0.12		
Nicaragua			Local	0.21	Local	0.01						
Panama			Central	0.32	Local	...			Central	0.05		
Paraguay			Local	0.24	Local	0.05			Local	0.01		
Peru			Local	0.24	Local	0.04					Central	0.03
Uruguay	Central	0.04	Local	0.64	Local	0.61			Central	0.11		

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Inter-American Center of Tax Administrations (CIAT), CIATData [online database] <https://www.ciat.org/ciatdata/?lang=en>; and Organisation for Economic Co-operation and Development (OECD), OECD.Stat [online database] <http://stats.oecd.org>.

Motor vehicle property taxes are also fairly widespread, and are levied in 13 of the 17 countries analysed, with revenues ranging from a minimum of 0.01% of GDP in Nicaragua to a maximum of 0.61% of GDP in Brazil and Colombia. This type of tax is also mainly levied by local governments, as is the case in 9 of the 13 countries.

Inheritance and gift taxes are applied in only 5 of the 17 countries, and generate modest revenues, with a maximum of 0.12% of GDP in Brazil. In this country, this type of tax is levied by local governments, while in the other four countries it is collected by the central government.

Eleven of the 17 countries apply immovable property transfer taxes, 8 of them at the central government level and 3 at the local government level. Revenues range from 0.01% of GDP in Paraguay to 0.17% of GDP in Brazil.

Finally, nine countries levy some form of financial transaction tax, all at the central government level, and revenues as a percentage of GDP range from close to 0% in the Dominican Republic to 1.61% of GDP in Argentina.

## C. International and regional wealth tax experiences

In 1990, 12 OECD countries levied a tax on individual net wealth. As of 2020, only three countries have maintained this tax: Norway, Spain and Switzerland. Austria repealed it in 1994, followed by Denmark and Germany in 1997, the Netherlands in 2001, Finland, Iceland and Luxembourg in 2006, Sweden in 2007 and France in 2018.

France replaced this tax with a single tax on immovable property. Although Italy does not apply a net wealth tax as such, it levies an annual tax on financial assets in the form of a stamp duty on bank and securities accounts. Meanwhile, the system in the Netherlands is similar to an annual wealth tax, imputing a rate of return to assets depending on their type, and levying a 30% tax on the imputed returns (Scheuer and Slemrod, 2020).

In Germany, it should be specified that the tax was repealed after it was deemed unconstitutional by the Federal Constitutional Court on the grounds that the tax's discrimination of property and financial assets was an infringement of the principle of tax equality (Drometer and others, 2018).

Many factors have been presented to justify the repeal of taxes on net wealth. The main arguments relate to their efficiency costs and the risks of capital flight, in particular in light of increased capital mobility and wealthy taxpayers' access to tax havens; the observation that net wealth taxes often fail to meet their redistributive goals as a result of their narrow tax bases, as well as tax avoidance and evasion; and concerns about their high administrative and compliance costs, in particular compared to their limited revenues (i.e. high cost-yield ratio). To some extent, the limited revenues collected from wealth taxes have made their elimination more acceptable and feasible from a political point of view (OECD, 2018).

Table II.6 presents a comparison of taxes on individual net wealth in force in the OECD in 2018.

In Switzerland, the tax is paid to and administered by the cantons, but the Confederation is responsible for its harmonisation.<sup>8</sup> In any case, the cantons are free to set wealth tax rates, and the tax burden can therefore vary greatly from one canton to the next. In addition, some cantons tax certain assets differently, allowing discounts or imposing additional fees.

Currently, the tax rates vary between 0.03% and 1.09%, depending on the canton. Moreover, all cantons apply an exemption threshold, which, depending on the canton, ranges from 59,000 euros to 296,000 euros for married couples without children.

Individuals resident in Switzerland are, in principle, subject to wealth tax on their worldwide assets. The tax is levied by the canton where the taxpayer resides or where their immovable property is located.

The tax base refers to the value of all assets owned by the taxpayer, for example immovable property (including private residences), all types of securities and all movable assets (including works of art, jewellery and vehicles). All personal liabilities may be deducted from the wealth tax base. Some assets are exempt from the tax, such as personal household items and claims on pension fund payments and assets invested in recognised personal pension plans.

<sup>8</sup> The description of the net wealth tax in Switzerland is based on Eckert and Aebi (2020).

With respect to the valuation of assets, the federal harmonization rules provide broad guidelines, according to which non-business assets must be valued at market value and business assets according to tax book values. However, the cantons have some flexibility with regard to valuation.

In Norway,<sup>9</sup> the tax rate is 0.85%, of which 0.7% goes to the municipalities and 0.15% to the central government. Municipalities are allowed to implement rates lower than 0.7%. However, only one municipality currently exercises this option. In addition, the tax includes an exemption threshold for the portion of net wealth that does not exceed the equivalent of 150,000 euros.

The tax base is defined as the market value, as at 1 January of the fiscal year, of the taxpayer's assets of financial value, less debt for which the taxpayer is liable, and includes assets located both in Norway and outside the country. However, exceptions exist for some assets, with the possibility of applying a valuation discount. For example, shares in listed companies are valued at 65% of the share price as of 1 January of the relevant fiscal year. Meanwhile, shares in unlisted companies are valued at 65% of the tax value as of 1 January of the relevant fiscal year.

The law exempts certain assets from the tax, including conditional rights; time-limited rights of use; time-limited rights to periodical benefits; wages, interest, dividends on shares and other securities that have not fallen due for payment; rights to creative works or patents, provided that such rights are still held by the creator or inventor; goodwill; technical, mercantile or other know-how; crops that are necessary for agricultural operations; equity capital in savings banks; some mandatory life insurance policies and gambling winnings that have not fallen due for payment.

Taxpayers are natural persons of legal age residing in Norway. Spouses declare their combined wealth and include that of minor children. Exceptionally, non-residents must pay wealth tax for immovable property they own in Norway.

In Spain,<sup>10</sup> the tax is levied at progressive marginal rates ranging from 0.2% to 2.5%. There is also an exemption threshold for the portion of the net wealth that does not exceed 700,000 euros per individual, i.e. for each member of a family group. In addition, the primary residence is partially exempt, up to an amount of 300,000 euros.

An individual's net wealth includes all their assets and economic rights, both in Spain and abroad, less any encumbrances that diminish their value, as well as all personal debts or obligations. The law exempts certain assets, such as Spanish historical heritage goods, certain works of art and antiques, intellectual or industrial property owned by the creator, household goods with some exceptions, surrender rights of pension plans and other insurance policies, some fixed income securities held by non-residents, assets allocated to a business activity and shares in "family businesses" if certain requirements are met.

Non-resident individuals are only subject to tax on assets or rights located in Spain and can only deduct debts incurred in relation to these Spanish assets.

The valuation of the assets depends on the type of asset. For example, immovable property is valued at the highest of the following: acquisition value, property register value and value assessed by the tax authorities in the context of a tax procedure; shares of listed companies are valued at the average share price of the last quarter, and rights in unlisted companies are valued at book value.

<sup>9</sup> The description of the tax in Norway is based on Banoun (2020).

<sup>10</sup> The description of the tax in Spain is based on Ramallo (2020).

**Table II.6**

Organisation for Economic Co-operation and Development (OECD) (selected countries): characteristics of taxes on individual net wealth, 2018

Country	Tax regime	Tax exemption threshold	Tax rate
Norway	Linear	1,480,000 Norwegian kroner (157,658 euros)	0.7% to the municipality and 0.15% to the central government
Spain	Progressive	700,000 euros in worldwide assets + 300,000 euros in homes	0.2%–2.5%
Switzerland	Progressive	50,000 Swiss francs (59,110 euros) – 250,000 Swiss francs (295,550 euros) for married couples without children.	0.03%–1.09%

**Source:** Drometer and others, “Wealth and inheritance taxation: an overview and country comparison”, ifo DICE Report, vol. 16, No. 2, 2018.

In Latin America, in 2020, only Argentina, Colombia and Uruguay maintained taxes on individual net wealth. In 1986, El Salvador passed a law on individual and corporate wealth taxes, with a progressive scale of rates up to 2%. It was in force until 1993 and generated revenues of 0.33% of GDP, on average. In 1983, Nicaragua passed a decree on net wealth tax for resident and non-resident individuals (with respect to their assets in Nicaragua), which was repealed in 1992; it generated revenues equivalent to 0.6% of GDP in 1991. Peru created a wealth tax on natural persons in 1987 and repealed it in 1992; revenues amounted to about 0.2% of GDP. More recently, in 2016, Ecuador established an extraordinary wealth tax (solidarity tax on wealth) in the aftermath of the earthquake that affected the country. It also currently levies a tax on assets held abroad by banks and other financial institutions.

Table II.7 summarizes the main characteristics of the taxes in force in the region. In Argentina, the tax was established in the early 1990s as an emergency tax for a period of nine years. Since then it has undergone successive extensions, the latest in 2017 for a period ending on 31 December 2022. The tax is levied on assets or gross assets, as it does not allow the deduction of debt. The law establishes that the following assets will be exempt from the tax: members of foreign diplomatic and consular missions; funded pension funds and private retirement insurance plans; cooperative shares; rural immovable property; intangible assets (trademarks, patents, licensing rights, etc.); securities issued by the State and savings deposits.

The tax targets individuals residing in the country with assets located in the country and abroad, and individuals residing abroad with assets located in the country.

The tax does not apply when the total value of an individual’s assets is less than an amount equal to US\$ 33,394. For immovable property used for residential purposes, the exemption threshold is equivalent to approximately US\$ 300,000.

A progressive scale of marginal rates, ranging from 0.5% to 1.25%, is applied to the value of taxable assets. In turn, the law allows the executive branch to raise these rates by up to 100% in the case of assets located abroad, so for these assets, the current rates range from 0.7% to 2.25%.

Regarding asset valuation, in the case of immovable property, the acquisition cost adjusted for inflation, less an imputation of 2% per year for depreciation, is used. The minimum value is that which is set for the purposes of payment of immovable property taxes or similar taxes or the assessed value. Vehicles and other movable property are valued at the adjusted acquisition cost less accumulated depreciation. Works of art and antiques are also valued at the adjusted cost, but without depreciation, and in the case of personal and household goods, the minimum value is set at 5% of the value of the immovable property. With respect to listed securities, the most recent market value is used, except for shares, which are assigned the proportional equity value derived from the most recent balance sheet figures. Finally, unlisted securities are valued at cost, plus the amount of interest, adjustments and exchange rate differences accrued at that date.

Colombia first introduced a net wealth tax in 1935. Its current version is derived from Law 1943 of 2018 (replacing the previous one established by Law 1739 of 2014, which was declared unenforceable in 2019 by the Constitutional Court), and in effect from 2019 to 2021. The tax is levied on the gross assets of natural persons, illiquid inheritances and foreign companies, minus debts payable. The value of residences, up to a limit of about US\$ 137,000, and 50% of the equity value of repatriated assets, are expressly excluded from the tax base, subject to certain conditions.

Resident individuals are taxed on assets located in Colombia and abroad, while non-resident individuals and companies are taxed on assets located in Colombia.

The wealth tax is levied on holders of assets worth an amount equal to or greater than the equivalent of US\$ 1.5 million. A flat rate of 1% is applied to wealth exceeding that amount.

In Uruguay, the wealth tax is levied on both natural and legal persons. Consequently, natural persons pay the tax only on the assets not included in those of legal persons. Unlike other countries, Uruguay only taxes the assets of residents located in the national territory, which may favour avoidance through the transfer of assets abroad.

The tax base excludes forested areas, agricultural immovable property, savings and bearer bonds, registered bonds of companies listed on the stock market and bank deposits. The tax is levied on the assets of individuals in excess of the equivalent of US\$ 120,000, at marginal rates of between 0.3% and 0.6%. For non-resident individuals who do not pay non-resident income tax, the marginal rates range from 0.7% to 1.5%.

**Table II.7**

Latin America (selected countries): characteristics of taxes on individual wealth, 2019

	Argentina	Colombia	Uruguay
Tax base	Gross assets	Net assets	Net assets
Residents	Worldwide	Worldwide	Territorial
Non-residents	Territorial	Territorial	Territorial
Exemption threshold (US\$)	33,394	1,520,002	120,359
Rates	0.5%–1.25% 0.7%–2.25% <sup>a</sup>	1.0%	0.3%–0.6% 0.7%–1.5% <sup>b</sup>
Exemptions	<ul style="list-style-type: none"> <li>- Residences up to a limit</li> <li>- Pension funds</li> <li>- Cooperative shares</li> <li>- Rural real estate</li> <li>- Government securities</li> <li>- Savings deposits</li> </ul>	<ul style="list-style-type: none"> <li>- Residences up to a limit</li> <li>- 50% of the value of assets repatriated under certain conditions</li> </ul>	<ul style="list-style-type: none"> <li>- Forested areas (Forest Act)</li> <li>- Agricultural real estate</li> <li>- Savings and bearer bonds</li> <li>- Registered bonds of companies listed on the stock market</li> <li>- Bank deposits</li> </ul>

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the countries' legislation.

<sup>a</sup> Rates relating to assets located abroad.

<sup>b</sup> Rates relating to non-resident individuals who do not pay non-resident income tax.

In 2020, a number of net wealth tax initiatives emerged in the region, and reflect varying degrees of progress. Argentina passed Law No. 27605, which established an exceptional wealth tax aimed at financing the costs of the coronavirus disease (COVID-19) pandemic. This tax is similar to the recurrent tax, but levied on individuals with assets of more than 200 million pesos (about US\$ 2.4 million). It includes a marginal rate scale ranging from 2.0% for individuals with assets of less than 300 million pesos, to 3.5% for persons with assets of more than 3 billion pesos.

In the Plurinational State of Bolivia, Law No. 1357 was recently passed, creating a recurrent tax on large fortunes. Resident individuals will be taxed on their worldwide assets and non-resident individuals will be taxed on their assets in the country. There

is an exemption threshold of 30 million bolivianos (about US\$ 4.4 million) and three marginal rates, of 1.4%, 1.9% and 2.4%, are applied. The highest applies to assets of more than 50 million bolivianos (about US\$ 7.3 million).

In Chile, a group of parliamentarians presented a constitutional reform bill that would create a wealth tax to raise funds to finance the costs of the pandemic. In that country, only the President of the Republic has the power to propose legal changes in tax matters, which is why the parliamentarians' strategy was to reform the constitution. However, in December 2020, the government, which does not support the initiative, obtained a favourable ruling from the Constitutional Court, making it difficult for the bill to move forward for the time being.

## D. Considerations regarding taxes on individual net wealth

The previous section reviewed property taxes in their broadest definition. In this and the following sections, the focus will shift to the individual wealth tax, beginning in this section with a review of the potential effects of the tax on a number of important variables, such as vertical equity and redistribution, horizontal equity, savings and investment, tax compliance, and challenges for tax administration.

The main arguments in the literature relating to these themes are summarized below.

### 1. Vertical equity and redistribution

The main purpose of the individual wealth tax is to improve tax equity, especially vertical equity; i.e., ensuring that people with greater capacity to pay, pay proportionally more taxes. Since wealth is an indicator of the capacity to pay, a net wealth tax, with a structure of increasing marginal rates, allows for fair tax collection and thus improves the vertical equity of the tax system. In order to make the tax system more progressive, choosing assets as the tax base is appropriate, given that they are more unequally distributed than income and consumption, which are the alternative tax bases.

Moreover, bear in mind the aforementioned idea that wealth provides benefits in addition to the income it generates. In other words, a person with more wealth than another will have a greater capacity to pay, even if both have the same income.

Since wealth is highly concentrated at the top of the income distribution, even a low proportional tax on wealth, with an exemption threshold, can increase progressivity. In some OECD countries, particularly the Nordic countries, which tax capital income at a flat rate, wealth taxes have been justified as a way of making capital taxation increasingly progressive (OECD, 2018).

A characteristic of wealth accumulation, which also reinforces the idea of a wealth tax, is that it feeds back on itself; in other words, wealth generates wealth. Persons with high incomes are able to save more. In addition, wealthy taxpayers earn higher returns on their savings and can in turn borrow more easily, allowing them to invest more and accumulate more wealth. Thus, if there are no taxes to address this process, wealth inequality will tend to increase (OECD, 2018).

### 2. Horizontal equity of the tax system

A tax system reflects horizontal equity when people with equal capacity to pay receive the same tax treatment. Normally, the capacity to pay is associated with the income earned, so horizontal equity is achieved when two people with the same income pay

the same tax. However, there is an argument that the origin of income matters (see, for example, Sevilla Segura, 2006). Wealth provides greater security to those who possess it, reduces the need to save and increases the capacity for indebtedness. It generates an income base without requiring its owner to sacrifice time,<sup>11</sup> which affords them a better quality of life, or the possibility of using that time to generate more income through better management of their assets or by carrying out paid activities. Therefore, if two people earn the same amount, but the first one does so through work and the second one through capital income, the latter would have a greater capacity to pay, so should be taxed at higher rates.

In many countries, personal income tax is based on an overall or comprehensive tax base, which makes no distinctions based on the source of income and, therefore, applies the same treatment to income from labour and capital. If the above argument is accepted, the net wealth tax would be an appropriate instrument to introduce differentiated rates for capital income.

### 3. Unintended effects of wealth concentration

The effort to establish a progressive tax system is not only related to ethical issues, but is also based on political economy arguments. Increased concentration of income and wealth may lead to adverse outcomes, such as the rich capturing the political system and tilting it in their favour (Scheuer and Slemrod, 2020).

It may also be considered an affront to democracy if a group of people can exercise disproportionate power, even more so if there is a belief, justified or unjustified, that the economic elites rose to their position by illegitimate means. In this sense, a wealth tax could lessen these side effects of excessive wealth concentration, reducing social and political tensions (Rudnick and Gordon, 1996).

### 4. The case of low-income billionaires

Saez and Zucman (2019b) argue that the appropriate way to tax the rich in the twenty-first century is through three instruments: a corporate tax, a progressive income tax, and a progressive wealth tax. The corporate income tax ensures that all earnings are taxed, whether they are distributed or not. The progressive income tax ensures that those who earn more pay more. And a progressive wealth tax allows high net worth individuals to contribute an amount that reflects their true capacity to pay.

The above approach seeks to solve the paradox that high net worth individuals pay lower average income tax rates than the middle class. The fundamental problem is that high net worth individuals, despite having high net worth, receive a low income. This is a consequence of various tax planning efforts. One of the most frequent is the retention of earnings in companies. This way, increases in wealth are reflected in a higher value of the shares, which is not taxed as long as the shares are not sold.

For the small group of high net worth individuals, wealth is well defined, and is more difficult to hide than income. The wealth tax would then aim to ensure that high net worth individuals do not pay less than the rest of the population.

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<sup>11</sup> Of course, the entrepreneur or rentier also makes an effort to manage their business well or to choose the best investments, but the fruit of that effort is an income from work, which may take the form of a business owner's salary or may be included as a component of the return on investments.

## 5. Impacts on savings and investment

This issue is well developed in Mirrlees and others (2011). From an efficiency point of view, it is argued that income tax should target excess returns on savings, but not normal returns.<sup>12</sup> The reason is that normal returns simply reflect people's preferences between present and future consumption. If two people earn the same amount, but one prefers to consume all of it today and the other prefers to save to consume all of it tomorrow, why should the second person be taxed more? It is different when the return on savings or investment is higher than the normal return, either by chance or because of greater assumed risk, skills or any other reason. In such cases, taxing the excess income is justified.

The net wealth tax achieves the exact opposite of the desired effect: it taxes the normal return, but not the excess return. Suppose a person saves 100 monetary units and the normal rate of return is 5%. A 20% income tax would be equivalent to a 1% tax on wealth. The income tax would target 20% of the interest earned (5 monetary units), generating 1 monetary unit. The tax on wealth would target 1% of the 100 monetary units, generating the same amount mentioned previously, i.e. 1 monetary unit. However, what happens if the return is more than 5%? With the income tax, 20% will also be paid on the excess return, but with the tax on wealth, the same amount of tax will continue to be paid. Therefore, the wealth tax discourages saving, but does not generate more taxes on extremely high returns, which seems to be exactly the wrong policy.<sup>13</sup>

Indeed, the net effect on savings will depend on the other taxes that make up the tax structure. For example, if a progressive income tax is applied in addition to the wealth tax, excess returns would be subject to marginal income tax rates, which may or may not be higher than the equivalent rate of the wealth tax.

According to Perret (2020), the argument that wealth taxes reduce the incentive to save has played a role in the decline in wealth taxes in OECD countries. However, there is little empirical evidence of substantial savings responses to wealth taxes, and what evidence there is suggests that savings responses are small, and even positive in some contexts (Advani and Tarrant, 2020). From a theoretical perspective, there is a substitution effect, according to which the lower rate of return on savings caused by the wealth tax would encourage consumption, but also an income effect, which could lead people to save more, to offset the decrease in their future wealth owing to the tax.

## 6. Effects on entrepreneurship and risk-taking

Several authors have also analysed the potential effects of a net wealth tax on entrepreneurship and the willingness to take risks. However, opinions differ.

Scheuer and Slemrod (2020) believe that a wealth tax might force entrepreneurs to continually reduce their ownership in a company whose valuation increases over time in order to pay the tax liability. Even if such founders are not primarily motivated by monetary incentives, such an anticipated dilution of control rights could have discouraging effects *ex ante*.

By contrast, some argue that no matter how broad the tax base of a net wealth tax, it will never include human capital. Thus, wealth taxes encourage investment in human capital, which in turn can have positive effects on growth (OECD, 2018).

<sup>12</sup> In this context, a normal return is defined as that obtained by maintaining savings in the form of a secure interest-bearing asset.

<sup>13</sup> Example from Mirrlees and others (2011).

When compared with income tax, a disadvantage of the wealth tax for investors is the obligation to pay the tax even in case of losses. OECD (2018) underscores that this difference has implications for risk-taking and entrepreneurship. It is often believed that taxation discourages risk-taking by limiting the return on risky investments. However, a contrary view is that, for risk-averse investors, when the income tax allows for perfect loss compensation, the tax may even encourage risk-taking, as the Treasury absorbs some of the risk. This benefit does not exist in the case of the wealth tax.

However, as discussed in the previous section, the wealth tax targets the equivalent of normal investment returns, but not excess returns, which include risk premiums. From that perspective, the net wealth tax could stimulate entrepreneurship, risk-taking and productivity. To assess this possibility, Guvenen and others (2019), using a parameterized model, simulated for the United States the replacement of income tax with a net wealth tax, and found that wealth taxes are better than income taxes, and can increase efficiency, grow the economy and reduce inequality at the same time.

In particular, a net wealth tax also targets unproductive assets, which do not generate income and are therefore not subject to income tax. In this way, the net wealth tax would incentivize the owners of these unproductive assets to put them to socially productive use or replace them with productive ones (OECD, 2018; Sevilla Segura, 2006).

## 7. Double taxation

One of the most frequent criticisms of net wealth taxes is that they are unfair because they result in double taxation. Wealth originates from income from labour, from personal economic activities, from capital, and from inheritances and gifts. If income tax were well-designed and accompanied by an effective inheritance and gift tax, all the flows that help generate wealth would indeed already be taxed, so a net wealth tax would represent double taxation.

However, this double taxation argument could also be made with respect to income tax and VAT: income tax has already been levied on the income used for consumption in most cases. Ultimately, what matters is the overall tax burden on individuals and the incentives generated by different taxes and their combinations, rather than the number of taxes employed. For example, if income tax rates were increased and VAT was eliminated, calibrating the rates to make each person's tax payment more or less the same as in the aforementioned situation, the double taxation argument would disappear. However, countries prefer to diversify their revenue sources, meaning that the rationale of avoiding double taxation is not sufficient to support making collection dependent on a single tax.

Moreover, some income is not always subject to other taxes, such as accrued capital gains or, in several countries, inheritances and gifts, in which case there would be no double taxation. In fact, some specialists believe that the net wealth tax would be a good substitute for capital gains tax (Scheuer and Slemrod, 2020; Saez and Zuckman, 2019a). An unresolved income tax problem is taxation of capital gains, which are one of the most—if not the most—highly concentrated forms of income at the top of the income distribution. Under income tax, capital gains are taxed on a realized or cash basis, which is to say when the asset is sold, unlike other income, which is generally taxed on an accrual basis. This preferential treatment, which allows tax payment to be deferred until the time of sale, is one of the main reasons why average rates of taxation fall off in the upper income percentiles.

Wealth tax, meanwhile, is levied on an accrual basis. Assuming that the wealth tax base is updated through regular appraisals, asset appreciation is taxed each year through a wealth tax. Taxation on an accrual basis has several advantages: it prevents deferral of unrealized capital gains and improves fairness, as appreciation in the value of assets is a better reflection of a taxpayer's current wealth. However, if asset values are not regularly updated, the wealth tax becomes more comparable to a tax with a cash base (OECD, 2018).

## 8. Liquidity considerations

Another frequent consideration in relation to wealth tax is the availability of resources to pay the tax. When individuals hold their wealth in the form of illiquid assets, they may be forced to sell some of those assets to settle the tax liability. The same argument could be used in relation to immovable property tax or inheritance and gift tax. However, because net wealth tax is a type of levy on presumed income, for most people the income generated by their wealth should be more than sufficient to pay the tax.

If the design of the tax provides for a broad exempt bracket, in order to focus on high-net-worth individuals, this issue should not be a concern, as such taxpayers have easy access to financial markets to fund the payment of taxes (Leiserson, 2020).

In some cases, there may be liquidity problems, for example for the owner of a start-up that has risen significantly in value but has not made enough profit to issue dividends. In that case, one way to solve the problem would be to allow the tax to be paid in kind, with shares of the company itself (Saez and Zucman, 2019b).

## 9. Capital flight and tax exiles

Capital flight and tax exiles are two of the main problems often associated with net wealth tax. It is important to clarify the extent of these problems. Normally, for residents, net wealth tax applies to worldwide assets and liabilities, so capital flight is not, theoretically, a means of tax avoidance. However, it can become a problem when the aim of locating assets outside the jurisdiction is to underreport them or to not report them at all, and the tax authority does not have access to information about them (OECD, 2018).

There is also a risk from tax exiles: high-net-worth taxpayers who become residents of another country to avoid paying the tax. Migration is one of the reasons for the decrease in application of wealth taxes in OECD countries (Perret, 2020). To reduce the fiscal cost of this practice, Leiserson (2020) proposes a one-time tax that would apply upon expatriation, equal to the estimated present value of the future tax due on taxable wealth had residence been maintained.

## 10. Tax evasion and avoidance

Increased mobility of financial assets, use of tax havens, development of information and communications technologies, and the removal of barriers to cross-border capital transfers have, together, allowed taxpayers to move their capital abroad without declaring it, making both income tax and net wealth tax more difficult to implement (OECD, 2018).

Scheuer and Slemrod (2020) cite a study that analysed data leaks from the bank HSBC in Switzerland in 2007, linking the names of the leaked accounts to individual tax data from Denmark, Norway and Sweden. They found that 95% of the holders of

the offshore accounts had not declared them to the tax authorities. It appears that tax inspectors do not have the resources to track sophisticated means of wealth tax evasion and rarely uncover them. However, tax authorities can be expected to have ever greater control over these operations, thanks to information exchange agreements, such as those included in the Convention on Mutual Administrative Assistance in Tax Matters, promoted by the Base Erosion and Profit Shifting Project (ECLAC, 2020a).

Internally, there are several classes of assets for which there is no third-party information to verify settlement of tax liabilities, which are therefore susceptible to underreporting or omission. This is the case, for example, for works of art, household goods and jewellery.

Other means of tax evasion and avoidance are to substitute taxed assets with exempt or lower-rate assets or to hold assets whose value is more difficult to verify and therefore easier to underreport successfully.

## 11. Valuation and other administrative matters

One of the key concerns in the implementation of wealth taxes relates to the correct valuation of individuals' assets and liabilities. Some assets, such as shares in publicly traded companies, are easy to value because reliable market price information is available. In the case of immovable property, the periodic appraisals for immovable property tax purposes can be used as a reference, accepting the difference with respect to the market value, the gap being greater the older the most recent update to the real estate register. However, other forms of wealth are difficult to value, because there is no secondary market where the assets or liabilities are continuously traded, nor tax appraisals to serve as a reference. This is the case for shares in privately held corporations and rights in partnerships. Also commonly mentioned in this category are works of art, personal effects and jewellery, among other items.

Some countries have chosen to exempt these hard-to-value assets from taxation. However, this erodes the tax base, distorts selection of savings vehicles and creates opportunities for tax evasion (OECD, 2018).

Saez and Zucman (2019b) consider these concerns about valuation to be overblown. According to their calculations, in the case of the United States, 80% of the wealth held by the richest 0.1% consists of publicly traded shares, bonds, mutual fund shares, immovable property and other assets with readily available market values. For the remaining 20%, mostly shares in privately held companies, valuation poses less of a problem than one might think. Although they are not publicly traded, shares in large privately held companies are regularly bought and sold. Privately held companies regularly issue new shares to banks, venture capitalists, wealthy individuals and other accredited investors with significant resources. These transactions can serve as a reference for the value of such companies.

Another way of valuing company shares and rights is at historical cost, adjusted for retained earnings between the date of purchase or investment and the tax accrual date. This is equivalent to attributing to the beneficial owner a share of the book value of the equity.

An innovative proposal by Saez and Zucman (2019b) is for governments to create the missing market for shares in privately held corporations. The tax authority would thus give the option of paying wealth tax in shares of the company, rather than in cash. Taxpayers would use this option if they believed that the tax authority had overvalued their holding. The tax authority would then sell the shares to the highest bidder on the open market.

For other high-value assets, such as works of art, aircraft and yachts, the value for which they are insured in relevant policies can be used as minimum taxable value.

For household goods and other personal effects, some countries have chosen to establish a value proportional to the value of the immovable property in which they are contained.

## 12. Economic efficiency of a one-off wealth tax

Several specialists consider that, unlike a recurring net wealth tax, a one-off tax is economically efficient (Donovan, 2020; Adam and Miller, 2020). The argument is that a one-time windfall tax on accumulated wealth would not distort behaviour, since there would be nothing taxpayers could do to reduce their tax liabilities. However, for it to be efficient it would be fundamental for it to be a one-off tax and that people trust that it will be so. This is easier to achieve when there is a specific justification, as is the case now with the need to cover the costs of the COVID-19 crisis. However, making that commitment credible would be one of the main challenges to overcome to make a tax on current wealth efficient (Adam and Miller, 2020).

## E. Challenges to consider when formulating and implementing net wealth taxes

### 1. Taxpayers and tax units

In general, net wealth taxpayers are resident and non-resident individuals. Regarding the tax unit, there are two options: individuals or families. To take advantage of synergies in compliance monitoring, it is advantageous to use the same unit as for income tax (see Benítez and Velayos (2018) and Sevilla Segura (1996)). This would facilitate cross-checking of the two taxes.

OECD (2018) advocates using the family as the tax unit. The argument is that, if spouses are taxed separately, it is difficult to determine and divide ownership of family property and to allocate the wealth of dependents to parents. Moreover, in the case of a wealth tax with progressive rates and exemptions and deductions, taxing spouses separately would require close monitoring of transfers of assets between them. However, these problems of individual taxation also exist for income tax. Therefore, the recommendation would be to use the family as the tax unit for both taxes.

Since company shares and rights are ultimately the assets of individuals, in principle the tax should not apply to legal entities. However, it could make sense, as a control mechanism for the personal tax, to levy a tax on legal entities that acts as a payment on account of personal tax, which could then be deducted by individuals from their own tax (Sevilla Segura, 1996).

### 2. Determination of the tax base

#### (a) Residents and non-residents

In the case of resident individuals, the taxable base is the worldwide wealth, whereas non-residents should be taxed only on wealth located in the relevant jurisdiction.

It is advisable to tax resident individuals on their worldwide wealth for two reasons. The first is that the capacity to pay is determined by worldwide wealth and not only by wealth in the territory. The second is that, if only domestic wealth were taxed, the tax could be avoided by merely transferring wealth abroad.

As discussed in the previous section, in the case of a recurring net wealth tax, a resident taxpayer will have an incentive to become a tax exile and thus avoid paying the tax. This can be countered by imposing the tax for several years after they cease to be a resident or by applying a higher rate in the last year of residence (Rudnick and Gordon, 1996).

In the case of non-residents, to limit the tax base to assets located within the jurisdiction, the concept of residence and asset location must both be defined. However, these concepts would generally be similar to those applied to income tax.

Global taxation for residents and taxation at source for non-residents could result in double taxation. Therefore, provisions are required to prevent this (OECD, 2018).

### (b) Exempt brackets

If one of the purposes of the tax is to make the tax system more progressive, it should have an exempt bracket, so as not to tax people with lower payment capacity. The size of the exempt bracket would depend on the purpose of the tax. If the aim is to tax the highest levels of wealth, it would be appropriate to establish a broad exempt bracket. In such a situation, many of the wealth tax considerations discussed in the previous section would become less relevant, such as the potential disincentives to savings and investment, and the negative effects on entrepreneurship. Also, a large exempt bracket would result in the tax being concentrated in a small number of high-net-worth taxpayers, which would facilitate management of the tax and control of evasion and avoidance.

OECD (2018) presents the exempt brackets for countries that have or have had net wealth taxes. The report notes that the current exempt brackets are larger than they have been in the past. In 2017, the exempt bracket was up to 1.3 million euros in France, 700,000 euros in Spain, 150,000 euros in Norway and 68,000 euros in Switzerland. In the region, in 2016 the exempt bracket was up to US\$ 987,000 in Colombia, US\$ 117,000 in Uruguay and US\$ 19,000 in Argentina (Benítez and Velayos, 2018).

### (c) Exemptions

The tax base should be as comprehensive as possible. Any asset that is exempt or subject to reduced rates opens up the possibility of avoidance, by diverting some of the wealth to the assets that receive preferential treatment. In addition, exemptions affect horizontal equity, since average tax rates will depend on the composition of an individual's assets and liabilities.

In countries that have abolished the wealth tax, such as Germany, France and Ireland, the lack of uniformity among the tax burdens imposed on different assets was a major constitutional issue and a significant factor behind the push for abolition (Chamberlain, 2020).

Although ideally there should be no exemptions, in practice some assets are often exempted, either on principle or for practical reasons. There are doubts over whether or not it is advisable to tax assets such as human capital, pension funds, family businesses, privately held companies, agricultural property, primary residences, works of art and antiques. Chamberlain (2020) provides a detailed analysis of each of these and the advisability of taxing them.

Human capital is one of the assets that can justifiably be exempted, not only because it is impossible to tax (in fact, no country has ever taxed it), but also because it does not meet the definition of property rights as commonly understood when defining wealth. For example, it is not transferable and it is not guaranteed to generate future profits.

Pension asset exemptions are justified on social grounds, because of the benefits from retirement income. When the tax reaches the richest, this argument loses its validity. Even so, it is difficult to justify individuals being taxed on this wealth if it is not currently under their control and if it is not possible for them to withdraw funds to pay the tax.

For family businesses and rights in companies that are not traded on open markets, there may be economic policy reasons for exemptions, such as encouraging entrepreneurship or developing certain economic activities. There may also be practical reasons, such as not harming new companies that are in a loss-making period, not exacerbating the liquidity problems of companies that are going through a bad patch, or asset valuation problems. All these reasons, with the exception of valuation difficulties, become less important when the tax is concentrated on a small number of wealthier taxpayers.

While some form of exemptions for family businesses and company rights have been common among countries that have or have had net wealth taxes, their use is not advisable and should be restricted to the minimum necessary. As noted in OECD (2018), these exemptions open up significant opportunities for avoidance, especially at the top of the income distribution, encouraging taxpayers to shield their wealth within the companies that receive special treatment.

With regard to primary residences, most countries grant exemptions or some preferential treatment. There are two reasons for this: to avoid taxing the middle class, whose main asset is their home, and to avoid taxing an asset that does not generate flows.

Lastly, as regards works of art and antiques, exemptions are primarily related to the difficulty of valuing them.

### 3. Valuation criteria

To have an adequate measurement of wealth as a capacity to pay and to ensure horizontal tax equity, the ideal situation is for all assets and liabilities to be valued at market price, meaning the price at which the asset or liability would change hands in a competitive market. However, this is complex to implement, especially for assets that are not frequently traded in markets. There will always be options for estimating market value, such as appraisals or the present value of future cash flows from the asset or liability. However, the benefits of these methodologies must be weighed against the cost of managing and enforcing them.

For immovable property, OECD countries have mostly used estimated market values and, to a lesser extent, real estate register or fiscal values (valuation of properties in public registers used for tax purposes) (OECD, 2018). The selection of one criterion or the other will depend on the quality of the real estate register values and the number of taxpayers liable for the tax. If there is a real estate register of reasonable quality, which is regularly updated, and the tax covers many taxpayers, the use of the value indicated in the register may be more appropriate. Accuracy is sacrificed, as the real estate register value is generally below the market value, but enforcement and inspection costs are lower. Conversely, if the tax is limited to a small number of high-net-worth taxpayers, it may be appropriate to opt for market value, supported by appraisal reports.

In the case of listed shares, it is best to take their respective quoted prices. It may be more appropriate to consider the average price over a period, for example, the last quarter, than to consider the closing price for the year. This prevents possible distortion by market overreactions to temporary situations, or by intervention of interested parties in prices in the case of shares with a low market presence.

For company rights and unlisted shares, the simplest method is to consider the holding in the book value of equity. In general, this would result in a valuation below market value, mainly because intangible assets are not well measured by accounting. This approach may be more appropriate for a tax that is more widely applied, in line with taxpayers' ability to estimate and the tax authority's ability to inspect.

More sophisticated alternatives could be chosen, allowing for a better estimation of market values. A good example is France, as described in OECD (2018) and Benítez and Velayos (2018). In that country, three methods have been applied for unlisted companies: mathematical value, which is the value after the revaluation of assets; the return value, obtained from the capitalization of distributed profits; and, a productivity value (enterprise value), which is obtained by capitalizing earnings per share. The final value is obtained through a combination of these three values.

For works of art and antiques, it may be appropriate to use the insured value or, in the absence of insurance policies, a value appraised by specialists.

Finally, in the case of movable property for personal use, it may be appropriate to define a simple arithmetic rule, which links its value to that of the immovable property that taxpayers have as their residence (Benítez and Velayos, 2018).

## 4. Rate structure

When setting net wealth tax rates, it is important to take into account the overall rate paid by taxpayers, including the applicable income tax rates. For example, assuming that the normal return on wealth is 5% per year, a 1% wealth tax is equivalent to a 20% tax on the flows from wealth. If, in addition, income tax has a top marginal rate of 40%, the overall tax burden would be around 60% of income generated by wealth.

Spain currently has a progressive sliding scale from 0.2% to 2.5% and is the country that applies the highest rate. Norway applies a flat rate of 0.85%. Switzerland also uses a sliding scale, from 0.03% to 1.09%.

If the aim is to tax wealthier individuals, one option is to combine a large exempt bracket with a flat rate.

## 5. Recurring or one-off taxes

Some countries have viewed wealth tax as a means of covering the costs of the COVID-19 crisis. In that case, the appropriate approach is to adopt a special one-off wealth tax.

In such circumstances, many of the difficulties of a recurring wealth tax do not exist. As mentioned in the previous section, as it is unexpected and it is credibly one-off, the tax will be economically efficient, since there is nothing taxpayers can do to avoid it. This requires that the tax be levied on wealth that individuals had before it was announced. The risk of capital flight and of taxpayers becoming tax exiles can be limited by ensuring it is credible that the tax is a one-off.

In this situation, it is also reasonable to set marginal rates that are higher than those normally set for recurring taxes.

## 6. Management of the tax

Management of any tax involves four macroprocesses: registration or identification of taxpayers, filing of returns, payment and review. All potential payers of net wealth tax are also potential payers of income tax; therefore, there are no exceptional circumstances in terms of identification and registration.

As for tax returns, as is the case for most levies, self-assessment should be applied; in other words, taxpayers are responsible for determining the tax base and the amount of tax due. The tax authority is responsible for determining the detail that will be required in the return and for providing the means to facilitate the procedure, such as digital tax return forms and guidance for valuation of certain assets; these may include systems for finding the real estate register value of immovable property or the market value of listed shares.

If the tax period is annual, the process for filing returns and paying should take place at the same time as the income tax process.

The deadline for payment should be established by law, and may be set according to the date of the tax return or may be deferred in the event of taxpayer illiquidity. Legal provisions should also stipulate the interest and penalties for late payment and the accepted forms of payment: in cash or in kind.

In the review stage, the tax authority must use all available information resources to verify compliance with the tax. The first step is to identify those who have not filed returns and urge them to fulfil their duty. For income tax inspections, many tax authorities have useful information they can draw on, such as the immovable property, shares, other interests in companies, automobiles, financial investments and other assets owned by taxpayers, based on existing records of property. The greatest weak point is perhaps foreign investments. International cooperation is vital in this area. Tax authorities should make use of the bilateral information exchange and automatic exchange of information agreements championed by the Global Forum on Transparency and Exchange of Information for Tax Purposes and the Base Erosion and Profit Shifting Project.

The most likely evasion risks among those filing returns are omission or underreporting of assets. If the tax authority receives extensive information from third parties, potential omissions of key assets can be detected. However, there will be difficulties with respect to assets such as works of art, antiques and movable property that do not appear in government records. The issue of undervaluation of assets for which there is no market information may be more complex, and this would create a space for disputes, which should be resolved through the traditional mechanisms provided for in the tax codes of each country.

## F. Concluding remarks

A successful transformative recovery in the region depends, to a large extent, on the ability to maintain expansionary fiscal policy, capable of linking the short-term need for funds to address the pandemic with the medium-term investments required to support creation of a new path of sustainable development. This fiscal strategy must be applied within a framework of sustainability, and to achieve this it is vital to strengthen tax collection progressively and effectively, to create the fiscal space needed to meet higher spending demands related to the pursuit of a transformative recovery that is focused on sustainable development.

At present, most of the region's tax systems do not generate enough fiscal resources to cover public spending needs and they are heavily dependent on indirect taxes, which limits their redistributive capacity. Recently, there has been renewed interest in the use of wealth taxes and other taxes on property, in the form of initiatives that seek to generate additional resources to cover the costs of the pandemic. However, in addition to their revenue potential, they could be an important tool for the countries of the region, to increase the redistributive capacity of tax systems.

As discussed in this chapter, for this type of tax to fulfil its aim, proper consideration must be given to design and implementation issues, such as vertical equity and redistribution, horizontal equity, savings, investment, tax compliance and the other challenges tax authorities may face.

Application of net wealth taxes should take into account, on a case-by-case basis, the extent to which they can contribute to improving the revenue adequacy and redistributive capacity of tax systems. This will depend in particular on tax authorities' capacity to supervise proper compliance by potential taxpayers. In this regard, it is important to assess the quality and quantity of information available to inspection agencies. The information is important for identifying taxable assets and for verifying that they have been correctly valued. In the case of immovable property, for example, it is essential to have a complete, good quality real estate register that is regularly updated.

It is also important to consider the revenue-raising potential of net wealth taxes. Theoretically, they can have very progressive designs, but in practice revenue has been limited in countries that have or have had such taxes. Historically, the OECD country that has collected the most from this tax is Switzerland, with an average of 0.8% of GDP over the last 18 years, followed by Norway with an average of close to 0.5% of GDP. In the region, Colombia has collected around 0.5% of GDP, but in Argentina and Uruguay the ratio is closer to 0.2% of GDP. Information exchange agreements between countries allow for better monitoring of foreign assets and therefore higher expected revenues.

It is also important to consider how this tax interacts with other taxes on property, such as immovable property tax and inheritance and gift tax, to ensure the design is coherent and does not result in double taxation of some assets or no taxation of others. It is important to consider property taxes as a whole, viewing the net wealth tax as a complement to other taxes that are levied on different characteristics of wealth. As previously discussed, when considered as a whole, taxes on property raise significant amounts and countries in the region can enhance both the design and control of these taxes. In a context of low tax revenues, tax structures that are progressive to a limited extent, growing inequality and a need to cover the costs of the pandemic, it is important to assess the scope of property and net wealth taxes, given their redistributive and revenue-raising potential.

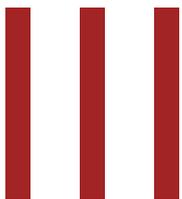
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CHAPTER



# Gender-responsive fiscal policy in Latin American countries

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## Introduction

- A. Background
- B. International and regional commitments on gender-responsive fiscal policy
- C. Gender-responsive tax policy
- D. Gender-responsive spending policy
- E. Conclusions and recommendations

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# Introduction

In recent years, it has been widely acknowledged that fiscal policy is not gender-neutral. This awareness has been reflected in several international commitments on women's rights that have put this issue at the heart of discussions on sustainable development and how to build public policy frameworks that promote gender equality. In terms of regional commitments, this linkage is explicitly established in the Montevideo Strategy for Implementation of the Regional Gender Agenda within the Sustainable Development Framework by 2030 (adopted in 2016), which, among the measures of pillar 5 on financing, establishes that fiscal policies (income, spending and investment), must be designed, implemented and evaluated from a gender equality and human rights perspective (ECLAC, 2017, p. 27), and in the Santiago Commitment, in which the governments of the countries of the region undertook to "implement gender-sensitive countercyclical policies, in order to mitigate the impact of economic crises and recessions on women's lives..." (ECLAC, 2020, p. 35).

The countries of Latin America and the Caribbean have made progress on these commitments to mainstream a gender perspective in fiscal policy, both in their regulatory frameworks and in the implementation of specific tax, spending and financing instruments.

With regard to tax instruments, in recent years there has begun to be some scrutiny of the explicit and implicit gender biases in the region's tax systems. Although there is still a lot of progress to be made on implementation of instruments that provide transparency on the gender-differentiated impact of taxes, it must be a priority to form an analytical foundation for the necessary reforms, to create tax systems that contribute to reducing gender inequalities, or to not deepening them.

With regard to public budgets, progress has been made at both the national and subnational levels. The countries of the region have evolved from ex post analysis of allocation of public resources to promote women's rights, to labelling and identifying gender-responsive spending in financial administration systems and, more recently, to mainstreaming gender in results-based budgeting programmes.

Similarly, there is still some way to go before gender-sensitive concerns are incorporated into financing, medium-term fiscal frameworks and countercyclical fiscal policies. This is particularly true given the socioeconomic repercussions of the coronavirus disease (COVID-19) pandemic. The aim is for the packages of fiscal measures that are implemented in the region to become an opportunity for transformative recovery, leaving no one behind.

## A. Background

Traditionally, different economic schools of thought have assigned fiscal policy the functions of stabilization, allocation and distribution (Musgrave, 2003), with its action focusing on application of tax and non-tax instruments to generate revenues to finance the provision of public goods and services by the State, as well as obtaining financing through public debt, in the event of deficits. Fiscal policy therefore reveals the economic and social priorities of governments, as it determines who will contribute to sustaining the economy, how much they will contribute, and to whom public goods and services will be provided (Coello and Fernández, 2013).

To understand the gender inequality implications of fiscal policy, one must begin with a clear understanding of the concept of "gender." The term "gender" —unlike the term "sex", which refers to the biological differences between men and women— refers to

“socially constructed identities, attributes and roles for women and men and society’s social and cultural meaning for these biological differences resulting in hierarchical relationships between women and men and in the distribution of power and rights favouring men and disadvantaging women” (United Nations, 2010, p. 2).

As indicated in United Nations (2010), “The discrimination of women based on sex and gender is inextricably linked with other factors that affect women, such as race, ethnicity, religion or belief, health, status, age, class, caste and sexual orientation and gender identity. Discrimination on the basis of sex or gender may affect women belonging to such groups to a different degree or in different ways to men” (p. 5). Furthermore, gender equality implies that the interests, needs and priorities of both women and men are taken into consideration when designing and implementing public policies, including fiscal policies, as well as the differentiated impacts of such policies on men and women (UN-Women, 2020).

Often, when fiscal policy decisions are designed and implemented, their outcomes are only analysed in relation to broad macroeconomic aggregates and, at best, their redistributive effect is assessed in terms of the general population. Very rarely does the design of fiscal policy take into account the gender-differentiated impact, given the socially constructed roles, responsibilities and opportunities assigned to men and women (Musgrave, 2003); even less consideration is given to how such policy might contribute to widening or closing gender gaps (Coello and Fernandez, 2013, p. 4). Although progress has been made in the area of analysing public expenditure that has an impact on gender equality, there are few studies that analyse the way in tax policy affects States’ capacity to mobilize resources to finance policies on gender equality and women’s autonomy.

Feminist economics has stressed the fundamental role of fiscal policy in the redistribution and reorganization of care work, which is key to social reproduction and directly contributes to generating wealth, well-being and quality of life. Therefore, egalitarian fiscal policy can be a key redistributive tool for transforming this situation and improving the distribution of resources between men and women (ECLAC, 2010a).

In this context, the aim of this chapter is to review and analyse the experiences of gender-responsive fiscal policies in Latin America. In addition to the introduction and background, the document includes four other sections. Section B reviews the main international and regional commitments made by the countries of the region in the area of fiscal policy and gender. Section C reviews the conceptual framework on tax policy and gender, and then examines the main studies that have been carried out in the region in this area. Section D provides a conceptual approach to gender-sensitive budgets and then offers a systematization of key experiences in the region. Lastly, section E presents conclusions and recommendations on fiscal policy in the region.

## **B. International and regional commitments on gender-responsive fiscal policy**

The governments of the region have signed and ratified international treaties and made commitments to recognize, protect and guarantee women’s human rights and promote gender equality. The main instruments that have fiscal policy implications are reviewed below.

- States Parties to the Convention on the Elimination of All Forms of Discrimination against Women are required to take all appropriate measures in the economic sphere to ensure the full development and advancement of

women (United Nations, 1979). While the Convention does not contain specific provisions on budgets, the Committee on the Elimination of Discrimination against Women, which monitors its implementation, has issued concluding observations and recommendations in which it suggests that budget policies and processes be gender-sensitive and take into account the principles and criteria of the Convention (Elson, 2006).

- The Declaration on the Elimination of Violence against Women stipulates that States shall include in government budgets adequate resources for their activities related to the elimination of violence against women (United Nations, 1994).
- The Beijing Declaration and Platform for Action, adopted at the Fourth World Conference on Women (1995), sets out, among the provisions and actions to be taken, the following:
  - “Analyse, from a gender perspective, policies and programmes - including those related to ... taxation ...” (United Nations, 1996, p. 20).
  - “Conduct reviews of national income and inheritance tax ... systems to eliminate any existing bias against women” (United Nations, 1996, p. 69).
  - “... the integration of a gender perspective in budgetary decisions on policies and programmes ...” (United Nations, 1996, p. 128).
  - “... adjust budgets to ensure equality of access to public sector expenditures ... and achieve the gender-related commitments made in other United Nations summits and conferences” (United Nations, 1996, p. 128).

In recent years there has been growing recognition of the gender biases in fiscal policy. This awareness has been embodied in the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs),<sup>1</sup> which have put the issue at the heart of discussions on sustainable development and on how to build public policy frameworks that promote gender equality. The 2030 Agenda highlights gender equality not only as a fundamental human right, but also as part of the foundation for a peaceful, prosperous and sustainable world. One of the targets for Goal 5 (achieve gender equality and empower all women and girls) is measured by indicator 5.c.1 “Proportion of countries with systems to track and make public allocations for gender equality and women’s empowerment”; in other words, countries can increase the visibility of progress in implementing the 2030 Agenda by incorporating gender-sensitive budgets. Additionally, the targets of Goal 17 (strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development) and Goal 10 (reduce inequality within and among countries) can contribute to the creation of forms of financing to advance towards Goal 5 (Bidegain, 2016).

At the regional level, this discussion has been promoted within the framework of the Regional Conference on Women in Latin America and the Caribbean.<sup>2</sup> In recent sessions of the Conference, in order to ensure there are sufficient resources to implement gender equality policies, the governments of the region have been moving towards formulation of commitments on gender-sensitive taxation and countercyclical fiscal policies, as can be seen in the following agreements:

- Ensure that fiscal policies combine criteria of effectiveness with criteria of equity, with emphasis on their redistributive and progressive function, and that they ensure the development of women (Brasilia Consensus (ECLAC, 2010b, paragraph 2.c)).

<sup>1</sup> See United Nations, “Sustainable Development Goals” [online] <https://www.un.org/sustainabledevelopment/>.

<sup>2</sup> See Economic Commission for Latin America and the Caribbean (ECLAC), “Regional Conference on Women in Latin America and the Caribbean” [online] <https://www.cepal.org/en/subsidiary-bodies/regional-conference-women-latin-america-and-caribbean>.

- Adopt measures to ensure that gender equity and equality criteria are applied in relation to the implementation of fiscal policies and that affirmative action is taken to prevent fiscal reforms from exacerbating poverty levels among women (Santo Domingo Consensus (ECLAC, 2013, paragraph 65)).
- Adopt budgets with gender as a cross-cutting factor in the allocation of public funds and ensure that sufficient, protected funding is provided in all policy areas to fulfil all the commitments made by States to achieve the goals of equality and social and economic justice for women (Santo Domingo Consensus (ECLAC, 2013, paragraph 113)).
- Design, implement and evaluate macroeconomic policies, particularly fiscal policies (income, spending and investment), from a gender equality and human rights perspective to safeguard the progress made and mobilize the maximum available resources. (Montevideo Strategy (ECLAC, 2017, measure 5.a)).
- Promote and adopt progressive fiscal policies and allocate budgets with a gender perspective to ensure sufficient, non-transferable, sustainable resources that cover all levels and areas of public policy aimed at reversing gender inequalities and guaranteeing women's rights (Montevideo Strategy (ECLAC, 2017, measure 5.c)).
- Carry out gender impact assessments of fiscal policies before and after implementation, to ensure that these policies do not have a negative effect, explicit or implicit, on gender equality, women's rights or autonomy, for example, increasing the unpaid and care workload or women's poverty rates (Montevideo Strategy (ECLAC, 2017, measure 5.g)).
- Ensure that fiscal adjustment measures or budget cuts aimed at addressing economic slowdowns are in line with the principles of human rights and non-discrimination, bearing in mind that these measures should be temporary and used exceptionally for the duration of the crisis, and should avoid worsening women's poverty rates, increasing their burden of unpaid and care work, and reducing financing and budgets for equality policies and machineries for the advancement of women. (Montevideo Strategy (ECLAC, 2017, measure 5.d)).
- Strengthen regional cooperation to combat tax evasion and avoidance and illicit financial flows, and improve tax collection from the wealthiest and highest-income groups by introducing corporate income, wealth and property taxes, among others, in order to have greater resources for gender equality policies (Montevideo Strategy (ECLAC, 2017, measure 5.h)).
- Implement gender-sensitive countercyclical policies, in order to mitigate the impact of economic crises and recessions on women's lives and promote regulatory frameworks and policies to galvanize the economy in key sectors, including the care economy (Santiago Commitment (ECLAC, 2020, paragraph 24)).
- Promote the adoption of legislation on labour and taxation in order to operate in a coordinated manner at the regional level, avoiding harmful competition among countries, in order to prevent taxation, wage-cutting and gender inequalities being used as adjustment variables to increase exports and attract investment (Santiago Commitment (ECLAC, 2020, paragraph 29)).

The region has thus made progress in establishing such forward-looking agreements, which link fiscal policy and countercyclical policies with the gender equality agenda.

## C. Gender-responsive tax policy

Most studies on the effects of tax policy have focused on analysing the distributional impact of taxes (Musgrave and Musgrave, 1973), which is to say how progressive or regressive they are. Few studies have taken a detailed look at the gender-differentiated impact of the tax system on in terms of labour and economic participation, the distribution of care responsibilities, access to economic assets and consumption patterns, given that taxes are levied on men and women based on whether they are consumers, workers, employees or owners of assets. Therefore, depending how and on whom the tax burden falls, and on its size, payment of taxes can have direct or indirect gender inequality effects (Grown and Valodia, 2010).

While a progressive tax system is not the same as a gender-responsive tax system, in general, a progressive tax system can be expected to be more sensitive to gender-differentiated impacts, while a regressive tax system would tend to worsen the living conditions of those with lower incomes and greater disadvantages, such as women, thus deepening economic inequality and welfare gaps (Coello, Itriago and Salamanca, 2014).

Tax systems are already gender-biased because they are designed in a context that mirrors prevailing social norms about the roles of men and women, which can in turn affect decisions about where and how much to work, as well as consumption patterns. These biases can be explicit or implicit (Stotsky, 1996):

- Explicit bias refers to the way in which tax laws identify and treat women and men differently. Explicit gender bias is generally easily detected, as it is usually written into the legal framework, although it may also be reflected in informal practices (Stotsky, 2005, p. 1).
- Implicit biases are those that occur when a tax law or regulation treats men and women in a similar way but produce an unequal impact or effect when applied (ECLAC, 2019). These biases are more difficult to identify, as this requires looking at the different ways in which the tax system affects men and women (see table III.1) (Coello and Fernández, 2013, p. 31).

**Table III.1**  
Reasons for implicit gender bias

Criterion	Implicit bias
Owing to different consumption patterns	An indirect tax on a product or producer is passed on to the end user through prices and affects men and women differently, because of their different consumption patterns, related to biological differences or caregiving roles; a tax levied on inputs for economic activities in which women account for the majority of the workforce; or a tax, on prices, that affects decision-making within the household.
Owing to the impact on employment in an economic sector	Direct or indirect taxes benefit or disadvantage certain sectors of economic activity that generate different employment for men and women.
Owing to the tax burden from basic goods and services	The impact of these taxes may be greater for women because they allocate a higher percentage of their income than men to purchases of goods and services for family consumption, following the socially assigned role of responsibility for care.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of R. Coello and S. Fernández, "Política fiscal y equidad de género en Bolivia: análisis y propuesta para la construcción del Pacto Fiscal hacia el Vivir Bien", La Paz, United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), 2013.

Explicit and implicit gender biases can coexist in the same tax system, and it is not easy to categorize them as beneficial or harmful in isolation. According to Stotsky (2005), this assessment should be done in terms of the social and economic behaviour that is considered appropriate or that one wishes to promote.

Generally, explicit biases are present in personal taxes that allow for differentiation between men and women, such as personal income tax, whose explicit discrimination generally appears depending on: (i) whether the tax return is filed individually or jointly; (ii) how non-labour income or income from different sources is allocated; and (iii) the tax allowances that may be applied for different reasons, such as family responsibilities (children or spouses), or deductions for certain expenses related to the care or maintenance of the household (such as food, health and education).

Table III.2 lists the forms of explicit gender bias found in personal income tax, depending on whether the return is filed individually or jointly. De Villota (2008) states that joint taxation, in any of its forms, has a detrimental effect on secondary earners within families, which can influence their decisions on whether to remain in the labour market or to increase their participation in it. In addition, a comparison of the discriminatory effect of each system on secondary earners shows that cumulative taxation is the most detrimental, followed by splitting income between spouses and, lastly, splitting income among the entire family (De Villota, 2008) (see table III.3).

**Table III.2**  
Forms of explicit gender bias in personal income tax

Individual tax returns	Joint tax returns
Rules governing the attribution of shared income, such as non-labour income or income from a family business.	Responsibility for compliance with tax regulations. This situation arises when the regulation stipulates that it is the man who must file the income tax return; if the woman wishes to file separately, she must meet several requirements to prove that she has independent income.
Allocation of tax relief (exemptions, deductions, reduced rates, tax credits or deferrals) or requirements to receive tax relief; this may include deductions from the tax base for a dependent child or for expenses related to the care economy.	Allocation of tax relief in relation to expenses incurred by the dependent spouse, who is normally the wife. This situation also occurs because women are the ones who receive secondary income or do not reach the minimum taxable income.
Establishment of different tax rates for types of income; for example, when one tax rate is set for labour income and another for income from financial returns.	

Source: J. Stotsky, *Sesgos de género en los sistemas tributarios*, Madrid, Institute for Fiscal Studies (IFS), 2005.

**Table III.3**  
Forms of explicit gender bias in jointly filed personal income tax returns

Types of joint tax returns	Explicit gender bias
Cumulative family taxation	The sum of the income of all family members is subject to the same tax scale as for single persons.
Family coefficient	The total income of the family unit is split according to a coefficient based on the number of family members. This system benefits people who are married and have children, because have a higher coefficient than those who are single and have no children.
Splitting between spouses	The total income of the family unit is split between the two spouses. This system is discriminatory with respect to the lower-income earner, because the higher-income spouse will benefit from a reduction in the tax base, to the detriment of the lower-income earner, whose base will increase, although as a family unit they could apply a lower tax rate than if the tax return were individual. In addition, there is discrimination in favour of households in which there is only one income earner.
Different tax options	This allows taxpayers in single-parent or two-parent families to opt for individual or joint family tax returns.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of P. De Villota, "La penalización fiscal a la inserción laboral de las mujeres casadas en la Unión Europea", Madrid, Complutense University of Madrid, 2008.

As previously mentioned, a second type of explicit gender bias in personal income tax relates to the attribution of non-labour income to either spouse. Attribution of non-labour income varies according to each tax code. In some cases, such income is attributed to the spouse with the higher income, in others it is distributed equally between spouses, or the couple is allowed to decide on its attribution, or it is attributed to the spouse who owns an income-generating asset such as, for example, real estate (Rossignolo, 2018).

In some tax codes from the English common law tradition, all non-labour income is attributed to the husband, which constitutes a gender bias, even if in practical terms it does not “penalize” women. In contrast, the civil law tradition most widely applied in Latin America and the Caribbean considers this non-labour income to be the property of both spouses or community property (Stotsky, 2005).

The third explicit gender bias occurs in the tax expenditure applicable to personal income tax when there are deductible expenses related to care management or to economically dependent individuals, older persons or persons with some degree of disability in the household (Stotsky, 2005).

Implicit biases in direct taxation may originate from tax relief for male-dominated economic sectors or from higher taxes discouraging secondary earners in the household, who are usually women, from entering or remaining in the labour market.

Because indirect taxes are not personal, explicit gender bias is rarely found. Consumption taxes such as value added tax (VAT), foreign trade taxes or other specific taxes on consumption do not tend to have explicit gender biases, but implicit biases can be detected. Stotsky (1996, 2005) argues that differential treatment in the case of indirect taxes on products that are consumed more by either men or women is a breach of the horizontal equity principle. However, other authors consider it justifiable to apply a lower rate of tax to goods that are of value to society or related to basic necessities than for goods that are not. Therefore, if the goods consumed mainly by men or by women are of value to society or are linked to basic necessities, or both, setting lower tax rates would not violate the principle of gender equality; in fact, this would apply the principle of vertical equity, which aims to ensure that people in different situations are treated in appropriately different ways (Rossignolo, 2018, p. 180).

Also, the implicit bias is more evident in indirect taxes on goods for which demand is highly inelastic (such as excise on alcoholic beverages and tobacco) than in broad-based consumption taxes such as VAT. An increase in VAT could affect a family budget, displacing consumption of products that are vital for household maintenance or care, which would have greater repercussions for women, who would see their unpaid workload increase as they would have no way of accessing substitute goods. Therefore, implicit biases come largely from gender-differentiated consumption of certain goods or services in the family basket or from the effect of substitution of goods subject to indirect taxes, or arise because it is impossible to use tax credit, mainly in the case of women, because they work to a greater extent in the informal sector (Ávila and Lamprea-Barragán, 2020).

In view of this, mainstreaming gender in taxation does not necessarily mean creating tax instruments that are specific to men and women, but rather identifying such biases in the tax system, in order to eliminate them and promote non-discrimination on the basis of gender in taxation.

## 1. Gender biases in direct taxation in Latin America

Explicit gender biases in direct taxation arise from joint taxation, differential treatment by income source, tax allowances and the different relative share of women and men in different occupational categories.

In most Latin American countries, overall income tax returns are filed individually, which avoids the explicit bias of joint filing. The exception is the Dominican Republic, where taxation is joint by default, unless it is proven that the woman has income of her own (Rodríguez and Itriago, 2019).

According to Rossignolo (2018), in Argentina the taxation regime, although individual, ends up being a hybrid system in practice. There are provisions whereby spouses are subject to a type of joint taxation because various exemptions allocate certain sources of joint income, such as profits related to commonly owned property, to the male partner. Argentina's system also has other biases related to the type of taxpayers and their differentiated treatment with respect to thresholds and deductions. Income from individuals' personal work is liable for income tax once it exceeds the threshold, whereas financial income (generally flowing to high-income male earners) is not. Similarly, households with children bear the greatest direct tax burden, especially those headed by men and dual earners.

The study conducted by Coello and Fernández (2013) on the Plurinational State of Bolivia notes that the Regime Complementary to the Value Added Tax is the only income tax on wage earners existing in the tax system. Although there is no explicit gender bias, the implicit bias is evident in the existence of a single rate (13%)—whose impact is greater in the case of women, who tend to have a lower income than men—, a low non-taxable threshold that does not cover the cost of the basic food basket, and the lack of consideration of care responsibilities of wage earners, which generally fall to women. The authors also point out that taxpayers can deduct the total tax incurred upon submission of invoices for VAT paid on any product or service, including luxury goods. This steepens the implicit bias of the Regime Complementary to the Value Added Tax, because there are no deductions or additional credits applying to the provision of care goods and services, which are purchased mostly by women.

In research conducted on Colombia, Arenas (2018) found that the tax on individuals' labour income has an explicit bias in favour of women, by treating indemnities relating to maternity protection as tax-exempt income. However, income from pension fund benefits is also tax-exempt, which ends up benefiting more men, who are overrepresented in the coverage of the contributory pension scheme, because the share of male pensioners is significantly higher than that of female pensioners, notwithstanding the fact that the coverage of the pension scheme is low in relation to the total population.

The study on Ecuador by Almeida (2018) found that, in the case of a family business, the overall income tax on natural persons has implicit gender biases because the return must be filed by the spouse who manages the business, which is usually the man. On the other hand, the existence of deductions for expenses related to minor children and persons with disabilities improves vertical equity and has a positive impact in the case of women; nevertheless, the exemption of financial income and capital gains favours only the richest decile of the population and those taxpayers who are able to save and invest, which excludes the majority of women.

In the case of Guatemala, Rodríguez and Itriago (2019) identified implicit gender biases in income tax, since self-employed individuals engaged in gainful activities, who are mostly women, pay an effective income tax rate of 5.0%, higher than that paid by wage workers (2.6%) and firms (2.5%).

With regard to tax expenditure on personal income tax with a positive gender impact, Ecuador, Honduras, Nicaragua the Plurinational State of Bolivia and Uruguay have deductions from the tax base for expenses related to care responsibilities (food, health and education, among others) for dependants or persons with disabilities, thereby recognizing to some extent the burden of unpaid work. In order to claim these deductions, however, expenses must be supported by invoices, which can lead to an burden of red tape that is excessive or difficult for women to comply with, given the limited tax culture existing in most countries in the region.



Some countries provide tax deductions where there are minor children or children with disabilities, as in Argentina, Ecuador and Uruguay, which could constitute a positive gender bias. However, these types of tax breaks, which can be applied by either spouse on the basis of family dependency, may also discourage women's labour market participation and confer a type of discrimination against single-parent households, which are usually headed by women. Women's labour participation may be discouraged because they generally work in low-wage sectors providing income that falls short of the tax threshold and therefore cannot make use of these care-economy-related tax allowances, so that the tax burden on the household as a whole is increased. Argentina is an interesting case, as it allows tax deductions for the hiring of domestic workers and care services for the sick or those with special needs not covered by the State. While this tax break could provide an incentive to hire domestic workers, increasing their employability, it could also be regressive if the benefits accrue mainly to higher-income employers who can afford to pay for domestic work.

According to Morales and Rodríguez (2019), Costa Rica's Income Tax Act allows for a reduction for each child and for the spouse, which could be viewed as an explicit positive bias inasmuch as it acknowledges care work. However, the law does not place a limitation on the deduction for children when parents are separated, and since it is more common for women to assume parental responsibility for children, this may allow men to claim tax credits for children they are not caring for. With respect to spousal credit, it can be deducted in its entirety only by one of the spouses when both of them work. Accordingly, a wife entering the labour market could be prevented from using this credit if it is already claimed by her husband.

In their study on the Plurinational State of Bolivia, Coello and Fernández (2013) state that investment in maintaining the sustainability of life and care must be treated as an expenditure that is necessary to produce the income being taxed. This expenditure should therefore be discounted in recognition of the fact that people must invest in care in order to produce.

Table III.4 presents the main gender biases identified in personal income taxation in Latin America.

Meanwhile, in corporate income tax, explicit gender biases were found in relation to tax breaks that have been created for policy aims such as boosting a particular economic sector, stimulating employment or, occasionally, for social purposes.

In Argentina<sup>3</sup> and Guatemala,<sup>4</sup> income tax deductions have been established for companies that provide support to their employees to cover the costs of facilities providing care for children or older persons.

The study by Almeida and Escobedo (2018) on Guatemala notes that companies can treat as income-tax-deductible expenditures related to establishing or compensating their employees for care centres for children or older persons. This could facilitate use of the care services of such establishments and thus free up women's time and options to participate in the labour market and gain economic autonomy.

In general, tax expenditures need to be reviewed and targeted, because they have led to an erosion of the tax base and a reduction in government revenues in pursuit of a public policy objective that could be achieved by other means through budgetary spending. In addition, few countries conduct cost-benefit analyses of such expenditures, which are not time-bound and may often lend themselves to tax avoidance practices.

<sup>3</sup> See Ministry of Justice and Human Rights (1997), art. 87, para. g.

<sup>4</sup> See Congress of the Republic of Guatemala (2012), art. 21, para. 9.

**Table III.4**  
Latin America (12 countries): gender bias in personal income taxation

Country	Gender-differentiated regulatory treatment	Filing	Differentiated treatment by type of income	Gender-related tax expenditure	Source
Argentina	No	Individual	Income derived from marital property must be recorded on the husband's tax return (Rossignolo, 2018).	Personal income tax deductions for the hiring of domestic workers and care services for the sick or those with special needs not covered by the State. Individuals shall be entitled to make deductions from their net earnings for family burdens (spouse, children, stepchildren under 18 years of age or not able to work) (Ministry of Justice and Human Rights, 1997).	Rossignolo (2018) Rodríguez and Itriago (2019) Ministry of Justice and Human Rights (1997)
Bolivia (Plurinational State of)	No	Individual		Deduction of all invoices for the purchase of goods and services.	Coello and Fernández (2013)
Chile	No	Individual	First category: capital income. Second category: labour income. Complementary: income of resident individuals. Additional: income of non-resident individuals or legal entities.	Discounts for: - Contributions to pension funds and health insurance - Funds deposited in voluntary pension savings - Interest paid on mortgage-backed loans	Rodríguez, (2010)
Colombia	No	Individual		Exemption for indemnities relating to maternity protection. Exemption for benefits flowing from a pension fund.	Arenas (2018)
Costa Rica	No	Individual		Bias in the application of child and spousal tax credits.	Morales and Rodríguez (2019)
Dominican Republic	Yes	Joint by default, unless it proven that the woman has her own income.	Greater burden on individuals in a relationship of dependence.		Rodríguez and Itriago (2019)
Ecuador	No	Individual	The income tax return from a family business must be filed by the managing spouse.	Personal expense deduction for dependent children or children with disabilities for individuals earning up to US\$ 100,000.	Almeida (2018)
El Salvador	No	Individual			Ávila and Lamprea-Barragán (2020)
Guatemala	No	Individual	Higher burden for self-employed workers engaged in gainful activities.		Rodríguez and Itriago (2019)
Honduras	No	Individual		Deduction of expenditures on education expenses and doctor's fees of the taxpayer or his or her dependants without presenting proof, up to 40,000 lempiras.	Rodríguez and Itriago (2019)
Nicaragua	No	Individual		Deduction of expenses for education, health and other services.	Estrada Alonzo (2017)
Uruguay	No	Individual; joint taxation is optional	Dual system: Category I: income from capital. Category II: income from work.	Deductions for expenditure on education, food, housing and health for minor children or children with disabilities.	DGI (2007)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of D. Rossignolo, "Gender equity in the Argentine tax system: an estimation of tax burdens by household type", *CEPAL Review*, No. 124 (LC/PUB.2018/5-P), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2018; Ministry of Justice and Human Rights, *Ley de Impuesto a las Ganancias*, Buenos Aires, 1997; C. Rodríguez and D. Itriago, "¿Tienen los impuestos alguna influencia en las desigualdades entre hombres y mujeres? Análisis de los códigos tributarios de Guatemala, Honduras y República Dominicana desde una perspectiva de género, para hacer de la política tributaria un instrumento que limite las desigualdades entre hombres y mujeres", *Informes de Investigación de Oxfam*, Santo Domingo, Oxfam International, 2019; R. Coello and S. Fernández (2013), "Política fiscal y equidad de género en Bolivia: análisis y propuesta para la construcción del Pacto Fiscal hacia el Vivir Bien", La Paz, United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), 2013; A. Arenas, "Política tributaria y sesgos de género: aproximaciones al caso colombiano", *Análisis*, No. 5/2018, Bogotá, Friedrich-Ebert-Stiftung (FES), 2018; C. Rodríguez, "Transferencias fiscales e imposición a la renta personal en Chile: un análisis de sus implicaciones para la equidad de género", *Fiscalidad y equidad de género*, Documento de Trabajo No. 43, M. Pazos Morán and M. Rodríguez, Madrid, Fundación Carolina, 2010; R. Morales and F. Rodríguez, "Tributación para la equidad de género en Costa Rica", *Análisis*, No. 9/2019, San José, Friedrich-Ebert-Stiftung (FES), 2019; M. Almeida, "Estado de la tributación para la equidad de género en Ecuador", *Análisis*, No. 1/2018, Bogotá, Friedrich-Ebert-Stiftung (FES), 2018; J. Ávila and T. Lamprea-Barragán, "Sesgos de género del impuesto al valor agregado en Colombia", Bogotá, Friedrich-Ebert-Stiftung (FES), 2020; M. Estrada Alonzo, "Nicaragua: ¿existen sesgos de género en la fiscalidad?", *América Latina en Movimiento*, No. 522, March 2017; General Tax Directorate, "Decreto N° 148/007", Montevideo, 2007.

## 2. Gender biases in indirect taxation in Latin America

In general, indirect taxes do not exhibit explicit gender biases, but they can contain implicit biases arising from the nature of the tax itself. Indirect taxes are levied on economic activities regardless of people's ability to pay, which means that those in the poorest quintiles of the population must spend a higher proportion of their income on these taxes. Given that women are overrepresented among the lowest income earners, such taxes carry an implicit gender bias via monetary or income poverty (ECLAC, 2019).

The main implicit gender biases are related to the differentiated tax burden resulting from men's and women's consumption patterns. This may be seen in the case of Ecuador, where the study by Campuzano and Palacios (2009) showed that women's coefficient of marginal propensity to consume (0.41 of their income) is higher than men's (0.13 of their income). This outcome regarding marginal propensity to consume implies that an increase in the VAT rate would raise women's relative tax burden if their consumption patterns do not change. This is in addition to a negative correlation between a change in the VAT rate and the consumption of household services; that is, an increase in the VAT tax rate tends to lead to a reduction by women and men of expenditures on household services, which increases the burden of unpaid work.

In Argentina, the study by Rossignolo (2018) found that the burden of indirect taxes<sup>5</sup> comes to 14.8% of income and that the highest burden of these taxes occurs in households where women are the main income earners (16.2%), because these households are concentrated lower in the income distribution than male-headed or dual earner households.

In Colombia, the Gender and Economic Justice Group denounced inequitable treatment in the VAT on sanitary napkins and similar products, which led to the Constitutional Court ordering in 2018 that these products should not be liable for VAT, thereby eliminating a biologically motivated bias in indirect taxation. It is important to remark that this measure, with an explicit bias, corrected the implicit gender bias that existed in VAT. Ávila and Lamprea-Barragán (2020) found that VAT has two implicit biases against women: one of poverty and one of care. Women bear a higher tax burden as they are overrepresented in the poorest households and spend a higher fraction of their income on consumption. It was also found that female-headed households bear an effective VAT rate equivalent to 4.5% of their income, which is not significantly different from that of male-headed households (4.4%), thanks to a large number of tax breaks. However, tax reforms seeking to eliminate this tax expenditure would ultimately reduce this relative neutrality and would affect women the most.

A study by Figueroa and Peña (2018) on the implications of a potential increase in VAT or in sales tax in El Salvador, Guatemala and Honduras from 13% to 15% showed that this could lead to a rise in poverty levels, especially for female-headed households.

Most countries have in place different types of tax expenditures related to basic food basket products aimed at reducing to some extent the regressive effects of general taxes, such as VAT, on the poorest households. Since the consumption of these products is associated with the care economy, such tax expenditures certainly favour women. Conversely, women are the most affected in the absence of this sort of tax treatment (or when the rate of general taxes is increased), as they tend to take on a greater unpaid work burden—for example, by forgoing the use of care facilities or assistance with household chores—rather than consume less of these goods, which are essential for their families.

<sup>5</sup> Includes VAT, excise duties, fuel tax and provincial turnover taxes.

In Costa Rica and Ecuador, services for childcare, such as day-care centres, and care centres for older persons are exempt from VAT, which increases women's chances of entering the labour market by covering the care of their dependants and reducing their unpaid work burden.

For the Plurinational State of Bolivia, the study by Coello and Fernández (2013) found implicit gender biases in VAT due to the non-existence of tax benefits for goods and services that are essential for the support and care of the household, to which women devote a higher percentage of their income. In addition, women already bear a higher VAT tax burden, as they are overrepresented in the lowest income deciles. What is more, Paz (2018) notes that VAT-exempt activities favour sectors in which labour participation is higher for men than for women, such as quarrying, hotels and restaurants,<sup>6</sup> overland freight transport, and financial intermediation.

Álvarez (2019) found similar results in the case of El Salvador, where women's ability to pay was affected when the tax exemptions established in the 1992 Consumer Protection Act were repealed for beans, white maize, rice, fresh fruits and vegetables, liquid and powdered milk, medicines, drugs and pharmaceutical specialties and medicinal products for human use, as well as raw materials for the production of these products.

Table III.5 offers a systematization of the gender biases identified in indirect taxes in nine Latin American countries.

Table III.5  
Latin America (9 countries): gender bias in indirect taxation

Country	Tax	Tax expenditure	Gender impact	Source
Bolivia (Plurinational State of)	Value added tax (VAT)	Quarrying, hotels and restaurants, overland freight transport and financial intermediation, sectors where men have a higher labour force participation, are exempt.	Negative	Paz (2018)
Chile	VAT	Educational establishments, health services and passenger transportation are exempt from VAT.	Positive	SII (2019)
Colombia	VAT	Exemption for sanitary napkins and similar products.	Positive	Ávila and Lamprea-Barragán (2020)
Costa Rica	VAT	Exemption for childcare centres and other care centres authorized by the Ministry of Health.	Positive	Morales and Rodríguez (2019)
Dominican Republic	Tax on Transfers of Industrialized Goods and Services (ITBIS)	Minimum rate of 16% on yoghurt, sugar, coffee, chocolate, oil, butter, margarine and other edible fats.	Positive	Ministry of Finance (2018)
Ecuador	VAT	0% rate for products related to food, health, housing, transportation, utilities, childcare centres and residences for older persons.	Positive	Almeida (2018)
El Salvador	VAT	Repeal of all exemptions related to food and medicines.	Negative	Álvarez (2019)
Guatemala	VAT	Exemption of food, health and education expenditures.	Positive	Almeida and Escobedo (2018)
Honduras	Sales tax	Exemption of goods in the basic food basket, medicines and basic household services, among others.	Positive	Rodríguez and Itriago (2019)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of V. Paz, "Brechas de género y política tributaria en Bolivia: apuntes para un debate", *Análisis*, No. 3/2018, La Paz, Friedrich-Ebert-Stiftung (FES), 2018; Internal Revenue Service, "Gasto tributario 2018 a 2020", Santiago, 2019; J. Ávila and T. Lamprea-Barragán, "Sesgos de género del impuesto al valor agregado en Colombia", Bogotá, Friedrich-Ebert-Stiftung (FES), 2020; R. Morales and F. Rodríguez, "Tributación para la equidad de género en Costa Rica", *Análisis*, No. 9/2019, San José, Friedrich-Ebert-Stiftung (FES), 2019; M. Almeida, "Estado de la tributación para la equidad de género en Ecuador", *Análisis*, No. 1/2018, Bogotá, Friedrich-Ebert-Stiftung (FES), 2018; I. Álvarez, "Aportes para el debate sobre la tributación para la equidad de género en El Salvador", *Análisis*, No. 6/2019, San Salvador, Friedrich-Ebert-Stiftung (FES), 2019; M. Almeida and S. Escobedo, "Diagnóstico de tributación y género en Guatemala", Guatemala City, United States Agency for International Development (USAID), 2018; C. Rodríguez and D. Itriago, "¿Tienen los impuestos alguna influencia en las desigualdades entre hombres y mujeres? Análisis de los códigos tributarios de Guatemala, Honduras y República Dominicana desde una perspectiva de género, para hacer de la política tributaria un instrumento que limite las desigualdades entre hombres y mujeres", *Informes de Investigación de Oxfam*, Santo Domingo, Oxfam International, 2019; Ministry of Finance, "Gastos tributarios en República Dominicana: estimación para el Presupuesto General del Estado del año 2018", Santo Domingo, 2018.

<sup>6</sup> There is a high concentration of female employment in the tourism sector, but women are underrepresented in senior positions.

## D. Gender-responsive spending policy

The main expenditure-side instrument of fiscal policy is the public budget. Public expenditures in a public budget may benefit or affect different social groups differently; even within each social group, the benefits may vary in a given income group. In this framework, the public budget is not gender-neutral, but has a differentiated impact on men and women owing to unequal access to opportunities and the roles that have been socially assigned to them in a society.

Consequently, gender-sensitive budgeting is not a breakdown of public spending or a separate budget for men and women, but a public policy tool that takes into account the different needs, rights and obligations of women and men; considers the differentiated impact of spending on women and men; considers the social and economic roles assigned to women and men; and seeks solutions to reduce inequalities. Nor does it necessarily imply an increase in public spending, but rather orients it towards a more effective use of existing resources to reduce gender inequalities and social inequities and thereby improve the quality of spending in the public administration (INMUJERES/UN-Women, 2014).

Gender-responsive budgets can contribute to the implementation of actions in favour of women, as well as actions that directly affect them, as in the case of policies for reconciling family and work life or equal opportunities and public procurement. Many of the investments envisaged in the budget are in sectors where the workforce is traditionally male; sometimes transfer or grant programmes are implemented with conditionalities that tend to entrench women's reproductive and caregiving role and, in many cases, end up discouraging them from the labour market and, therefore, reducing their economic autonomy.

In practice, gender-sensitive budgeting refers to methodologies, tools and processes that help to mainstream gender throughout the budget cycle, depending on the objectives of each initiative. In general, gender-sensitive budgets have as their main objectives:

- Making spending allocations more transparent and tracking them for effective implementation of gender policies.
- Improving the quality of spending to promote gender equality.
- Analysing the impact of budgets on gender gaps.

In recent decades, several Latin American countries have taken action to incorporate and institutionalize gender-sensitive budgeting initiatives in their budget systems. The foremost of these include: (i) the incorporation of the gender budgeting approach in the regulatory frameworks that govern the public budget process; (ii) the creation of gender-sensitive programme budget structures; (iii) the creation of gender budget categories or classifiers; (iv) inclusive public procurement; and (v) monitoring, evaluation and accountability reporting on gender-sensitive budget execution (Coello, 2015).

### 1. Legal mandates for gender-sensitive budgeting

In an effort to institutionalize gender-sensitive budgeting, some countries have introduced mandates to that effect in their legal frameworks governing the budget process, thereby rendering it more than a voluntary undertaking in response to feminist groups and international organizations or at the discretion of a given governmental authority.

In countries such as El Salvador, Nicaragua and Peru, the legal mandates for gender-responsive budgeting are rooted in laws on women's rights; in others, such as Ecuador, Guatemala and, once again, Peru, they have been introduced in the laws on budgeting processes. At the subnational level, this approach was adopted by the Plurinational State of Bolivia for application in territorial entities under the Framework Law on Autonomies and Decentralization; most recently, in January 2021, the State of Guanajuato, Mexico amended its law on the exercise and control of public resources for the State and municipalities of Guanajuato (Secretariat of Finance, Investment and Administration of the State of Guanajuato, 2021).

The mandates and instruments for mainstreaming gender-sensitive budgeting are varied. Some examples are the mandatory inclusion of the gender perspective in planning (Ecuador, Guatemala, Honduras and the State of Guanajuato); the formulation of budgetary programmes and projects (Honduras, Nicaragua, Plurinational State of Bolivia and the State of Guanajuato); the inclusion of budget categories or classifiers (Guatemala, Peru and Plurinational State of Bolivia); earmarking predetermined percentages of the budget (Plurinational State of Bolivia); the creation of gender-specific annexes to budget proposals (Ecuador and the State of Guanajuato); non-modification of allocated budgets during budget execution (El Salvador and Mexico); or the incorporation of the gender perspective in budget evaluation processes (Peru and the State of Guanajuato) (see table III.6).

Mexico is among the countries that have made the most progress in this area. Its Federal Budget and Treasury Responsibility Act (INDESOL, 2006) sets forth the following mandates:

- Federal public resources must be administered based on gender equality, among other criteria.
- The programmatic structure must contain actions to promote equality between women and men and the eradication of gender violence and all forms of gender discrimination.
- The draft expenditure budget shall be presented and adopted on the basis of gender classifiers and other classifiers.
- The draft expenditure budget will contain estimates corresponding to the expenditures for achieving equality between women and men, as well as a cross-cutting annex on gender equality.
- No cuts may be made to budgetary programmes for gender equality, except with the consent of the Chamber of Deputies.
- With regard to subsidies, care should be taken to ensure that the distribution, operation and administration mechanism grants equal access to all social groups and genders.
- The quarterly reports and the Federal Treasury Accounts that local government bodies must submit to the federal government must include information on the differentiated impact of federal contribution funds on women and men.
- The performance evaluation system must incorporate specific indicators to assess the impact of budget programmes on gender equality and on the eradication of gender-based violence and all forms of gender discrimination.



**Table III.6**  
Latin America (8 countries) and the State of Guanajuato: experiences in mainstreaming gender-sensitive budgeting in legal frameworks

Country or state	Legal framework	Description
Bolivia (Plurinational State of)	"Andrés Ibáñez" Framework Law on Autonomies and Decentralization (Plurinational Legislative Assembly, 2010).	Autonomous territorial entities are to formulate and implement policies and budgets to achieve gender equality. The budget process in self-governing territorial entities must include gender categories. Multi-year programmes and budgets, operational programmes and annual budgets must include policies, programmes and projects for investment in social and gender equality. Departmental autonomous governments may allocate up to 5% of intergovernmental transfers to non-recurrent gender equality programmes.
Ecuador	Organic Code of Planning and Public Finances	The Code makes it mandatory to incorporate the gender perspective in planning exercises and in the definition of public actions; it also establishes the obligation to include annexes on closing equality gaps, including gender equality, in the pro forma budget to be submitted to the National Assembly.
El Salvador	Act for Equality, Equity and Eradication of Discrimination against Women (Legislative Assembly, 2011)	The Act stipulates that gender-responsive budgeting should take into account the different needs of women and men, in order to promote equality and equitable actions that make the government's commitments to equity and equality a reality.
Honduras	General Approved Budget of Revenue and Expenditure of the Republic (Secretariat of Finance, 2020)	It provides for the inclusion of products and activities or works with budgetary allocations for measures to achieve gender equality, as well as the generation of information disaggregated by gender from programmes, projects, services and activities carried out by public entities.
Guatemala	Organic Law on the Budget (Congress of the Republic of Guatemala, 1997)	Public budgets must be drawn up within the framework of the strategy for economic and social development (Congress of the Republic of Guatemala, 1997), which encompasses the human rights of Mayan, Garifuna, Xinka and mestizo women (SEPREM, 2019). The Ministry of Public Finance, through the Technical Directorate for the Budget, must include gender-based budget classifiers in the Integrated Accounting System (SICOIN). The Ministry of Public Finance is the body responsible for determining which elements in the existing budgetary structures are related to the subjects bound by this Law, so as to ensure compliance with gender-equality requirements (Congress of the Republic of Guatemala, 1997).
	Regulations for the Organic Law on the Budget (Office of the President of the Republic of Guatemala, 2013).	In addition to the financial and physical information required by the Integrated System of Financial Administration, entities must report on objectives, goals and beneficiary population by gender, ethnicity, age and geographic location, as well as obstacles encountered and results achieved.
Mexico	Federal Budget and Treasury Responsibility Act (INDESOL, 2006)	The Act contains a set of mandates for mainstreaming gender throughout the budget process: for example, the inclusion of gender in the programmatic structures, a gender classifier, a cross-cutting gender-related annex in the draft budget, and performance evaluation with gender indicators, among other things.
Nicaragua	Law on equality of rights and opportunities (Office of the President of the Republic of Nicaragua, 2008)	The branches of the State, national administrative bodies and regional and municipal entities have a duty to include gender equality measures in the formulation of their budgets and in their programmes, plans and projects. The National Assembly of Nicaragua will make the necessary efforts to ensure the adoption of a gender-responsive general budget.
Peru	Equal Opportunities for Women and Men Act (Congress of the Republic of Peru, 2007)	The Ministry of Economy and Finance shall align the activities covered by the Act with the functional classifier for programmatic areas to include equal opportunities for women and men.
	Law on the national budgeting system (Congress of the Republic of Peru, 2004)	As part of the budgetary assessment of the execution of the public sector budget, public entities shall incorporate the impact on gender equality policies in the analysis. The Executive Branch will determine, on a gradual basis, the public entities and the programmes, activities and projects to include this impact assessment in their budget evaluation.
State of Guanajuato, Mexico	Law on the exercise and control of public resources for the State and municipalities of Guanajuato (Secretariat of Finance, Investment and Administration of the State of Guanajuato, 2021)	It incorporates the concepts of cross-cutting annexes and quarterly reporting and establishes that the content of the programme structure must include gender actions and that quarterly reports on gender actions must be submitted.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Plurinational Legislative Assembly, *Ley Marco de Autonomías y Descentralización "Andrés Ibáñez"*, La Paz, 2010; Legislative Assembly, *Ley de Igualdad, Equidad y Erradicación de la Discriminación contra las Mujeres*, San Salvador, 2011; Secretariat of Finance, *Presupuesto Aprobado General de Ingresos y Egresos de la República: Ejercicio Fiscal 2020*, Tegucigalpa, 2020; Congress of the Republic of Guatemala, *Ley Orgánica del Presupuesto*, Guatemala City, 1997; Presidential Secretariat for Women, *Informe de Avances del Clasificador Presupuestario con Enfoque de Género: período de enero a diciembre del año 2018*, Guatemala City, 2019; Office of the President of the Republic of Guatemala, *Acuerdo gubernativo No. 540-2013*, Guatemala City, 2013; National Institute for Social Development, "Ley Federal de Presupuesto y Responsabilidad Hacendaria", *Diario Oficial de la Federación*, Mexico City, 30 March 2006; Secretariat of Finance, Investment and Administration of the State of Guanajuato, "Evaluación del gasto público en Guanajuato (México) con especial atención al enfoque de género", Guanajuato, 2021; Office of the President of the Republic of Nicaragua, "Ley de Igualdad de Derechos y Oportunidades", *La Gaceta*, No.51, Managua, 12 March 2008; Congress of the Republic of Peru, *Ley de Igualdad de Oportunidades entre Mujeres y Hombres*, Lima, 2007; *Ley General del Sistema Nacional de Presupuesto: Ley N° 28411*, Lima, 2004.

## 2. Gender-responsive programme budget structures

In the formulation stage, ministries of finance can set clear mandates for entities to create gender-sensitive programmatic structures or to mainstream gender in existing programmatic structures. This means that institutions must incorporate gender diagnostics; include objectives, results, products or activities that promote gender equality policies; and establish performance indicators that allow for monitoring and evaluation (Coello, 2015).

In most countries, the public institutions responsible for implementing gender policies have created specific gender budget programmes and have been involved in gender-sensitive budgeting. The relevant budget offices have developed guides and forms to support public entities in developing such programmes during the budget formulation process. This has been the case for example, in Argentina, Guatemala, Mexico, the Dominican Republic, Uruguay, and the State of Guanajuato, Mexico, among others.

In Argentina, the National Budget Office has been promoting, since 2018, the review and identification of budgetary programmes linked to gender issues through the issuance of Circular No. 1/2020, which provides general instructions and guidelines for the formulation of the draft general expenditure bill. Likewise, the general guidelines for budgetary policy for 2021 divide the priorities of economic policy into four central axes, two of which are welfare and social inclusion, and gender, diversity and justice. In addition, the forms for the creation and modification of the programme structure (F3 and F3 bis, respectively) establish specific guidelines for the formulation of gender-responsive budget programmes. There is also a methodological guide for gender mainstreaming in the results-oriented budget (Almeida, 2020), which identifies the budget items and public production that contribute to gender policies and their monitoring. To date, there are 20 results- and gender-based budget programmes.

In Mexico, the programme structure must contain actions to promote equality between women and men and the eradication of violence and all forms of gender discrimination (INDESOL, 2006). At the subnational level, the *Manual de Programación – Presupuestación para la Formulación del Anteproyecto de Presupuesto de Egresos* of the government of Mexico City establishes that public entities must link their institutional activities with the city's special programme for equal opportunity and non-discrimination against women in, in accordance with the catalogue of public policies on gender. In addition, the public policy framework, which is the methodological instrument compiling the relevant information for each institutional activity that entities plan to carry out during the fiscal year, must include an assessment of the gender issue, gender-equality objectives and the actions that will be implemented to address gender inequality.

In Mexico's State of Guanajuato, the law on the exercise and control of public resources for the State and municipalities of Guanajuato was amended to incorporate gender actions in the programmatic structure of the budget. There is also a guide for identifying budgetary programmes with a gender perspective, and the law on the general spending budget of the State of Guanajuato stipulates that agencies and entities with programmes aimed at women and equal opportunities must maintain lists of beneficiaries and present quarterly reports on the results achieved. Such projects will be subject to follow-up, monitoring and performance evaluation (Secretariat of Finance, Investment and Administration of the State of Guanajuato, 2021).

The Dominican Republic, in its guidelines for the formulation of draft budgets, "*Lineamientos para Formulación de los Anteproyectos Institucionales de Presupuesto Físico y Financiero de la República Dominicana*", stipulated in 2016 that institutions must

identify spending on the promotion of gender equality in a programme category, using objective 4 (social services), function 5 (social protection), and subfunction 8 (gender equality) (DIGEPRES, 2020). A guide on procedures for gender-responsive budgeting in the different stages of the budget cycle (DIGEPRES, 2018) and a gender-responsive investment classification form, available on the portal of the General Budget Directorate (DIGEPRES), were also developed.<sup>7</sup> This form makes it easier for institutions to identify the resources allocated to eliminating gender gaps, both in the case of actions that are directly related to the issue and those that contribute indirectly to this objective.

In Uruguay, for the preparation of the 2015–2019 national budget, the Office of Planning and Budget, in coordination with the National Women’s Institute, created projects Gender Equality 121 (for operating expenses) and Gender Equality 840 (for investments). The various agencies of the central government are required to open or transfer funds to these projects and to include objectives and indicators with a gender perspective in the formulation of the budget. In this framework, a guide for incorporating gender equality in the strategic planning and budget of public agencies (INMUJERES/MIDES, 2020) was prepared and relevant training was provided for agencies.

### 3. Labelling or classification of gender-related spending<sup>8</sup>

One of the main instruments used to incorporate the gender perspective into budgets is the labelling of gender-related spending, which helps to improve planning and resource allocation, and to enhance transparency and accountability.

One of the first budget classification systems developed for gender-sensitive budgets was the one proposed by Rhonda Sharp (Budlender and Sharp, 1998), which included three categories: (i) government spending aimed at satisfying the specific needs of women and men in the community; (ii) public spending to promote equal employment opportunities for employees of government agencies; and (iii) general budgetary spending of government agencies that make goods or services available to the community, assessed for the gender impact. Using this initial classification proposal, countries have developed different classifiers that can be grouped into the three types of approach listed below:

- Goal-based approach: seeks to link public spending to national gender policies.
- Benefit-based approach: evaluates the benefits of the budget programme in relation to gender equality.
- Mixed approach: links spending to policies and evaluates the benefits of the budget programme.

Although there are differences among countries, such initiatives have incorporated categories and subcategories that have made it possible to record and ensure the transparency of the resources allocated to promote gender equality. Overall, three types of budget classification or labelling systems have been used (Coello, 2015).

- The institutional classification system allows for the labelling of resources employed by entities responsible for gender affairs. Its main limitation is that it focuses on the organizational structure of the State and does not allow for the identification of gender-related spending by other entities.

<sup>7</sup> See General Budget Directorate (DIGEPRES), “Políticas, normas, procedimientos e instructivos” [online] <https://www.digepres.gob.do/publicaciones/normas-procedimientos-e-instructivos/>.

<sup>8</sup> Summary by Almeida (2020).

- The Classification of the Functions of Government (COFOG) is a detailed system of classification of the functions or purposes of various types of spending by general government units. Public policy purposes are not the same as functions, based on the description in the COFOG (IMF, 2014). One difficulty in using this classification system is that some public spending which may involve more than one classification must be recorded taking the main purpose into account. For example, although spending on sexual and reproductive health has an impact on the gender classification, it has to be recorded in the functional classification of health, which thus obscures the impact in gender affairs.
- The spending allocation classifier makes it possible to link spending on activities in the budget structure to a country's gender objectives or public policies. This in turn allows the verification and follow-up of spending that contributes to these objectives. It covers spending more broadly than the COFOG.

Latin American countries that have used the COFOG are the Dominican Republic, Ecuador, Mexico and the Plurinational State of Bolivia (see table III.7). The Plurinational State of Bolivia expanded the social protection function of the COFOG by purpose and function to incorporate gender equality (category 10, gender equality, equity and social protection) (Ministry of Economy and Public Finance, 2019), but without further disaggregation. Ecuador created a new category (K - Gender Equity) in the functional classifier of its budget to label amounts allocated by the State to gender equity, in line with the Plan for Equal Opportunities for Ecuadorian Women. However, this function was only implemented for two years (2010 and 2011) before being replaced by a spending allocation classifier.

The countries currently using the spending allocation classifier are Colombia, the Dominican Republic, Ecuador and Guatemala (see table III.7). In 2012, Ecuador's Financial Management System (eSIGEF) implemented a classifier of spending allocated to gender equality policies, which is cross-cutting and focuses on activities within the programme structure.

The Dominican Republic's gender-responsive investment classification form incorporates the following investment classification categories: women-focused; reflects social and public co-responsibility in the support of the family; culture of equality; and prevention, care and protection of women who are victims of violence.

In 2003, the Ministry of Public Finance of Guatemala developed a gender-based budget classifier, which was incorporated into the budget formulation module of the Integrated Accounting System (SICOIN), a computer-based instrument developed by the Integrated Financial Management System (SIAM) (SEPREM, 2011).

COFOG is not used in Mexico. Instead, institutions identify or "label" gender-related spending in the programmable spending section of the federal budget and include it as an informative annex for the process of approving the budget.

Colombia has incorporated a cross-cutting gender equity classifier into the Unified System of Investments and Public Finances, of which the objective is to allocate resources to investment projects aimed at eliminating gender-based inequalities in national public entities (DNP, 2017).

The labelling methodologies analysed have been applied to central government spending and, in some cases, to subnational governments (Mexico City and Montevideo). However, they have not covered State-owned enterprises. It should be noted that the different methods of budget classification targeting the closing of gender gaps (labelling, functional, thematic or equality-oriented spending) contribute to the indicator "proportion of developing countries with systems that track and make public allocations for gender equality and women's empowerment," established for monitoring the Busan Partnership for Effective Development Cooperation (2011).



**Table III.7**  
Latin America (11 countries): gender-responsive budget labelling initiatives or classifiers

Country (year launched)	Coverage	Initiative	Type of approach	Area	Type of classifier
Bolivia (Plurinational State of) (2009)	Central and subnational government	Establishment of category 10 “gender equality, equity and social protection” within the Classifier of Spending by Purpose and Function in the national budget (Ministry of Economy and Public Finance, 2019) Autonomous territorial entities must include gender categories in their budget classifiers (Plurinational Legislative Assembly, 2010)	Objectives	Expenditure	Functional
Brazil (2001)	Local (municipal)	“Flag Orçamento Mulher” classifier	Mixed	Expenditure	Not available
Colombia (2019)	Central government	“Budget tracker of women’s equity” in the Unified Public Investment and Finance System (SUIFP)	Mixed	Expenditure	Spending allocation
Dominican Republic	Central government (2014)	The gender equity subfunction is included in the social protection functional classifier	Objectives	Expenditure	Functional
	Central government (2018)	The following categories are established for the classification of investments that contribute to the reduction of gender inequality in the Financial Management System (eSIGEF): (i) actions focused on women; (ii) social and public co-responsibility in the support of the family; (iii) actions for a culture of equality, and (iv) actions for the prevention, care and protection of women who are victims of violence (DIGEPRES, 2018)	Mixed	Expenditure	Spending allocation
Ecuador (2007)	Central and subnational governments (in the process of implementation)	“K - Gender Equity” functional category Classifier of spending allocated to gender equality policies	Objectives	Expenditure	Functional until 2011 Spending allocation since 2012
Guatemala (2003)	Central government	Inclusion of the gender-based budget classifier and of an associated budget module in the Integrated Accounting System (SICOIN)	Objectives	Expenditure	Spending allocation
Honduras (2000)	Central government	Disaggregation by sex of some of the information in the Integrated Financial Management System (SIAFI)	Benefits	Expenditure	Not available
Honduras (2006)	Subnational governments	Municipal Financial Management System (SIMAFI) to incorporate gender-disaggregated information into the tax information module	Benefits	Expenditure	Programmatic
Mexico (2007)	Local (intermediate)	In the functional dimension of the budget, which includes the categories “function”, “subfunction”, “outcome”, “suboutcome” and “activity”. Programme 12 “Gender Equality” was created in 2008. In 2009, this was changed to Outcome 13 “Gender inequality gaps are reduced”.	Objectives	Expenditure	Functional
Nicaragua (2008)	Central government	Modification of the Integrated Financial Management and Audit System (SIGFA) to record programmes with resources earmarked for gender equality	Not available	Expenditure	Not available
Uruguay (2008)	Local (municipal)	The activity “actions aimed at equal opportunities and equal rights” was created in the financial system that recorded the 2011–2015 multi-year budget	Not available	Expenditure	Not available
Venezuela (Bolivarian Republic of) (2005)	Central government	The “new phase” system is modified to incorporate the changes in the formats and descriptions of programmes and projects and to disaggregate data by sex	Not available	Expenditure	Not available

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of R. Coello, “Presupuestos con perspectiva de género en América Latina: una mirada desde la economía institucionalista y feminista”, Madrid, Complutense University of Madrid, 2015; Ministry of Economy and Public Finance, Clasificadores presupuestarios: gestión 2019, La Paz, 2019; Plurinational Legislative Assembly, Ley Marco de Autonomías y Descentralización “Andrés Báñez”, La Paz, 2010; General Budget Directorate (DIGEPRES), “Guía y procedimientos para el presupuesto con enfoque de género en las diferentes etapas del ciclo presupuestario”, Santo Domingo, 2018.

The following are examples of gender-related public spending in some Latin American countries in which it has been possible to determine and quantify this through budget classifiers or the identification of budget programmes. Table III.8 shows that gender-related public spending accounts for between 6.4% and 0.4% of GDP and, in general, less than 1%.

**Table III.8**

Latin America (5 countries): examples of quantification of gender-related public spending, 2019  
(Millions of dollars and percentages of budgets and GDP)

Country	Amount (millions of dollars)	Percentage of budget	Percentage of GDP	Source
Argentina	2 892.14	3.8	0.9	National Budget Office (2019)
Colombia	296.44	0.4	0.1	Presidential Advisory Council for Women's Equity (2020)
Ecuador	689.90	2.0	0.6	Ministry of Economy and Finance (2016)
Guatemala	691.38	6.4	0.9	SEPREM (2020)
Mexico	3 676.75	1.6	0.3	Chamber of Deputies (2020)

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of National Budget Office, "Seguimiento del gasto vinculado con políticas de género en el Presupuesto Nacional: cuarto trimestre 2019", Buenos Aires, 2019; Ministry of Economy and Finance, "Ejecución presupuestaria consolidada por grupo", Quito, 2016; Chamber of Deputies, Presupuestos Públicos con Perspectiva de Igualdad de Género, Mexico City, 2020; Presidential Secretariat for Women, Informe Clasificador Presupuestario con Enfoque de Género (CPEG): período de enero a diciembre del año 2019, Guatemala City, 2020; Presidential Council for Women's Equity, "Trazador presupuestal para la equidad de la mujer: ejecución 2019 – programación 2020. Informe al Congreso de la República", Bogotá, 2020.

While budget classifiers are an important tool for gender mainstreaming in budget programming, they could be used to greater effect if the following considerations are taken into account:

- In most cases, the labelling of expenditure with these classifiers must be done at the activity level in programme budget structures, which implies adequate training and knowledge, and places greater demands for information to properly record activities.
- There is a need for capacity-building in relation to the concepts and use of classifiers, given the tendency towards high staff turnover in public entities.

Moreover, such classifiers are useful for monitoring national gender policies and reporting on the implementation of international commitments at the aggregate level. However, they do not include categories that are comparable across countries, nor do they reflect spending that has a negative impact or widens gender gaps.

## 4. Gender-responsive public procurement

In Latin America and the Caribbean, 30% of public spending (8.6% of GDP) is executed through public procurement (Ruiz, 2020), which makes the public procurement market an important tool for the inclusion and economic autonomy of women. The main barriers limiting women's access to the public procurement market arise because they work mainly in the informal sector, in relatively unspecialized goods and services sectors or under conditions of financial exclusion, among other circumstances. Implementing inclusive public procurement policies that incorporate affirmative actions in favour of women can thus help to close gender gaps.

At the country level, the main efforts in this direction have been in Argentina, Chile, Colombia, the Dominican Republic, El Salvador and Uruguay, while at the subnational level Cali in Colombia and the City of Buenos Aires offer the leading examples. All



initiatives have concentrated on the planning stage, with less attention being paid to the other stages. In most cases, these initiatives cover the process up to the award phase, with only a few applying this approach in the implementation and evaluation of public procurement. Only the Dominican Republic incorporates the gender approach at all stages of public procurement (see table III.9).

**Table III.9**

Latin America (6 countries), Cali and the City of Buenos Aires: examples of inclusion of the gender approach in the different stages of public procurement

Country or city	Planning	Tendering	Award	Contract execution	Evaluation
Argentina	Special processes for women				
Chile	Special processes for women	“Sello Empresa Mujer” certification identifying firms headed by women Websites with inclusive language and differentiated content Workshops and meetings to create contact networks for women	Grounds for direct award, waiving the competitive tendering requirement		
Colombia	Social clauses for the inclusion of women Framework contracts	Social clauses for the inclusion of women in contracts		Supervision of social clauses	
Dominican Republic	Special processes for women Earmarked budget for women’s businesses	Websites with inclusive language and differentiated content Workshops and meetings to create contact networks for women	Projects awarded by lot	System of indicators and subindicators that give weight to women’s inclusion	Register of data on women’s inclusion
El Salvador	Public administration entities and municipalities must ensure that at least 10% of their budget for purchases and procurement of goods and services is allocated to micro, small and medium-sized enterprises whose owners or legal representatives or the majority of whose shareholders are women (Legislative Assembly, 2019).				
Uruguay	Minimum 50% reserve mechanism for centralized and non-centralized procurement of foodstuffs from approved gender-equal organizations <sup>a</sup> (General Assembly of Uruguay, 2018)				
Cali (Colombia)	Social clauses for the inclusion of women	Social inclusion meeting to implement the social clause	Social inclusion meeting	Supervision of social clauses	
City of Buenos Aires (Argentina)	Special processes for women	“Sello Empresa Mujer” certification identifying firms headed by women Workshops and meetings to create contact networks for women			

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of A. Ruiz, “Inclusión de mujeres en las contrataciones públicas: la experiencia latinoamericana”, The Hague, Hivos, 2020; Legislative Assembly, *Ley de Adquisiciones y Contrataciones de la Administración Pública*, San Salvador, 2019; General Assembly of Uruguay, *Ley N° 19.685 Promoción del Desarrollo con Equidad de Género*, Montevideo, 2018.

<sup>a</sup> Approved gender-equal organizations are those in which women have been shown to participate at least in the management of the organization and the production system.

In the case of ChileCompra, gender-responsive evaluation criteria were introduced into the public procurement evaluation process, among them being priority for inclusive development-related matters that include the active participation of women, gender as grounds for awarding contracts directly without the usual three quotations being obtained, and tie-breaking criteria that provide for affirmative action in favour of women. Chile implemented an item called “Sello Empresa Mujer”, certifying that businesses are female-headed, in the register of suppliers for both natural and legal persons (ChileCompra, 2021). In addition, it provided training for women supplying the State in the form of events such as the seminar *Empoderando a las Proveedoras del Estado* (“Empowering Women Who Supply the State”) and *Capacitación Foco Mujer* (“Women-centred Training”) (Inostroza, 2015).

The Dominican Republic is also among the countries that have made most progress with gender-sensitive public procurement. Article 26 of Law No. 488-08 (2008) establishes that in cases where micro, small and medium-sized enterprises (MSMEs) “are managed by women, with a 50% or greater equity holding, State institutions, when procuring goods and services, must purchase 20% from such MSMEs, provided that the goods and services sought by these institutions are available from the MSMEs”. At the same time, article 5 of Decree No. 543-12 of 15 September 2012 regulating the Law on Procurement and Contracting of Goods, Services, Works and Concessions provides that “when budgeting, the procuring entity must reserve the 20% granted by Law No. 488-08 on the Development and Competitiveness of MSMEs, under the budget items designated for the institution’s procurement and contracting outlays, so that the selection procedures are reserved exclusively to MSMEs”. Of the 20% allocated to MSMEs, a share of 5% should be awarded to MSMEs headed by women and natural persons.

In compliance with this regulatory framework, the General Directorate of Public Procurement has made available to public institutions a catalogue of suppliers that includes some 15,000 women and female-headed companies listed in the Register of State Suppliers. It also supports these women with business roundtables, technical assistance and training, and market studies, among other initiatives. In 2019, one fifth of government contracts, totalling 20 billion Dominican pesos (US\$ 350 million), were awarded to women (General Directorate of Public Procurement, 2020).

In 2018, Colombia published the *Guía de compras públicas socialmente responsables* (“Guide to socially responsible public procurement”), which states that public entities may include social clauses when setting public procurement selection and award criteria, including a differential approach to equal opportunities for men and women. Likewise, these social clauses mean that the successful supplier undertakes to employ a certain number of women. It is also established that the contract evaluation process must identify the differential effects on men and women. At the subnational level, Cali published its *Guía para la inclusión de la mujer cabeza de familia en las compras públicas* (“Guide to the inclusion of women heads of household in public procurement”) in 2019. When the contract is signed, the supplier undertakes that at least 10% of the staff employed will be women (Santiago de Cali Mayor’s Office, 2019).

## 5. Follow-up, evaluation and accountability reporting

Most gender-sensitive budget initiatives have started with ex post studies or analyses quantifying public spending aimed at closing gender gaps, either for the purpose of reporting on progress in meeting the women’s rights commitments that countries have signed up to or in order to follow up on public policies designed to improve the situation of women, among other reasons.

In some cases, initiatives of this type have been carried out by civil society organizations as part of social audits of the use of public resources, as was initially the case in Mexico and the Plurinational State of Bolivia, or by public institutions involved in gender policies, as in Guatemala and Honduras (see table III.10). In other cases, they have been implemented by government entities responsible for public finances as an annex to the draft budget submitted to the legislature for approval (as in Ecuador and Mexico) or as part of the budget execution follow-up reports prepared by finance ministries (Argentina, the Dominican Republic and Ecuador) or by congresses or assemblies as part of their budget follow-up (Brazil and Mexico).

**Table III.10**

Latin America (7 countries) and Mexico City: gender-sensitive budget follow-up reporting, evaluation and accountability initiatives

Country or city	Initiative/regulation/report	Description
Argentina	Follow-up report on spending associated with gender policies in the national budget (National Budget Office, 2019)	The National Budget Office periodically publishes the “Informe de seguimiento del gasto vinculado con políticas de género en el Presupuesto Nacional” (“Follow-up report on spending associated with gender policies in the national budget”).
	Cross-cutting policies section in the 2019 Investment Account (Ministry of Economy, 2019)	The 2019 Investment Account includes a section on cross-cutting policies in the national budget, including gender.
Bolivia (Plurinational State of)	Municipal Ranking of Investment in Gender Equality and Equity	The Gregoria Apaza Centre for the Advancement of Women and the Association of Women Councillors of Bolivia (ACOBOL) prepared the Municipal Ranking of Investment in Gender Equality and Equity 2017.
	Methodology for analysing annual operating plans and public investment budgets at all levels of the State (UN-Women, 2013).	Analysis of the national and municipal budget using the earmarked spending methodology in relation to: (i) investment targeted at women, (ii) investment in public services for family care and reproduction of the labour force and (iii) investment in a culture of equality.
Brazil	Budget related to gender violence	Report prepared by the Siga Brasil system of the Brazilian Federal Senate on budgeting related to gender-based violence (Federal Senate of Brazil, 2021).
Dominican Republic	Monitoring of resource execution for outputs or activities classified under the gender equity function (General Budget Directorate, 2018)	The Directorate of Public Expenditure Evaluation and Quality of the General Budget Directorate (DIGEPRES) must prepare a quarterly monitoring report on gender equity resources.
	Evaluation of spending executed in pursuit of gender equality	Each year, DIGEPRES evaluates the expenditure executed in support of gender equality on the basis of self-assessments by the different institutions.
Ecuador	Annex on expenditure to close equity gaps Half-yearly budget implementation report	The pro forma General State Budget includes an annex on spending intended to close gaps, including the gender gap. The General State Budget execution report analyses the execution of the gender equality policy expenditure orientation classifier.
Guatemala	Progress Report on the Gender Budget Classifier: period from January to December 2018	The Presidential Secretariat for Women prepares this annual follow-up report dealing with public spending on women’s development (Presidential Secretariat for Women, 2019).
Peru	General Law of the National Budget System (Congress of the Republic of Peru, 2004) <sup>a</sup>	When execution of the budget is evaluated, entities must include an analysis of its impact on gender equity. The executive branch will progressively identify the public entities and the programmes, activities and projects that incorporate this impact in the budget evaluation.
Mexico City	<i>El presupuesto público con perspectiva de género en la Ciudad de México: ejercicio fiscal 2019</i> (“Gender budgeting in Mexico City: fiscal year 2019”) (Centre for Legislative Studies for Gender Equality, 2019)	The Centre for Legislative Studies for Gender Equality of the Mexico City Congress produces research and studies on the situation of women and men in Mexico City, of which this analysis of the public budget from a gender perspective forms part.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of National Budget Office, “Seguimiento del gasto vinculado con políticas de género en el Presupuesto Nacional: cuarto trimestre 2019”, Buenos Aires, 2019; Ministry of Economy, *Cuenta de Inversión 2019: Tomo II*, Buenos Aires, 2019; Women’s Fiscal Justice Observatory, “Ranking en Inversión en Igualdad y Género”, La Paz [online] <https://iieg.mujeresyjusticiafiscal.org/>; Presidential Secretariat for Women, *Informe de Avances del Clasificador Presupuestario con Enfoque de Género: periodo de enero a diciembre del año 2018*, Guatemala City, 2019; United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), “Categorías para el análisis y la orientación de la inversión pública en igualdad de género: una propuesta metodológica desde Bolivia”, *Cuaderno de Trabajo*, No. 13, La Paz, 2013; Federal Senate of Brazil, “SIGA Brasil: Painel Cidadão”, 2021 [online] <http://www9.senado.gov.br/QuAJAXZfc/pendoc.htm?document=senado%2Fsigabrasilpainelcidadao.qvw&host=QVS%40www9&anonymous=true&Sheet=shOrcamentoVisaoGeral>; Congress of the Republic of Peru, *Ley General del Sistema Nacional de Presupuesto: Ley N° 28411*, Lima, 2004; Centre for Legislative Studies for Gender Equality, *El presupuesto público con perspectiva de género en la Ciudad de México: ejercicio fiscal 2019*, Mexico City, 2019; General Budget Directorate (DIGEPRES), “Guía y procedimientos para el presupuesto con enfoque de género en las diferentes etapas del ciclo presupuestario”, Santo Domingo, 2018.

<sup>a</sup> Analysis of the impact of budget execution on gender equality was incorporated into the General Law of the National Budget System (Law No. 28411) on the basis of Law No. 29083 amending article 47 of the General Law of the National Budget System (Law No. 28411).

Since the collection of information on gender-related public expenditure is carried out after budget execution, the procedure is to create forms that are sent to the executing entities for completion, after which the data are consolidated for reporting. In countries that have already incorporated gender-based programme structures or budget classifiers into financial management systems, these reports are generated automatically and periodically.

The most recent experience has been in Argentina (2019), where the National Budget Office of the Ministry of Economy periodically publishes a monitoring report on spending linked to gender policies in the national budget. In addition, the 2019

Investment Account includes a section on cross-cutting policies in the national budget, which provides a cross-cutting analysis of the national budget in terms of gender policies and policies for children and adolescents. The identification of expenditures (and their associated outputs) is based on the specific activities included in the national budget programme tree (Ministry of Economy, 2019).

## E. Conclusions and recommendations

Fiscal policy is not neutral; it has a differentiated impact on men and women, given the roles, responsibilities and opportunities traditionally assigned to each gender in society. The implementation of a gender approach in the different tax instruments, in spending and in financing is vital to redistribute resources, reorganize social reproduction work and change the lives of men and women.

In recent decades, Latin American countries have made great progress in mainstreaming gender in fiscal policy, although the approach and degree of development have differed.

The greatest progress has been with gender mainstreaming in public budgets. The countries incorporating explicit mandates for gender-sensitive budget work into their budgetary frameworks are Ecuador, El Salvador, Honduras, Guatemala, Mexico, Nicaragua, Peru and the Plurinational State of Bolivia. In most cases, these legal mandates have focused on the budget programming and budget monitoring and evaluation phases. This is an important development, because it has allowed these types of initiatives to be institutionalized and become part of the countries' budget cycle. However, gender-sensitive budget initiatives have not yet succeeded in covering all phases of the budget cycle and have rather focused on instruments such as budget classifiers, the creation or modification of budget programmes, public procurement or follow-up reports dealing with public expenditure on gender equality. Mexico is the only country with regulations prohibiting changes to gender-related funding during budget execution, while Argentina produces complete and exhaustive monitoring and accountability reports on this expenditure.

Progress has also been made in recent years with the analysis of gender biases in taxation, but these initiatives have been carried out in academia and with the support of international organizations. It is important that initiatives for the study of gender bias in taxation should emerge from the public sector. In the case of Guatemala, for example, the Superintendency of Tax Administration was actively involved in the study by Almeida and Escobedo (2018). In the studies carried out in the different countries, no explicit gender bias in taxation was found, with the exception of the Dominican Republic, where income tax is declared jointly and the declaration is made by the husband, unless the wife can show that she works independently. Implicit biases were found in most countries for both income taxes and goods and services sales taxes, relating mainly to overrepresentation of women in low-income sectors or in the poorest quintiles of the population, and to tax expenditure.

In the context of these findings, and with the aim of helping countries to better mainstream gender issues in their fiscal policies and thereby reduce gender inequalities, the following guidelines were developed:

- **Evaluate the differentiated effects of the country's tax system on men and women.** The development of this analytical basis by administrations will be an important input for tax reforms to make the tax system more progressive and avoid gender biases. In personal income tax, special attention should be paid to the differential treatment of unearned income and income related to marriage partnerships, as well as to care-related tax breaks and those that encourage the

incorporation of women into the formal labour market. In the case of indirect taxes, the possibility of granting preferential treatment to goods and services related to the care economy needs to be assessed.

- **Generate tax statistics disaggregated by sex.** Tax administrations should include a field in administrative records on taxpayers for specifying the sex of the taxpayer. This simple measure would make it easier to obtain information that is important for diagnosing gender biases and making public policy decisions with a view to closing gender gaps.
- **Mainstream gender in performance budgeting.** Finance ministries can help to close gender gaps at all stages of the budget cycle.
  - In the preparation phase, guidelines should be established for public entities to create budget programmes aimed at reducing gender inequality, and efforts should be made to ensure that budget programmes incorporate a gender perspective in their diagnosis, activities and results indicators.
  - In the implementation phase, rules can be established for changes during budget execution to ensure that budget cuts do not end up jeopardizing the implementation of gender policies.
  - In the budget monitoring and evaluation phase, there should be continuous reporting to show how public spending is helping to close gender gaps.
  - In the settlement phase, closure and accountability reports should be prepared for budget programmes with an impact on gender issues and submitted to oversight bodies (the legislature or higher-level audit bodies).

This work must be accompanied by ongoing training in gender performance budgeting within the budget offices of finance ministries and in the planning and finance departments of sectoral ministries.

- **Generate information on public spending that impacts gender issues.** Steps need to be taken to establish classification systems, appropriate criteria and examples that enable gender-positive spending to be identified and that are internationally comparable. These may include the creation of gender-specific budget classifiers, encouragement to use the functional classifier or simply systems for labelling budget programmes with a gender impact. Budget classification systems are currently linked to each country's public gender policies, and it is therefore necessary to move towards the establishment of a standardized classification system that allows for comparison between countries. There is also a need to identify and label those public expenditures that may have a negative impact or widen gender gaps.
- **Include the gender perspective in public procurement.** Among other things, there is a need for legal reforms in the public procurement process to facilitate positive actions in favour of women as suppliers to the State, for administrative actions to incorporate gender markers allowing women suppliers or female-run companies to be identified in unified registers of suppliers, and for capacity-building processes.
- **Strengthen the ability of oversight bodies to analyse the budget from a gender perspective** during budget design, approval and follow-up in order to contribute to better fiscal governance.
- **Enhance the use of innovative public financing sources related to the closing of gender gaps.** Innovative resource mobilization instruments have been developed for gender issues in different countries around the world. These can provide an opportunity for governments and the private sector to raise financing on favourable terms, with gender-themed bonds being an example (see box III.1).

**Box III.1**  
Gender-sensitive  
financing policy

So-called “thematic bonds” are one of the most recent financing initiatives. They are debt securities issued by the public sector at a preferential rate on the condition that the proceeds are used to finance projects with a social or environmental impact. This type of bond is an effective instrument for closing financing gaps and supporting attainment of the Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development, which all Latin American and Caribbean countries have signed up to.

There are currently green bonds, social bonds, sustainable bonds and blue bonds. Social bonds are intended to finance social projects or initiatives, including those related to gender equality. Gender bonds are innovative investment instruments for investors interested in promoting gender equality.

Globally, this type of innovative financing began in 2013, when the International Finance Corporation (IFC) of the World Bank launched the Banking on Women Bonds programme, worth US\$ 268 million, to encourage financial institutions to provide financing to women entrepreneurs. This initiative was subsequently integrated into the IFC social bond programme. In 2017, Australia’s QBE Insurance Group was the first private sector bank to issue gender bonds, in the amount of US\$ 400 million. The issue was purchased by investors willing to promote gender equality in exchange for a financial return, and the proceeds were invested in companies with plans to advance gender equality.

In Latin America, it is the private financial sector that has placed the most gender bond issues in the primary market. The first issue was made in 2019 by Banistmo bank in Panama (a subsidiary of Bancolombia), for an amount of US\$ 50 million, with the objective of financing small and medium-sized enterprises headed by women. Other financial institutions, mainly Colombian, have issued gender bonds both in the primary market (e.g., Bancolombia, Banco de Bogotá, Bancóldex and the Corporation for Territorial Development (Findeter)) and in the secondary market (Banco Davivienda and Banco W).

In the governmental sphere, the Banco del Estado de Chile (BancoEstado) is the leader, having issued three rounds of its “Bono Mujer” bond on international markets. The last placement of the “Bono Mujer” took place in October 2020 in yen, for an amount equivalent to US\$ 95 million, with a term of five years. Its purpose is to promote access to resources for microcredits by improving access to financial and non-financial services for women entrepreneurs. These resources will also be used to strengthen the “Crece Mujer Emprendedora” programme for women entrepreneurs.

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC).

Lastly, the countries of the region have implemented a number of fiscal policy measures in the context of the effects of the socioeconomic crisis caused by COVID-19, such as tax incentives to sustain employment and social protection programmes for the poorest. Today, more than ever, there needs to be progress towards the incorporation of a gender perspective in the different fiscal policy measures contributing to mitigation of the effects of the crisis on the labour market, incomes and the increased burden of care work for women. This requires an effort to establish a fiscal and gender compact that can provide a basis for fiscal stimulus measures contributing to an inclusive economic recovery that narrows gender gaps.

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In 2021, Latin America and the Caribbean faces an economic and social context that will remain complex and uncertain. The coronavirus disease (COVID-19) pandemic continues to impact the region, with a fresh wave of cases that has led to the implementation of new public health measures to curb the spread of the virus. Vaccination campaigns, which are a priority, have been hampered by unequal access to vaccines globally and challenges in vaccine production and distribution.

In this complex and uncertain context, the *Fiscal Panorama of Latin America and the Caribbean, 2021* analyses the challenges for fiscal policy in the region as it continues to tackle the emergency and bring about a transformative post-pandemic recovery. Maintaining an expansionary fiscal policy will be key, and will require the support of international cooperation through development financing. This edition of the *Fiscal Panorama of Latin America and the Caribbean* also reflects on the need to promote tax policies that expand fiscal space, improve income distribution and maintain the sustainability of spending trajectories. Lastly, it examines progress in the mainstreaming of a gender perspective in fiscal policies in the region.



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