

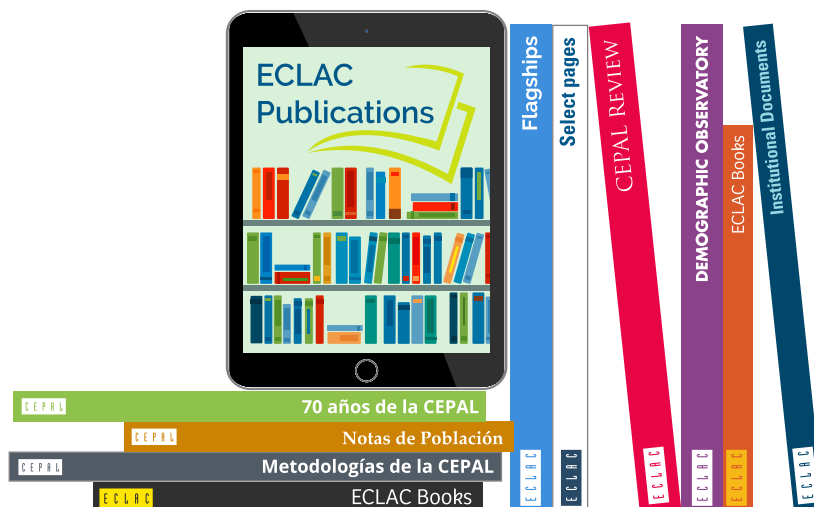
Fiscal Panorama of Latin America and the Caribbean

2023

Fiscal policy
for growth, redistribution
and productive transformation



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2023

Fiscal policy
for growth, redistribution
and productive transformation



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Foreword	7
Chapter I	
Public finance trends in Latin America and the Caribbean in 2022.....	9
Introduction.....	11
A. Revenues remained buoyant in a context of higher international commodity prices.....	12
B. Spending fell amid a slowdown in economic activity in Latin America	21
C. Fiscal deficits narrowed substantially.....	30
D. Public debt has continued on its downward trend relative to GDP, but levels remain high.....	33
E. After the distress caused by the COVID-19 pandemic, subnational public accounts moved into surplus in 2021.....	41
Bibliography.....	45
Chapter II	
The challenges of strengthening personal income tax as a development instrument in Latin America and the Caribbean	47
Introduction.....	49
A. Tax revenues and income tax in Latin America and the Caribbean.....	50
1. Comparative perspective and trends in the tax burden in the region	50
2. Income tax collection: levels and relative structure.....	56
B. Characteristics of personal income tax and reform trends	61
1. Common stylized features throughout the region	61
2. Main differences between the countries	63
3. Exemption levels and application of minimum and maximum rates.....	70
C. Typology of cases and links between personal income tax and other relevant taxes.....	73
1. A typology of the countries of the region in relation to personal income tax	73
2. Interactions with other relevant instruments of tax systems	76
D. Economic effects and phenomena associated with personal income tax.....	82
1. Relationship between personal income taxes and economic growth in the region	83
2. The effect on equity: progressivity and the potential for redistribution	85
3. Tax evasion: estimates of its extent and enforcement mechanisms	87
E. Challenges and alternatives for strengthening the fiscal capacity of personal income tax.....	90
1. Review the legal rates in force (level, quantity and breadth).....	91
2. Strengthen the taxation of high-income and high-net-worth individuals.....	92
3. Achieve compatibility between different types of taxes	93
4. Evaluate equality-based adjustments to the tax base	94
5. Inclusion of self-employed workers.....	95
6. Strengthen tax administration, and facilitate and simplify compliance	96
7. Base reform processes on broad consensus and incremental changes	97
Bibliography.....	98
Chapter III	
Public expenditure targeting gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities	101
Introduction.....	103
A. Methodological proposal for measuring public expenditure targeted to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities.....	104
1. Quantification of cross-cutting public expenditure	105
2. Public expenditure targeting gender equality: classification of expenditure by type of autonomy	109
3. Public expenditure targeted to persons with disabilities: categorization according to internationally recognized rights.....	111
4. Public expenditure targeted to Indigenous Peoples and Afrodescendants: categorization according to their internationally recognized rights	112
5. Sources of information on expenditure targeted to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities	114

B.	Estimation of public expenditure related to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities.....	116
1.	Public expenditure related to gender equality.....	117
2.	Public expenditure targeted to persons with disabilities.....	124
3.	Public expenditure targeted to Indigenous Peoples and Afrodescendants.....	129
4.	Tax expenditure with social aims targeted to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities.....	136
C.	Challenges and final thoughts.....	138
	Bibliography.....	142
	Annex III.A1.....	143

Tables

Table I.1	Latin America (16 countries): public debt service structure, by country, cumulative liabilities for the period 2023–2028.....	40
Table II.1	Latin America and the Caribbean (26 countries): income tax collection, 1991, 2000, 2010 and 2019.....	58
Table III.1	Types of weightings used to calculate resources targeted to the reduction of inequalities or gaps attributable to gender, ethnicity, race or disability.....	106
Table III.2	Proposal of programmes, projects or activities that contribute to women’s autonomy.....	110
Table III.3	Proposal of programmes, projects or activities that reduce inequality for persons with disabilities.....	111
Table III.4	Proposal of programmes, projects or activities that reduce the inequality faced by Indigenous Peoples and Afrodescendants.....	114
Table III.5	Sources of information on expenditure targeted to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities.....	116
Table III.6	Latin America (4 countries): expenditure on gender equality policies by functional classification, 2021.....	117
Table III.7	Latin America (4 countries): expenditure related to gender policies by type of autonomy, 2021.....	120
Table III.8	Latin America (4 countries): cross-cutting expenditure targeted to persons with disabilities, by functional classification, 2021.....	124
Table III.9	Latin America (4 countries): cross-cutting expenditure targeting persons with disabilities, by main category, 2021.....	126
Table III.10	Latin America (3 countries): expenditure targeted to Indigenous Peoples or Afrodescendants, by functional classification, 2021.....	129
Table III.11	Latin America (3 countries): expenditure targeted to Indigenous Peoples and Afrodescendants, by main category, 2021.....	133
Table III.12	Latin America (4 countries): tax expenditure with social aims related to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities, by type of tax, 2021.....	136
Table III.13	Latin America (4 countries): tax expenditure with social aims related to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities, by type of tax benefit, 2021.....	138
Table III.A.1	Latin America (selected countries): sources of information on public expenditures related to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities.....	143

Figures

Figure I.1	Latin America (16 countries): total central government revenue, by component, 2020–2022.....	13
Figure I.2	Latin America (16 countries): year-on-year changes in tax revenue, by tax, and contributions to these changes by tax, 2021–2022.....	14
Figure I.3	Latin America (16 countries): central government income tax revenue at constant prices, 2021–2022.....	15
Figure I.4	Latin America (16 countries): central government value added tax (VAT) receipts at constant prices, 2021–2022.....	17
Figure I.5	Latin America (16 countries): year-on-year changes in other central government revenues, 2021–2022.....	19
Figure I.6	The Caribbean (12 countries): total central government revenue, 2019–2022.....	20
Figure I.7	Latin America (16 countries): year-on-year changes in central government primary expenditure, 2018–2022.....	22
Figure I.8	Latin America (16 countries): total central government expenditure, by component, 2019–2022.....	23
Figure I.9	Latin America (16 countries): central government primary current expenditure, totals and changes by component, 2019–2022.....	24
Figure I.10	Latin America (16 countries): year-on-year changes in central government expenditure on subsidies and current transfers, 2021–2022.....	25
Figure I.11	Latin America (16 countries): year-on-year changes in central government capital expenditure, by component, 2021–2022.....	26
Figure I.12	Latin America (16 countries): year-on-year changes in central government interest payments and interest rates on 10-year bonds, 2020–2022.....	28
Figure I.13	The Caribbean (12 countries): total central government expenditure, 2019–2022.....	30
Figure I.14	Latin America (16 countries): central government fiscal indicators, 2010–2022.....	31
Figure I.15	Latin America (16 countries): overall and primary central government balances, 2021–2022.....	32
Figure I.16	The Caribbean (12 countries): central government fiscal indicators, 2010–2022.....	33



Figure I.17	The Caribbean (12 countries): overall and primary central government balances, 2021–2022	34
Figure I.18	Latin America (16 countries): central government gross public debt, 2000–2022	35
Figure I.19	The Caribbean (13 countries): central government gross public debt, 2011–2022	37
Figure I.20	Latin America (16 countries): central government gross public debt service maturity profiles, by currency type, cumulative liabilities over the period 2023–2033	40
Figure I.21	Latin America (13 countries): public accounts of intermediate and local governments, 2011–2021	42
Figure I.22	Latin America (9 countries): aggregate operations of subnational governments, 2019–2021	43
Figure I.23	Latin America (11 countries): subnational debt, 2019–2021	44
Figure II.1	Tax collection by region, 1991 and 2019	52
Figure II.2	Latin America and the Caribbean: average tax structure, 1991, 2000, 2010 and 2019	53
Figure II.3	Latin America and the Caribbean: average tax collection by main tax groups, 1991, 2000, 2010 and 2019	53
Figure II.4	Latin America and the Caribbean (26 countries): tax collection, 1991 and 2019	54
Figure II.5	Latin America and the Caribbean (26 countries): structure of tax collection, 2019	55
Figure II.6	Latin America and the Caribbean (25 countries): variation in the tax burden and per capita GDP, 1991–2019	56
Figure II.7	Latin America and the Caribbean (23 countries): income tax collection in countries of the region and average in other regions, 1991 and 2019	57
Figure II.8	Latin America and the Caribbean and OECD countries: collection and structure of income tax, 1991, 2000, 2010 and 2019	59
Figure II.9	Latin America and the Caribbean: tax burden and relative structure of income tax, compared with average for other regions, 2019	60
Figure II.10	Latin America and the Caribbean (24 countries): tax burden and relative structure of income tax, 2019	60
Figure II.11	Latin America and the Caribbean (27 countries) and OECD members (38 countries): statutory top and bottom rates of personal income tax, regional averages, 2000–2021	62
Figure II.12	Latin America and the Caribbean (subregional averages): statutory top and bottom rates of personal income tax, 2000–2021	64
Figure II.13	Latin America and the Caribbean (selected countries) and OECD average: statutory top and bottom rates of personal income tax, 2021	66
Figure II.14	Latin America (19 countries) and the Caribbean (10 countries): levels of exemption and income threshold for the top marginal rate of personal income tax, 2021	71
Figure II.15	Relevant features of personal income tax, by group of countries	76
Figure II.16	Relative importance of property tax in relation to income tax, 2019	77
Figure II.17	Deductions from wages to finance social security, 2019	79
Figure III.1	Latin America (4 countries): relative share of the functions of government in total expenditure for gender equality, 2021	118
Figure III.2	Latin America (4 countries): relative share of the different autonomies in total spending related to gender policies, 2021	121
Figure III.3	Latin America (4 countries): relative share of functions of government in total cross-cutting expenditure targeted to persons with disabilities, 2021	125
Figure III.4	Latin America (4 countries): relative share of the different categories in total cross-cutting expenditure targeted to persons with disabilities, 2021	127
Figure III.5	Latin America (3 countries): relative share of functions of government in total expenditure targeted to the Indigenous or Afrodescendent populations, 2021	130
Figure III.6	Latin America (3 countries): relative share of the main categories in total spending targeted to the Indigenous Peoples and Afrodescendants, 2021	134
Boxes		
Box I.1	Tax expenditures	18
Box I.2	Development distress associated with debt service	27
Box I.3	Elevated public debt: a systemic concern for emerging markets and developing economies	36
Box I.4	Deteriorating macrofinancial conditions have undermined the sustainability of public debt in the region	38
Box II.1	Latin America and the Caribbean: the impact of the coronavirus disease (COVID-19) pandemic on tax revenues in 2020	51
Box II.2	Recent personal income tax reforms in Latin America	65
Box II.3	Tax expenditures on personal income tax in Latin American countries	68
Box II.4	Colombia: concrete progress towards a global personal income tax system	69
Box II.5	Two synthetic indices of the technical design of personal income tax	72
Box II.6	Personal income taxes and gender equality	85
Diagrams		
Diagram II.1	Typology of countries in the region in relation to personal income tax	74
Diagram II.2	Main areas of a comprehensive reform aimed at strengthening personal income tax in the countries of the region	91
Diagram III.1	Process of identifying and estimating public expenditure to reduce disparity in priority areas	109

Foreword

In 2022, trends in public finances in Latin American and Caribbean countries were shaped by an increasingly complex and volatile macrofinancial context. The conflict in Ukraine exacerbated the slowdown in global growth, and drove up the prices of food and fertilizers —jeopardizing food security— as well as energy prices.

Those shocks carried over to global inflation, which surged to levels not seen since the 1970s. In reply, the central banks of the main economies adopted restrictive policies, hiking interest rates at a rapid pace. This trend, coupled with lower risk appetite, caused a decline in capital flows to emerging markets, which affected exchange rates and access to financing, as well as the cost of borrowing on international markets.

The economies of Latin America and the Caribbean were not immune to these trends. Beyond the ups and downs of the business cycle that were caused by the coronavirus disease (COVID-19) pandemic, since 2022 the region has returned to the low growth trajectory registered prior to the crisis.

As discussed in chapter I of this report, tax revenues were buoyant in 2022, driven by an increase in income tax receipts; on the spending side, there were cutbacks in primary expenditure. This resulted in a narrowing of fiscal deficits. However, public debt levels remain high.

For the region's economies to recover and to meet investment needs and social demands, proactive public policies will be required. This calls for a new fiscal pact that lays the foundations for a fiscal sustainability framework focused on increasing permanent revenues to meet well-being, investment and environmental sustainability needs. To this end, it is necessary to increase not only the level of tax collection, but also its progressiveness and capacity to reduce income and wealth inequalities. Integral to this new framework is developing a strategic approach to public spending policy to make it more effective at narrowing social divides and boosting the growth potential of the economy, giving priority to measures that yield high economic, social and environmental returns.

One of the main challenges in taxation in the region is strengthening personal income tax. As noted in chapter II, the collection of personal income tax is weak in the region, representing the main tax gap between the countries of the region and those of the Organisation for Economic Co-operation and Development (OECD). In addition, this weakness severely hampers the redistributive power of the tax system. It is therefore worthwhile to consider reforms in this key tax, including a review of marginal rates, tax bases, the treatment of various types of income, and strengthening taxation of high-income earners and high net worth individuals.

Chapter III examines public spending associated with population groups that tend to be excluded, such as women, Indigenous Peoples, people of African descent and persons with disabilities. For greater inclusion, there must be instruments to design services and benefits that are adapted to the specific needs of these population groups. The chapter presents a common methodology to identify, measure and classify public

expenditure associated with these population groups, making it easier to follow-up national policies and plans and assess compliance with international commitments undertaken by countries, as well as ensuring greater comparability between them.

Accordingly, the Economic Commission for Latin America and the Caribbean (ECLAC) proposes advancing fiscal policy aimed at growth, redistribution, productive transformation and sustainability, to move the region along the path of sustainable development, by building more vibrant economies and more inclusive societies.

José Manuel Salazar-Xirinachs
Executive Secretary
Economic Commission for Latin America
and the Caribbean (ECLAC)



CHAPTER

Public finance trends in Latin America and the Caribbean in 2022

Introduction

- A. Revenues remained buoyant in a context of higher international commodity prices
- B. Spending fell amid a slowdown in economic activity in Latin America
- C. Fiscal deficits narrowed substantially
- D. Public debt has continued on its downward trend relative to GDP, but levels remain high
- E. After the distress caused by the COVID-19 pandemic, subnational public accounts moved into surplus in 2021

Bibliography

Introduction

In 2022, the public finances of Latin America and the Caribbean evolved within an increasingly difficult and volatile macrofinancial context. The outbreak of the conflict between the Russian Federation and Ukraine in February and the subsequent application of economic and financial sanctions by the European Union and the United States, among other countries, further reduced growth expectations for the year and led to increased volatility in international financial and commodity markets. There were sharp rises in the prices of energy commodities, particularly crude oil and natural gas, which in turn affected the prices of other key inputs such as fertilizers for agriculture. At the same time, the prices of a number of agricultural commodities soared, reflecting the importance of exports from the Russian Federation and Ukraine. These trends added to burgeoning global inflationary pressures, prompting rapid and synchronized monetary policy tightening by the major central banks in advanced economies with the aim of anchoring inflationary expectations. In this environment, there was a sharp reduction in capital flows to emerging markets.

The deterioration in global macrofinancial conditions affected the performance of the region's economies. Economic activity slowed during the year as a result of the phasing out of the emergency fiscal stimulus spending carried out to cope with the coronavirus disease (COVID-19) pandemic in 2020 and 2021, the loss of household purchasing power and the impact of tighter monetary policy on the cost of credit, among other factors (ECLAC, 2022a). Although labour markets improved, with participation and employment levels rising and unemployment rates falling, rising prices led to a contraction in real wages. Central banks applied a restrictive monetary policy, continuing the gradual increase in interest rates that had started in 2021.

In this context, the region's public accounts in 2022 were characterized by a significant reduction in fiscal deficits, which peaked at the height of the COVID-19 pandemic in 2020. The countries pursued a policy of fiscal consolidation with the objective of restraining the growth of public debt, and this was reflected in their budgets for the year. Public spending fell, mainly owing to the withdrawal of pandemic-related subsidies, which was not fully offset by the introduction of new anti-inflationary subsidies. There was also a large contraction in public investment in some countries. Tax revenues were buoyant, facilitating the reduction of fiscal deficits, thanks to the strong performance of annual income tax payments, since value added tax (VAT) receipts weakened in line with private consumption.

As a result of the above, the overall central government deficit in Latin America narrowed significantly to 2.4% of GDP in 2022 from 4.2% of GDP in 2021 and the record deficit of 6.9% of GDP recorded in 2020. The primary balance, which is the main lever that policymakers can use to influence debt dynamics, turned positive, averaging 0.1% of GDP, compared with a deficit of 1.7% of GDP in 2021. In the Caribbean, meanwhile, the overall and primary fiscal deficits both narrowed as a result of a rise in total revenues, since total expenditure increased only slightly. In this context, the overall result for the Caribbean was a deficit of 3.0% of GDP in 2022, down from 3.7% of GDP in 2021. Similarly, the primary deficit improved to 0.3% of GDP from the 2021 figure of 1% of GDP. Lower fiscal deficits and rapid nominal output growth translated into a fall in the debt-to-GDP ratio in the region. Central government gross public debt in Latin America stood at 51.5% of GDP in 2022, compared with 53.1% of GDP in 2021. Similarly, debt in the Caribbean stood at 77.3% of GDP in 2022, compared with 84.1% of GDP in 2021.

The global macrofinancial environment has remained challenging in the early months of 2023, with economic activity and international trade growing only sluggishly. Although

global inflation has eased, partly because of a decline in energy and food prices, it remains elevated. The rise in monetary policy rates to address inflationary trends has generated turbulence in financial markets, with consequences for financing costs and capital flows to emerging economies. In tandem with global trends, the region faces significant domestic constraints, with limited fiscal and monetary policy space. In this environment, the Economic Commission for Latin America and the Caribbean (ECLAC) expects the slowdown in economic activity to deepen in the region, with a growth rate of 1.2% in 2023 (ECLAC, 2023a). Furthermore, downside risks are significant, with growing uncertainties about global economic conditions due to volatility in financial markets and heightened geopolitical tensions.

Given these conditions, it is possible that the region could return to the low growth rates that prevailed in the period before the COVID-19 crisis. ECLAC estimates that economic growth in the decade 2014–2023 will average 0.8%, a rate lower than that of the “lost decade” of the 1980s debt crisis (when the average annual rate was 2.0% a year) (ECLAC, 2023b). Potential output growth has been progressively undermined by low investment and productivity. The region also faces increasing challenges from the rapid demographic and epidemiological transition, which have implications for growth, labour markets and the public accounts. In addition, the effects of climate change are becoming increasingly evident in the region, which is experiencing more frequent and severe natural disasters, changing precipitation patterns and prolonged heat waves, as well as rising sea levels.

To cope with these challenges, ECLAC has proposed the establishment of a new fiscal covenant that lays the foundations for a sustainable public finance framework centred on increasing permanent revenues to meet the needs of well-being, investment and environmental sustainability. To this end, it is necessary to increase not only the level of tax collection, but also its progressiveness and capacity to reduce income and wealth inequalities. A complementary proposal is to develop a strategic perspective in public spending policy to make this more effective at narrowing social divides and boosting the growth potential of the economy, with priority for measures that yield high economic, social and environmental returns. Public spending should not only be geared towards meeting short-term needs, but also drive sustainable and inclusive development in the medium and long run. This would mean boosting public investment to spur economic growth and achieve the Sustainable Development Goals (SDGs). These measures would give fiscal policy the potential to sustain a new development path in the region, based on productive transformation and the construction of more egalitarian societies.

A. Revenues remained buoyant in a context of higher international commodity prices

Government revenues in Latin America continued to climb in 2022, following a strong rebound in 2021 after the collapse at the height of the COVID-19 pandemic in 2020. This trend was supported by expanding economic activity (albeit at slower growth rates) and a strong increase in international prices for non-renewable natural resources. In this context, the main driver of total revenue growth were tax receipts, which came in at 16.3% of GDP, up from 15.7% of GDP in 2021 (see figure I.1). While tax revenues increased in the Central American countries, the Dominican Republic and Mexico, this growth was outpaced by the rise in South America, led by countries such as Chile and Peru. Tax receipts performed well despite the widespread adoption of tax relief measures to alleviate the impact of rapidly rising inflation and, in some countries, of

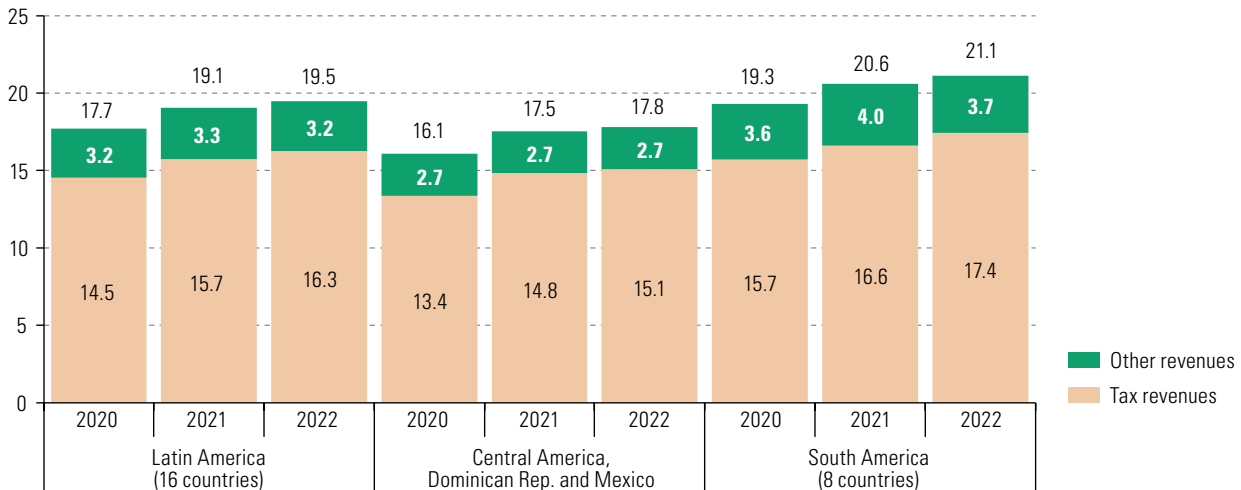
ongoing COVID-19 measures. In Chile, pandemic-related tax relief measures entailed a loss of tax resources equivalent to 0.4% of GDP in 2022 (DIPRES, 2023). Revenue from other sources (non-tax income, income from capital and grants) declined slightly, mainly as a result of a contraction in Argentina; in other countries, there were increases associated with hydrocarbon exploration and production and mining.

Figure I.1

Latin America (16 countries): total central government revenue, by component, 2020–2022
(Percentages of GDP and percentage points of GDP)

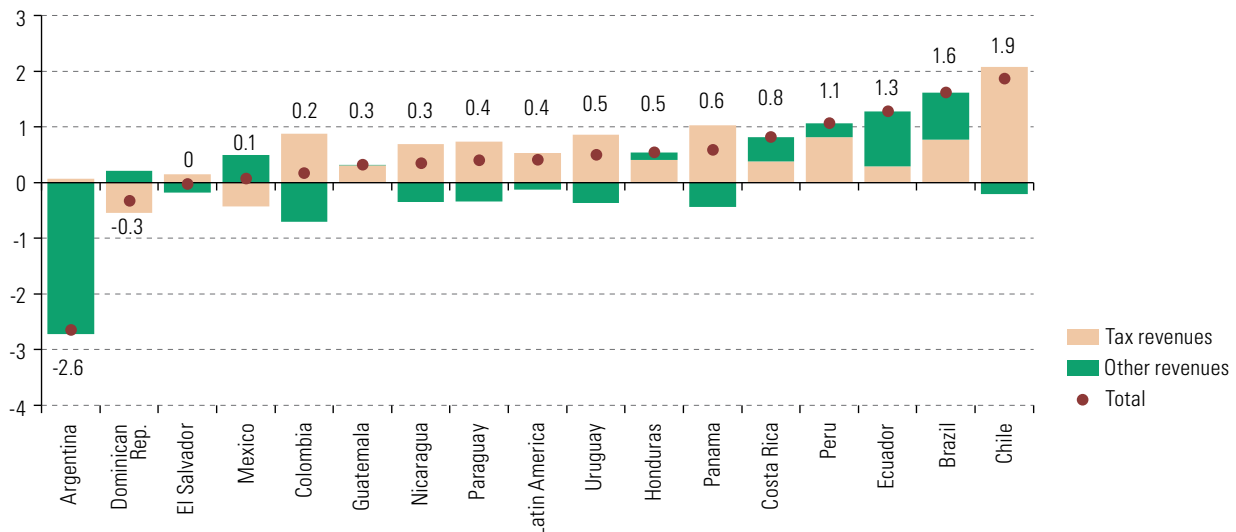
A. Composition of total central government revenue, 2020–2022

(Percentages of GDP)



B. Year-on-year changes in total revenue, by component, 2021–2022

(Percentage points of GDP)



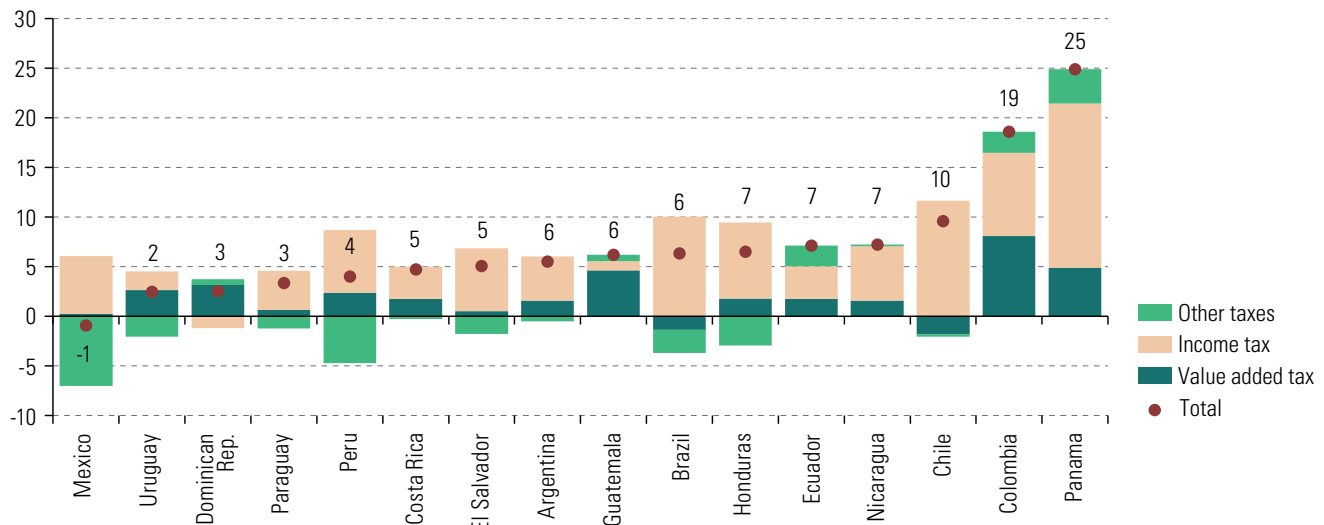
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Note: Simple averages. The individual figures may not add up to the corresponding total because of rounding. In the cases of Argentina, Mexico and Peru, the figures are for the national public administration, the federal public sector and general government, respectively.

The rise in tax revenues was mainly driven by the performance of income taxes. As illustrated in figure I.2, the contribution of income tax receipts to tax revenue growth was crucial in most of the countries. Importantly, this contribution offset a contraction in revenues from other taxes in a number of cases. Fuel excise tax receipts are a case in point. In Mexico, for example, receipts from the special tax on production and services (IEPS) applied to fuels were negative, as a stimulus measure was used to prevent prices to the public from rising in real terms (SHCP, 2023). In Honduras, petrol and diesel prices were reduced by decree, leading to a significant contraction in revenue from the levy on fuel sales known as the contribution for social programmes and conservation of road assets (SEFIN, 2023). In contrast, the negative contribution of other taxes in Peru was the result of a high base of comparison with the previous year because of extraordinary payments for the settlement of tax arrears (SUNAT, 2023). VAT contributed less to tax revenue growth, although it played an important role in some countries such as Colombia, the Dominican Republic and Guatemala.

Figure I.2

Latin America (16 countries): year-on-year changes in tax revenue,^a by tax, and contributions to these changes by tax, 2021–2022
(Percentages and percentage points)



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

Note: In the cases of Argentina, Mexico and Peru, the figures are for the national public administration, the federal public sector and general government, respectively.
^a Not including social contributions.

Income tax receipts in Latin America reflected strong momentum in 2022, largely owing to the recovery in economic activity and higher international commodity prices in 2021 (see figure I.3). Thus, higher payments from annual declarations for fiscal year 2021 made a particularly large contribution (Ministry of Finance of Brazil, 2023; Ministry of Economy and Finance of Panama, 2023). This was supplemented by higher payments on account for the 2022 tax year, especially in cases where the calculation was based on the previous year's taxable income. As regards the different types of taxpayer, corporate payments played an especially important role in the performance of income tax, particularly in countries such as Brazil, Mexico and Peru. In the cases of Brazil and Peru, this result is partly explained by payments from oil and mining companies, in line with the rise in profits the previous year, when there were very significant increases in the prices of a number of non-renewable natural resources, particularly copper, which

reached a new high, and iron ore.¹ Payments by large mining companies in Chile also increased significantly, but their contribution to the growth of total income tax revenues was smaller (DIPRES, 2023).

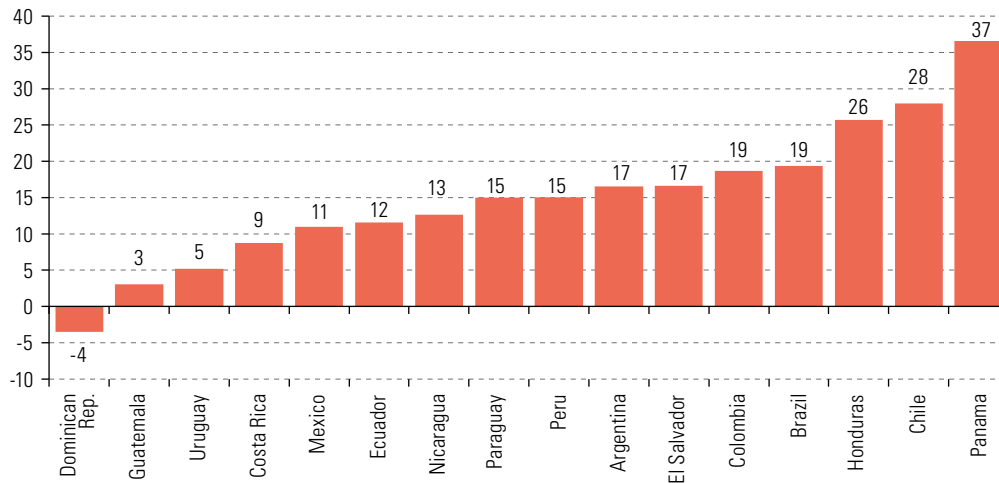
Figure I.3

Latin America (16 countries): central government income tax revenue at constant prices, 2021–2022

(Percentages and percentage points)

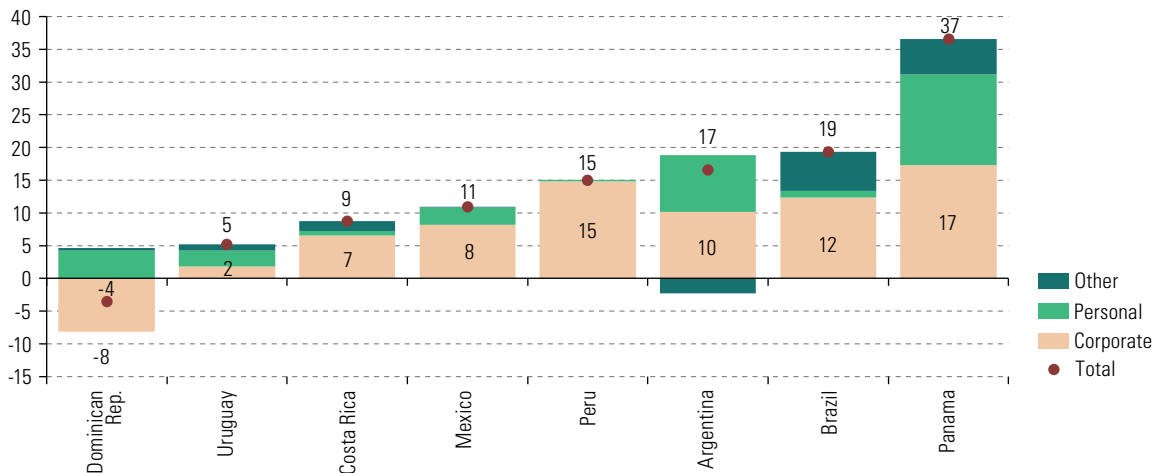
A. Real year-on-year changes in income tax receipts

(Percentages)



B. Rates of change in income tax receipts and contributions to these changes by component

(Percentages and percentage points)



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

Note: The individual figures may not add up to the corresponding total because of rounding. In the cases of Argentina, Mexico and Peru, the figures are for the national public administration, the federal public sector and general government, respectively.

¹ In Brazil, income tax payments by oil and mining companies accounted for 7 percentage points of the 19% real-term increase in income tax receipts. In Peru, this contribution from the extractive sector accounted for 7 percentage points of the 15% real-term increase in income tax receipts.

Corporate income tax revenues were influenced by one-off events in some countries. In Argentina, part of the boost to corporate income tax receipts came from the initial proceeds of an extraordinary prepayment of the tax on large companies' earnings (AFIP, 2023). In the Dominican Republic, by contrast, receipts contracted owing to the high base of comparison with the previous year, when extraordinary revenues were yielded by a tax amnesty and advance payments from financial institutions and the mining company Barrick Gold (DGII, 2023; Office of the President of the Dominican Republic, 2021).

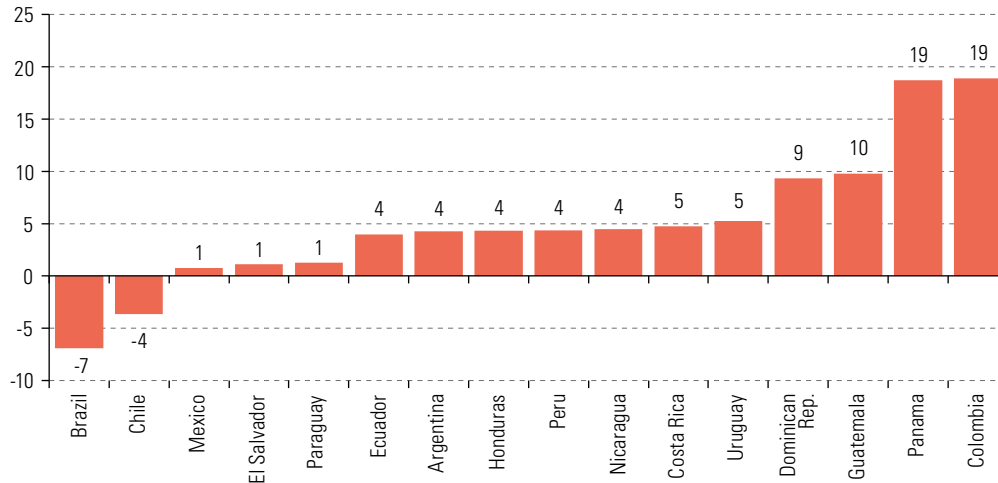
As for personal income tax, the rise in receipts is explained by the progressive recovery of labour markets and the rise in inflation. In Panama, tax withheld from employees' wages increased significantly amid an increase in formal employment (Ministry of Economy and Finance of Panama, 2023). In a number of the region's countries, however, revenue growth was influenced by nominal wage growth. In an inflationary context, taxpayers may be taxed at higher marginal rates if tax brackets are left unchanged or are not raised enough to reflect price changes. For example, the rise in tax payments in the Dominican Republic is partly explained by the fact that tax brackets have not been adjusted for inflation since January 2017 (DGII, 2023). In the case of Argentina, although the brackets were adjusted in 2022 as legally required (by 50.6% with respect to 2021), average gross nominal remuneration rose by significantly more than this adjustment, with growth of 88.2% in November compared to the same month the previous year (AFIP, 2022; Ministry of Labour, Employment and Social Security of Argentina, 2023).

Growth in VAT receipts slackened significantly in 2022 after a rapid expansion in 2021 amid a rebound in private consumption driven by the reopening of economies and higher levels of household liquidity (ECLAC, 2022b). In contrast, private consumption lost ground in 2022, owing to the cooling of economic activity, the erosion of purchasing power due to inflation and higher credit costs (ECLAC, 2022a). These trends were reflected in the performance of tax receipts in a number of countries (see figure I.4). In Chile, revenues contracted owing to the high base of comparison with the previous year, when they grew very strongly, boosted by a substantial volume of pandemic-related transfers and pension fund withdrawals, and to the slowdown in private consumption in the second half of 2022 (DIPRES, 2023). The trends in Brazil, meanwhile, reflected a fall in sales volumes and the adoption of a zero rate on fuels, together with changes in other taxes as a measure to mitigate price increases (National Treasury of Brazil, 2023) (see box I.1). By contrast, there was a very strong expansion in Colombia and Panama, reflecting improved private consumption and a rise in imports. The depreciation of the Colombian currency (13.5%) had a positive impact on receipts of VAT levied on imports. In the Dominican Republic, the increase in receipts was associated with the rebound in economic activity caused by the lifting of the state of emergency and curfew in October 2021 (DGII, 2023).

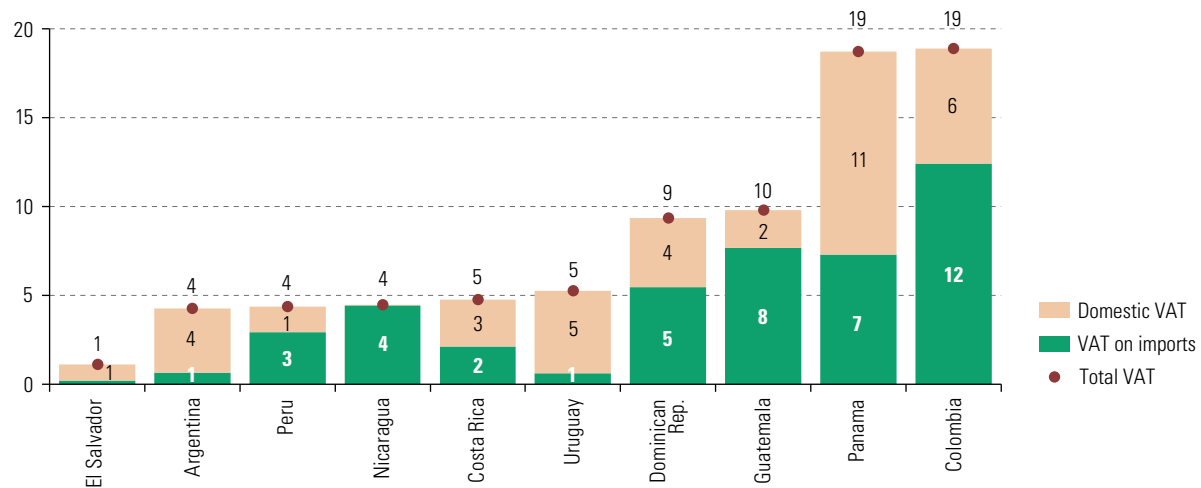


Figure I.4
Latin America (16 countries): central government value added tax (VAT)
receipts at constant prices, 2021–2022^a
(Percentages and percentage points)

A. Real year-on-year changes in VAT receipts
(Percentages)



**B. Rates of change in VAT receipts and contribution of domestic VAT
and VAT on imports to these changes**
(Percentages and percentage points)



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

Note: The individual figures may not add up to the corresponding total because of rounding. In the cases of Argentina, Mexico and Peru, the figures are for the national public administration, the federal public sector and general government, respectively.

Box I.1

Tax expenditures

A tax expenditure can be defined as a transfer of public resources that is achieved by reducing tax obligations with respect to a benchmark tax (OECD, 2004), or as resources foregone by the State because of incentives or benefits that reduce the direct or indirect tax burden of certain taxpayers relative to a benchmark tax system in order to achieve certain economic and social public policy objectives (CIAT, 2011). In Latin America and the Caribbean, most countries define tax expenditures as revenue left uncollected or foregone (Campos Vázquez, 2022).

In 2021, revenues foregone by way of tax expenditures represented a large share of tax revenues in a number of Latin American countries,^a although there were significant differences between countries. In that year, tax expenditures averaged 3.7% of GDP, representing 19% of general government tax revenues.^b At the country level, revenue loss from tax expenditures ranged from 1.4% of GDP in Paraguay to 6.7% of GDP in Honduras (OECD, 2023).

Tax expenditures can take various forms, such as exemptions, deductions, credits, reduced rates, deferrals and accelerated depreciation schemes, which provide flexibility in the design of the relevant public policies. Faced with rising prices in 2022, for example, countries resorted to several of these policy approaches to help people deal with higher prices for food and other important products.

In Brazil, import tariffs on food and agricultural production inputs, including beef, chicken and bakery products, were lowered in 2022 to mitigate the effects of the coronavirus disease (COVID-19) pandemic and the conflict between the Russian Federation and Ukraine (Government of Brazil, 2022). In Colombia, a zero-import tariff rate was set for 39 agricultural inputs to cope with global inflationary pressures (Ministry of Commerce, Industry and Tourism, 2022). In Guyana, the excise tax on fuel was reduced from 20% to 10% in early 2022 and to 0% in March the same year. In Mexico, the Package against Inflation and Scarcity (PACIC), launched in May 2022, set a zero-tariff rate on imports of commodities and inputs and provides fiscal stimuli for fuel purchases (SHCP, 2022).

The scope and scale of tax expenditures means that consideration must be given to all the potential benefits and costs involved. Since countries have used this tool instead of public spending to implement certain public policies, it is crucial for its effectiveness to be assessed so that informed decisions can be made. Accordingly, ECLAC/Oxfam International (2019) recommends considering the following questions when designing and implementing a tax expenditure policy: (i) Do tax expenditures result in a more efficient allocation of resources? (ii) What effect do they have on the horizontal and vertical equity of the tax system? (iii) Are such tax expenditures included in the budget process in a transparent manner?

While most countries of the region have made progress in estimating the revenues foregone because of tax expenditures, a better assessment of their overall benefits and costs is needed in order to consider the real impact of tax incentives in terms of increased revenues because of new investments and their associated social benefits, as well as the costs associated with investment-derived revenues that would have been received even without the tax incentives, the increased costs of tax administration, possible abuse of incentives leading to tax evasion, economic distortions, distributional effects and their impact on macroeconomic variables (Campos Vázquez, 2022).

Source: R. M. Campos Vázquez, “Medición de las renuncias recaudatorias en América Latina”, Project Documents (LC/TS.2022/148), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2022; ECLAC/Oxfam International, “Los incentivos fiscales a las empresas en América Latina y el Caribe”, Project Documents (LC/TS.2019/50), Santiago, 2019; Inter-American Centre of Tax Administrations (CIAT), *Manual de buenas prácticas en la medición de los gastos tributarios: una experiencia iberoamericana*, Panama City, 2011; Government of Brazil, “Governo Federal reduz o Imposto de Importação do feijão, carne, massas, biscoitos, arroz e materiais de construção, 2022” [online] <https://www.gov.br/casacivil/pt-br/assuntos/noticias/2022/maio/governo-federal-reduz-imposto-de-importacao-sobre-o-feijao-carne-massas-biscoitos-arroz-e-materiais-de-construcao>; Ministry of Commerce, Industry and Tourism, “Gobierno de Iván Duque define arancel del 0% a otros 39 insumos agropecuarios para reducir costos de producción 2022” [online] <https://www.mincit.gov.co/prensa/noticias/comercio/arancel-del-0-a-otros-39-insumos-agropecuarios>; Ministry of Finance, “Guyana implemented a suite of measures to contain rising prices amid external shocks”, 2022 [online] <https://finance.gov.gy/guyana-implemented-a-suite-of-measures-to-contain-rising-prices-amid-external-shocks/>; Organisation for Economic Co-operation and Development (OECD), “Best practice guidelines: off budget and tax expenditures”, paper presented at the twenty-fifth Annual Meeting of Senior Budget Officials, Madrid, 9–10 June 2004; OECD, *Revenue Statistics in Latin America and the Caribbean 2023*, Paris, 2023; Secretariat of Finance and Public Credit (SHCP), “Paquete contra la inflación y la carestía PACIC, 2022” [online] <https://www.gob.mx/shcp/pacic?tab=Qu%C3%A9%20es%20PACIC>.

^a Argentina, Brazil, Chile, Costa Rica, the Dominican Republic, Ecuador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru and Uruguay.

^b Simple average of the data included in the reports dealing with the years specified for each country: Argentina (2021), Brazil (2021), Chile (2021), Costa Rica (2019), Dominican Republic (2021), Ecuador (2020), Guatemala (2021), Honduras (2021), Mexico (2021), Panama (2019), Paraguay (2019), Peru (2021) and Uruguay (2020).

Meanwhile, revenues from other sources (non-tax income, income from capital and grants) remained relatively stable, decreasing very slightly from 2021 (see figure I.5). However, this result masks significant variations at the country level. In Argentina, the contraction reported was due to the non-receipt in 2022 of certain revenues that had been received in 2021, such as an extraordinary allocation of special drawing rights (-0.9 percentage points of GDP), revenues from the central bank (-1.7 percentage points of GDP) and, to a lesser extent, revenues from the extraordinary solidarity contribution (Aporte Solidario y Extraordinario) (ONP, 2023). Similarly, the drop in receipts in Colombia is explained by the high base of comparison with the previous year, when extraordinary revenues were raised from the sale to Ecopetrol of 51% of the State's shareholding in Interconexión Eléctrica S.A. (ISA) (-1.2 percentage points of GDP) and by the contraction in central bank profits transferred to the central government (-0.5 percentage points of GDP), although these reductions were partly offset by higher dividends from Ecopetrol (1.1% of GDP) (Ministry of Finance and Public Credit of Colombia, 2023).

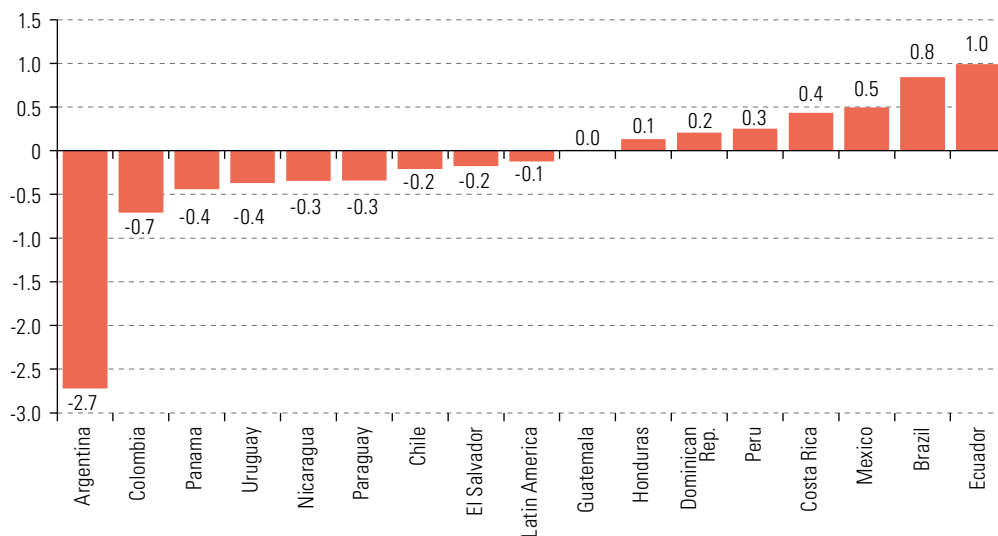


Figure I.5
Latin America (16 countries):
year-on-year changes in
other central government
revenues, 2021–2022
(Percentage points of GDP)

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

Note: In the cases of Argentina, Mexico and Peru, the figures are for the national public administration, the federal public sector and general government, respectively.

In contrast, receipts from other sources increased significantly in other countries, largely driven by non-tax revenues linked to the extractive sector. The dynamism of the main benchmark crude oil prices in 2022 was an important factor: the price of Brent crude rose by 42% and that of West Texas Intermediate by 39% as a result of the conflict in Ukraine and higher global demand. In Ecuador, in line with this trend, the increase in non-tax revenues was associated with a rise in revenues from crude oil exports of 1.4 percentage points of GDP, which compensated for a decline in sales of oil derivatives. In Brazil, the reported increase is explained by a rise in dividends paid by Petrobras (0.4 percentage points of GDP) and higher non-tax revenues from hydrocarbon exploration and production and from mining (0.3 percentage points of GDP) (National Treasury of Brazil, 2023). In Mexico, oil revenues also performed well, increasing by 0.7 percentage points of GDP, although this was partly offset by contractions in other non-tax revenues.

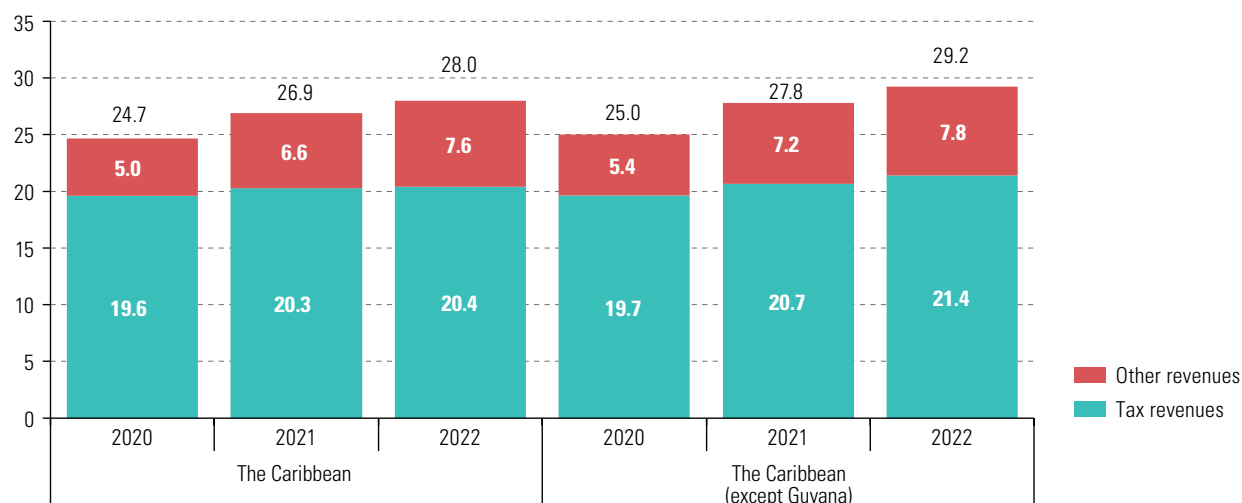
In the Caribbean, government revenues also rose in 2022, driven by the recovery in economic activity, particularly in the tourism sector (see figure I.6). In this context, VAT receipts and taxes related to international trade, including levies on the hotel and airline sectors,² were particularly buoyant. In the case of the Bahamas, this occurred despite a reduction of the statutory VAT rate from 12% to 10% in January 2022 (Government of the Bahamas, 2021). In Barbados, revenue collection was boosted by the first payments of the pandemic contribution levy (Central Bank of Barbados, 2023). In contrast, the increase in Trinidad and Tobago was due to the performance of corporate income tax, particularly that paid by oil companies, thanks to higher international oil and natural gas prices (Ministry of Finance of Trinidad and Tobago, 2022). In the case of Saint Vincent and the Grenadines, there was a large contraction in property tax proceeds owing to the high base of comparison with the previous year, when there was an extraordinary increase in land sales to foreigners (Ministry of Finance, Economic Planning, Sustainable Development and Information Technology of Saint Vincent and the Grenadines, 2023).

Revenues from other sources grew significantly in several Caribbean countries. In Guyana, this increase was due to the central government's first withdrawal from the sovereign wealth fund set up to manage the country's oil revenues (the Natural Resource Fund), with a view to financing public investment in priority sectors (Ministry of Finance of Guyana, 2023). In Trinidad and Tobago, it was due to higher oil royalty payments, which doubled from the previous year (Ministry of Finance of Trinidad and Tobago, 2022). Non-tax revenues in the Caribbean were also strongly impacted by the performance of citizenship by investment programmes in several countries. In Grenada, for example, revenues from this programme amounted to 2.3% of GDP, compared with 0.9% of GDP in 2021. Although the year-on-year change in Saint Kitts and Nevis was smaller, the volume of revenues from this programme was 25.8% of GDP in 2022.

Figure I.6

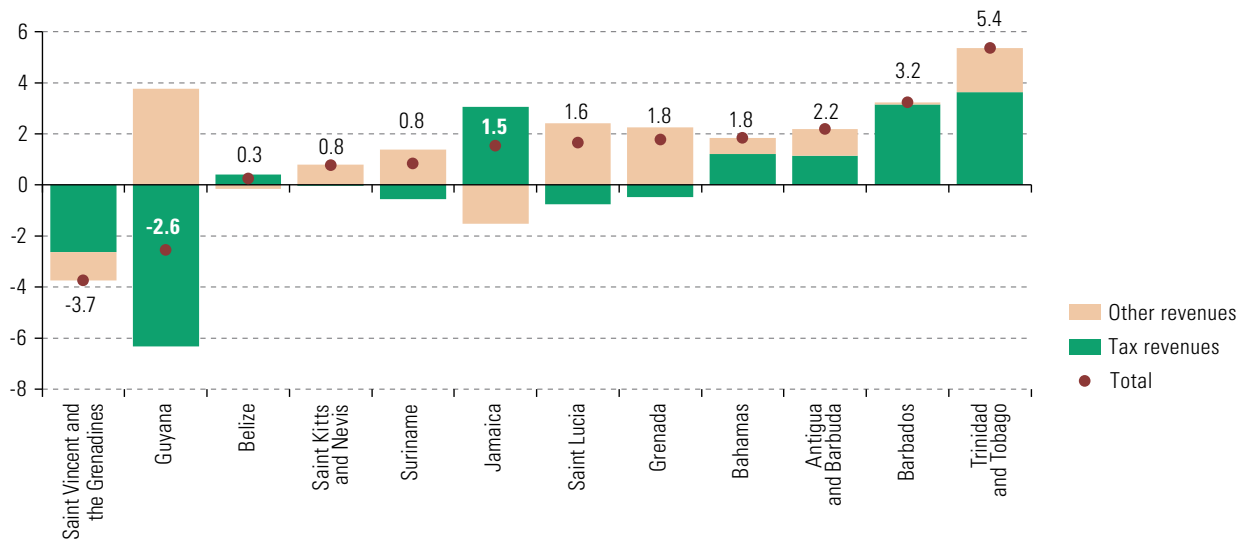
The Caribbean (12 countries): total central government revenue, 2019–2022^a
(Percentages of GDP and percentage points of GDP)

A. Composition of total central government revenue, 2019–2022
(Percentages of GDP)



² For further information, see Central Bank of the Bahamas (2022), Central Bank of Barbados (2023) and Ministry of Finance and Public Service of Jamaica (2023).

B. Year-on-year changes in total revenue, by component, 2021–2022 (Percentage points of GDP)



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

Note: Simple averages. The individual figures may not add up to the corresponding total because of rounding. The figures for Barbados and Saint Kitts and Nevis are for the non-financial public sector and federal government, respectively.

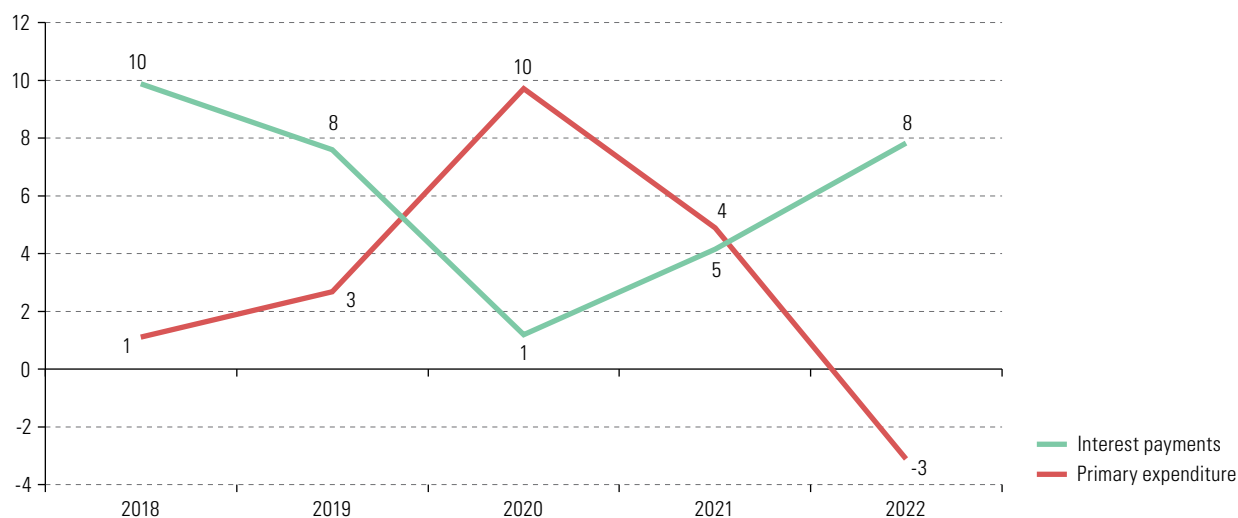
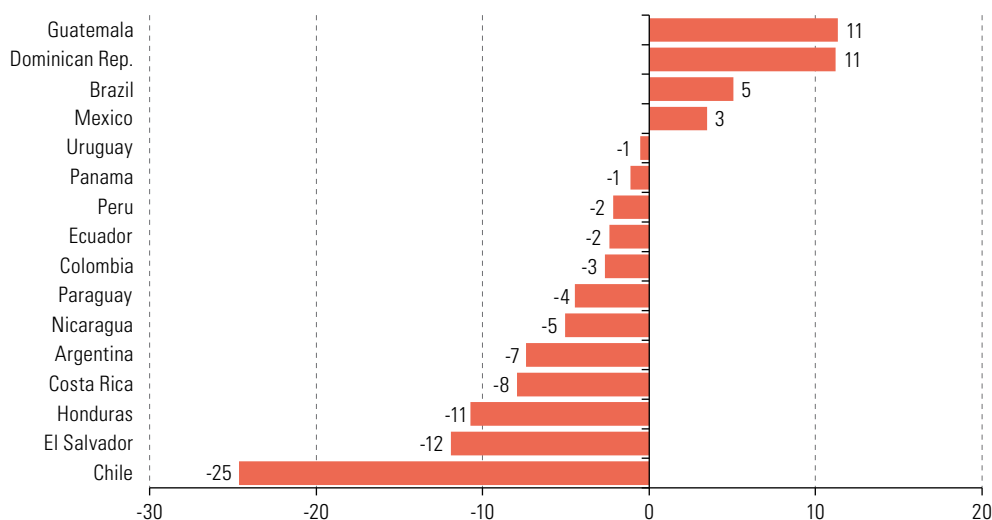
^a The figures for Antigua and Barbuda, Barbados, Belize, Grenada, Jamaica and Saint Lucia are official estimates.

B. Spending fell amid a slowdown in economic activity in Latin America

In 2022, public spending policy in Latin America was faced with the need to balance a number of sometimes conflicting objectives. As set out in their budgets for that year, the countries continued with the consolidation policy they had begun in 2021, relying mainly on reductions in primary spending to close the fiscal gaps that had opened up in 2020 because of the measures taken by the public sector to deal with the COVID-19 pandemic. However, in an inflationary context characterized by declining household purchasing power and rising input prices for key sectors, particularly agriculture, the countries implemented a number of anti-inflation measures that had an impact on public spending. In some cases, these outlays were very significant, partly offsetting the planned reduction in primary expenditure. At the same time, capital expenditure declined or was underexecuted in a number of countries, which conflicted with governments' intention to boost public investment in order to stimulate economic recovery. Against this backdrop, primary expenditure contracted across the board in 2022 (see figure I.7). In contrast to 2021, however, when primary spending decelerated as economic activity recovered, the contraction in 2022 exacerbated the slowdown in growth.

Figure I.7

Latin America (16 countries): year-on-year changes in central government primary expenditure, 2018–2022
(Percentages, on the basis of constant prices)

A. Year-on-year changes in primary expenditure, 2018–2022^a**B. Year-on-year changes in primary expenditure, by country, 2021–2022**

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

Note: In the cases of Argentina, Mexico and Peru, the figures are for the national public administration, the federal public sector and general government, respectively.

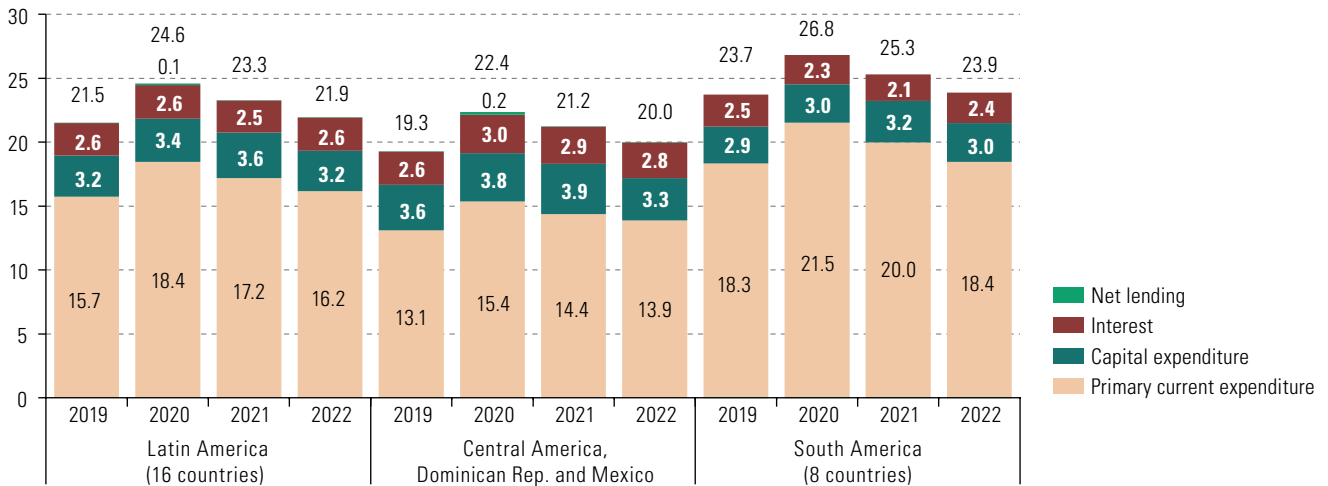
^a Simple averages.

The contraction in primary expenditure could be seen in the trajectory of public spending relative to output. Total expenditure in Latin America as a whole was 21.9% of GDP in 2022, compared with 23.3% of GDP in 2021 (see figure I.8). This trend is explained by a significant reduction in primary current expenditure and capital outlays. By contrast, interest payments held fairly steady, growing in line with output in nominal

terms. These trends were not replicated in the same way in the different groups of countries that make up Latin America. In Central America, the Dominican Republic and Mexico, the fall in capital expenditure was substantial and greater than the decline in primary current expenditure. With respect to South America, the observed decline is associated with the reduction in primary current expenditure, since the decrease in capital expenditure was offset by higher interest payments.

Figure I.8

Latin America (16 countries):^a total central government expenditure, by component, 2019–2022
(Percentages of GDP)



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

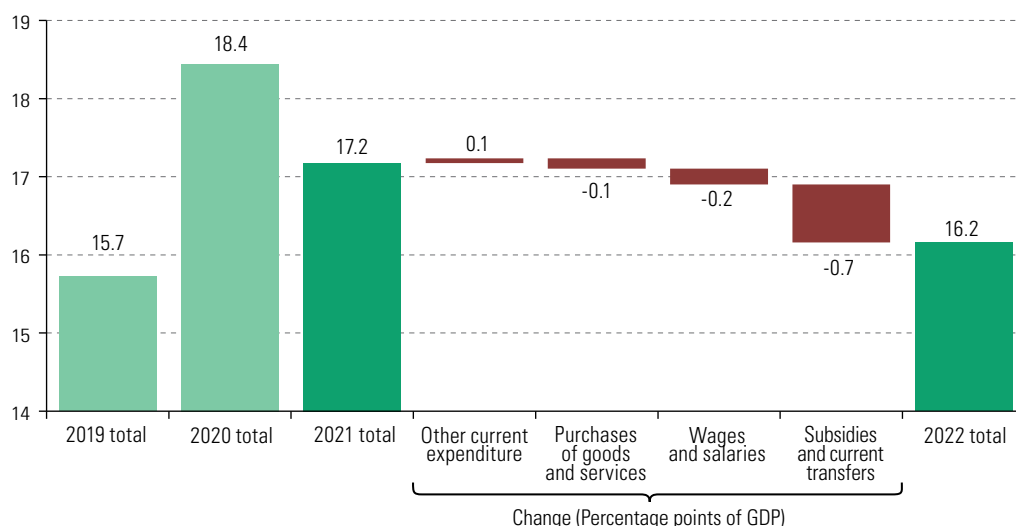
Note: Simple averages. The individual figures may not add up to the corresponding total because of rounding. In the cases of Argentina, Mexico and Peru, the figures are for the national public administration, the federal public sector and general government, respectively.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

After playing a key role in the public sector response to the COVID-19 pandemic in 2020, current primary expenditure in Latin America has undergone a stepwise decline, although it remains higher than before the pandemic (see figure I.9). This trend is mainly associated with the withdrawal of emergency measures taken to cope with the pandemic. The contraction in 2022 was mainly explained by a reduction in outlays for subsidies and current transfers as different pandemic-related support programmes for households and businesses were wound down. With regard to wages and salaries, the changes in compensation observed for the year were in many cases below price increases, with the result that pay fell in real terms and relative to output. In Costa Rica, civil servants' pay was frozen, as provided for in Law No. 9635 of 2018, which prohibits pay increases when public debt exceeds the range established therein (BCCR, 2023). Purchases of goods and services declined slightly as pandemic-related outlays were reduced and the procurement of inputs for public investment fell in a context of lower capital spending.

Figure I.9

Latin America (16 countries):^a central government primary current expenditure, totals and changes by component, 2019–2022
(Percentages of GDP and percentage points of GDP)



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

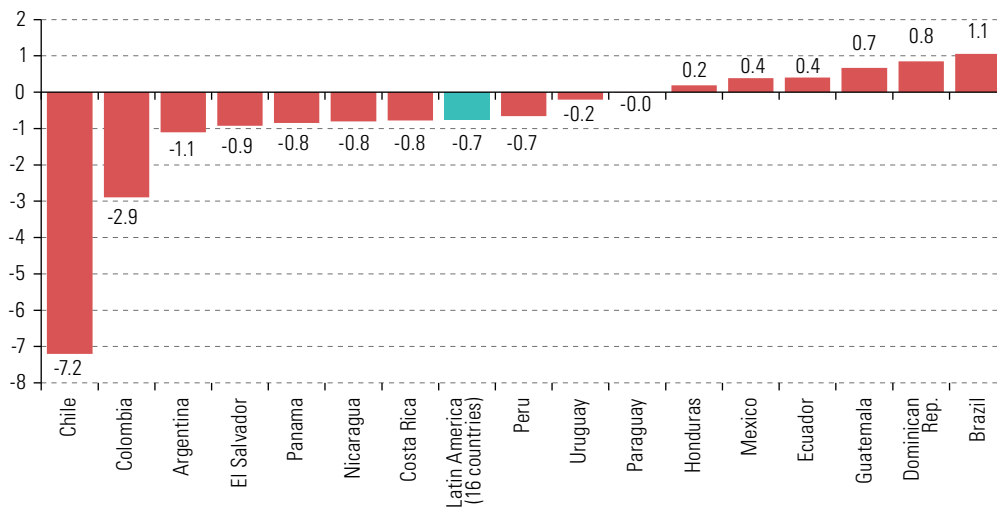
Note: Simple averages. The individual figures may not add up to the corresponding total because of rounding. In the cases of Argentina, Mexico and Peru, the figures are for the national public administration, the federal public sector and general government, respectively.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

Although subsidies and current transfers declined on average over 2022, situations varied between and within countries. As illustrated in figure I.10, they contracted in both absolute and relative terms in most countries during 2022. Of particular note are Chile and Colombia, where there were significant reductions associated with lower spending on pandemic-related programmes. In Chile, this contraction was mainly explained by the expiry of the Universal Family Emergency Income (IFE) in 2021 (when it represented 6.7% of GDP), offset only in part by expenditures associated with the Fuel Price Stabilization Mechanism (MEPCO) (DIPRES, 2023). As regards the reduction in Colombia, the main factor was the decline in pandemic-related outlays (-1.8 percentage points of GDP), partly owing to the reallocation of resources to investments and a fall in transfers to the pension system and the general royalties system, which was greater than the increase in transfers to the Fuel Price Stabilization Fund (FEPCO) (0.9 percentage points of GDP) (Ministry of Finance and Public Credit of Colombia, 2023). In Peru, the reduction reflected lower spending on measures to deal with the pandemic, partly offset by outlays to mitigate the effect of higher prices on vulnerable populations and key sectors; for example, by expanding the coverage and amount of subsidies provided by existing social programmes such as Juntos, the “Pensión 65” National Solidarity Assistance Programme, the National Programme of Non-contributory Pensions for Persons with Severe Disabilities Living in Poverty (CONTIGO) and the Qaliwarma Programme, as well as the food voucher (with spending worth 0.2% of GDP) and FertiAbono, a subsidy targeted at small agricultural producers (Ministry of Economy and Finance of Peru, 2022).

Figure I.10

Latin America (16 countries): year-on-year changes in central government expenditure on subsidies and current transfers, 2021–2022
(Percentage points of GDP)



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

Note: In the cases of Argentina, Mexico and Peru, the figures are for the national public administration, the federal public sector and general government, respectively.

In other countries, the contraction of current transfers and subsidies was due to more idiosyncratic factors. In Argentina, these mainly included lower outlays on energy subsidies (consisting chiefly of transfers to the Compañía Administradora del Mercado Mayorista Eléctrico S.A. (CAMMESA), which manages the bulk power market, to cover the gap between production costs and the tariffs paid by consumers) and on social benefits, chiefly because benefits lost value in an inflationary environment (OPC, 2023). The contraction in Panama, meanwhile, was associated with the high base of comparison with the previous year, when the central government made a transfer equivalent to 0.5% of GDP to the Social Security Fund to cover the institution's operating deficit, which was not offset by increased outlays associated with the solidarity price set for fuels (worth 0.2% of GDP from January to September 2022) (Ministry of Economy and Finance of Panama, 2023; La Prensa, 2022). In Nicaragua, the reduction was mainly explained by a decrease in the transfers introduced to cope with the pandemic and mitigate the effects of hurricanes Eta and Iota, which was not fully offset by new outlays to freeze fuel and liquefied gas prices (0.8% of GDP) (BCN, 2023).

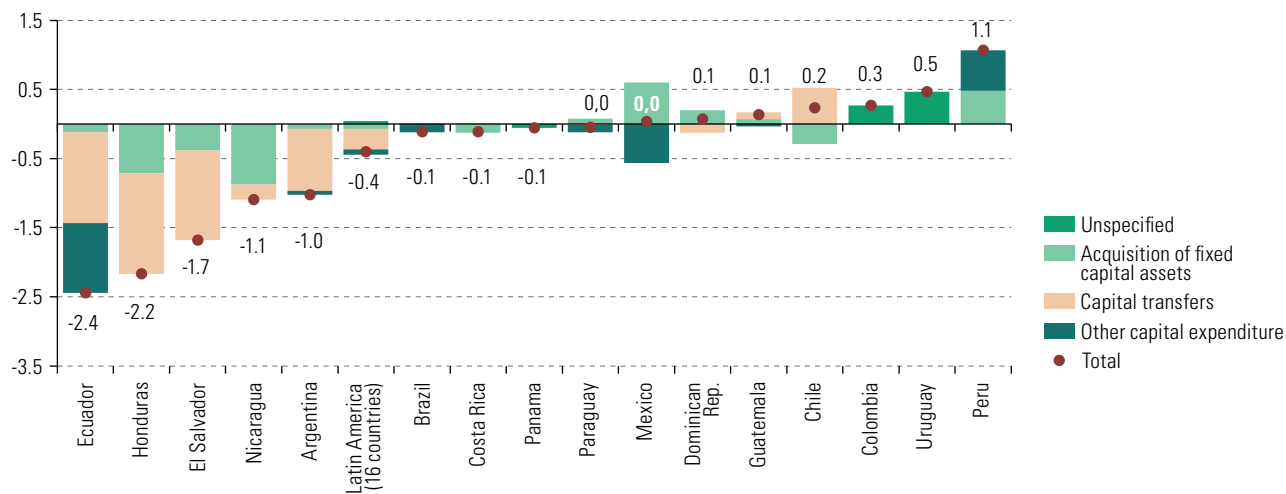
In contrast to this general trend, outlays on subsidies and current transfers increased in several countries as a result of higher spending associated with social benefits and measures to mitigate price increases. In Brazil, this increase was mainly due to the implementation of the Auxílio Brasil programme, which came into effect in November 2021 as a temporary measure and was made permanent in May 2022. In accordance with the provisions of the legislation, this benefit rose to 400 reais per family, compared to 217 reais until November 2021. As a result of this increase, outlays on the Bolsa Família and Auxílio Brasil programmes were worth 0.9% of GDP in 2022, compared to 0.3% of GDP in 2021 (National Treasury of Brazil, 2023). In the Dominican Republic, the increase was due to a rise of 0.3 percentage points of GDP in fuel subsidies and 0.5 percentage points of GDP in electricity subsidies (DIGEPRES, 2023). Also

important was the subsidy established by the Law on Temporary Social Support for Diesel and Regular Petrol Consumers in Guatemala, whose outlays totalled 0.4% of GDP (Ministry of Finance of Guatemala, 2023). In Ecuador, the increase was partly due to higher transfers to the Ecuadorian Social Security Institute (IESS) and a rise in the value of the Human Development Voucher from US\$ 50 to US\$ 55 in June 2022 (Ministry of Economy and Finance of Ecuador, 2023).

Average capital expenditure in Latin America fell in 2022, after two consecutive years of growth. As shown in figure I.11, several countries experienced significant contractions exceeding 1 percentage point of GDP and even 2 percentage points of GDP in the cases of Ecuador and Honduras. This trend is explained by the decline in capital transfers, although in some countries this was accompanied by a reduction in fixed asset investment.³ The contraction in Honduras was due to a number of factors, including underimplementation of projects because of reforms to the structure of the public sector and delays in project approval (SHCP, 2023). The decline in the acquisition of fixed assets in Nicaragua was mainly due to the high base of comparison the previous year, when a set of reconstruction projects was implemented after hurricanes Eta and Iota, as well as extraordinary investments in health infrastructure in response to the pandemic (BCN, 2023). In Argentina, the reduction is explained by lower capital transfers to the Trust Fund for the Argentine Bicentennial Credit Programme for Single Family Housing (PROCREAR) and to public enterprises (OPC, 2023).

Figure I.11

Latin America (16 countries): year-on-year changes in central government capital expenditure, by component, 2021–2022
(Percentage points of GDP)



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

Note: In the cases of Argentina, Mexico and Peru, the figures are for the national public administration, the federal public sector and general government, respectively.

The downward trend in capital expenditure was not universal, however, and increases can be observed in several countries. In Peru, capital expenditure reached a record level, boosted by the expansion of the public investment budget, the streamlining of project

³ Capital transfers are associated with the financing of investment projects in the public and private sectors and with transfers of resources to support the operations of public enterprises, among other things.



approval processes, measures to strengthen the project implementation capabilities of subnational authorities and an exceptional capital injection into Petroperú (Ministry of Economy and Finance of Peru, 2023). In Colombia, an important development was the reconfiguration of some programmes, such as the Solidarity Income programme, as public investment (Ministry of Finance and Public Credit of Colombia, 2023). The increase in Chile was associated with higher outlays for housing subsidies and land purchases under the Housing Emergency Plan, as well as efforts to speed up the execution of public investment projects (DIPRES, 2023).⁴

Interest payment trends were mixed in Latin America in 2022, amid a deteriorating global and domestic macrofinancial environment. Interest rates on long-term (10-year) bonds rose in the region's countries, driven by the trends in both domestic and international monetary policy rates, by higher levels of sovereign risk and by credit rating downgrades. It is important to be aware of the upward trend in interest rates and interest payments, since these could create tensions between debt servicing and the implementation of development-oriented public policies (see box I.2). In this context, there have been significant increases in Colombia and Brazil (see figure I.12). In Colombia, the increase has been mainly due to interest payments on inflation-linked Treasury securities (Ministry of Finance and Public Credit of Colombia, 2023). In Brazil, short-term debt has played a leading role as a channel transmitting monetary policy rate movements to central government interest payments (the SELIC rate rose from 1.9% in January 2021 to 9.15% at the end of that year before climbing to 13.65% in December 2022). In Argentina and Ecuador, the increase has mainly been due to the servicing of securities issued as part of the public debt restructuring process in 2020. In Panama, meanwhile, payments fell owing to the reprofiling of interest payments on certain global bonds under an agreement with Citibank whereby the bank covered interest payments owing on these bonds in 2022 and the country will repay them between July 2024 and December 2026 (Government of Panama, 2022).

Box I.2

Development distress associated with debt service

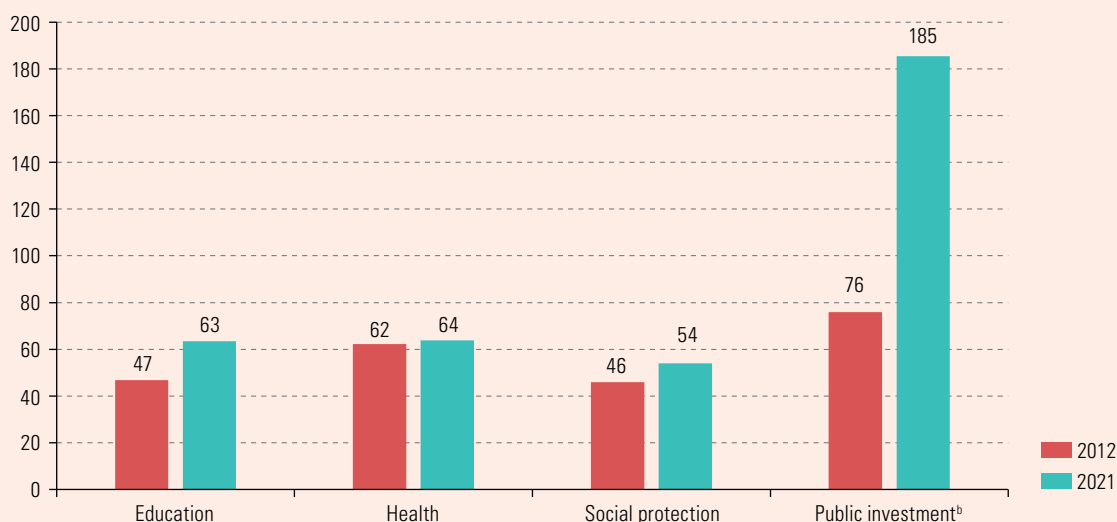
Development distress associated with debt service are evident in Latin America and the Caribbean. The region is characterized by entrenched structural divides, such as high levels of inequality, poverty and informality, low levels of productivity and investment and inadequate provision of high-quality public goods and services. The ability of the public sector to address these challenges in the region is hampered by the lack of permanent resources to meet the permanent costs of expanded social spending and a public investment drive. Public revenues have historically been insufficient to cover public spending demands, which reduces the fiscal space for implementing active public policies. Another factor limiting public spending in key sectors is the growing burden of interest payments in the region.

As the chart below shows, the share of interest payments relative to other priority expenditures is substantial. On average, interest payments are equivalent to more than half of social spending on education, health and social protection. This proportion relative to education and social protection increased over the last decade, despite the exceptional rise in these in 2020 due to the public sector response to the coronavirus disease (COVID-19) pandemic, which was partly reversed in 2021. Furthermore, this proportion is particularly unfavourable with respect to public investment. Central government capital expenditures were cut significantly between 2012 and 2021, becoming the main fiscal adjustment variable at a time when the countries were adopting fiscal consolidation measures to curb the growth of public debt.

⁴ In 2022, a new budget structure was adopted for regional governments whereby investment initiatives are recorded not as investments but as capital transfers (DIPRES, 2023).

Latin America and the Caribbean (21 countries):^a central government interest payments relative to expenditure on education, health, social protection and public investment, 2012 and 2021

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Public debt and development distress in Latin America and the Caribbean* (LC/TS.2023/20), Santiago, 2023, forthcoming.

Note: Figures are medians. Those for Brazil, Colombia, Costa Rica, Guatemala, Paraguay and Peru are for general government. Those for Argentina, El Salvador and Mexico are for the non-financial public sector.

^a Argentina, Bahamas, Barbados, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago and Uruguay.

^b Public investment is measured by fixed asset acquisitions. Figures for fixed asset acquisitions as part of interest payments are for central government in all cases.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Public debt and development distress in Latin America and the Caribbean* (LC/TS.2023/20), Santiago, 2023, forthcoming.

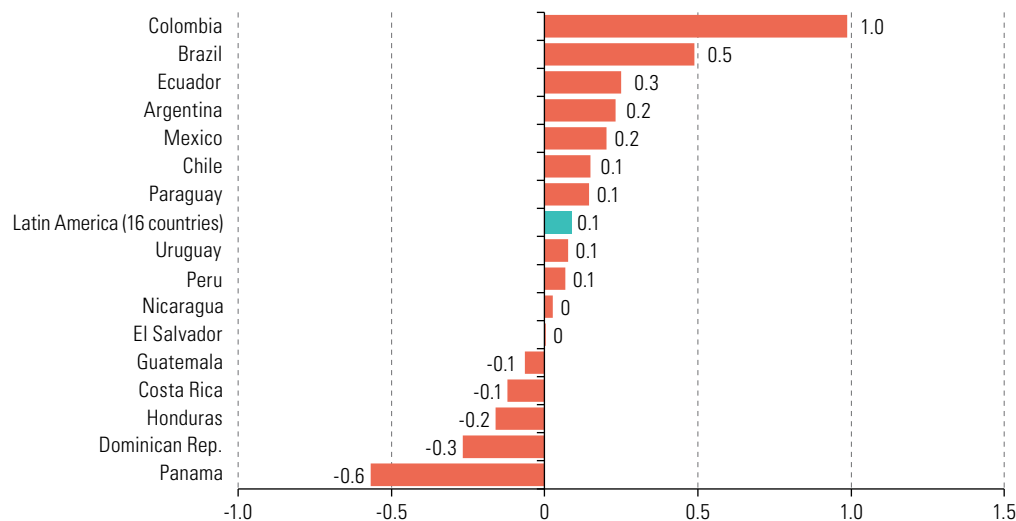
Figure I.12

Latin America (16 countries): year-on-year changes in central government interest payments and interest rates on 10-year bonds, 2020–2022

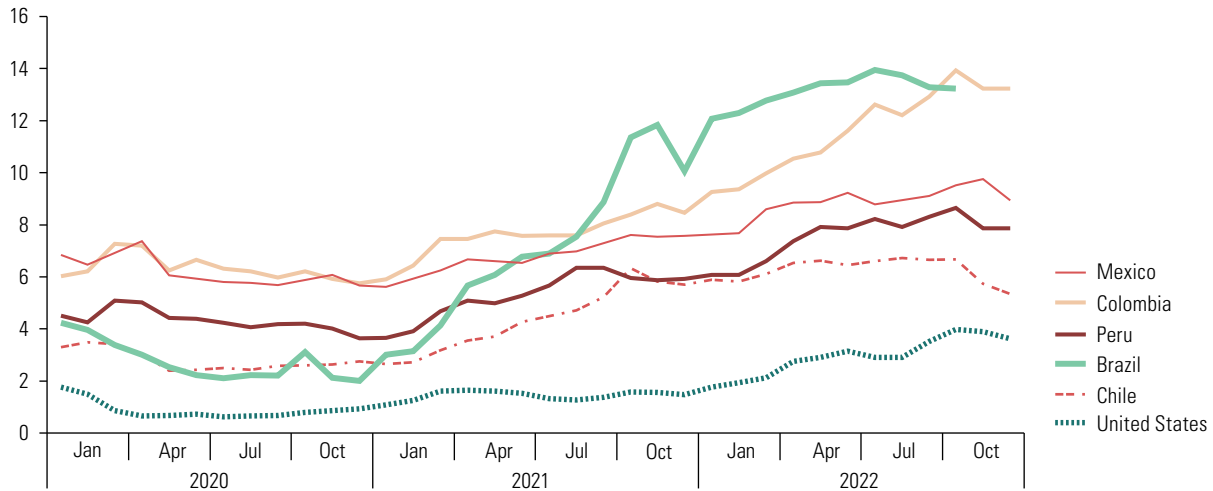
(Percentage points of GDP and percentages)

A. Central government interest payments, 2021–2022

(Percentage points of GDP)



B. Interest rates on ten-year bonds, January 2020 to December 2022 (Percentages)

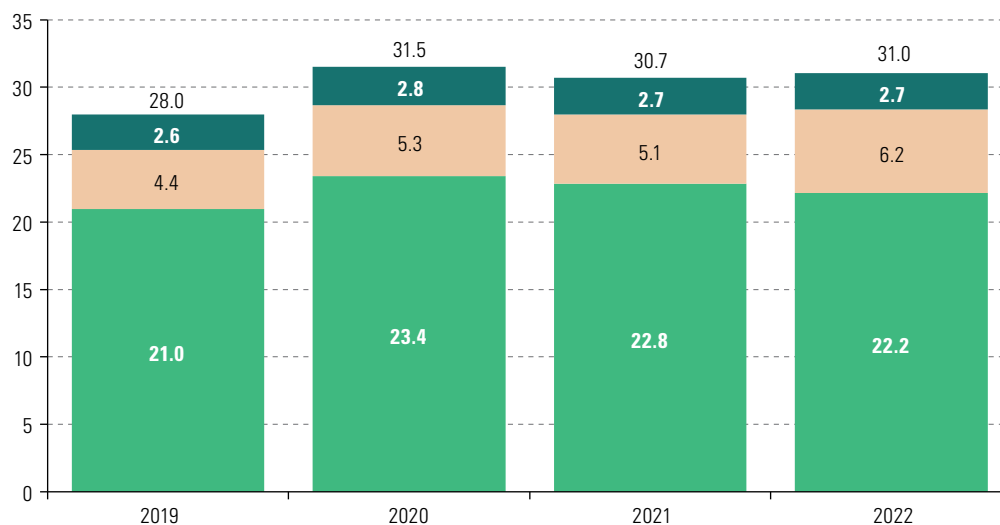
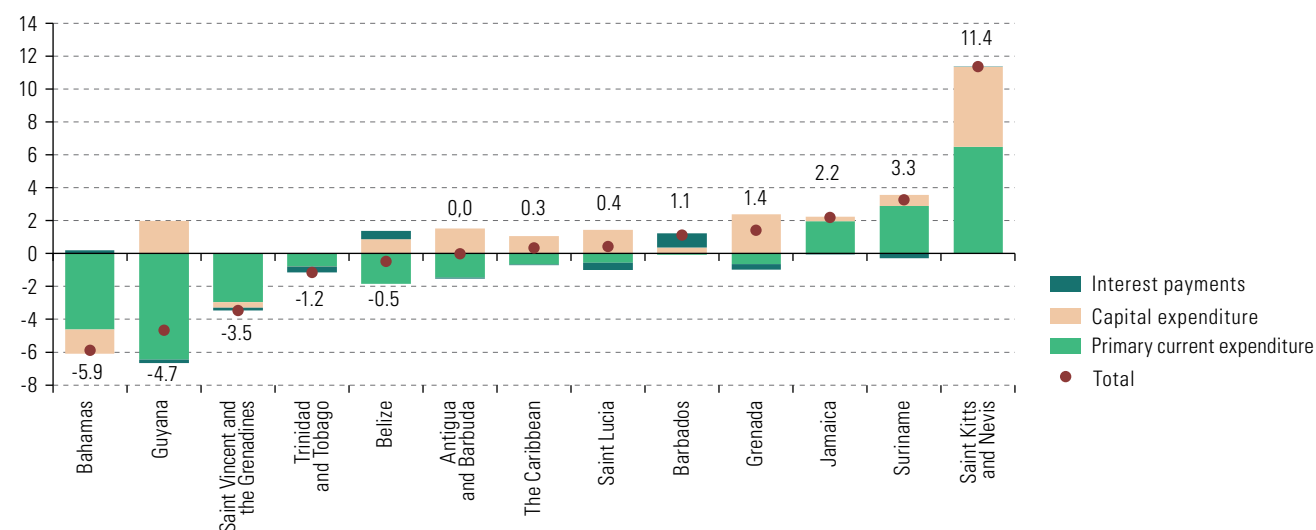


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures, and Organisation for Economic Co-operation and Development (OECD), OECD.Stat.

Note: In the cases of Argentina, Mexico and Peru, the figures are for the national public administration, the federal public sector and general government, respectively.

By contrast with the trends in Latin America, public spending in the Caribbean increased.⁵ Capital expenditure was the main factor behind this trend, but was not necessarily linked to the creation of infrastructure or production capacity. This is evident in the case of Saint Kitts and Nevis, where the increase in capital expenditure was due to large-scale land purchases (equivalent to 7.8% of GDP) as part of a buyback of land sold under the debt for land swap agreement implemented as part of a sovereign debt restructuring exercise in 2011, which was offset by a decline in fixed capital investment (ECCB, 2022; IMF, 2023). By contrast, the increases in Grenada and Guyana were explained by increased investment in infrastructure (Ministry of Finance of Grenada, 2022; Ministry of Finance of Guyana, 2023). As for the fall in primary current expenditure, the chief factor was the contraction of subsidies and current transfers, mainly because emergency programmes were wound up. In contrast, there was an increase in Jamaica owing to higher spending on wages and salaries because of a restructuring of public sector compensation (Ministry of Finance and Public Service of Jamaica, 2023). Average interest payments held steady in the Caribbean, despite increases in Barbados and Belize (see figure I.13).

⁵ The change in averages was strongly influenced by the rise in nominal output in Guyana, driven by the expansion of oil production.

Figure I.13The Caribbean (12 countries): total central government expenditure, 2019–2022^a*(Percentages of GDP and percentage points of GDP)***A. Composition of total central government expenditure, 2019–2022***(Percentages of GDP)***B. Year-on-year changes in total expenditure, by component, 2021–2022***(Percentage points of GDP)***Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.**Note:** Simple averages. The individual figures may not add up to the corresponding total because of rounding. The figures for Barbados and Saint Kitts and Nevis are for the non-financial public sector and federal government, respectively.^a The figures for Antigua and Barbuda, Barbados, Belize, Grenada, Jamaica and Saint Lucia are official estimates.

C. Fiscal deficits narrowed substantially

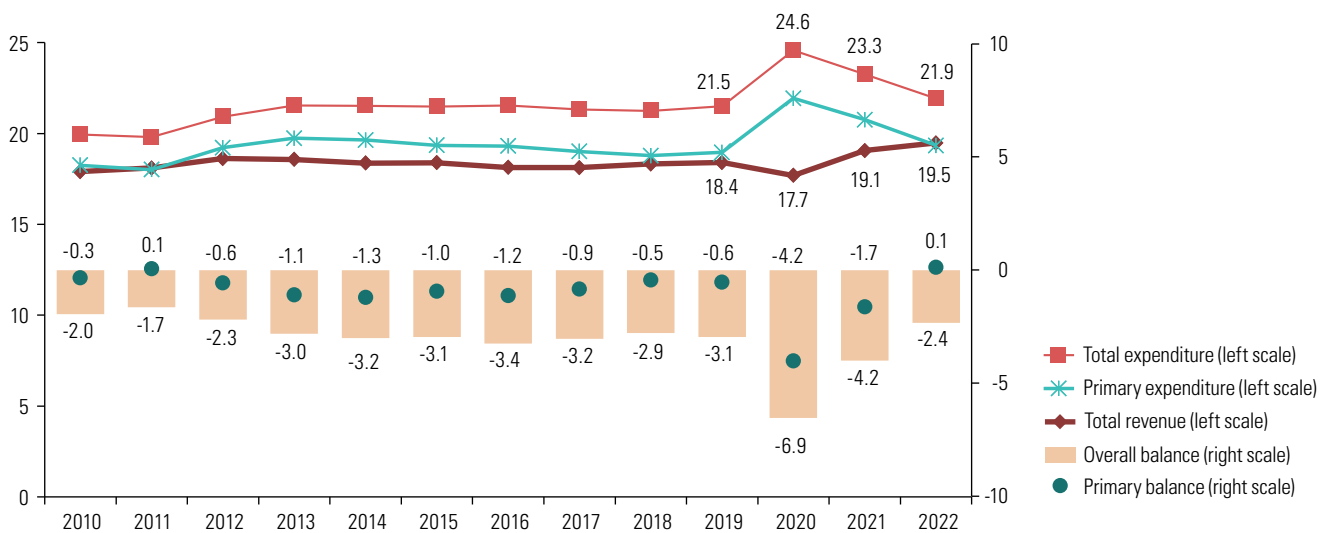
Fiscal trends in Latin America during 2022 were characterized by the continuation of a policy of consolidation to address fiscal imbalances arising from the necessary public sector response to the COVID-19 pandemic in 2020 (see figure I.14). In response to the rise in public debt that year, when it reached levels not seen in two decades, the countries set out a combination of public spending cuts and measures to raise



additional resources in their budgets for 2021 and 2022 with the aim of reducing their fiscal deficits. This intention was made manifest in the trajectory of public spending, which fell to 21.9% of GDP in 2022 from its record level of 24.6% of GDP in 2020. Efforts to close fiscal deficits were supported by a significant increase in total revenues, driven in part by the international commodity price trends generated by the conflict in Ukraine. As a result, the average overall balance was a deficit of 2.4% of GDP in 2022, compared to a deficit of 4.2% of GDP in 2021. Excluding interest payments, the primary balance turned slightly positive for the first time since 2011, averaging 0.1% of GDP, which contrasted with a deficit of 1.7% of GDP in 2021.

Figure I.14

Latin America (16 countries):^a central government fiscal indicators, 2010–2022
(Percentages of GDP)



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

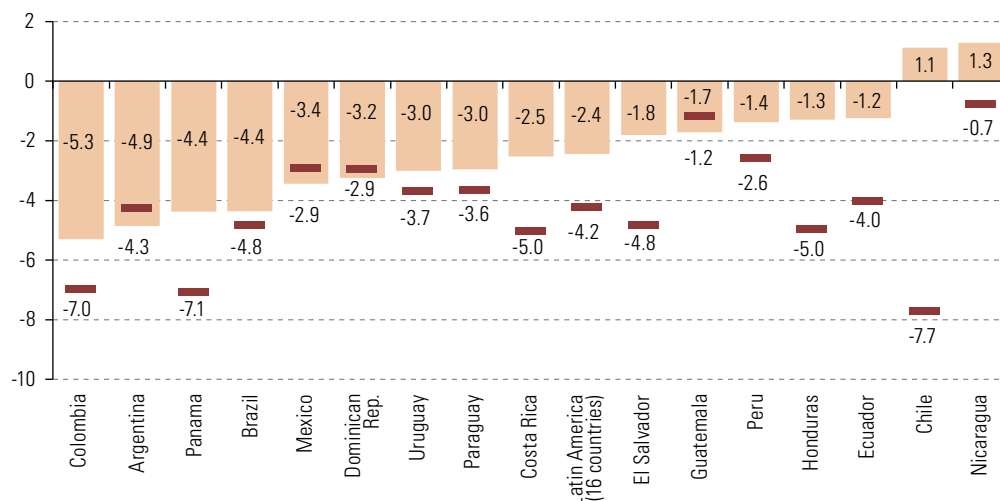
Note: Simple averages. The individual figures may not add up to the corresponding total because of rounding. In the cases of Argentina, Mexico and Peru, the figures are for the national public administration, the federal public sector and general government, respectively.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

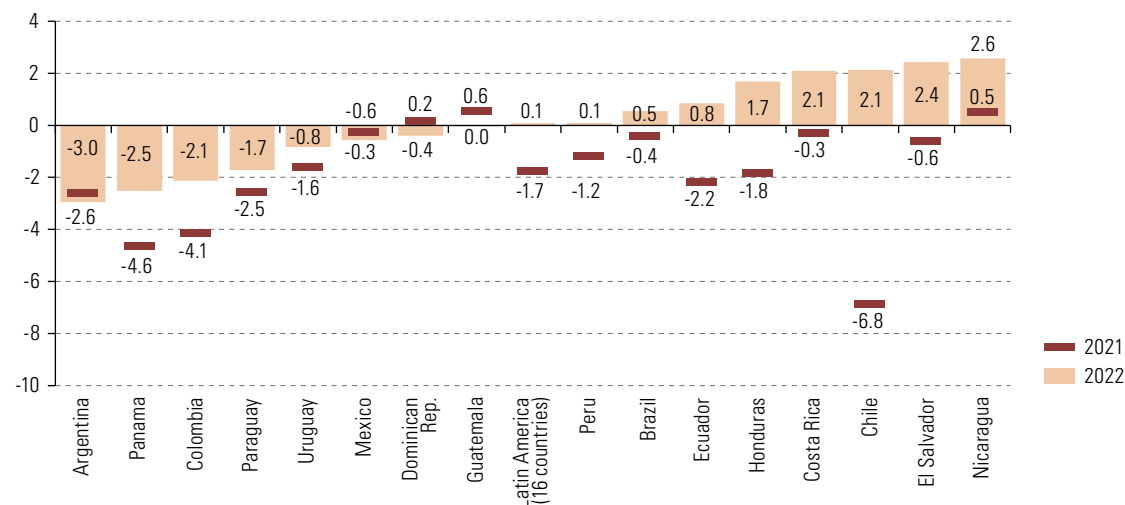
Efforts to balance the fiscal accounts are evinced at the country level, albeit with differing levels of vigour. The vast majority of countries recorded reductions in their overall deficits in 2021, with adjustments of 2 percentage points of GDP or more in Costa Rica, Ecuador, El Salvador, Honduras, Nicaragua and Panama and 8.8 percentage points of GDP in Chile (see figure I.15). As for primary balances (the main tool available to policymakers to curb public debt dynamics), the observed year-on-year changes highlight the magnitude of primary expenditure adjustments in the countries. In 2022, 9 of the 16 countries in Latin America ran primary surpluses, in several cases very substantial ones of more than 1 percentage point of GDP. In particular, Costa Rica recorded its first primary surplus in 13 years (Ministry of Finance of Costa Rica, 2023).

Figure I.15
Latin America (16 countries): overall and primary central government balances, 2021–2022
(Percentages of GDP)

A. Overall balance



B. Primary balance



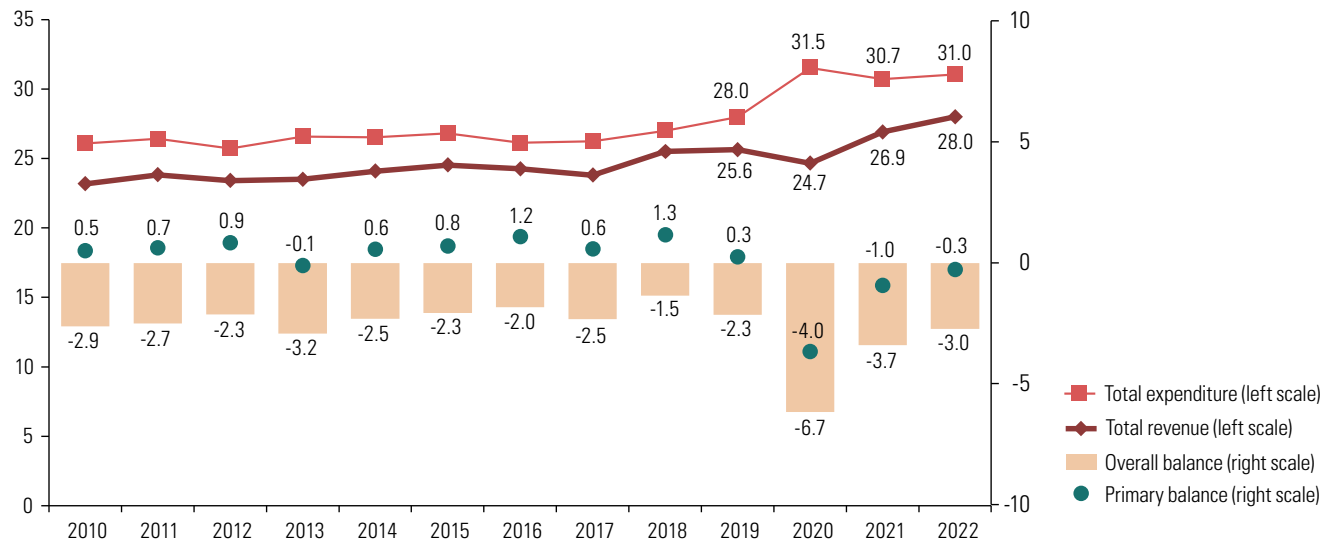
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Note: In the cases of Argentina, Mexico and Peru, the figures are for the national public administration, the federal public sector and general government, respectively.

Fiscal deficits in the Caribbean continued to narrow in 2022, although to a lesser extent than in Latin America (see figure I.16). While fiscal consolidation remains a key pillar of fiscal policy in Caribbean countries, as expressed in official policy documents, total expenditure increased during the year on average for the group and in most of the countries. In this context, the reduction in fiscal deficits was due to higher total revenues. The result was an overall deficit of 3.0% of GDP, compared to one of 3.7% of GDP in 2021. The primary deficit fell by the same amount as the overall deficit, since interest payments changed little from one year to the next. Importantly, both the overall and primary fiscal deficits remain larger than before the COVID-19 pandemic. This situation could create pressures to intensify fiscal consolidation efforts, given the high level of public debt in the Caribbean, possibly to the detriment of social spending and investment.

Figure I.16

The Caribbean (12 countries):^a central government fiscal indicators, 2010–2022^b
(Percentages of GDP)



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

Note: Simple averages. The individual figures may not add up to the corresponding total because of rounding. The figures for Barbados and Saint Kitts and Nevis are for the non-financial public sector and federal government, respectively.

^a Antigua and Barbuda, Bahamas, Barbados, Belize, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago.

^b The figures for Antigua and Barbuda, Barbados, Belize, Grenada, Jamaica and Saint Lucia are official estimates.

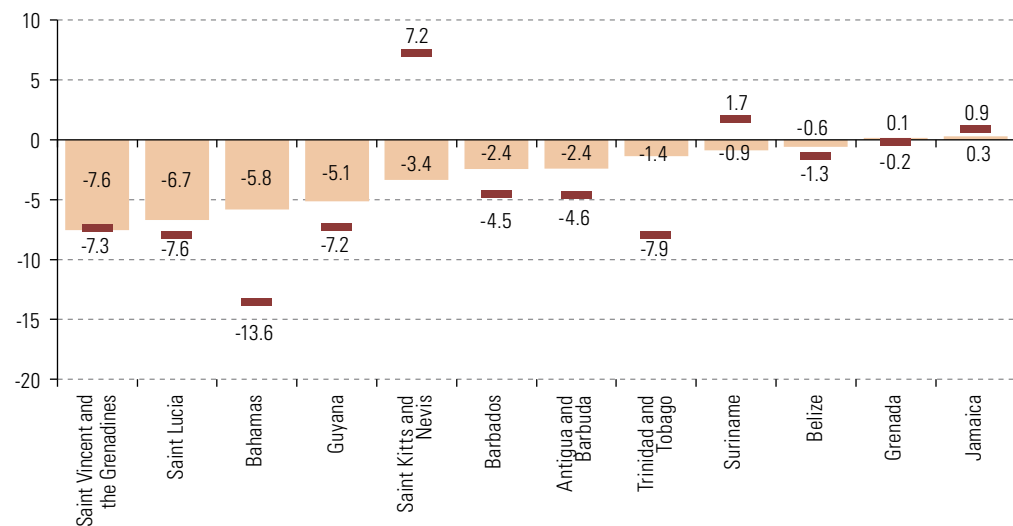
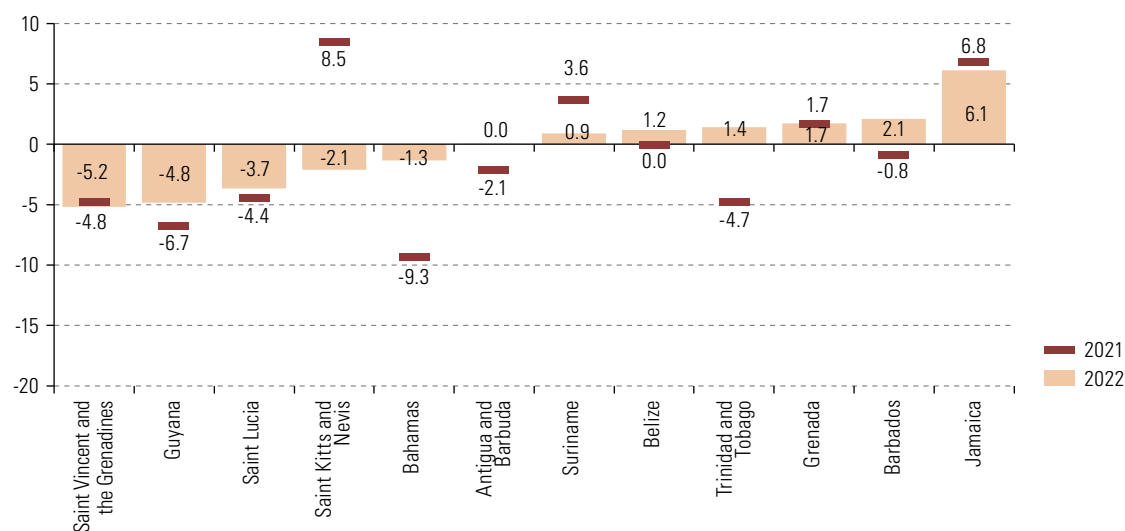
Fiscal deficits narrowed or surpluses increased in most Caribbean countries (see figure I.17). In some cases, however, overall and primary deficits remained at high levels that were close to the previous year's values. In the Bahamas and Trinidad and Tobago, overall deficits narrowed significantly in 2022, with year-on-year changes of 7.8 percentage points of GDP and 6.5 percentage points of GDP, respectively. In Saint Kitts and Nevis, meanwhile, the combination of public expenditure growth and a small increase in total revenues had the overall effect of reversing the fiscal position, so that large surpluses turned into overall and primary deficits, with year-on-year changes of 10.6 percentage points of GDP in both cases. Jamaica, for its part, continued to run a fiscal surplus with a primary balance of 6.1% of GDP, representing a continuation of the country's remarkable effort to restrain the growth of primary expenditure and boost public revenues in order to reduce public debt.

D. Public debt has continued on its downward trend relative to GDP, but levels remain high

The countries of Latin America and the Caribbean showed a moderate overall decline in the ratio of central government public debt to output as of December 2022, mainly explained by the recovery in economic activity. Although this decline has been evident since 2021, the denominator effect of the region's improving growth rates on the accumulation of public debt made a lesser contribution during 2022.

Figure I.17

The Caribbean (12 countries): overall and primary central government balances, 2021–2022^a
(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.

Note: The figures for Barbados and Saint Kitts and Nevis are for the non-financial public sector and federal government, respectively.

^a The figures for Antigua and Barbuda, Barbados, Belize, Grenada, Jamaica and Saint Lucia are official estimates.

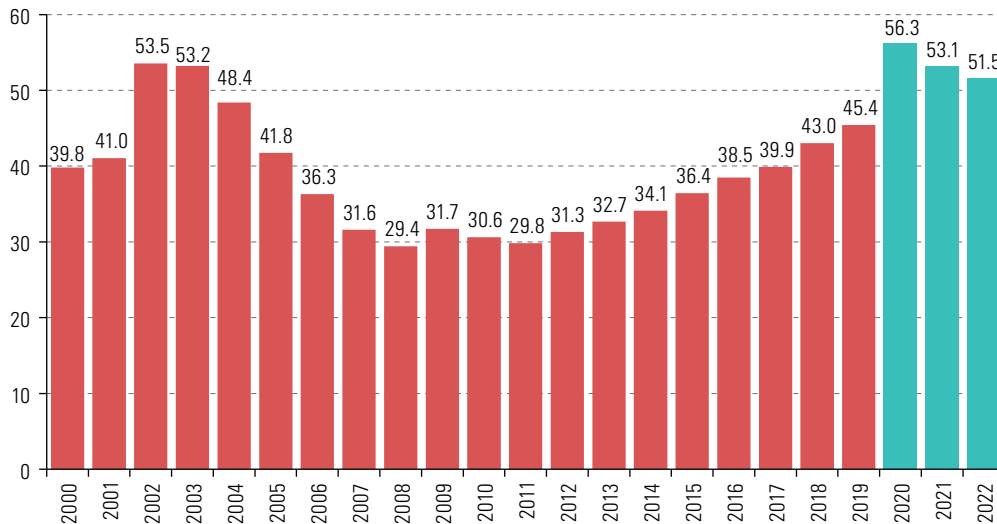


As of December 2022, the average public debt of 16 Latin American countries was 51.5% of GDP, 1.6 percentage points lower than at the end of 2021 (see figure I.18). At the subregional level, public debt levels in South America and Central America were 53.9% and 49.1% of GDP, respectively. Public debt levels as a share of GDP between 2020 and 2022 reflected the large financing needs of the region's countries to cope with the high costs of the pandemic. Although public debt improved in 2021 and 2022, levels remain historically high in comparison with other regions and exceed 50% of GDP, with figures very similar to those observed 20 years ago in the region (see box I.3).

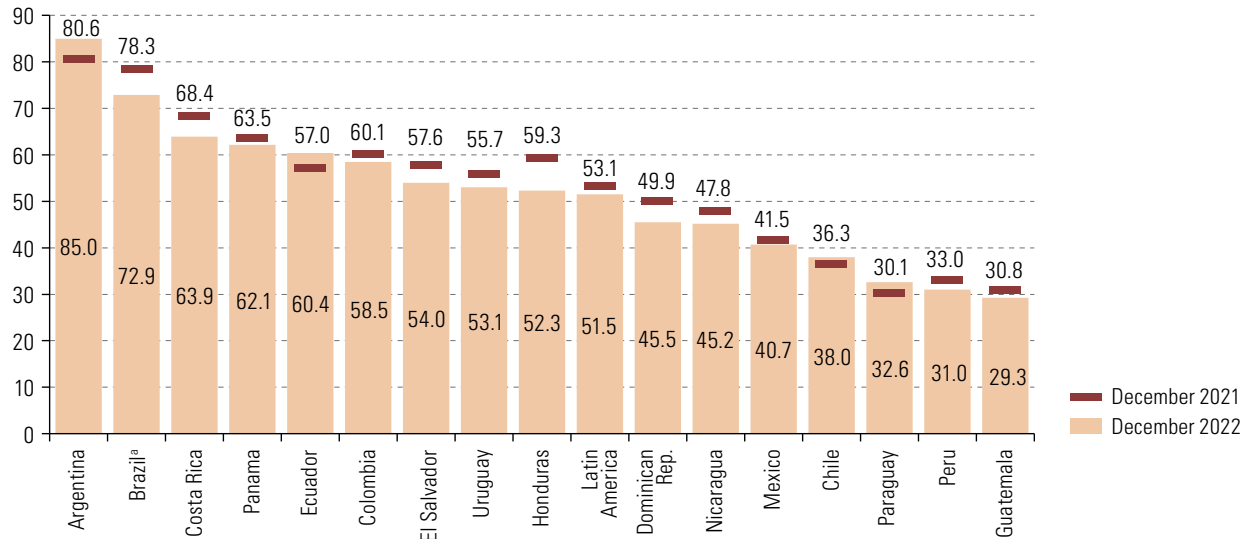
Figure I.18

Latin America (16 countries): central government gross public debt, 2000–2022
(Percentages of GDP)

A. Central government gross public debt, 2000–2022



B. Central government gross public debt by country, December 2021 and December 2022



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

^a Figures are for general government.

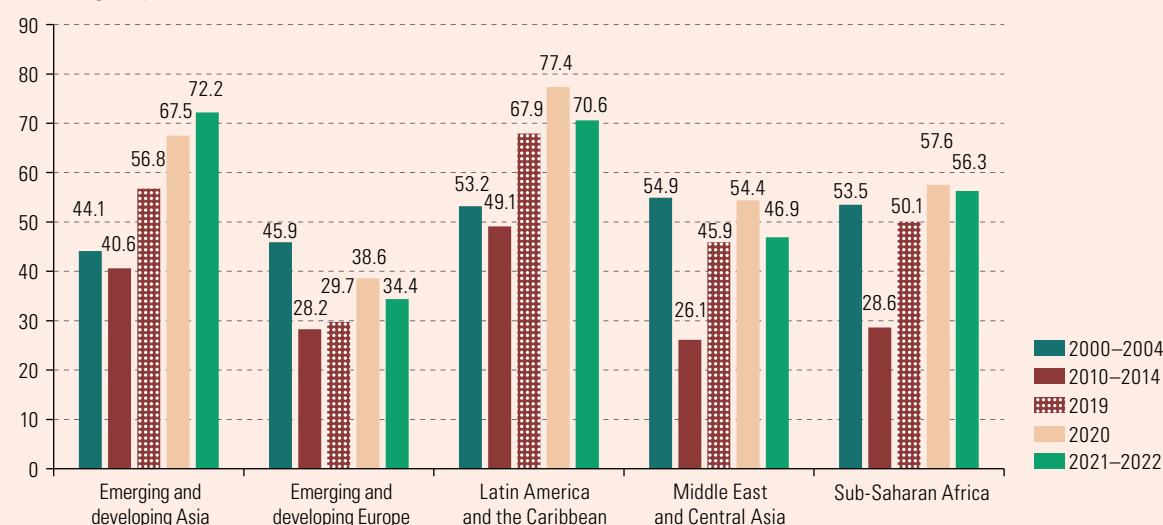
Box I.3

Elevated public debt: a systemic concern for emerging markets and developing economies

Public debt levels rose steadily in most emerging and developing regions in the decade before the coronavirus disease (COVID-19) pandemic. Given weak global macroeconomic fundamentals and adverse price shocks affecting non-renewable natural resources, especially after the oil price collapse in 2014 and 2015, these increases had serious repercussions for these economies and in some cases led to high and persistent fiscal deficits. In 2019, general government gross public debt in these regions reached an average of 50.1% of GDP, a level well above the average for the period 2010–2014. At the level of regions, public debt in the emerging and developing economies of Asia increased by an average of 16.2 percentage points of GDP over the period. In Latin America and the Caribbean, the figure was 18.8 percentage points of GDP; in the Middle East and Central Asia, debt increased by 19.8 percentage points of GDP; and in the Sub-Saharan Africa region, the increase was 21.5 percentage points of GDP (see chart). The shock to public finances from the COVID-19 crisis exacerbated this trend, leading to a sharp rise in public debt. While the ratio of public debt to GDP tended to decline in 2021 and 2022, mainly because of the rapid recovery in nominal output, debt levels remain high and well above those seen in previous economic and financial crises such as that of the late 1990s and early 2000s in emerging and developing regions.

Selected emerging and developing regions: general government gross public debt, 2000–2022

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook Database, October 2022.

Note: The country groups are based on those presented by IMF in its World Economic Outlook Database.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Public debt and development distress in Latin America and the Caribbean* (LC/TS.2023/20), Santiago, 2023, forthcoming.

At the country level, Argentina has the highest public debt, at 85% of GDP as of December 2022, followed by Brazil, Costa Rica and Panama, at 72.9%, 63.9% and 62.1% of GDP, respectively. In contrast, the countries with the lowest public debt are Guatemala (29.3% of GDP), Peru (31.0%) and Paraguay (32.6%).

Vigorous nominal GDP growth had a large impact on the dynamics of public debt in the region's countries as of December 2022. An example is Brazil, where the debt level fell by 5.4 percentage points of GDP relative to the end of 2021. This fall was mainly explained by the interaction of different components implicit in debt dynamics, chief among them the output growth rate and net debt repayments, two factors that led to a large reduction in Brazil's debt, offsetting the increase in nominal interest accruing on this (BCB, 2023).

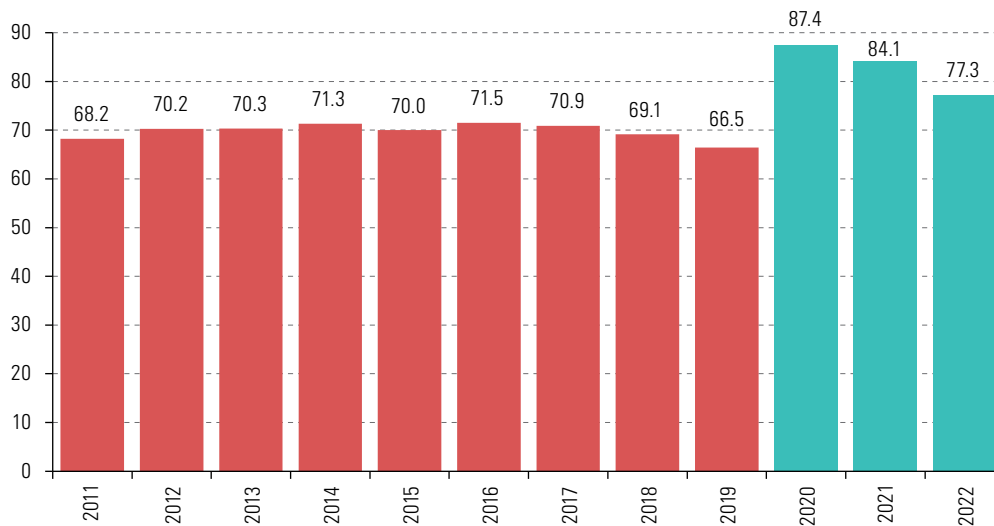
In the case of the Caribbean, central government gross public debt was 77.3% of GDP as of December 2022, 6.8 percentage points lower than at the end of 2021 (see figure I.19). Barbados and Suriname present debt levels in excess of 100% of GDP, at 123.5% and 122.3% of GDP, respectively. As in Latin America, the pick-up in economic growth translated into a strong denominator effect, since absolute levels of public debt remained relatively stable during the year. There were particularly large declines in Belize, Barbados, Guyana and Jamaica. Of particular note is Guyana, where public debt fell by 16 percentage points of GDP between 2021 and 2022, the result of a 62.3% increase in economic output in real terms due to the commencement of offshore oil and gas production. In Suriname, meanwhile, debt increased during 2022, reflecting a rise in the value of foreign currency liabilities due to the depreciation of the country's currency.

While central government debt to GDP levels have declined in the region, they remain above the healthy levels required for public debt sustainability and constitute a source of vulnerability, given current macrofinancial conditions (see box I.4).

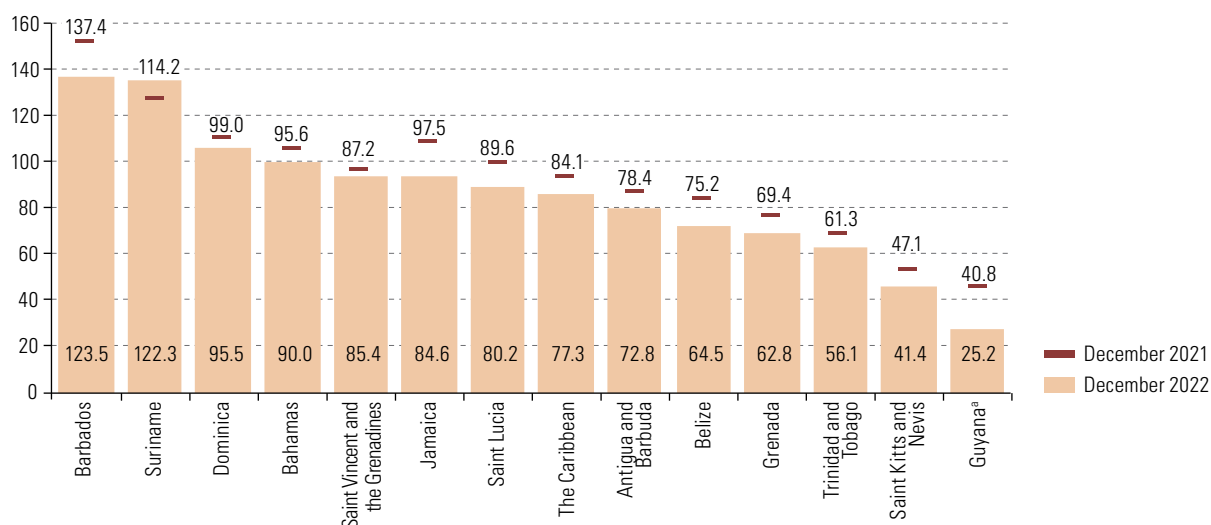
Figure I.19

The Caribbean (13 countries): central government gross public debt, 2011–2022
(Percentages of GDP)

A. Central government gross public debt, 2011–2022



B. Central government gross public debt by country, December 2021 and December 2022



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

^a Figures are for public sector coverage.

Box I.4

Deteriorating macrofinancial conditions have undermined the sustainability of public debt in the region

The deteriorating global macrofinancial environment has given rise to concerns about the evolution of public debt, specifically in emerging markets and developing economies, including Latin America and the Caribbean. Weaker global economic activity, lower international trade volumes, high inflation and volatility in financial and commodity markets have increasingly undermined the economic prospects of developing regions, making the Sustainable Development Goals (SDGs) harder to meet.

Like other emerging countries and developing regions, the countries of Latin America and the Caribbean were hit very hard by the deterioration of global macroeconomic fundamentals in the years leading up to the crisis caused by the coronavirus disease (COVID 19) pandemic. Government revenues stagnated and were insufficient to support public spending, resulting in persistent fiscal deficits and the accumulation of public debt. The COVID-19 pandemic exacerbated this trend and, in many cases, support packages involving unprecedented increases in public spending were funded by debt issuance and emergency financing from multilateral lenders.

The adverse external conditions threaten to worsen the region's economic underperformance of recent years. The tight monetary policies of the major central banks in developed economies, the decline in capital flows to emerging markets and exchange-rate volatility have substantially raised borrowing costs. Access to global liquidity is reaching a tipping point, even for investment-grade emerging and developing economies. High bond yields in developed economies and declining investor risk appetite for emerging markets have hardened overall conditions for new debt issuance in international markets.

In Latin America, economic activity is projected to expand by only 1.2% in 2023, the lowest rate of all developing regions and well below the 6.7% achieved in 2021 (as a direct consequence of the relaxation of measures taken to cope with the COVID-19 pandemic) and the 3.8% seen in 2022. The scope for supportive monetary and fiscal interventions is limited. Public debt management is increasingly difficult, given higher interest rates, and sovereign risk is increasing the cost of issuing new debt and refinancing existing public debt.

The vulnerabilities associated with the large build-up of public debt in the region are heightened by its composition. In many Latin American and Caribbean countries, public debt is mainly held by non-resident creditors and denominated in foreign currency. In the South America subregion, this has coincided with a structural shift in the creditor base, with the private sector emerging as the largest creditor. In the Caribbean countries, by contrast, bilateral and multilateral lenders are the main holders of sovereign bonds. Despite relatively favourable sovereign debt repayment profiles, short-term debt rollover requirements expose countries to market volatility, especially with rising interest rates and the risk of currency depreciation, which is adding yet further to the accumulation of public debt. Increasing debt service requirements, especially in the form of interest payments, will require countries to mobilize more and more public resources to ensure the sustainability of debt.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Public debt and development distress in Latin America and the Caribbean* (LC/TS.2023/20), Santiago, 2023, forthcoming.

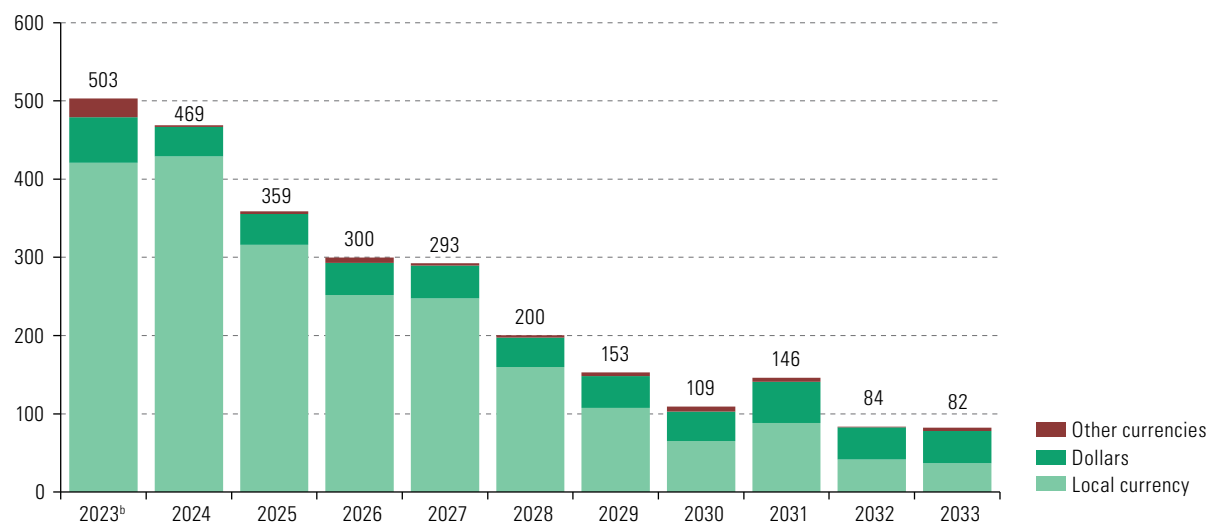
The risks associated with the accumulation of public debt also affect the sustainability of the public finances in the medium term, mainly through higher debt servicing costs, which have a negative impact on fiscal balances. A number of factors, both domestic and external, influence the accumulation of public debt, such as the primary fiscal deficit, the rate of output growth, the implicit interest rate and the exchange rate. A very important factor for the region has been the deterioration of conditions in domestic and international financial markets, resulting in a progressive increase in interest rates, coupled with the depreciation of local currencies and the risk of credit rating downgrades, which have made it difficult to manage the region's public liabilities. It is important to note that these factors could affect interest payments not only on the existing stock of debt (insofar as countries have foreign currency or floating-rate debt) but also on new issues with less favourable financing conditions.

The less favourable financial market conditions could create challenges for the region when it comes to refinancing existing public debt. According to Bloomberg figures on sovereign debt instruments for which a secondary market exists, Latin American countries are estimated to face credit liabilities worth US\$ 2.7 trillion (about 44.6% of regional GDP in 2023) in debt principal and interest payments over the next 10 years.⁶ Most of these liabilities (80%) will be paid in local currency, while dollar-denominated obligations account for 17.4% (see figure I.20). This structure is heavily influenced by the maturity profiles of Brazil and Mexico, which together account for 68% of the region's debt service (30% of regional GDP in 2023). Excluding them from the regional total, cumulative local currency-denominated public debt service represents 50% and dollar-denominated obligations 44% of the total between 2023 and 2033.

⁶ Preliminary figure based on IMF (2023).

Figure I.20

Latin America (16 countries):^a central government gross public debt service maturity profiles, by currency type, cumulative liabilities over the period 2023–2033
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Bloomberg [online database] <https://www.bloomberg.com/>.

Note: The cut-off date was set as 13 April 2023.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

^b Including the accumulated arrears of Argentina and Ecuador.

At the country level, there is some heterogeneity in the composition of the debt service liabilities to be paid over the next five years (see table I.1). In the countries for which information is available, the share of foreign currencies is high, at 50% or more of total service liabilities, while variable rates are moderate. These countries could be affected by exchange-rate risks, with depreciation of the local currency against the dollar increasing the financial cost of debt. In the case of Brazil and Mexico, financial risks are more likely to be linked to possible changes in local monetary conditions, given that debt service is mostly in local currency and at floating rates. In contrast, a large share of the debt service liabilities falling due over the period 2023–2028 in Chile, Colombia, Costa Rica, the Dominican Republic, Honduras, Peru and Uruguay is for loans made in local currency (above 50%) and at fixed rates, which should limit external risks linked to exchange rates and external monetary policy interest rates.

Table I.1

Latin America (16 countries): public debt service structure, by country, cumulative liabilities for the period 2023–2028
(Billions of dollars and percentages)

	Debt service (Billions of dollars)			Type of currency (Percentages)			Type of rate (Percentages)			
	Total	Principal	Interest	Local currency	Dollars	Other	Fixed	Variable	Zero coupon	Other
Argentina ^a	237	210	26	48	41	11	26	-	36	37
Brazil	989	865	124	97	3	-	36	43	21	-
Chile	77	64	14	82	12	6	50	-	50	-



	Debt service (Billions of dollars)			Type of currency (Percentages)			Type of rate (Percentages)			
	Total	Principal	Interest	Local currency	Dollars	Other	Fixed	Variable	Zero coupon	Other
Colombia	70	36	34	77	21	2	97	-	3	-
Costa Rica	39	23	16	73	27	-	93	6	1	-
Dominican Republic	59	36	23	72	28	-	96	-	4	-
Ecuador ^a	8	3	5	-	100	-	5	-	7	88
El Salvador	4	1	3	-	100	-	100	-	-	-
Guatemala	5	3	2	19	81	-	100	-	-	-
Honduras	4	3	1	65	35	-	75	-	25	-
Mexico	554	408	146	94	5	2	42	43	15	-
Nicaragua	0	0	0	-	100	-	-	11	-	89
Panama	19	11	8	-	100	-	98	-	2	-
Paraguay	5	3	2	48	52	-	56	2	43	-
Peru	33	17	16	62	33	5	100	0	-	-
Uruguay	21	14	7	68	31	1	74	-	26	-

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Bloomberg [online database] <https://www.bloomberg.com/>.

Note: The figures are for instruments for which there is a secondary market and so may not match official figures. The cut-off date was set as 13 April 2023.

^a Includes accumulated arrears.

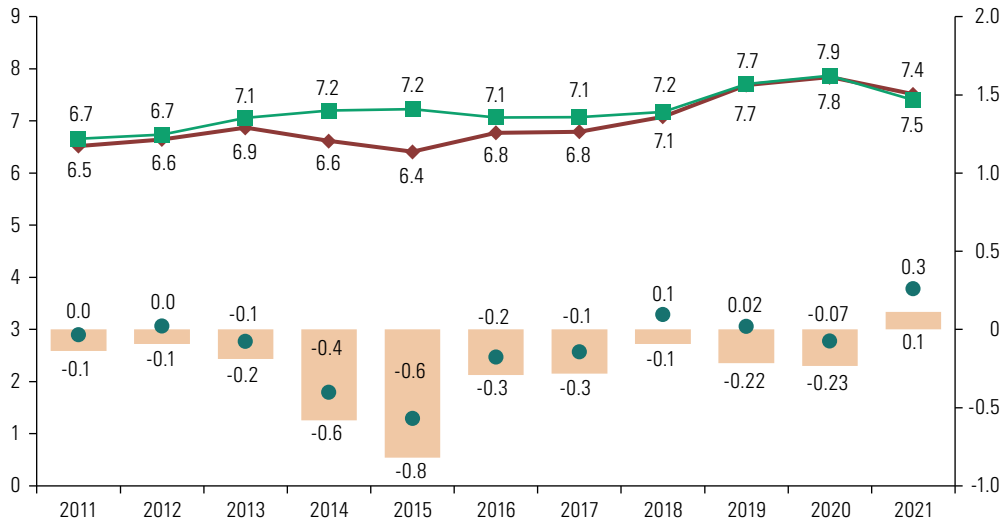
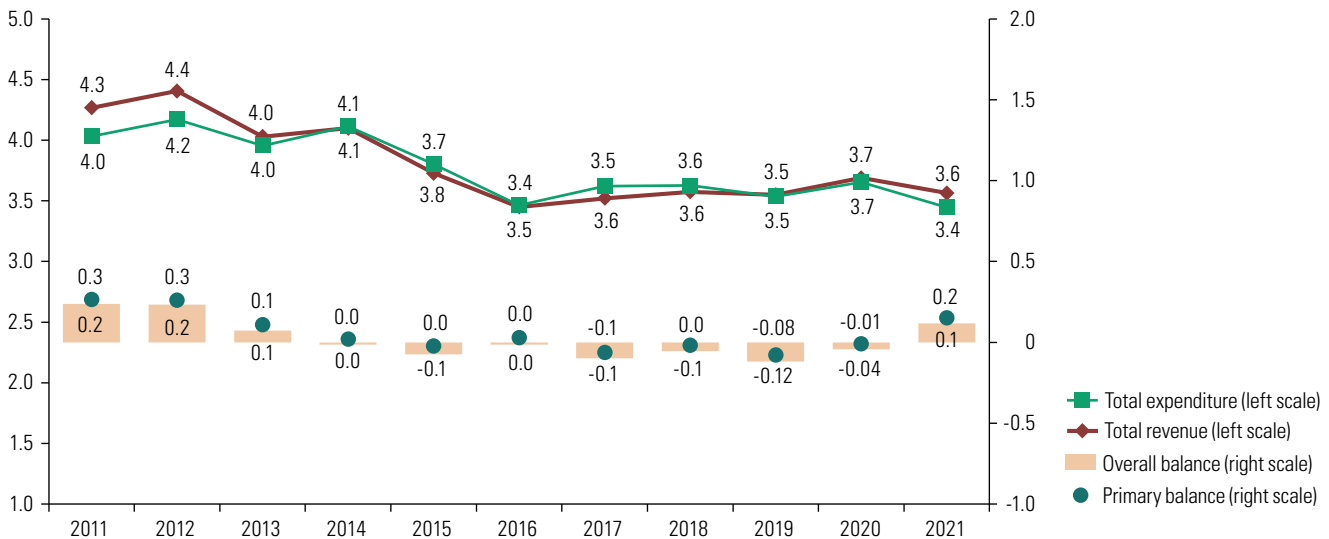
E. After the distress caused by the COVID-19 pandemic, subnational public accounts moved into surplus in 2021

In 2021, subnational governments in Latin America achieved a recovery in their public accounts that was mainly reflected in budget balances (see figure I.21). Overall and primary balances were in surplus, something not seen for at least a decade, owing mainly to spending adjustments, specifically in public investment. In that period, the size of intermediate governments had increased steadily on the expenditure side, but this was reversed in the post-pandemic recovery period. The size of local governments has remained relatively stable since 2016, indicating that balanced fiscal outcomes have been attained over the past few years, and this was even more marked in 2021.

The pandemic demonstrated the need for intergovernmental coordination mechanisms to be strengthened to cope with future crises and reduce heavy dependence on transfers, which account for more than half of subnational public revenues in the region and whose allocation criteria do not reflect different levels of need, as highlighted in the *Panorama de las relaciones fiscales entre niveles de gobierno de países de América Latina y el Caribe* (ECLAC/IDB, 2022). There remains a need to mobilize local revenues, especially by leveraging tax bases, and to modernize subnational fiscal accountability frameworks and boost public investment. In addition to these challenges, emerging cross-cutting challenges, such as the effects of climate change, gender gaps and diversity, cannot be neglected.

Figure I.21

Latin America (13 countries):^a public accounts of intermediate and local governments, 2011–2021
(Percentages of GDP)

A. Intermediate governments**B. Local governments**

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

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru and the Plurinational State of Bolivia.

Transfer flows have been trending back towards pre-pandemic levels, and there has been a focused effort to raise revenues locally. Meanwhile, cutbacks in public investment spending have yet to be reversed.

Taking the different countries and levels of government, local governments managed to sustain revenue flows. Ecuador is a case in point, with the share of local revenues in the total revenue structure of the decentralized autonomous governments increasing. This growth was mainly led by non-tax revenues, with no matching response on the expenditure side. This helped to support these local governments' budgetary balances.

In contrast, it is important to mention the decline affecting Colombian local governments, which was due to transfers returning to pre-pandemic levels and which, in contrast to the situation with Ecuador's decentralized autonomous governments, was offset by a reduction in spending.

Among intermediate-level governments, the revenues of Argentine provinces, Mexican states and Peruvian regions declined. In all these cases, the drop was mainly caused by the return of transfer flows to pre-pandemic levels, as noted above. The sharpest reduction in expenditure was in the Argentine provinces and was mainly due to wage and salary cuts.

In more aggregate terms, federal countries such as Argentina, Brazil and Mexico managed to maintain the share of public investment in total spending during 2020 and 2021, although without showing any particular dynamism in the latter year. In Brazil, as Radics and others (2022) point out, there was an increase “driven by spending by municipalities, owing both to the implementation of previously planned projects and to the municipal elections in November 2020, albeit from a low baseline”.

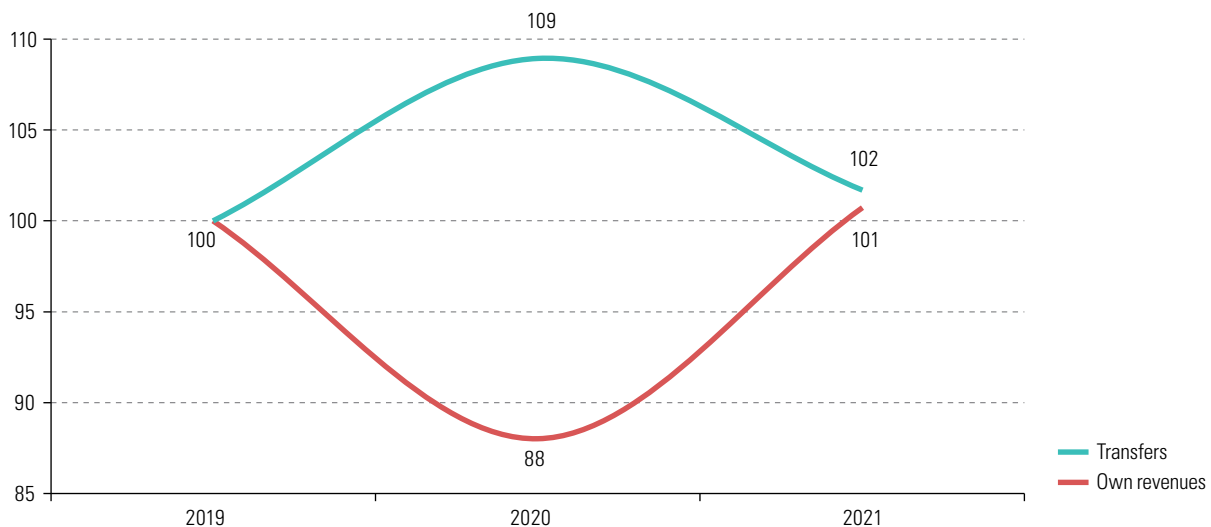
In Colombia, Ecuador and Peru, three Andean countries, public investment fell as a share of total expenditure in 2020, partly because of a fall in natural resource-related transfers (Radics and others, 2022). This behaviour was reversed only in Peru. Among Central American countries, the pandemic provided a strong boost to public investment in El Salvador, but this had disappeared by the end of 2021.

In sum, the year-end figures for 2021 show that revenues were heavily dependent on intergovernmental transfers, something that is explained by the fall in local revenues and the efforts made to deal with the health emergency by means of extraordinary transfers. As figure I.22 shows, this behaviour had been reversed by the end of 2021. The pandemic also required subnational governments to reallocate capital spending to current spending to cope with the onslaught of the crisis in 2020. By the end of 2021, although capital spending had recovered, it still remained below pre-pandemic levels.

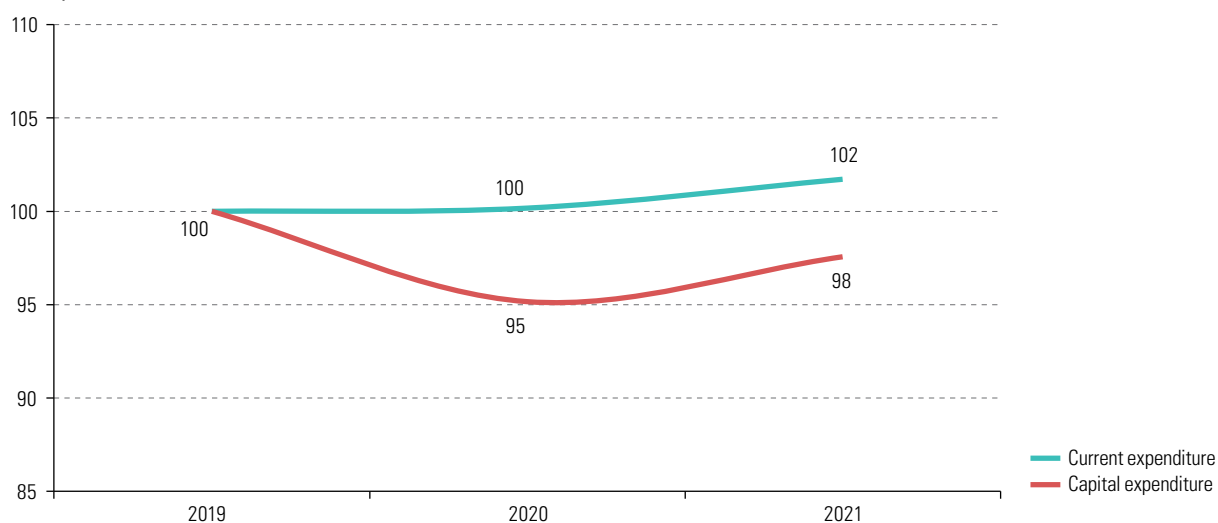
Figure I.22

Latin America (9 countries):^a aggregate operations of subnational governments, 2019–2021
(Index, 100=2019 at constant prices)

A. Revenue



B. Expenditure



Source: A. Radics and others, “El impacto de la pandemia en las relaciones fiscales entre los niveles de gobierno en América Latina y el Caribe”, Blog of the IDB Fiscal Management Division, 2022 [online] <https://blogs.iadb.org/gestion-fiscal/es/el-impacto-de-la-pandemia-en-las-relaciones-fiscales-entre-los-niveles-de-gobierno/>; and International Monetary Fund (IMF), *World Economic Outlook. A Rocky Recovery*, 2022.

^a Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Mexico and Peru.

The reduction in fiscal deficits and generation of surpluses has brought subnational debt stocks back to pre-pandemic levels (see figure I.23). In a group of 11 countries in the region for which information is available, the figures for average public debt stocks show that the pandemic forced subnational governments to increase their financial liabilities to expand fiscal space. However, this movement was reversed in 2021 owing to the revenue improvements and expenditure adjustments noted above.

Figure I.23

Latin America (11 countries):^a subnational debt, 2019–2021
(Percentages of GDP)



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

Note: In the case of Chile, the figures are for financial rents.

^a Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, El Salvador, Mexico, Peru, the Plurinational State of Bolivia and Uruguay.



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CHAPTER



The challenges of strengthening personal income tax as a development instrument in Latin America and the Caribbean

Introduction

- A. Tax revenues and income tax in Latin America and the Caribbean
- B. Characteristics of personal income tax and reform trends
- C. Typology of cases and links between personal income tax and other relevant taxes
- D. Economic effects and phenomena associated with personal income tax
- E. Challenges and alternatives for strengthening the fiscal capacity of personal income tax

Bibliography

Introduction

Today, the countries of Latin America and the Caribbean are facing the need to return to a path of sustainable development that —based on inclusive growth models and environmental stewardship— will enable them to reduce the multiple inequalities that have historically characterized the region and have likely been worsened by the coronavirus disease (COVID-19) pandemic.

As noted by the Economic Commission for Latin America and the Caribbean (ECLAC) in numerous publications,¹ fiscal policy proved crucial in sustaining economic activity and social cohesion through direct support to families and businesses at the most difficult moments of the COVID-19 crisis. The emergency has yet to be fully overcome and new questions arise in relation to the possibility of achieving a sustainable economic recovery path. It is increasingly obvious that fiscal policy needs to be reformulated. To that end, it is necessary to strengthen available sources of fiscal income and, especially, to consolidate tax systems as the fundamental basis of public financing.

A previous edition of *Fiscal Panorama of Latin America and the Caribbean* (ECLAC, 2018) drew attention to the significant progress made by the countries of the region in tax matters over the past three decades. This was reflected especially in the average level of the tax burden and its gradual convergence towards the values typical of developed countries. That document also pointed to the main structural weaknesses of the region's tax systems, including the historically low proportion of personal income tax, especially when compared with the figures for more developed countries (Organisation for Economic Cooperation and Development (OECD)). In the post-pandemic context, income tax has emerged as the tool with the greatest potential to increase resources while also strengthening the possibilities of a desirable redistribution of income on the basis of equity criteria, in a region marked by deep socioeconomic inequalities.

This chapter's main objective is thus twofold. Taking as a reference more mature tax systems (in European countries and other OECD members), a comparative analysis is performed of the current characteristics of tax in the region, in terms of both its technical design and its multiple economic effects, as well as its different interrelationships with other tools within tax systems, especially property taxes and contributions to the financing of social security. This will serve to illustrate the main challenges remaining in relation to income tax. The analysis will consider aspects common across the region as well as those specific to different groups of countries, in order to build a typology of cases by the current tax collection levels, the rates applied and the coverage of types of income, among other aspects. It will also look at the degree to which each of these challenges persist over time and how the change in context and outlook could affect the order of priorities and the approach to the challenges described.

Next, given that, as will be seen, personal income tax collection falls short of its potential in most countries, this chapter also explores the available alternatives to improve its revenue-raising and redistribution capacity. This includes examining the feasibility of increasing the statutory and effective rates for higher-income taxpayers (tax on high income brackets) with either surcharges or special taxes. Given the relative narrowness of the tax bases, this chapter will also discuss minimum amounts of exemption and the configuration of the various personal and family deductions, which not only reduce effective collection, but can give rise to numerous inequities among payers of a particular tax. An analysis is also given of the need to reduce tax non-compliance, in its various variations. This is a deeply rooted phenomenon that erodes tax bases throughout the entire region.

¹ See, for example, ECLAC (2020 and 2021).

Lastly, given the progress that has been made internationally in little over a decade in corporate income taxation, this analysis is proposed as a reference framework that offers priority guidelines for comprehensively strengthening personal income tax in Latin American and Caribbean countries. The aim is to return taxation to the heart of regional discussions on fiscal policy, highlighting its importance as a fundamental tool for financing the 2030 Agenda for Sustainable Development (ECLAC, 2017) and its 17 Sustainable Development Goals (SDGs). This would contribute to greater mobilization of domestic resources, which would increase each country's fiscal capacity to meet the Goals (target 17.1). It would also make tax systems more progressive, which would offer the possibility of reducing the deep socioeconomic inequalities entrenched in most of the countries of the region (target 10.4).

To this end, this introduction is followed by five sections. The first analyses the importance of income taxation within the region's tax systems. The second and third sections present, respectively, the most recent characteristics and reforms in personal income tax, considering both its structure and the interaction with other tax instruments. This is followed by a reflection on the major pending challenges for strengthening income taxation in relation to the different groups of countries described in the framework. The fourth section offers an analysis of the economic effects associated with income taxation, and this serves as the basis for the final section's presentation of the main challenges this implies and a set of alternatives for helping to strengthen income tax in the countries of the region.

A. Tax revenues and income tax in Latin America and the Caribbean

To offer a sound understanding of the trends as well as the importance and potential of income tax in the countries of Latin America and the Caribbean, this first section begins by discussing the recent patterns in tax revenues in the region, comparing them to the global context. It then looks at changes in the level and structure of tax resources in both in the region overall and in its various countries. Lastly, a deeper quantitative analysis is given of income tax trends in Latin America and of the revenues from it over the past three decades.

1. Comparative perspective and trends in the tax burden in the region

Since the early 1990s, Latin America and, to a lesser extent, the Caribbean have undergone significant changes in the level and structure of their tax revenues.² At least until the COVID-19 pandemic (see box II.1), the countries of the region had increased their tax collection, on average, by some 7.4 percentage points of GDP, from 15.3% to 22.7% (simple average). Latin America and the Caribbean was the region that most increased its tax burden in GDP terms over that period, which also enabled it to narrow the gap with the OECD countries, whose tax revenue levels are higher, but have not changed substantially in recent years (see figure II.1).

² The reason for the choice of time period to analyse is the intention to avoid any artificial bias between two reference years for comparative purposes. At the earlier end, it was decided to use the data for 1991 instead of 1990, since some of the countries of the region were still experiencing the effects of prolonged inflation that significantly eroded the real-term level of their tax revenues. In addition, adequate breakdown of some relevant taxes, especially income tax, was not available for 1990. For similar reasons, 2019 was taken as the most recent year for the comparisons given in this section, in order to avoid distortions derived from the impact of the COVID-19 pandemic on tax revenues in the countries of the region (see box II.1). Further, the figures for 2021 were not available at the time of preparation and publication of this chapter.

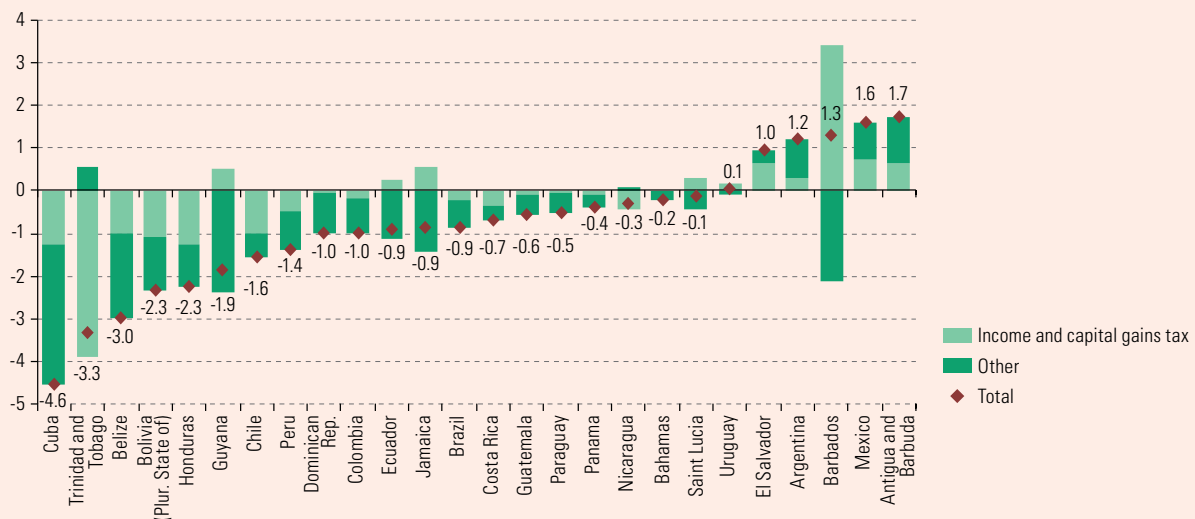
Box II.1

Latin America and the Caribbean: the impact of the coronavirus disease (COVID-19) pandemic on tax revenues in 2020

Among the multiplicity of health and economic repercussions associated with the COVID-19 pandemic, in 2020 tax revenues in Latin America and the Caribbean veered sharply off their previous trajectory, although the countries have tried to regain this path over the past two years. Notably, the tremendous impact of the crisis on tax collection was evident not only in the amount of fiscal resources available, but also in its typical relative structure.

The average fall in tax revenues in the countries of the region between 2019 and 2020 was equivalent to 0.8 GDP points, from 22.7% to 21.9% of output. The decrease in the tax burden occurred across the board at the regional level, in 20 of the 26 countries analysed (OECD and others, 2022). The data for 2020 in the following figure show significant falls in total collection, measured in percentages of the respective GDP, in several countries including Cuba (-4.6 percentage points of GDP), Belize (-3.0 percentage points), Honduras (-2.3 percentage points) and the Plurinational State of Bolivia (-2.3 percentage points), together with smaller rises, including, notably, in Antigua and Barbuda (1.7 percentage points), Mexico (1.6 percentage points) and Barbados (1.3 percentage points).

Latin America and the Caribbean (26 countries): tax collection, variation from 2019 to 2020
(Percentage points of GDP)



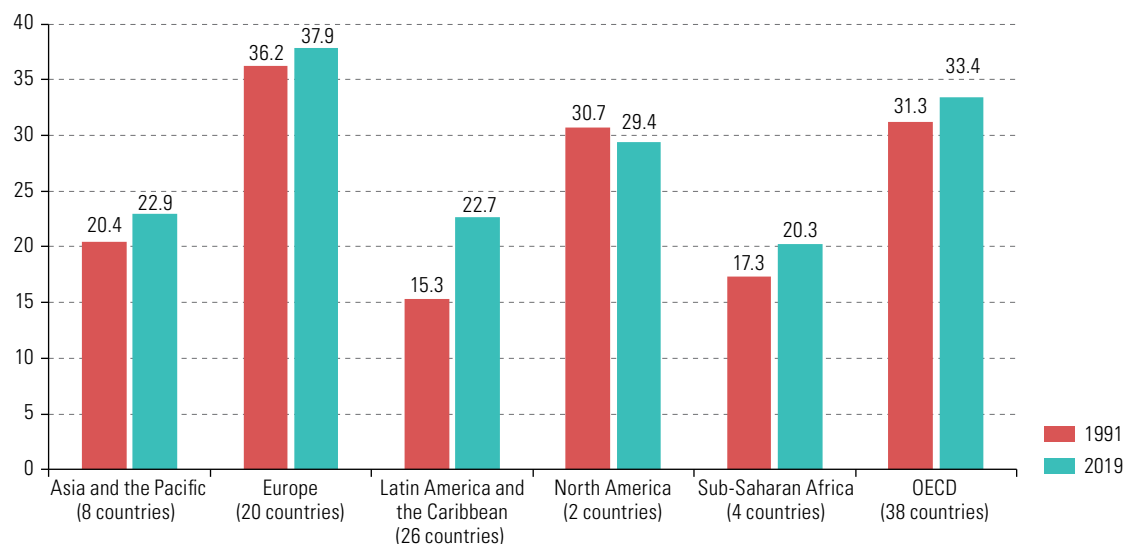
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, OECD Publishing, 2022.

The figures available for 2020 also show significant changes in the level of income tax and its share in total collection, which are not consistent in magnitude with the behaviour of these variables in the years prior to the COVID-19 crisis. Using figures from 2020 to make comparisons could distort analysis of the recent trends in income tax in the region and would bias the resulting conclusions and reflections. Consequently, the time comparisons in this section have used figures for 2019, notwithstanding the relatively rapid recovery seen in several countries of the region in 2021, as no consolidated information is yet available for this year in the statistical sources used.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, OECD Publishing, 2022.

Figure II.1

Tax collection by region, 1991 and 2019
(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), Global Revenue Statistics Database [online] https://stats.oecd.org/Index.aspx?DataSetCode=RS_GBL.

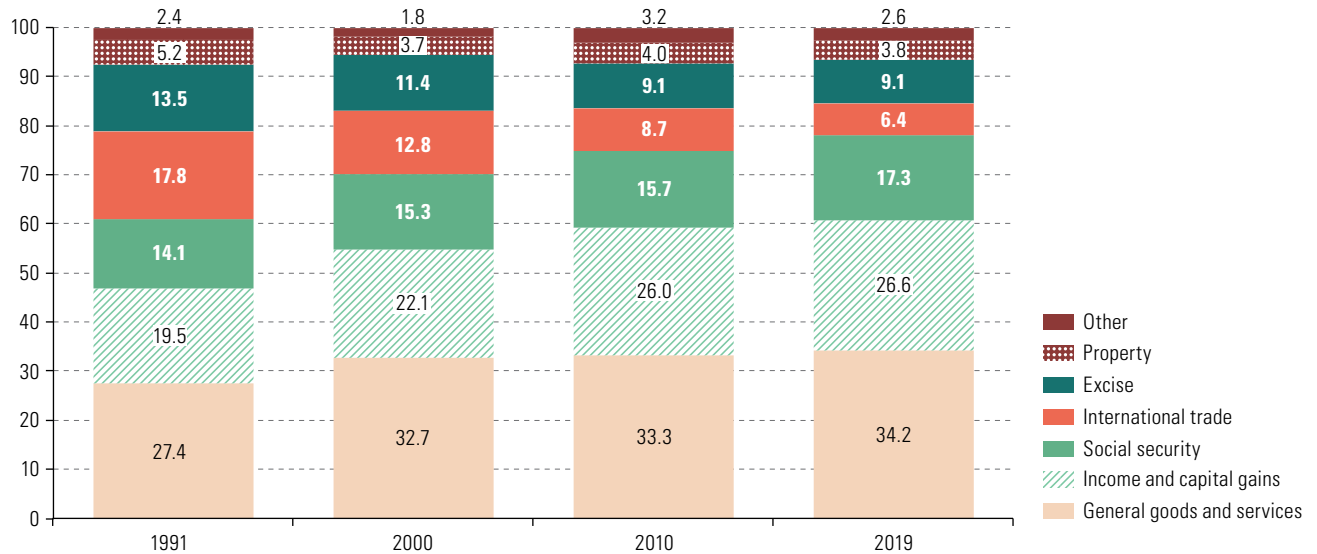
Note: Each geographic region includes only those countries for which data are available for the years under analysis. The OECD simple average includes Chile, Colombia, Costa Rica and Mexico.

The increase in the region's collection during the period analysed has been accompanied by a changing but generally favourable macroeconomic context. The rise was led by general taxes on goods and services, income tax and social security contributions which, together, went from 61.8% to 78.1% of the total, as may be seen in figure II.2. The reduction in levels of poverty and inequality in the first decade of this century boosted private consumption and, as a result, a rise in the collection of general taxes on goods and services. At the same time, improvements in tax administration and greater formalization of the economy expanded the base for income tax and social security contributions. The latter were also enhanced by reforms that increased the public component of these systems.

The average collection of general taxes on goods and services (predominately value added tax) went from 4.6% of GDP in 1991 to 7.8% in 2019, and since 2000 has represented almost a third of total collection in the countries of Latin America and the Caribbean. On the other hand, the collection of taxes on income and capital gains rose from 3.2% of GDP in 1991 to 6.0% in 2019, when it reached an average of 26.6% of total tax collection. Social security contributions collect, on average, 3.9% of GDP, and represent 17.3% of the total (see figures II.2 and II.3). The large variations in social security contributions essentially reflect the different ways in which pension systems are organized in the countries.

Figure II.2

Latin America and the Caribbean: average tax structure, 1991, 2000, 2010 and 2019
(Percentages of the total)

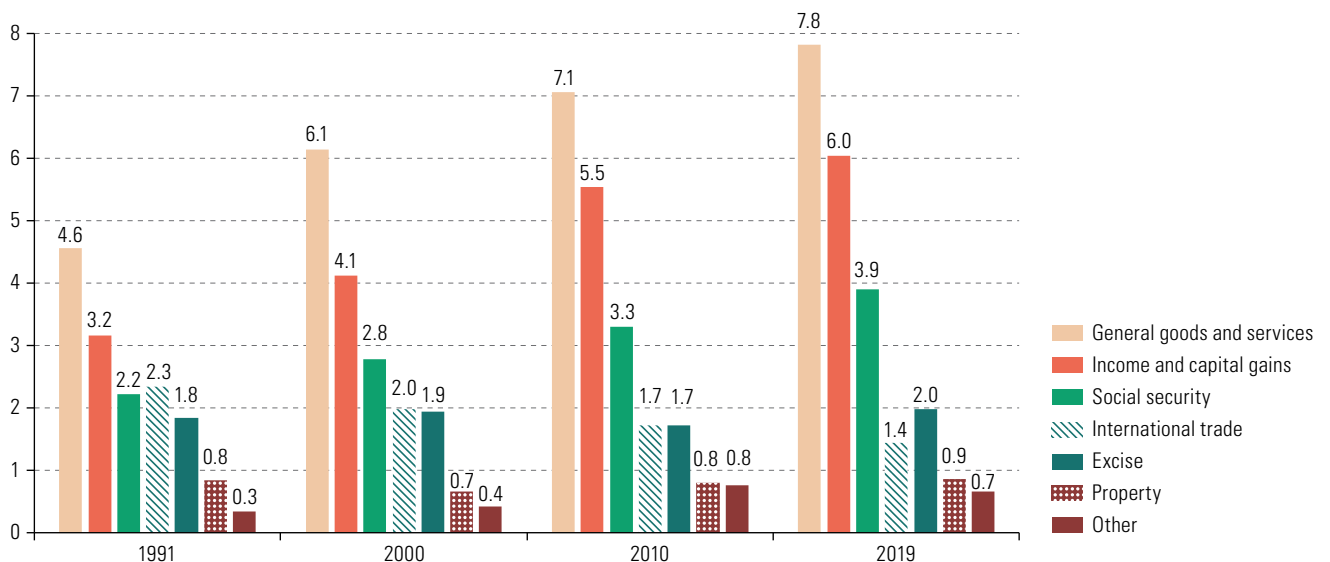


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, OECD Publishing, 2022.

Note: The information presented is the simple average of the relative share of each group of taxes in the total of each of the 26 countries of the region included in the source consulted. For Saint Lucia, the 1992 figure on tax collection was used, as the 1991 figure was not available.

Figure II.3

Latin America and the Caribbean: average tax collection by main tax groups, 1991, 2000, 2010 and 2019
(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) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, OECD Publishing, 2022.

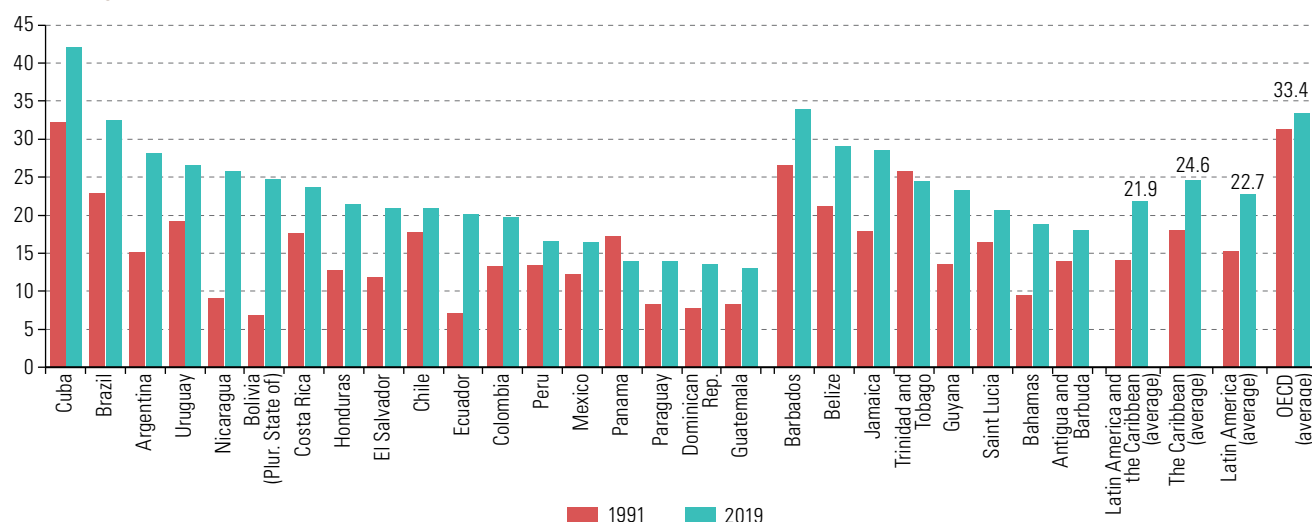
Note: The information presented is the simple average of tax revenues of the general government (in percentages of GDP) and includes the 26 countries of the region included in the source consulted. For Saint Lucia, the 1992 figure on tax collection was used, as the 1991 figure was not available.

On the other hand, excise taxes (taxes on the production and sale of specific goods and services in the domestic market) have, since the early 1990s, represented a stable source of resources with a current average collection equivalent to 2% of GDP.³ However, amid steady rises in other sources of revenue, the weight of excise taxes in the tax structure has been diminishing, since they went from 13.5% of the total collection in 1991 to 9.1% in 2019. Similarly, taxes on international trade lost relative importance, from 17.8% of total revenue in 1991 to 6.4% in 2019, and these taxes contribute around 1.4% of GDP today. Lastly, property taxes have not historically been a significant source of revenue in the region. In 2019, average property tax collection was equivalent to 0.9% of GDP (3.8% of total collection).

The range of differences in tax matters is very significant and requires some caution when attempting any regional analysis. In fact, although all the countries in the region, with the exceptions of Panama and Trinidad and Tobago, increased their collection in relation to GDP in the period considered, this encouraging outcome was more notable for some Latin American countries, whose tax burden rose by 56% in relation to GDP between 1991 and 2019, coming to average 21.9% of GDP. The greatest increases occurred in the Plurinational State of Bolivia (+260%), Nicaragua (+186%) and Ecuador (+180%). At the other extreme, in Panama collection decreased by 19%. In the Caribbean, tax collection rose, on average, by 36% in the period analysed, to reach 24.6% of GDP in 2019. The strongest increases were in the Bahamas (+100%) and Guyana (+72%), while in Trinidad and Tobago collection dropped slightly (-5%) during the period under study.

There is an evident gap today between different countries in the region in the level of the total tax burden. At one extreme are Brazil and Argentina in Latin America and Barbados, Belize and Jamaica in the Caribbean, whose tax burdens reached levels of around 30% of GDP in 2019, which is close to the average calculated for OECD countries (33.4% of GDP). At the other extreme, in Panama, Paraguay, the Dominican Republic, and Guatemala, tax revenues in comparable terms fall short of 15% of GDP (see figure II.4). However, it must be recalled that public financing in several countries in the region draws upon significant amounts of non-tax revenue, especially those linked to the exploitation of non-renewable natural resources, such as minerals and hydrocarbons (ECLAC, 2022).

Figure II.4
Latin America and the Caribbean (26 countries): tax collection, 1991 and 2019
(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) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, OECD Publishing, 2022.

Note: The information presented refers to tax revenues of the general government. For Saint Lucia, the 1992 figure on tax collection was used, as the 1991 figure was not available. In Cuba, the level of total tax burden fell sharply in 2021 owing to a drastic methodological change arising from a monetary reform; accordingly, caution should be exercised in considering Cuba's quantitative data in relation to the rest of the countries of the region.

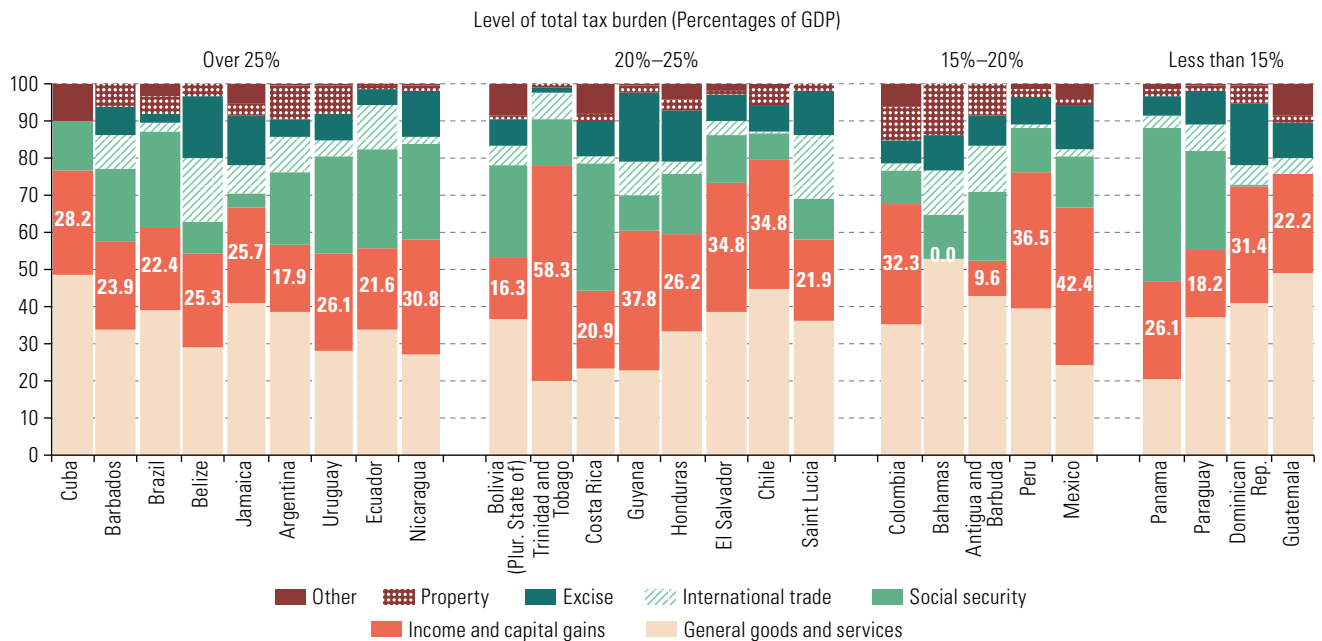
³ Among the most representative are taxes on fuel, tobacco, beverages, automobiles and some specific services, such as telephony and insurance of various kinds.

Using the analysis of the burdens in Latin American and Caribbean countries to classify them relative to more developed countries yields an incomplete and inaccurate picture. In 2019, some of the region's countries had tax burdens similar to those of OECD. However, the two sets of countries differ in their respective tax structures.

The main sources of tax resources in the region are general taxes on goods and services, while in the OECD countries, the largest source is income tax (which represented 34% of total collection in 2019 on average), as will be seen later. However, none of the Latin American and Caribbean countries with the highest tax burdens reported a similar level of income tax. What is more, there is no clear relationship between the total level of tax revenue and the share of taxes on income and capital gains (see figure II.5). What can be said is that the countries with the region's highest tax burdens generally exhibit a relatively more diversified and balanced tax structure. In these cases, a significant part is played by general taxes on goods and services, income and capital gains taxes and, except in the cases of Belize and Jamaica, social security contributions.

Figure II.5

Latin America and the Caribbean (26 countries): structure of tax collection, 2019
(Percentages of total collection)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, OECD Publishing, 2022.

Note: The information shown refers to the tax revenues of the general government. The figure highlights the values corresponding to the relative share of taxes on income and capital gains in the countries of the region.

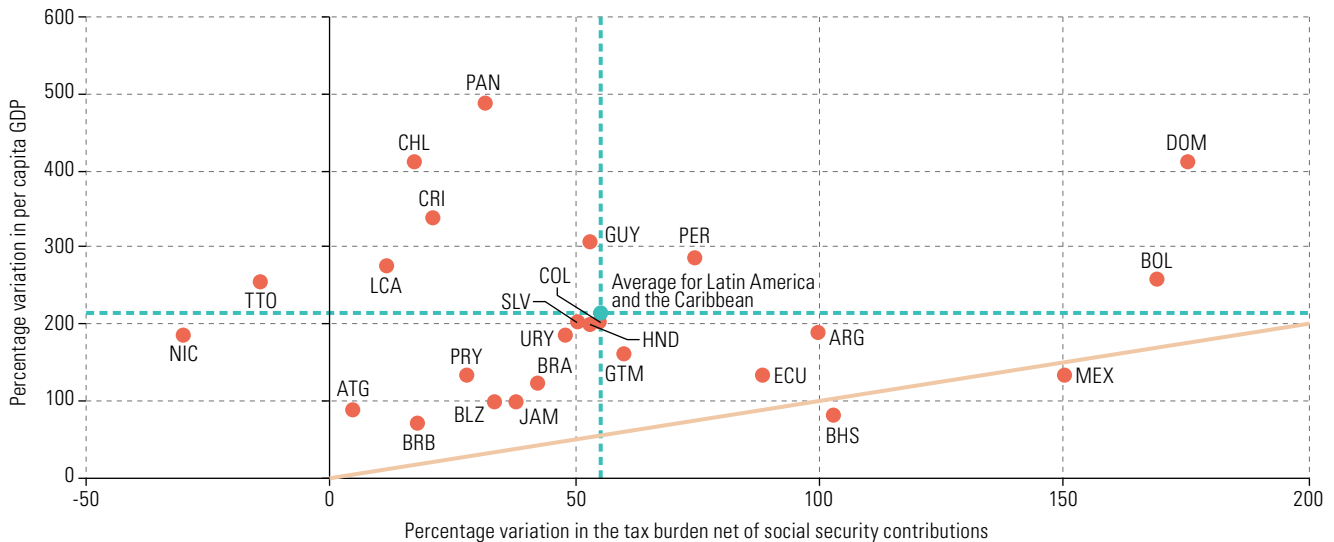
In addition, looking at the past three decades, except for the few cases (Nicaragua and Trinidad and Tobago) in which the tax burden has fallen and leaving aside social security contributions, the great majority of countries have shown increases in per capita GDP combined with higher tax revenues as a percentage of output. With the sole exceptions of the Bahamas and Mexico, per capita GDP (expressed in purchasing power parity dollars) rose by more than the tax burden (see figure II.6). This is consistent with the tenets of generally accepted economic theory concerning the positive relationship between economic growth and expansion of the tax burden.⁴ In this case, the variation in the tax burden has been taken net of social security contributions, in

⁴ For a classic reference in this respect, see Tanzi (1987).

order to isolate the effect of the structural changes seen over the past three decades in the financing of the different pension systems, health care and other components of social security. On the other hand, in a few notable cases (the Dominican Republic, Peru and the Plurinational State of Bolivia) both the total tax burden and per capita GDP grew simultaneously above the regional averages between 1991 and 2019.

Figure II.6

Latin America and the Caribbean (25 countries): variation in the tax burden and per capita GDP, 1991–2019
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, OECD Publishing, 2022, and World Bank, “New approaches to closing the fiscal gap”, *Latin America and the Caribbean Economic Review*, Washington D.C., October 2022.

Note: These comparisons are made using per capita GDP expressed in current international dollars, in purchasing power parity. The dotted lines show the average values of each variable, while the straight line indicates the proportional change between the two variables.

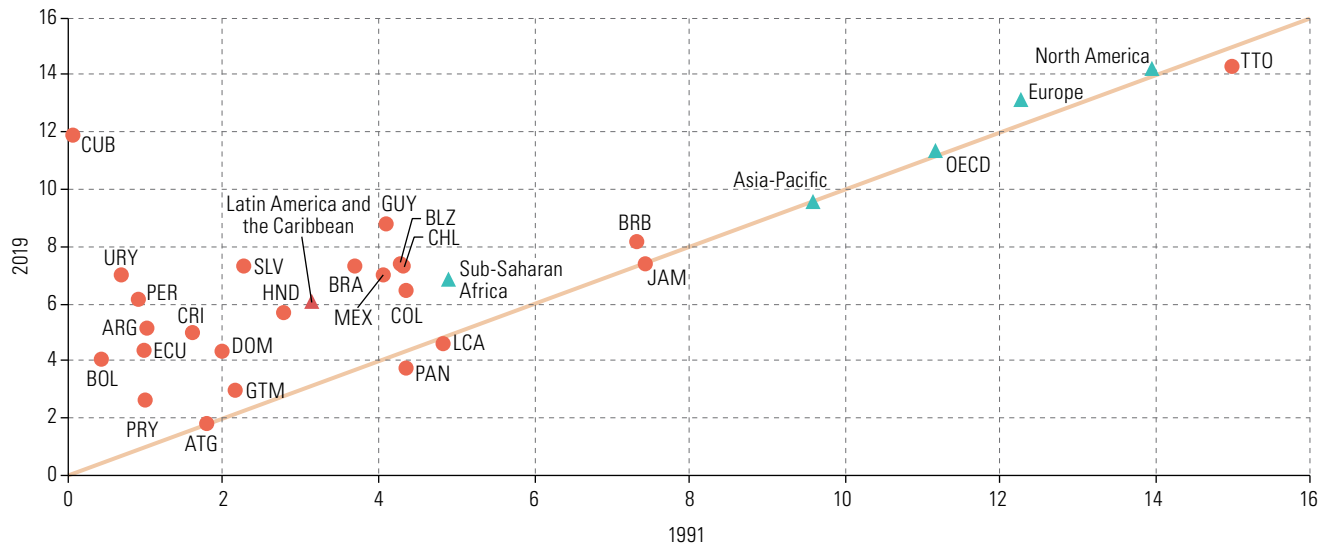
2. Income tax collection: levels and relative structure

It has been a century since income taxation was established in Latin America; the pioneers were Brazil (1923), Mexico (1924) and Colombia (1928). As noted earlier, despite the progress made in total tax revenue in the past 30 years, the main challenges regarding collection and progressivity of tax systems in Latin America and the Caribbean lie in the poor development of “direct” taxes, such as those on income and assets.

As noted in the previous section, income tax collection almost doubled at the regional level between 1991 and 2019, from 3.2% to 6.0% of GDP on average. During this period, its average relative share of the total tax burden also rose —by more than in any other geographic region— from 19.5% to 26.6%. However, income tax continues to make a much smaller contribution to revenue than in most developed countries, with a level somewhat lower than the average for Sub-Saharan Africa (see figure II.7).

Figure II.7

Latin America and the Caribbean (23 countries): income tax collection in countries of the region and average in other regions, 1991 and 2019
(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), Global Revenue Statistics Database [online] https://stats.oecd.org/Index.aspx?DataSetCode=RS_GBL.

Note: The information presented corresponds to the tax revenue of the general government and covers the 26 countries of the region included in the source consulted. For Saint Lucia, the 1992 figure on tax collection was used, as the 1991 figure was not available. For each geographic region, the countries included are only those that had data available for the years under analysis in the source consulted. The OECD simple average includes four Latin American member countries (Chile, Colombia, Costa Rica and Mexico). In the case of North America, Mexico is not included (only Canada and the United States). The orange circles indicate data corresponding to Latin American and Caribbean countries and the red triangles, the regional average. The blue triangles show the simple averages for the other regions considered.

As may be expected, very different situations underlie the regional averages. Although both the collection of income tax as a percentage of output and its share in total collection have increased in most of the countries, some show a different pattern. Thus, in some cases—Antigua and Barbuda, Jamaica, Guatemala, and Saint Lucia—the burden of income tax did not change significantly in relation to GDP but, as other taxes have increased, the share of income tax in the total has fallen. In a couple of countries, the share in the total did not change substantively. This is the case in Colombia (where the collection of income tax rose similarly to that of other taxes) and Panama (where the collection of both income tax and other taxes declined). Lastly, Trinidad and Tobago shows similar data in 1991 and 2019 for both collection of income tax and its share in total revenues (see table II.1). In 2019, 14 countries show levels above the regional averages for income tax collection. The Caribbean countries are among those with the highest burdens (Barbados, Cuba, Guyana, and Trinidad and Tobago), although these are not necessarily the countries where income tax represents the largest proportion of the whole tax take (those are Guyana, Mexico, Peru and Trinidad and Tobago), since this relationship depends on the pattern of other taxes).

Table II.1

Latin America and the Caribbean (26 countries): income tax collection, 1991, 2000, 2010 and 2019
(Percentages of GDP and of total tax collection)

	Percentages of GDP				Percentages of total tax collection			
	1991	2000	2010	2019	1991	2000	2010	2019
Antigua and Barbuda	1.8	1.7	3.0	1.7	13.0	14.0	14.0	9.6
Argentina	1.0	3.6	4.7	5.1	6.8	18.5	16.2	17.9
Bahamas	-	-	-	-	-	-	-	-
Barbados	7.4	9.8	8.4	8.1	27.8	31.7	28.0	23.9
Belize	4.3	4.6	9.0	7.3	20.4	23.9	33.6	25.3
Bolivia (Plurinational State of)	0.5	2.3	4.6	4.0	7.0	13.2	20.0	16.3
Brazil	3.7	5.7	6.7	7.3	16.3	19.5	20.5	22.4
Chile	4.3	4.4	7.5	7.3	24.4	23.3	38.1	34.8
Colombia	4.4	3.6	4.8	6.4	32.9	23.2	26.6	32.3
Costa Rica	1.7	2.8	3.8	4.9	9.4	13.2	17.1	20.9
Cuba	0.1	6.0	5.6	11.9	0.3	16.1	15.0	28.2
Dominican Republic	2.0	2.7	2.7	4.3	25.9	22.2	21.8	31.4
Ecuador	1.0	1.5	4.2	4.3	13.9	12.6	25.0	21.6
El Salvador	2.3	3.6	5.4	7.3	19.3	25.7	28.9	34.8
Guatemala	2.2	2.3	2.3	2.9	25.9	19.9	18.6	22.2
Guyana	4.1	5.9	5.7	8.8	30.5	37.8	35.4	37.8
Honduras	2.8	2.7	4.4	5.6	21.9	15.9	24.3	26.2
Jamaica	7.4	9.0	9.2	7.4	41.7	40.4	36.9	25.7
Mexico	4.1	4.1	5.1	6.9	33.3	36.0	39.8	42.4
Nicaragua	-	1.8	4.5	7.9	-	12.3	23.1	30.8
Panama	4.4	3.9	4.5	3.7	25.3	25.0	27.4	26.1
Paraguay	1.0	1.5	1.6	2.5	12.3	13.1	13.4	18.2
Peru	1.0	2.9	6.5	6.1	7.1	19.0	36.5	36.5
Saint Lucia	4.8	5.6	5.5	4.5	29.4	28.6	27.1	21.9
Trinidad and Tobago	15.0	12.4	19.6	14.2	58.3	56.8	68.5	58.3
Uruguay	0.7	2.9	4.9	6.9	3.8	13.6	20.0	26.1
Average for Latin America and the Caribbean	3.2	4.1	5.5	6.0	19.5	22.1	26.0	26.6
Average for OECD countries	11.2	11.5	10.2	11.3	35.2	33.9	32.2	34.0

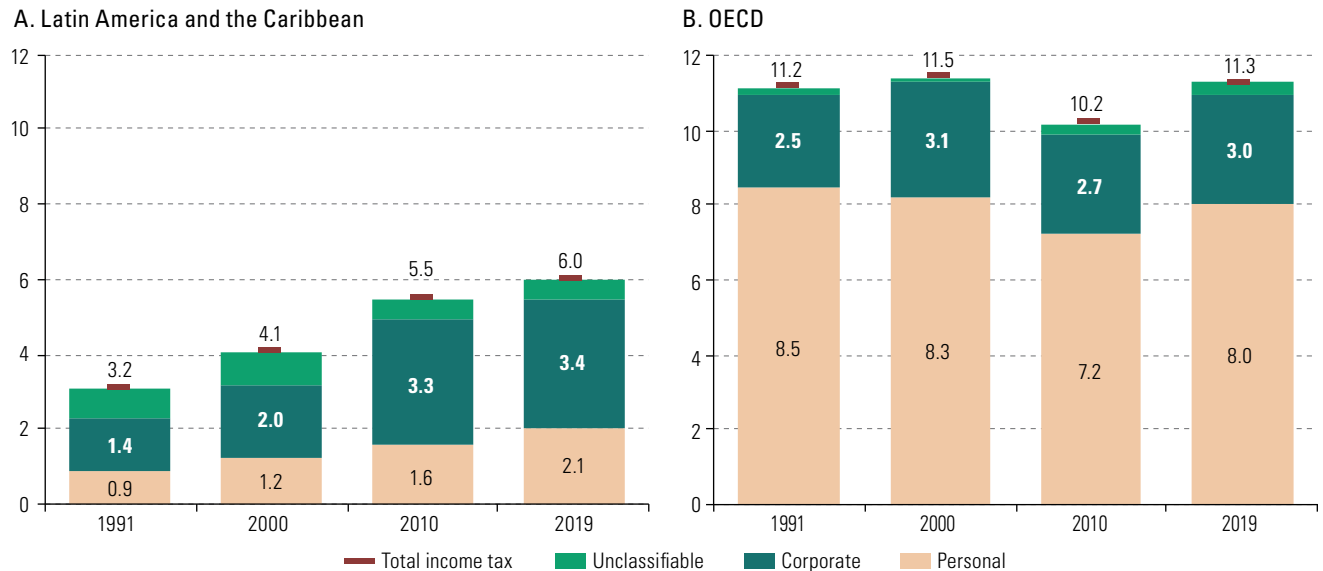
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, OECD Publishing, 2022.

Note: The information presented refers to tax revenues of the general government and includes the 26 countries of the region covered in the source consulted. The (simple) averages were calculated using the individual data for the countries included, both for percentages of GDP and for percentages of the total tax take. For Saint Lucia, the 1992 figure on tax collection was used, as the 1991 figure was not available.

On average, between 2000 and 2019, income tax collection increased by close to 50% in relation to GDP (see figure II.8). Beyond its overall behaviour, it is important to distinguish the pattern of its components. The amount contributed by personal income tax accounts for the increase in total tax collection from 2011 on. Prior to that, however, between 2003 and 2008, revenues from direct corporate taxation increased, owing to the rise in international prices for commodities and other goods exported by the region. The increase in the collection of personal income tax was achieved by different reforms implemented by the countries of the region to expand the income tax base, raising the taxation of capital gains, making changes to rates and to disposable income brackets, and improving international tax rules (Jiménez and Podestá, 2017).

Figure II.8

Latin America and the Caribbean and OECD countries: collection and structure of income tax, 1991, 2000, 2010 and 2019 (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) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, OECD Publishing, 2022.

Note: The information presented corresponds to the tax revenue of the general government and covers the 26 countries of the region included in the source consulted. For Saint Lucia, the 1992 figure on tax collection was used, as the 1991 figure was not available. For each geographic region, the countries included are only those that had data available for the years under analysis in the source consulted. The OECD simple average includes four Latin American member countries (Chile, Colombia, Costa Rica and Mexico). In the case of North America, Mexico is not included (only Canada and the United States).

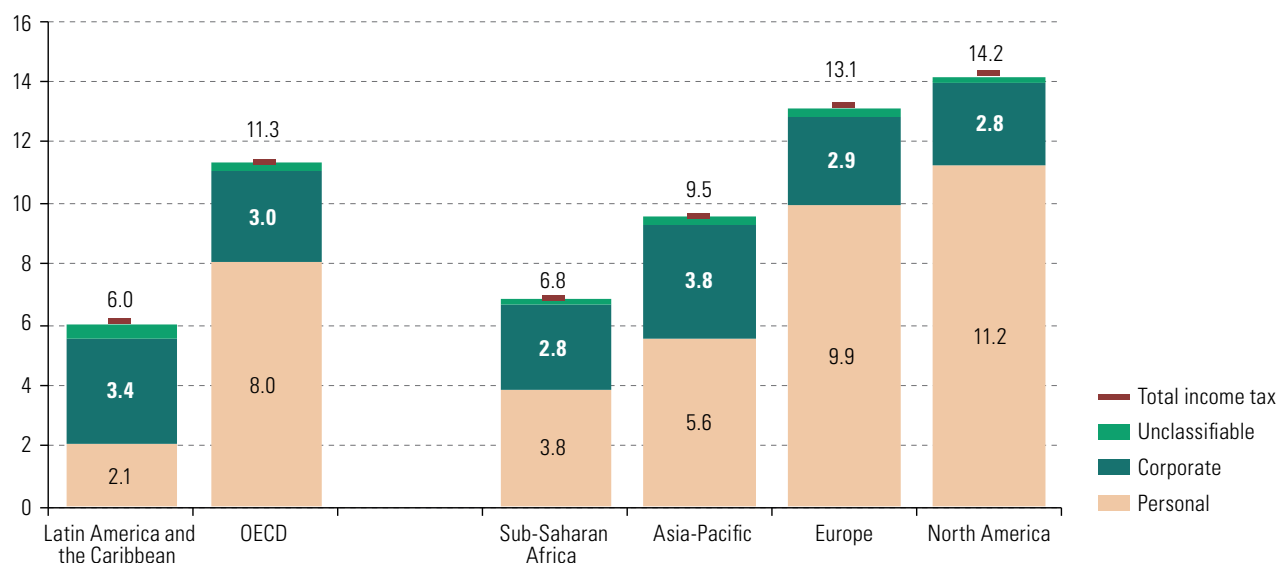
Despite the increase in the personal component of income tax collection in recent decades, this component continues to be the smallest part of this category of tax.⁵ In Latin America and the Caribbean, personal income tax collection comes to barely 2.1% of GDP on average, well below the average of 8% of GDP collected by OECD countries, and indeed below the figures for other geographic regions (see figure II.9). Barreix, Benítez and Pecho (2017) point to four factors underpinning the low revenue-raising capacity of this tax in the region: (i) high tax reliefs (such as personal deductions and income exemptions); (ii) high tax allowances; (iii) narrow tax bases (mainly wage workers); and (iv) high levels of tax evasion and avoidance. All these aspects will be analysed in greater depth in the next section.

In most of the countries of the region, over two thirds of revenues from income tax are from corporate income tax. Consequently, the contribution it makes is similar between the countries of Latin America and the Caribbean and those of OECD (3.4% and 3.0% of GDP, respectively), and is particularly significant in countries with large commodity endowments, such as Chile, Colombia, the Plurinational State of Bolivia and Trinidad and Tobago (see figure II.10). Personal income tax raises limited resources in the countries of the region, and falls mainly on wage workers. Capital income (dividends, interest, royalties and others) tends to be treated favourably compared to other sources of income generation, with lower rates and widespread exemptions. This unbalanced structure affects the redistributive ability of income tax, since the tax paid by companies can be transferred to the prices of goods and services, and it is less progressive than the personal income tax (Gómez Sabaini and Morán, 2016).

⁵ This does not include a remainder that is unclassifiable, owing to the availability of statistics, which fell from an average of 0.9% of GDP in the region in 1991 to 0.5% of GDP in 2019.

Figure II.9

Latin America and the Caribbean: tax burden and relative structure of income tax, compared with average for other regions, 2019
(Percentages of GDP)

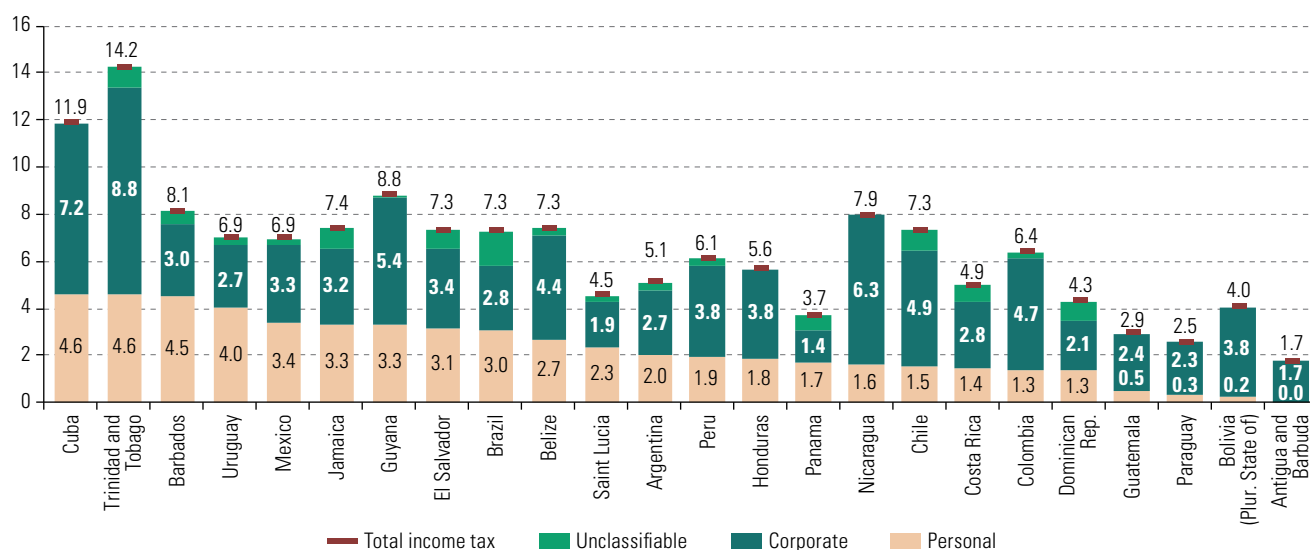


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, OECD Publishing, 2022.

Note: The information presented corresponds to the simple average of tax revenues of the general government (in percentages of GDP) and covers the 26 countries of the region included in the source consulted. For each geographic region, the countries included are only those that had data available for the years under analysis in the source consulted. The OECD simple average includes four Latin American member countries (Chile, Colombia, Costa Rica and Mexico). In the case of North America, Mexico is not included (only Canada and the United States).

Figure II.10

Latin America and the Caribbean (24 countries): tax burden and relative structure of income tax, 2019
(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) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, OECD Publishing, 2022.

Note: The information presented corresponds to the tax revenues of the general government and covers the 26 countries of the region included in the source consulted. Does not include the Bahamas, where this tax is not applied, or Ecuador, where the necessary disaggregated data were not available.

B. Characteristics of personal income tax and reform trends

This section will offer an analysis of the make-up of the income tax and relevant characteristics that it shares or that differentiate it across countries. This will then serve as a basis to attempt a typology of cases.

From a historical perspective and framed within the international context, analysis of how the personal income tax is designed means studying its statutory rates over the years, as well as levels of exemptions and the income thresholds from which the top statutory rate applies. This will provide a quick overview of the scope of this tax instrument in the different countries of Latin America and the Caribbean. This section offers an introduction to its common and differentiated features within the region.

1. Common stylized features throughout the region

Beyond the heterogeneity of the characteristics of income tax in the different countries of the region, three common stylized features may be identified.

(a) Predominance of progressive rates by income

Generally speaking, the design of personal income tax systems is based on progressive scales with a few exceptions, such as Belize and the Plurinational State of Bolivia, which use flat rates. Although the regulations across the different countries establish very different numbers of taxable income brackets (Jiménez and Podestá, 2017), the way the rates have evolved over the years—especially the top and bottom marginal rates—is useful in forming an understanding of the impact that income tax has on the progressivity of each country's tax system. In this regard, rates have followed two different patterns in recent years. The remaining stylized facts they have in common are discussed below.

(b) Relative constancy of top marginal rates

One of the factors constraining the collection of income tax has to do with tax reforms starting in the early 1980s, which tended to reduce the maximum applicable rates in line with the international trend of the OECD countries and the influence of the “Washington Consensus” in the countries of the region. Developed countries showed an average decrease of 16 percentage points in the maximum average rate between 1985–1986 and 2011, which went from 53% to 37%, while in Latin America and the Caribbean this drop was somewhat sharper, from an average top rate of 50% between 1985 and 1986 to less than 30% since the early 2000s (Cetrángolo and Gómez Sabaini, 2007; Jiménez and Podestá, 2017).⁶

However, this trend seems to have stopped and shifted gradually after the reforms implemented during the years following the 2008 financial crisis, which aimed to increase the maximum statutory rates mainly in developed countries, at both the central and subnational levels. At this point it must be clarified that the top rates of several OECD member countries arise from the combination of rates applied at different levels of government, generally on the same taxable base. Thus, in addition to the tax legislated

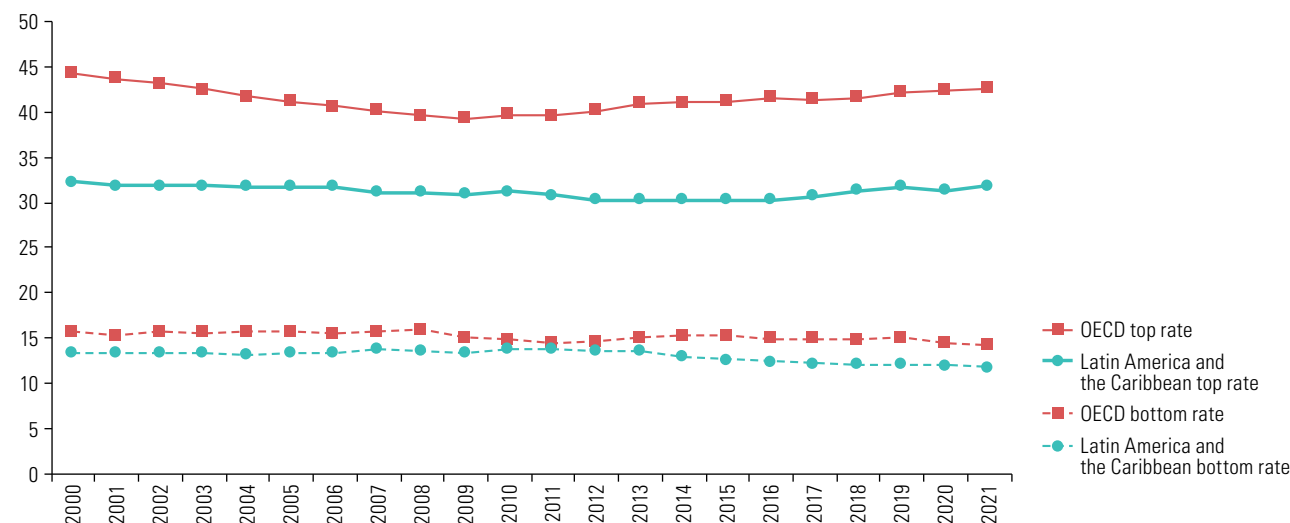
⁶ The gradual (long-term) reduction in the top marginal rates of income tax was also seen among the developed countries, although from much higher levels. For example, between 1992 and 2011, these rates decreased from 56.0% to 45.0% in Spain, from 60.0% to 52.0% in the Netherlands, from 66.0% to 50.0% in Japan and from 68.7% to 55.4% in Denmark.

at the central government level, some countries have supplementary subnational income tax schemes, which may have a progressive rate structure (such as Belgium, Canada, Spain, Switzerland) or proportional surcharges that are added directly to the national tax in each jurisdiction (such as Denmark, Finland, Iceland, Italy, Japan, the Republic of Korea and the United States).

As may be seen in figure II.11 (with data from 2000 onward), the OECD countries had an average top tax rate of around 40% in the years immediately following the crisis (compared to 44.3 % in the year 2000), which then held steady around 41% between 2013 and 2018 and slowly increased in recent years to reach 42.6% in 2021, owing to some recent modifications. For example, Austria had a top rate of 50% until 2015, which rose to 55% starting in 2016, while New Zealand brought the top tax rate from 33% to 39% from April 2021 (OECD, 2022). This general trend, especially since the global economic crisis amid the COVID-19 pandemic, has been accompanied by reforms to alter other characteristics of tax design by adjusting the tax base to adapt to the changing macroeconomic contexts.

Figure II.11

Latin America and the Caribbean (27 countries) and OECD members (38 countries): statutory top and bottom rates of personal income tax, regional averages, 2000–2021
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), OECD Statistics [online] <https://stats.oecd.org/>; Inter-American Center of Tax Administrations (CIAT), CIATdata [online] <https://www.ciat.org/ciatdata/>, and each country's tax legislation.

Note: The rates correspond to the progressive taxation of labour income. They may differ from rates on profit-bearing activities in some specific cases. The average calculated for the 38 OECD countries includes OECD members in Latin America and the Caribbean (Chile, Colombia, Costa Rica and Mexico). Of the cases included in the previous section, the calculation of the averages for Latin America and the Caribbean (27 countries) does not include Belize and the Plurinational State of Bolivia, which apply flat-rate taxes; Guatemala, which has a very particular tax model that is difficult to compare with the rest of the countries in the region (rates of 5% and 7% are applied to taxable labour income); and, lastly, Antigua and Barbuda and the Bahamas, which do not currently apply income tax. Conversely, the Bolivarian Republic of Venezuela, which was not included in the previous section owing to lack of updated tax collection statistics, is included here.

Nevertheless, the aforementioned crises appear not to have had a significant impact on the average level of the maximum statutory rates in the Latin American and Caribbean region where, unlike in several OECD countries, the tax is levied only at the central government level. The average top rate has remained in the range of 30% to 32% since the early 2000s.⁷ This value is well below the average for OECD, with a visible gap that persisted and even increased over the past decade (see figure II.11). In 2021,

⁷ In addition to the changes in each case, the series of average values has also been affected throughout the period analysed by the inclusion of two countries in the region where the tax was introduced relatively recently (in Uruguay in 2007, and in Paraguay in 2012).

the average top rate in Latin America and the Caribbean was 31.9%, 10.7 percentage points lower than the average for OECD member countries. The persistence of this gap is not to say that the countries of the region have not made reforms to income tax over the past two decades. On the contrary, of all tax reforms carried out between 2010 and 2015 in the region, 75% included changes to income tax (Arenas de Mesa, 2016). However, one of the main pillars of these reforms was the inclusion of capital income (dividends, interest, royalties, and other capital income) within its scope. As will be analysed later, several countries in the region have brought these categories of income into the scope of income tax over the past 15 years.

(c) Increase in minimum tax rates during the first decade of the century, reversed in recent years

Unlike the pattern in the top rates, the minimum statutory rates in Latin America and the Caribbean have shown sustained, albeit gradual, growth, from an average of 7.5% in the mid-1980s to a peak of 13.7% in 2011, when the region's average minimum statutory rate was close to the figure calculated for OECD countries (14.5%). However, contrary to the pattern for the top rates, from that year on the average minimum rate in the region shows a slight but steady fall towards the 11.8% seen today, compared to the minimum average rate for OECD countries that has remained almost unchanged around 15%, with a slight decrease in the last two years surveyed (14.3% in 2021).

The crisis of the COVID-19 pandemic prompted most countries around the world to adopt tax relief measures for lower-income households. In some OECD countries, these measures included reductions in their minimum statutory rates (for example, in Austria and Greece in 2021) or even in the rates for intermediate income brackets, as occurred in Italy from 2022 (OECD, 2022). In general, this does not seem to have occurred in the Latin American and Caribbean countries where, for the most part, it was decided to allow deferrals in both income tax declarations and payment without legislating changes to the actual design of the tax. The only exception was Barbados, where the bottom tax rate was lowered from 16.0% to 12.5% in 2020.

2. Main differences between the countries

Apart from the abovementioned features that are common to most of the countries in the region and the regional trends that may be identified, the main characteristics of personal income tax design have been very diverse for decades in the region and remain so today. The analysis here focuses mainly on the different rates (on different types of income) and the income levels to which they are applied.

(a) Top and bottom income tax rates

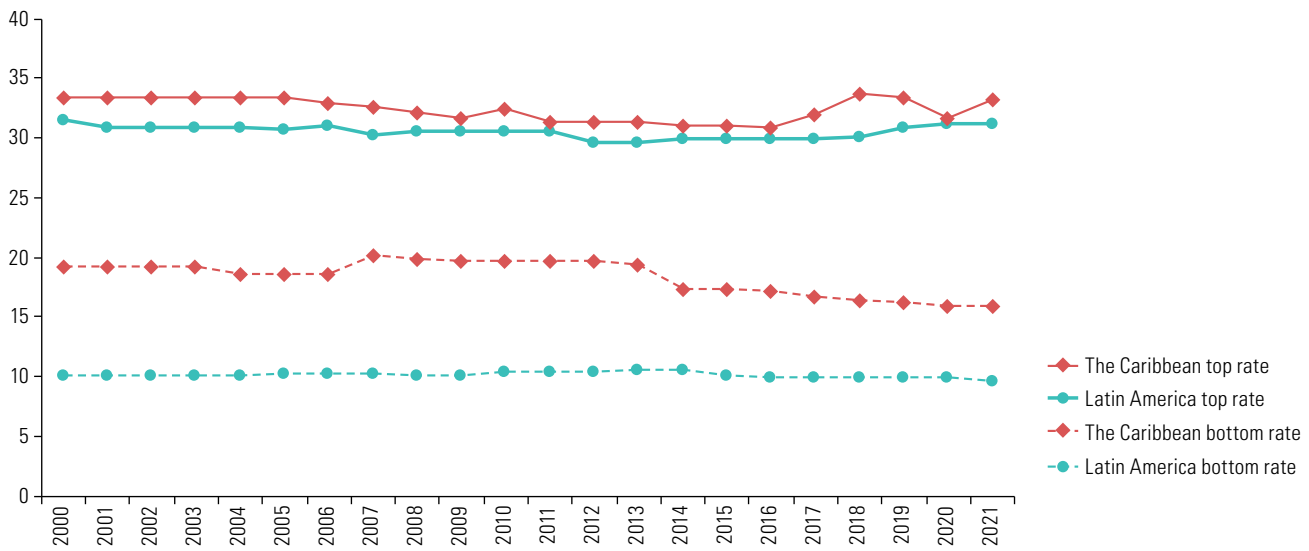
Regarding the maximum statutory rates, first of all, attention should be drawn to the differences between the Latin American subregion and the Caribbean. In general, the two subregions show a similar pattern, although with higher values in the Caribbean compared to the rates applied in Latin America throughout the period (see figure II.12).

The average top tax rate for the Caribbean countries was 33.5% in the year 2000; thereafter it fell to 30.8% in 2016. Then, in 2017, this pattern shifted as a result of the increases posted in Jamaica and Trinidad and Tobago (from 25% to 30% in both countries). This trend gained further traction in 2018 with top rate rises in Barbados (from 33.5% to 40%) and Guyana (from 30% to 40%). The recent decrease in the average for 2020 is attributable to the lowering of the top rates as part of the response

to the pandemic crisis in Barbados (where it was brought down from 40% to 28.5% on a permanent basis)⁸ and Jamaica (from 30% to 25%, for that fiscal year only). Lastly, the top average rate came to 33.3% at the end of 2021, with a temporary increase registered in Suriname where a solidarity surcharge pushed the top tax rate up from 38% to 48% during that calendar year; this was withdrawn in 2022.

Figure II.12

Latin America and the Caribbean (subregional averages): statutory top and bottom rates of personal income tax, 2000–2021
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD), OECD Statistics [online] <https://stats.oecd.org/>; Inter-American Center of Tax Administrations (CIAT), CIATdata [online] <https://www.ciat.org/ciatdata/>, and each country's tax legislation.

Note: The rates correspond to the progressive taxation of labour income. They may differ from rates on profit-bearing activities in some specific cases. The average for Latin America includes 18 countries: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay. The average for the Caribbean includes 9 countries: Barbados, Dominica, Grenada, Guyana, Jamaica, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

In Latin America, the maximum average rate has shown a slow downtrend since 2000 (when it stood at 31.5%) and stabilized at around 30% between 2012 and 2018. A slight upturn occurred from 2019 as result of some recent reforms in specific cases (see box II.2), which brought the subregion's top reference rate to 31.2% in 2021.

However, the most notable differences are observed in the lowest statutory rates of the tax in both subregions. In Latin America, on average, these fluctuated around 10% between 2000 and 2021 (9.7% in the latter year). Much higher values are observed in the Caribbean, although with a clear downtrend throughout the period. Starting from a value of 19.2% in the year 2000, the series of the average bottom rate for this subregion jumps between 2007 and 2013, owing to two specific reforms in Guyana and Grenada.⁹ It then continued falling in the most recent years to 15.9% in 2021, which is also higher than the average calculated for the group of developed OECD countries (14.3%).

⁸ For the fiscal period running between April 2022 and March 2023, a one-off mandatory contribution was introduced due to the COVID-19 pandemic. This was applied to both employees and self-employed workers, on their personal income of various kinds (with some exceptions, such as pensions or benefits in kind), at a rate of 1% on the same taxable base as personal income tax.

⁹ At the end of 2006, Guyana moved from a minimum rate that had been in force until then (20%) to a single rate tax of 33.33%, which was then reduced to 30% in 2014. The country reintroduced a dual rate system in 2018, with a minimum rate of 28% and a maximum of 40%. Grenada introduced a minimum rate of 15% in 2014 (until then personal income tax was applied at a flat rate of 30%), which was reduced to 10% in 2017 and remains at that value.

Box II.2

Recent personal income tax reforms in Latin America

In the years prior to the outbreak of the COVID-19 pandemic and the resulting economic and health crisis, some countries in the region were embarking on a new wave of reforms aimed at strengthening personal income tax. This incipient trend was not an isolated event, but rather a continuation of a process that had begun in the middle of the first decade of the 2000s with the reintroduction of personal income tax in Uruguay in 2007 and a succession of advances in other countries of the region during the following years. However, the novelty of the most recent changes in personal income tax—at least for the region—was the increase in its upper marginal rates, with the aim of improving the tax's redistributive impact and more effectively taxing individuals with higher earnings.

For example, in Colombia, despite being declared unenforceable by the Constitutional Court and although it was essentially replaced with Law No. 2010 of 2019, the Financing Law (Law No. 1943 of 2018) made important changes to the personal income tax, including: (i) a change in the system of income, which was reduced to three baskets (a general basket, a pension basket and a dividends basket); (ii) a limit on the amount of exempt income and on the deductions from the general basket; and (iii) the addition of three new marginal rates of 35%, 37% and 39%. The recent tax reform in December 2022 also strengthened the specific treatment of dividends and occasional earnings (see box II.4). In Chile, Tax Modernization Law No. 21210 of 2020 also included a new section for higher-income individuals, raising the top statutory rate from 35% to 40%. In July 2022, a tax reform bill was presented that would increase the highest rates of the current tax (from 23%, 30% and 35% to 26%, 35% and 40%, respectively) and would add a new rate upper marginal rate of 43%.

Ecuador also sought to strengthen personal income taxation with a reform introduced at the end of 2021 through the Framework Law for Economic Development and Fiscal Sustainability. To this end, progress was made in reducing the amounts taxable in the intermediate brackets of the progressive scale, including a new top bracket with a marginal rate of 37%, which was applicable starting from a lower taxable base than for the previous top rate (35%). Earlier, Uruguay had made similar changes through Decree No. 36 of 2017, which modified the scale of taxable income by adding an intermediate bracket. In addition, the intermediate and maximum statutory rates were raised from 20%, 22%, 25%, and 30% (applicable since 2012) to a progression of 24%, 25%, 27%, 31%, and up to a maximum of 36%. At the end of 2018, Costa Rica adopted a comprehensive tax reform in Law No. 9635, Strengthening of Public Finances. By virtue of this legislation, among other measures, two new brackets and rates (20% and 25%) were introduced in personal income tax for wage earners and a new tax on capital gains from financial investments and real estate was created, with a flat rate of 15%.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of each country's tax legislation.

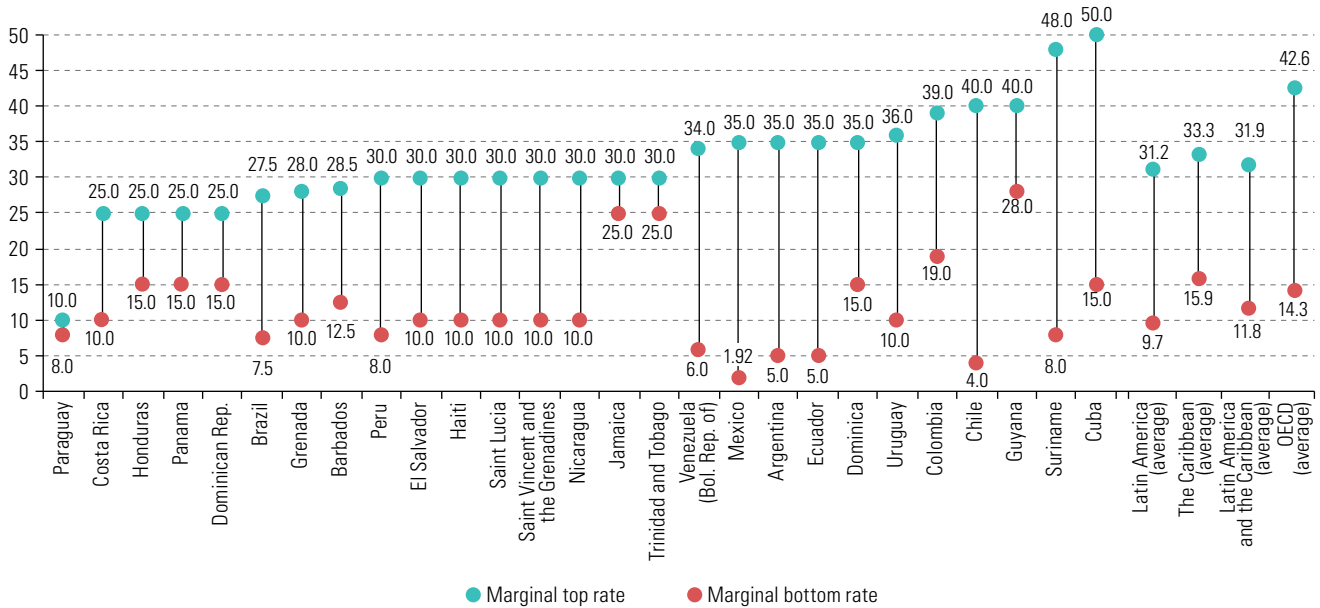
Figure II.13 illustrates the major differences that exist between the region's countries in the level of marginal tax rates. First of all, there are very significant differences in the top marginal rates in the Latin American subregion. For example, Paraguay is at one extreme, with a maximum statutory rate of 10%,¹⁰ and Cuba is at the other, with a top statutory rate of 50%. There are also cases such as Argentina, the Bolivarian Republic of Venezuela, Chile, Colombia, Ecuador, Mexico and Uruguay, whose rates exceed the regional average and come closer to those of the OECD countries. In several of these cases, the current values of the top rates reflect a series of reforms adopted in those countries during the years prior to the COVID-19 pandemic (see box II.2). Conversely, in the Caribbean subregion, the maximum statutory rates show relatively less dispersion, with the highest rates of income tax in Guyana (40%) and Suriname (48%)¹¹ in 2021 (see figure II.13). In sum, despite the diversity of cases, there are groups of countries in the region with common top statutory rates, such as 25% (four countries), 30% (eight countries), from 34% to 36% (six countries), and from 39% to 40% (three countries).

¹⁰ Mention is also warranted of the cases of the Plurinational State of Bolivia, which is not shown in figure II.13 because, together with Belize, it is one of the few countries in the region with a flat-rate tax (13% and 25%, respectively).

¹¹ In 2022 the top rate returned to 38% following the withdrawal of the temporary surcharge.

Figure II.13

Latin America and the Caribbean (selected countries) and OECD average: statutory top and bottom rates of personal income tax, 2021
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of each country's tax legislation.

Note: The rates correspond to the progressive taxation of labour income. They may differ from rates on profit-bearing activities in some specific cases. The average for Latin America includes 18 countries: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay. The average for the Caribbean includes 9 countries: Barbados, Dominica, Grenada, Guyana, Jamaica, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

Similarly, the statutory minimum rates are also quite varied. In an analysis by subregion, Latin America shows the lowest average bottom rate (9.7%), which is explained mainly by its values in Mexico, Chile, Ecuador, Argentina and the Bolivarian Republic of Venezuela (1.92%, 4%, 5%, 5% and 6%, respectively). Conversely, the Caribbean, whose average statutory minimum rate was 15.9% in 2021, shows values that are close to the top rates in force in other countries in the region. For example, Guyana, Jamaica, and Trinidad and Tobago have minimum rates of 28%, 25%, and 25%, respectively, in contrast to cases such as Barbados (12.5%) and Saint Lucia (10%).

A final point to mention with regard to marginal rate structures in the countries of the region has to do with the number of taxable income brackets, that is, the number of positive rates making up the progressive scale of the tax in the different countries. Apart from the countries that apply flat-rate taxes (Belize and the Plurinational State of Bolivia),¹² the average for the region in 2021 was found to be between four and five different brackets, with fewer being in use in the Caribbean (2.8) than in Latin America (5.3). Thus, the schemes in use in the Caribbean have, in all cases, between two and four tax brackets.¹³ Conversely, the ranges are much more diverse among the Latin American countries: at one extreme are most of the Central American countries (Panama¹⁴ and Paraguay, with 2 different brackets; El Salvador, Honduras and the Dominican Republic, with 3) and, at the other extreme are countries with more graduated sliding scales, such as Chile and Uruguay (with 7 brackets), the Bolivarian Republic of Venezuela and Ecuador (8), Argentina (9) and Mexico (11).

¹² Nor is the case of Guatemala included, which has a very different model of personal income tax (wage work) that is not very comparable with that of the other countries in the region.

¹³ The exception is Suriname, whose tax code had five brackets in 2021, including the addition of a temporary solidarity surcharge of 48% for one fiscal period. In 2022, the tax returned to its previous configuration of four different marginal rates, with a maximum rate of 38%.

¹⁴ However, as of 2020, natural persons considered "micro, small, and medium-sized entrepreneurs" (up to a certain amount of annual gross income) can determine the tax to be paid according to a special scale of reduced rates, with six brackets between 7.5% and 22.5%.

The differences noted between countries reflect, in the first instance, the varying degree of regulatory complexity that personal income tax has acquired across the region. In turn, the amount, breadth and level of statutory income brackets provide a preliminary picture of the unequal degree of theoretical progressivity in existing versions of the tax, although this picture must be complemented with an evaluation of the relative level of income to which the various rates apply (as will be discussed later). In general, the more progressive regimes tend to be more complex to administer and manage, and thus require an efficient tax administration in order to be collected effectively. For this reason, it is always useful to bear in mind that the current design of the personal income tax in each national context—together with potential reforms that could be considered to strengthen its contribution within the respective tax systems—reflects, among other factors, the search for a balance between the principles of administrative simplicity, distributive equity and revenue adequacy.

(b) Proportional rates for different types of capital income (dual systems)

Although Latin America and the Caribbean has a history of close to a century in tax systems, taxation of personal income is the tax that, historically, has faced the greatest obstacles to becoming consolidated as a fundamental pillar of public financing in the countries of the region. One of the main difficulties has had to do with the (unsuccessful) establishment of a comprehensive income taxation model. In practice, this would mean having a broad-based tax that would cover all the income received by each taxpayer¹⁵ and would respect, as much as possible, the efficiency and equity criteria on which its specific design should be based.

In past decades, as the top marginal rates for individuals declined, they converged with the rates levied on companies and several countries in the region levelled the tax burdens for the two types of taxpayers. The reduction of the gap between rates allowed several countries in the region to modify the treatment of distributed dividends and tax them in advance in corporate tax statements, removing them from the scope of personal tax to avoid double taxation. This strategy was adopted by a significant number of countries in the region, such as Argentina, Brazil, El Salvador, Honduras, Mexico and Nicaragua, among others, which consolidated classic income tax systems with no association between corporate tax and that subsequently levied on individuals in receipt of corporate dividends.¹⁶

In addition, the constraints on tax administration amid high rates of informality and tax evasion, together with certain aspects concerning the political economy of tax reform in the region—such as the resistance of the elites and different pressure groups—led to this tax becoming differentiated by the types or categories of income received by the same taxpayer (for wage work, for interest on deposits and for dividends from shares, among others), with each receiving different treatment. As an extreme way of simplifying the application of income tax, several countries of the region opted directly to grant a set of exemptions and exonerations, depending on the source of the income, especially for capital income (Cetrángolo and Gomez Sabaini, 2007). It has been precisely the different special treatments frequently introduced in the tax legislation itself that have tended to erode the potential taxation base, while reducing its revenue-raising performance and altering its effects on horizontal and vertical equity. Within the broad concept of tax expenditure, these concessions tend to have very particular nuances in each country and, along with tax non-compliance, have been one of the main obstacles to strengthening the region's tax systems (see box II.3).

¹⁵ The traditional criterion is based on the contributions of Haig and Simons, whereby a person's income is defined as the sum of consumption and the net change in wealth that occur between two different points in time (McLure and Zodrow, 1994). From the perspective of the origin of resources, individual income would be given by the sum of all profits and income, including inheritances and gifts received, as well as capital gains (realized or potential).

¹⁶ Chile has long been an exception to this regional trend, having an integrated system characterized by a large rate differential for corporate or personal income, and a system of credits for taxes paid by companies. However, the tax reform of 2014 and a succession of more recent modifications have brought income tax closer in its way of operating to other regional practices and standards.

Box II.3

Tax expenditures on personal income tax in Latin American countries

Tax expenditures can be defined as any special tax treatment that intentionally reduces the tax burden, directly or indirectly, for a specific set of taxpayers in a given jurisdiction. Generally speaking, they: (i) represent a deviation —legal or theoretical-conceptual— from a reference tax framework; (ii) imply the State waiving or forgoing tax resources; and (iii) are established in pursuit of certain economic and social policy objectives, such as correcting market failures or addressing distributive issues.

However, in the case of personal income tax, there is no consensus on the reference framework to be used in identifying and quantifying exceptional treatment. This becomes more evident in comparison to other important taxes such as the value added tax (VAT) or corporate income tax, for which there are certain international standards in terms of technical design and administration. In fact, beyond the experiences built up over several decades, it could be said that there are as many versions of personal income tax as there are countries in which it has been applied, which makes it quite complex to define an ideal design for it. To a large extent, the difficulty lies in the history of the tax at the international level, regardless of the degree of development of the countries under analysis, and in the practical impossibility of consolidating a general system of tax on all personal income. Similarly, countries use very different criteria for personalizing income tax —determining the amount of deductions allowed for family responsibilities and taxpayers' characteristics and even specific expenses— and there is no clear criterion for classifying these into either conventional or exceptional features of a typical tax code.

Nevertheless, and beyond the methodological differences between countries of the region today in terms of tax expenditure budgets, a series of objective or subjective elements can usually be identified, including exemptions, deductions, credits, reduced rates and deferrals, among others. Generally speaking, tax expenditures in personal income taxation tend to take the form of tax allowances (in contrast to investment incentives) as a financial support for taxpayers, and are based on rationales of equity and distributive justice. Without going into detail and by way of illustration, the most recent estimates compiled by ECLAC show that waivers specifically on personal income taxation vary greatly in magnitude. The figures range from 0.01%, 0.04% and 0.05% of GDP in the cases of the Plurinational State of Bolivia, Panama and Paraguay, followed by a group of countries in the range of 0.38% to 0.71% of GDP (Brazil, Chile, Colombia, Ecuador, El Salvador and Uruguay, up to the case of Mexico, where these tax expenditures represent forgone revenue of the order of 1.13% of GDP. In this last case in particular, it is worth noting that the data support significant disaggregation of the official estimate, so that, for example, the weight of each group of personal income tax waivers can be identified by income level and sex.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of R. M. Campos Vázquez, "Measurement of tax expenditures in Latin America", *Project Documents* (LC/TS.2022/148), Santiago, ECLAC, 2022.

In the past 15 years, a series of advances began in the region with the aim of expanding the taxation base for personal income, with the innovative establishment of dual taxation systems. Uruguay was a pioneer in this regard in the region, and in July 2007 reintroduced the tax that had been repealed in the 1970s, beginning to tax labour income separately on a sliding scale and capital income with a reduced proportional rate. In the years following the international crisis of 2008–2009, Peru and several Central American countries also adopted tax reforms of this sort (Barreix, Garcimartín and Velayos, 2012).

In the middle of the last decade, other countries in the region, such as Argentina, Colombia, Mexico and Uruguay, also expanded the scope of personal income taxation to include some previously exempt capital income (mainly dividends and gains from the sale of shares or public securities). In the case of Argentina, after a first attempt to tax dividend distributions at a rate of 10% in 2016, its 2017 reform established a proportional tax of 7% on dividends to accommodate the reduction of the general rate of corporate income taxation,¹⁷ in addition to a tax on capital gains from the sale of real estate. A source-specific tax was also introduced for interest and profits from financial

¹⁷ Argentina's general rate of corporate income tax was 35% until 2017, when a gradual reduction was adopted that would have reduced it to 25% by 2020. However, this process was suspended at the end of 2019, and a general rate of 30% was kept for the 2020 fiscal period. Then, under Law 27.630, a progressive rate regime was introduced with rates of 25%, 30% and 35% on net annual income.

investments and the disposal of shares, public securities and other similar instruments, but a series of legal amendments in more recent years have minimized the effective scope of this tax.¹⁸ Colombia introduced a tax on dividend distributions in 2016 with two rates (5% and 10%) depending on the level of income received. More recently, a tax reform has significantly strengthened the tax on dividends and occasional capital gains, and progress has been made towards comprehensive reformulation of tax on the different streams of personal income (see box II.4).

Box II.4

Colombia: concrete progress towards a global personal income tax system

In December 2022, Colombia passed the Tax Reform for Equality and Social Justice (Law No. 2277). This legislation brought a series of significant legal changes, including the reinstatement of the personal wealth tax, higher effective tax on corporate earnings in certain sectors (financial, hydrocarbons and hydroelectric) and the introduction of excise taxes on single-use plastics, unhealthy foods and sugary drinks. However, one of the pillars of the reform was a series of innovations in personal income taxation, which represent unprecedented progress in the region in this regard.

Until last year, Colombia taxed personal income in three streams with different rates: (i) general (including labour income and fees, capital income, non-labour income, and pensions); (ii) occasional earnings; and (iii) dividends (which were taxed at a rate of 10% above a certain threshold). From the outset, the aim of the Government of Colombia was to unify the taxable bases of all income and apply a single sliding scale such as that applied to income in the general stream. After several rounds of negotiation and adjustments to the original bill, the reform that was passed established that, starting in 2023, dividend distributions will be integrated into the general regime, albeit at reduced rates. A marginal discount of 19% will be applied to all income levels and the maximum effective rate for distributed dividends will progress to 20% (see the following table).

Colombia: scales for personal income tax rates (general basket and dividends), 2023

Ranges in tax value units (UVT)		Marginal rate, general basket (work, pensions and others) (Percentages)	Marginal rate, dividends (effective discounted rate) (Percentages)
From	To		
0	1 090	0	0
1 090	1 700	19	0
1 700	4 100	28	9
4 100	8 670	33	14
8 670	18 970	35	16
18 970	31 000	37	18
31 000	Upwards	39	20

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

Note: The value of the tax value unit (UVT) for fiscal year 2023 is 42,412 Colombian pesos.

Meanwhile, occasional earnings continue to be treated in a separate basket, but as they are understood to accrue mainly to higher-income individuals, the proportional rates were increased from 10% to 15% in the case of inheritances, gifts and asset disposals, and from 20% to 35% for raffle and lottery winnings. In addition, some adjustments were made to the taxable base on the general basket, such as the lowering of the cap on exempt income to 25% of the total value of net labour income, the introduction of a new deduction for dependants and for the acquisition of goods and services, and the elimination of some items from exempt income.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Law No. 2277 of Colombia, 2022.

¹⁸ Initially, rates of 5% and 15% were established depending on the currency of denomination (domestic or foreign) of the financial instrument. Under Law no. 27.541, which was passed in December 2019, exemptions were extended for interest on local-currency-denominated sight and fixed-term deposits and mutual funds, as well as for yields from or the disposal of shares and public securities. Consequently, the tax has become confined to a very limited set of financial instruments.

With this set of reforms, the countries of the region show a clear trend towards adopting different variants of dual or semi-dual taxation models (besides the novel case of Colombia), even in cases in which specific types of capital income remain tax-exempt or are included in ordinary income and taxed at progressive rates, depending on each country's possibilities and administrative capacities. These changes over the past two decades, following the previous practice in many developed countries, are encouraging in terms of tax design because of their potential redistributive impact, given that, in most countries, capital income, whether dividends, interest or royalties, is more highly represented in the income of individuals with greater resources and greater economic wealth.

3. Exemption levels and application of minimum and maximum rates

Analysis of personal income tax design must consider not only the value at which the statutory tax rates are set, but also the level of income at which it will start to apply (exemption level), as well as the level of income threshold from which the top marginal rate will apply.

In this regard, according to ECLAC (2017), the income threshold from which personal income tax begins to be paid in Latin America and the Caribbean is higher than in any other geographic region other than Sub-Saharan Africa and South Asia. Around 2013, taxpayers in the countries of the region were exempt from income tax up to an average threshold of under 1.4 times per capita GDP, while in Western Europe and North America the exempt level was under 0.3 and 0.6 times per capita GDP, respectively.

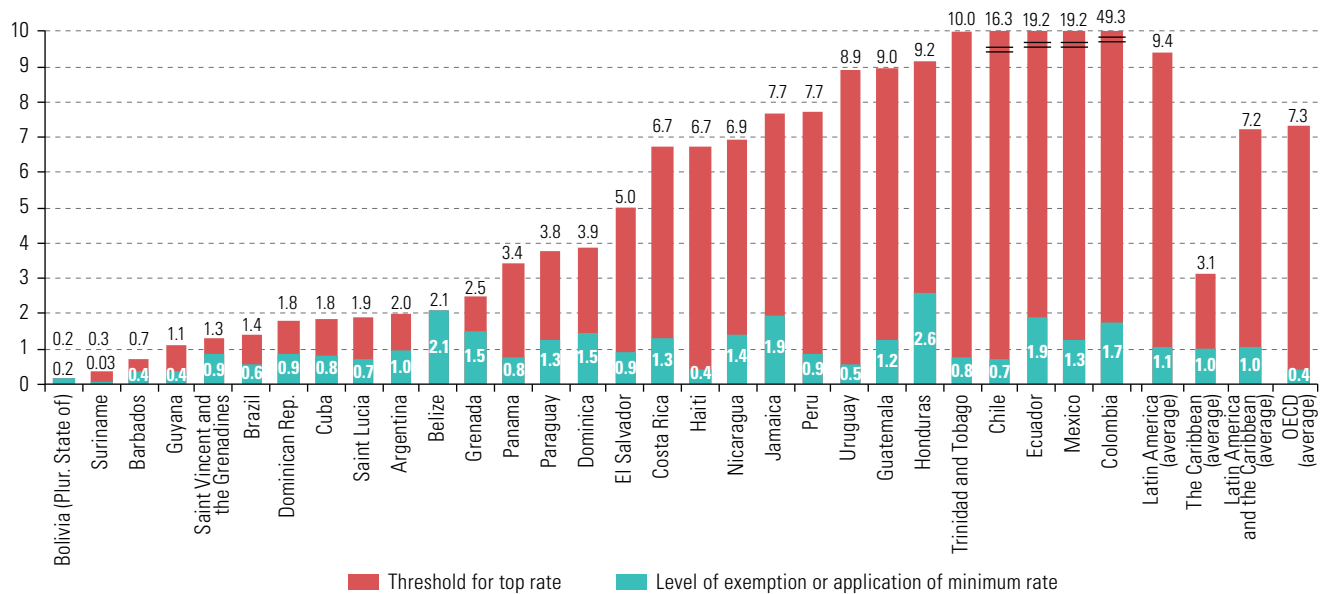
This gap with respect to developed countries has been considerably narrowed from previous decades, enabling the scope of the tax to be expanded. However, this difference is rooted in the gap between levels of development (per capita GDP) and the need to exempt a level of income that will support family subsistence. Most of the countries of the region have been able to lower the amount of taxable income from which the minimum rate is applied, thanks to various reforms in the design of taxable income brackets and the elimination of exemptions and personal deductions that reduced the average exemption level by 36% between 2007 and 2016 (ECLAC, 2017).

For top rates, the levels of exemption and income threshold for liability also vary greatly in the Latin American and Caribbean countries. Figure II.14 shows that, on average in the region, the level of income from which taxpayers start paying any rates of personal income tax was, on average, equivalent to 1 multiple of per capita GDP in 2021—more than double the average for OECD members (0.4 multiples). However, there are notable differences across the subregions.¹⁹ In most Caribbean countries, such as Barbados, Guyana, and Suriname, the top rate of income tax begins at an income level of less than half of per capita GDP, while in Belize taxpayers start paying the top rate from an income equivalent to 2.1 times per capita GDP. Meanwhile, in Jamaica this threshold is reached at 1.9 multiples of per capita GDP and, in Grenada and Dominica, 1.5 times per capita GDP. In Latin America (17 countries) the Plurinational State of Bolivia, Haiti, Uruguay, Brazil, and Chile have lower exemption levels than the other countries, at the equivalent to 0.2, 0.4, 0.5, 0.6 and 0.7 multiples of per capita GDP, respectively; all these values are close to the average calculated for the 38 OECD countries. At the other extreme, Honduras, Ecuador, and Colombia have the highest exemption levels, equivalent to 2.6, 1.9 and 1.7 multiples of per capita GDP, respectively.

¹⁹ The way the level of income from which the tax begins to be paid is identified differs from one country to another, depending on whether they have: (i) a standard personal deduction in earned income, computable for all the taxpayers affected by the tax without exception (in Argentina and in several Caribbean countries); (ii) an initial zero rate in the actual scale of the tax, applicable up to a certain level of taxable income (as in most Latin American countries, such as Brazil, Colombia and El Salvador); or (iii) a tax credit that is computed once the tax liability has been generated, as in the sole case of Mexico with the employment subsidy. Here, to make it comparable to the other cases analysed, the value of a theoretical deduction has to be reconstructed by weighting the value of the credit by the minimum rate of the tax.

Figure II.14

Latin America (19 countries) and the Caribbean (10 countries): levels of exemption and income threshold for the top marginal rate of personal income tax, 2021
(Multiples of per capita GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of L. Peragón (coord.), *Sumario de Legislación Tributaria de América Latina 2021*, Panama City, Inter-American Center of Tax Administrations (CIAT), 2022; Ernst & Young, *Worldwide Personal Tax and Immigration Guide 2021-22*, London, 2022, and current tax legislation of selected countries.

Note: The levels of application of the rates refer to progressive taxation of labour income and may differ from those applicable to profit-yielding activities in some specific cases. The average for Latin America includes 19 countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia, and Uruguay. The average for the Caribbean includes 10 countries: Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago. The average calculated for the 38 OECD countries includes those in Latin America (Chile, Colombia, Costa Rica, and Mexico).

On the other hand, the income threshold for the maximum statutory rates should also be analysed. On average for the region this is 7.2 multiples of per capita GDP. This figure is practically the same as for the countries belonging to OECD (7.3), although there are significant differences among subregions and selected countries. While the average for Latin America is 9.4 times per capita GDP, there are cases in the subregion such as Brazil or Argentina, where the figure is 1.4 and 2.0, respectively, compared to others such as Chile (16.3), Ecuador (19.2), Mexico (19.2), or Colombia (49.3).²⁰ These are some of the countries to have made changes to their tax legislation most recently, to increase the taxation of higher-income taxpayers (see box II.2).

The gap between countries in terms of this indicator is not as wide in the Caribbean subregion, where the income level at which the top rate is applied is 3.1 multiples of per capita GDP on average in 10 countries. Individual values vary between 0.3 in Suriname and 10.0 in Trinidad and Tobago (see figure II.14). In this regard, the distance between exemption levels (minimum rate) and the income threshold for the top rate is another analysis that proxies the relative theoretical progressivity of the tax achieved by graduating taxation by level of income and depending on the number of brackets or intermediate rates established in the structure of personal income tax in each of the countries of the region. Likewise, similar conclusions can be obtained by using synthetic indices to integrate these reference levels with the statutory top and bottom rates, although the gaps must be examined relative to each country's situation with respect to the regional averages (see box II.5).

²⁰ This particular case is the one that best illustrates the trend indicated since, before the reform of 2018, the personal income tax had a top marginal rate of 33%, which was applied from a level of net income equivalent to 6.5 times per capita GDP.

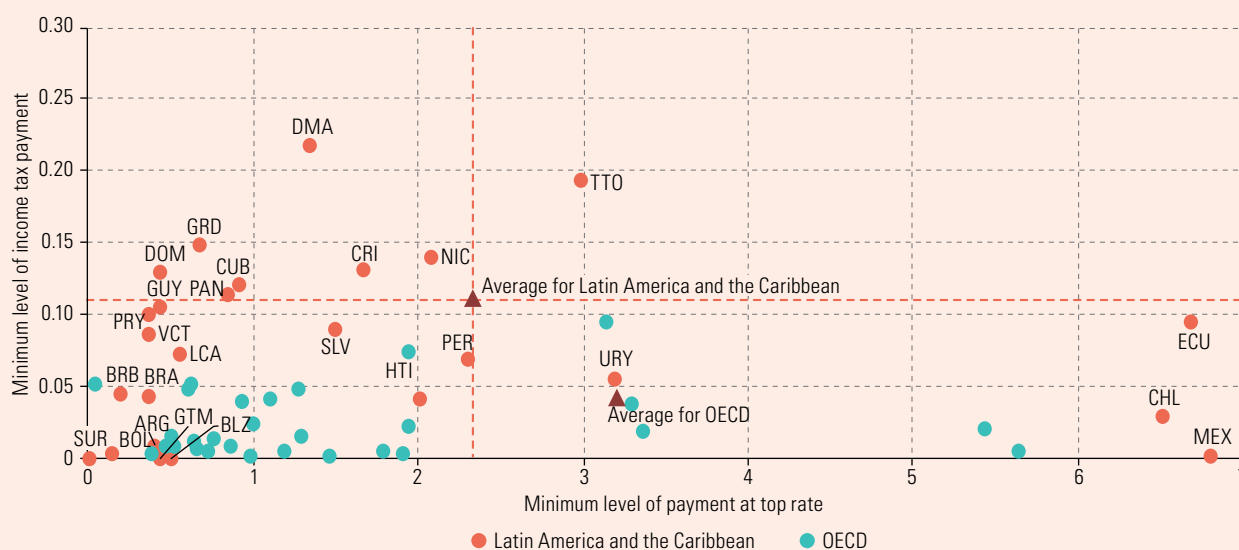
Box II.5

Two synthetic indices of the technical design of personal income tax

These two indicators may serve to provide a more precise appreciation of the differences between the region and the more developed economies and within the region itself, even with the caveats mentioned in relation to the definition of rates and income thresholds of each bracket. Based on the combination of available data, the figure below shows the minimum level of tax payment (the product of the income threshold of the tax and the corresponding rate) and the minimum level of contribution at the top marginal rate, for the different countries of Latin America and the Caribbean and OECD.

Latin America and OECD (selected countries): minimum levels of personal income tax payment at the minimum and maximum statutory rates

(Proportions of per capita GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of L. Peragón (coord.), *Sumario de Legislación Tributaria de América Latina 2021*, Panama City, Inter-American Center of Tax Administrations (CIAT), 2022; Ernst & Young, *Worldwide Personal Tax and Immigration Guide 2021-22*, London, 2022, and current tax legislation of selected countries.

Note: Austria, France, Portugal and the Republic of Korea, in addition to Colombia, fall outside the boundaries of the graphic (19.2; 0.3).

First, one of the explanations for the low revenue raised by personal income tax has to do with the high-income thresholds from which taxation begins. In addition, the rates applied to lower income brackets are slightly lower. However, as the first of these characteristics predominates, the initial income tax payment level is much higher in the region than in the OECD countries, measured in relation to the per capita GDP in each of the regions. Clearly, the percentage of potential taxpayers captured by income tax is lower in Latin America and the Caribbean.

The preceding figure also illustrates the threshold for payment of income tax at the top rate. In OECD countries, this level is, on average, equivalent to 3.2 multiples of per capita GDP, higher than the level of 2.3 in the case of Latin America and the Caribbean. Bearing in mind that, as shown in figure II.14, the income thresholds for the maximum rate are very similar, the difference stems from the higher marginal rates in OECD. Only Chile, Colombia, Ecuador, and Mexico have a higher top rate income threshold than OECD (at 6.5, 6.7, 6.8 and 19.2 multiples of per capita GDP, respectively).

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of L. Peragón (coord.), *Sumario de Legislación Tributaria de América Latina 2021*, Panama City, Inter-American Center of Tax Administrations (CIAT), 2022; Ernst & Young, *Worldwide Personal Tax and Immigration Guide 2021-22*, London, 2022, and current tax legislation of the countries.

Lastly, in addition to including a certain level of exemption for lower-income taxpayers—whether through a standard personal deduction, a zero-rate initial tranche of the scale of progressive rates or a computable tax credit—all the regulatory frameworks of personal income tax in the region have a series of special treatments. All of these to a greater or lesser extent raise the taxpayer's allowance depending on particular characteristics and, in short, further reduce the scope of tax application of and its revenue-raising and redistribution potential, as described in box II.3.

Thus, for example, deductions for family dependants and various expenditures attributable to the taxpayer are common in the region. All are aimed at personalizing income tax and levelling tax burdens in accordance with unequal taxpayer capacity. Although many of these treatments are justifiable from an equity perspective, most have quite distant origins and reflect social conventions that may well have changed in recent decades. Some of these deductions could even contain implicit gender biases or incentives towards certain economic behaviours (such as choices of hiring modality in the labour markets) that would be difficult to justify in the current context. A similar critique could be made of other differential treatments, such as subjective exemptions that directly exclude certain taxpayers from the tax and can produce contradictory effects on horizontal and vertical equity.

C. Typology of cases and links between personal income tax and other relevant taxes

This section will offer a classification of countries based mainly on the characteristics and importance of their personal income tax. It will also look at the other taxes that make up and the sum of all taxation with the greatest redistributive impact and that are levied, in one way or another, on the same taxation bases.

1. A typology of the countries of the region in relation to personal income tax

Based on the information presented in the previous sections, different groups of countries may be identified according to the importance and characteristics of their personal income tax. Like any typology, it implies a certain simplification that masks specific situations in each case. Nevertheless, it represents an attempt to outline a classification that should be viewed as a starting point rather than a finishing point in the evaluation of the region's different tax systems.

First of all, however, it should be considered that the introduction and subsequent development of personal income tax across the region are closely linked to the historical roots of the respective tax systems themselves. For this reason, in most cases, personal income tax in Latin America have shown similarities, from the outset, with the United States tax model. Conversely, in the Caribbean countries, at least in those that apply the tax, the systems have been inspired by the model in evidence today in Western European countries. These countries have relatively higher marginal rates and broader tax bases that tend to give personal income tax higher revenue-raising potential and make it more significant within the respective tax structures. It must also be recognized that the complexity of tax administration is very different between the two subregions because of the much larger populations of the Latin American countries in addition to the heightened informality and inequality that have very real impacts on the collection capacity of the different tax systems.

Even with these caveats, however, four groups of countries may be distinguished according to the characteristics described in diagram II.1 and in relation to the regional averages of each variable. The countries are classified in essence by the significance of their personal income tax take in relation both to output and to the total tax burden, although other relevant aspects have been taken into account. It is important to note that in order to allow comparison between countries that have contributory social security systems of very different sizes and configurations, the classification takes

the total tax burden net of the wage contributions made to finance these systems. This typology leaves out eight countries, mostly from the Caribbean, which are very difficult to classify for different reasons. These are cases with no characteristic by which they may be grouped, or in which the personal income tax is so technically specific to that country that it is not comparable to other countries in the region. These include Antigua and Barbuda and the Bahamas where there is no personal income tax and the property tax is gaining importance (see diagram II.1), at least currently. These same technical and administrative aspects, as well as matters relating to the political economy of personal income tax, are what make most of these cases very specific.

Diagram II.1

Typology of countries in the region in relation to personal income tax

Group	Characteristics	Selected countries
A	High income tax collection <i>(as a percentage of GDP and of total collection)</i>	Barbados, Cuba, El Salvador, Guyana, Mexico, Trinidad and Tobago, and Uruguay
B	Above-average collection <i>(as a percentage of GDP and of total collection)</i>	Belize, Brazil, Jamaica and Saint Lucia
C	Below-average collection <i>(as a percentage of GDP and of total collection)</i>	Argentina, Chile, Colombia, Costa Rica, Ecuador, Panama and Peru
D	Low income tax collection <i>(as a percentage of GDP and of total collection)</i>	Dominican Rep., Guatemala, Honduras, Nicaragua, Paraguay and Bolivia (Plur. State of)
Rest	Countries that are hard to classify in relation to income tax	Antigua and Barbuda, Bahamas, Venezuela (Bol. Rep. of), Dominica, Haiti, Saint Vincent and the Grenadines, and Suriname

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the countries.

As may be seen, group A comprises seven countries, in most of which the higher collection of personal income tax coincides with marginal rates that are close to or above the regional average (Barbados, El Salvador and Trinidad and Tobago). Similarly, Guyana and Trinidad and Tobago apply very high minimum rates while Mexico applies very low ones. Mexico also has the largest number of tax brackets (11). As will be recalled from the previous section, the impact of minimum rates must be evaluated together with the income threshold from which taxation begins. On the other hand, direct taxation is complemented by taxation on assets of a certain size in Barbados and Uruguay, as will be discussed later.

At the other extreme, group D comprises several Central American countries, Paraguay and the Plurinational State of Bolivia, all of which apply top marginal rates below the regional average and bottom rates that in some cases, such as Honduras or the Dominican Republic, are much higher than the average. Guatemala is a special case as it has a low tax burden for both total and income tax with very low rates applied to

disposable income (5% and 7%).²¹ The Plurinational State of Bolivia applies a flat-rate tax of 13%, with a low level of exemption by comparison with the rest of the countries, while Paraguay applies only two very low rates (8% and 10%), which accounts for the low collection of income tax in both countries.

The countries in group B are in intermediate situations, with total tax burdens (net of social security contributions) and income tax levels that are lower than those of group A, but still somewhat higher than the regional average. Brazil and three Caribbean countries are in this group. The case of Saint Lucia is rather different, as it has relatively high personal income tax collection with a low total tax burden and insignificant collection of corporate income tax. This is despite the fact that the country's rates are relatively low compared to other Caribbean countries.

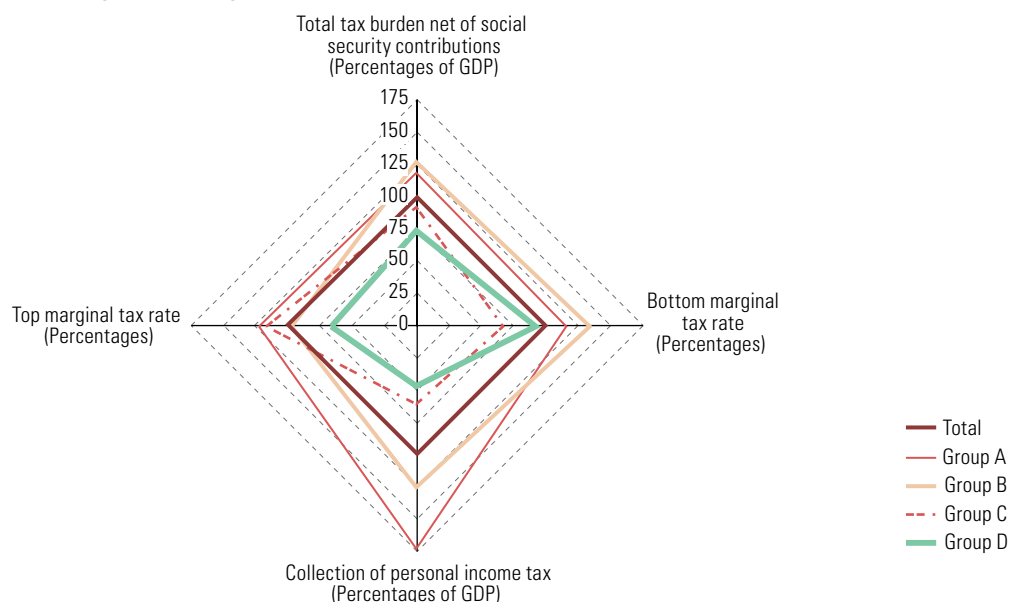
Meanwhile, group C comprises seven Latin American countries in which personal income tax contributes a relatively small share of total tax. Some of these (Argentina, Chile and Colombia) present a total burden near or above the average (and, consequently, very low collection of this tax). Conversely, in Peru the revenue from this tax represents a larger share of the total, but represents a very low overall amount. This group also includes Ecuador, whose very limited collection of personal income tax is explained by the difficulties in distinguishing much of the tax revenue collected at source via monthly withholdings. Costa Rica and Panama are the final members of this group.

To summarize this typology, the four distinctive features of each group are compared in a stylized graphic, which shows, for the countries in each group, the averages of personal income tax as a percentage of the total tax burden and of GDP, and the tax's maximum and minimum rates. In all cases, in order to facilitate the comparison between the groups, the data have been transformed into index numbers with the total average being equal to 100. As may be seen in figure II.15, group A, which has the highest collection of personal income tax, shows the highest top marginal rates and comparatively high minimum rates. However, these are somewhat lower than those of group B, which is the country grouping with the highest total tax burden (net of social security contributions) from other important taxes such as VAT and specific taxes on consumption. Group C, which shows the poorest relative performance in terms of collection, has the lowest minimum rates, although its level of top marginal rates is comparable to that of group A, with the best relative performance. Group D, meanwhile, shows the lowest maximum rates and a limited revenue-raising capacity in general.

The wide diversity of cases and the substantial differences in terms of tax design, collection and performance, as well as efficiency of tax administration and the maturity of the tax system and general soundness of public finances point to the premise that there is no single prescription or solution to the current challenges of personal income tax across Latin America and the Caribbean. This said, the various alternatives for strengthening personal income tax and all its economic impacts still offer a guide or frame of reference for the countries of the region. In any case, guidelines and general reform recommendations—which will be examined and discussed in greater detail in the following section—can and should be adapted to the specific contexts of each country, depending on the possibilities of practical implementation at different times and in different circumstances.

²¹ This is the regime currently applied to labour income. On the other hand, income from profit-generating activities is subject to one of two alternative regimes: (i) the general tax on profit-generating activities, which is levied at a rate of 25% on taxable income net of related costs and expenses; and (ii) the simplified optional system on income, whose rates are similar to those for labour income (5% and 7%).

Figure II.15
 Relevant features of personal income tax, by group of countries
 (Index: base 100=regional average)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the countries.

2. Interactions with other relevant instruments of tax systems

Here, three groups of tax instruments will be considered. First, property taxes, which complete and complement the body of taxation with the greatest redistributive impact and is usually referred to collectively as “direct taxation.” Second, mandatory contributions from a particular form of income, such as wages, that go towards financing social security. Lastly, where they exist, simplified tax regimes that replace income taxes (among others) levied on specific groups of (generally small) taxpayers.

(a) Property taxation

Albeit with different modalities, property taxes were long the main tax instrument with a clear progressive impact on distribution, as they were designed on the basis of taxable capacity. The subsequent development of income tax (in Latin America following the pioneering cases in the 1920s and 1930s) relegated property taxes to a complementary place as an accessory to income tax. This pattern became more marked towards the end of the century, when property taxes became increasingly less relevant. In recent years, however, rising concern over income distribution and wealth concentration has refocused attention on property taxes.

Just as there has been a change in the relative importance of property taxation in financing the governments of the countries in the region, there have been shifts in the importance of each of the taxes in this category, depending on the type of wealth being taxed. Each has differentiated impacts on equity, public sector solvency and resource allocation.

Perhaps the most obvious tax within this grouping is the tax on net worth, which may be levied on both individuals and companies and is usually paid annually. Although this is currently the subject of debate in several countries in the region, so far it forms part of the tax structures of only four. In Argentina, the personal property tax has been in force since

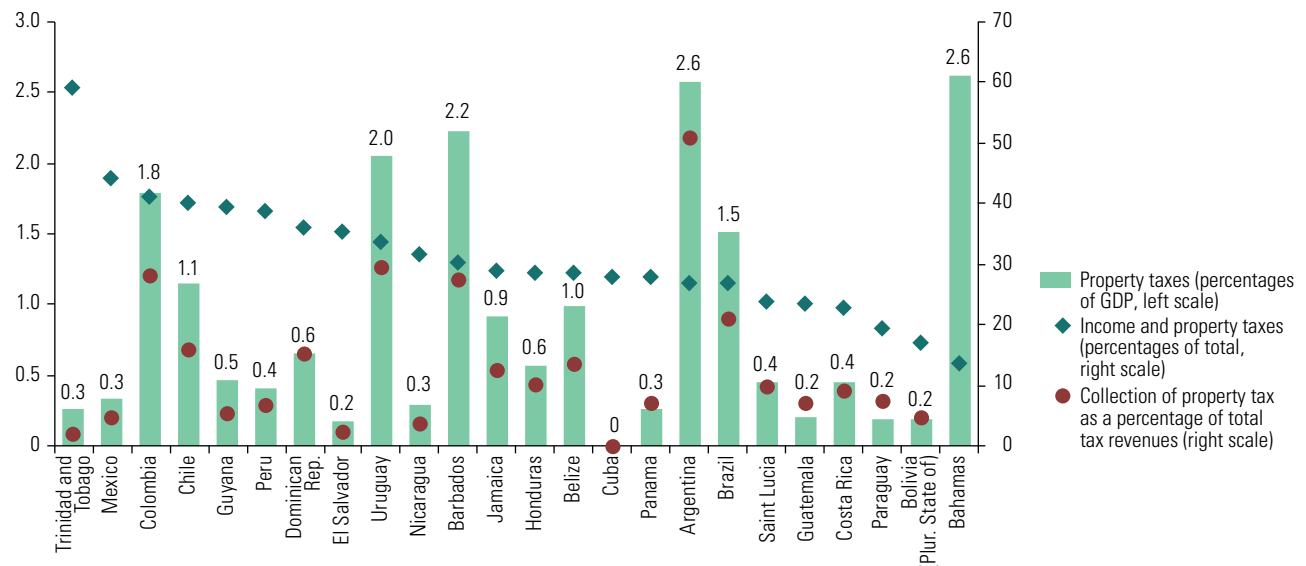
1991 and, after several years of erratic and insignificant performance, it was reformed and structurally strengthened at the end of 2019 with new progressive rates (higher for assets located abroad) that led to a marked increase in collection.²² In Colombia, where there is a history of property tax dating back to 1935, it was recently reintroduced in the recent tax reform for fiscal year 2023 (it was not applied in 2022) with a progressive rate structure and greater revenue-raising potential than the previous version, which was levied at a flat rate of 1% up to 2021. In Uruguay, despite a long tradition in this regard (since 1967), the gradual lowering of the rates of personal property tax has reduced its significance over the past five years, although it is the only country in the region which also applies the tax to companies (at much higher rates). This small group of countries was recently joined by the Plurinational State of Bolivia, which introduced a tax on large fortunes towards the end of 2020 with progressive rates on the net worth of the richest individuals. The governments of Chile and Peru also included property tax in their most recent tax reform bills, as an equitable way of ensuring financing for the post-pandemic recovery.

Another motivation for these taxes in many countries of the region has to do with the limitations faced by tax administrations in raising adequate revenue through income taxation, especially on corporate income. In these cases, administrations have used taxes on assets or other presumptive bases as a way of substituting or complementing the traditional taxation of business earnings. In some cases, for practical purposes, these taxes are treated as payments on account of corporate income tax.

As shown in the previous section, property taxes for Latin America and the Caribbean generated revenue of under 1% of GDP on average in 2019, equivalent to 4% of total taxation. This shows how little the revenue collected in property tax has to do with income taxation. Of course, there is a notable diversity of cases, as may be seen in figure II.16. Argentina is a singular case where the high share of asset taxation reflects the importance of the tax on financial debits and credits, which are treated as wealth taxes, according to OECD classification criteria, although this is debatable.²³

Figure II.16

Relative importance of property tax in relation to income tax, 2019
(Percentages of GDP and of total tax collection)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, OECD Publishing, 2022.

Note: Property taxes are not applied in Cuba. Income tax is not applied in the Bahamas.

²² At the end of 2020, with the argument of financing a series of public policies aimed at mitigating the effects of the COVID-19 pandemic, Argentina introduced a one-off extraordinary solidarity tax on the assets of high-wealth individuals. The remarkable revenue-raising performance, at around 0.5% of GDP, suggests that there is considerable fiscal space in this area.

²³ In its official statistics, Argentina treats this as a tax on goods and services, following the methodology of the *Government Finance Statistics Manual 2014* (IMF, 2014).

Taxes on financial transactions warrant special mention.²⁴ In general, these have been applied temporarily at times of fiscal crises. However, in some cases they have been maintained in the wake of the emergency because of two characteristics highly valued by the governments of the region: they tend to be very simple to administer and they can raise significant revenue in some circumstances. Thus, the Bolivarian Republic of Venezuela, the Dominican Republic and Honduras apply a tax on financial debits, while Argentina, and Peru and the Plurinational State of Bolivia apply a tax on debits and credits on current accounts and other financial system operations.

Some countries in the region also impose a one-time tax on free asset transfers (especially inheritances and gifts). Until 2021, only six Latin American countries had inheritance tax in their tax systems: Argentina, Brazil, Chile, the Dominican Republic, Ecuador and the Plurinational State of Bolivia, all with very different jurisdictional characteristics (Jorratt, 2021). In Brazil inheritance tax is applied at the state level, while in Argentina it is applied in only one province, Buenos Aires, where it was introduced in 2011. In the rest of the countries of the region the tax comes under the purview of the central government, as is more common in terms of both design and administration.

Lastly, especially in federal countries, but also in several countries with a centralized administration, taxes are often charged on the possession or transfer of certain assets, such as real estate or motor vehicles (and other types of wealth), generally under subnational (either state or municipal) authority.

In short, the interaction of personal income tax with various property taxes occurs on two levels. On the one hand, the two types of direct taxation may be considered to complement each other in the effort to make the tax system fairer. These taxes are broadly progressive from the point of view of income distribution and they are the taxes that best fit the principle of taxable capacity. In addition, they each have different timing in relation to personal assets and the generation of income and wealth over the life of taxpayers. This strengthens the tax system's progressivity and counteracts the various factors that explain the high socioeconomic inequality typical of the countries of the region.

At the administrative level, particular taxes on individual wealth and on inheritances and gifts allow for two-way control with personal income tax through verification of both tax statements. Property items can thus give indications of the real income accruing to their possessor, while different items of income point to the assets underlying them. They can also help to identify and verify capital gains from implicit transactions relating to reported assets, all which ultimately improve levels of tax compliance and total effective collection.

(b) Taxes on wages for social security

For decades, the taxation of wages has been considered an undesirable type of taxation due to its allocative and distributive effects, as it falls on a specific type of personal income. On the other hand, the assessment is very different if it is used to finance some kind of social security benefit, insofar as it then constitutes the payment of an in-kind or deferred wage. However, some authors emphasize that these contributions plus all payroll-based taxes (net of social benefits) constitute the "tax wedge", which forms part of the cost of the labour for employers (OECD/CIAT/IDB, 2016).

In the joint work OECD/CIAT/IDB (2016), the average tax wedge in the region in 2013 was estimated at 21.7% of labour costs, which is a third less than the average value calculated for OECD countries (35.9%). This study found that the difference was explained mainly by the almost insignificant impact of personal income tax on the

²⁴ In addition to taxes on the financial operation itself, this category also includes taxes on various legal procedures (stamps and seals) as well as personal taxes on foreign-exchange purchases.

total cost of labour (0.3 percentage points in the region compared to 13.3 percentage points in OECD). In fact, although some Latin American countries (Argentina, Brazil, Colombia and Uruguay) had a tax wedge of over 30%, in none of these were workers earning an average wage in the economy subject to personal income tax. The exception is Mexico, where personal income tax represents 7.0 percentage points of the total estimated tax wedge (26.9%).

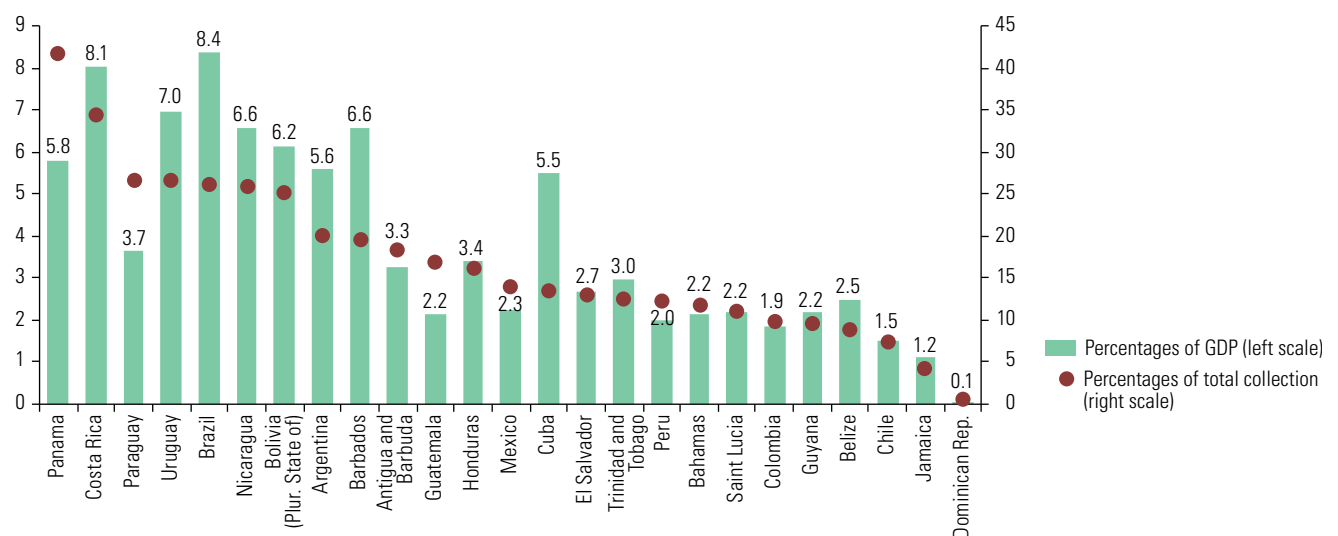
Across the region, taxation of wages tends to finance contributory old-age pension schemes, health insurance, unemployment insurance, family allowances and other components of social security, depending on the country. In these cases, the effects from the allocative and distributive point of view differ from the more traditional wage taxes (such as income tax, if it had greater scope and effective impact) to the extent that workers view pension system contributions as deferred wages and contributions to other components as in-kind wages, especially health insurance.

Consequently, in order to ascertain the impact of wage taxation, it is essential to consider the extent to which it generates rights to various social security benefits. If contributions are perceived to be clearly linked to the right to benefits, variations in contributions should not cause changes in the labour supply. In these cases, contributions would be viewed as workers' income and should not be considered taxes, but wages in kind.²⁵

The countries where social security contributions are most significant are those where social security is most developed (Costa Rica, Uruguay, Brazil, Argentina and Panama, in that order). There are also countries whose low total tax burden means that existing contributions still account for a significant share of the total (see figure II.17). It is also very important to exercise special care in comparing the relative weight of these contributions between different countries, because in some cases social security benefits are fully or partially administered by the private sector and, consequently, their financing is not part of the data included in figure II.17. Undoubtedly, Chile is the foremost example of this, but there are other cases where certain contributions do not form part of the tax burden.

Figure II.17

Deductions from wages to finance social security, 2019
(Percentages of GDP and of total collection)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organisation for Economic Co-operation and Development (OECD) and others, *Revenue Statistics in Latin America and the Caribbean 2022*, Paris, OECD Publishing, 2022.

²⁵ In relation to the composition of payroll taxation, the *Government Finance Statistics Manual 2014* (IMF, 2014) establishes that payments earmarked for social security schemes are to be classified separately from taxation, as social security contributions (IMF, 2014, p. 87). See a comprehensive analysis of these matters in the recent work of Calligaro and Cetrángolo (2023).

Beyond the differences, clearly any potential reform of personal income tax in some of the countries of the region should take into account the existing situation with respect to the effective level and relative proportion of contributions earmarked for financing social security systems. On the one hand, there is the interaction of these contributions with the cost of labour and their impact, which is still difficult to predict, on variables typical of the fragmented labour markets that exist in most of the countries of the region. In addition, the collection of income tax and of contributions share generalized administrative mechanisms, since both make use of numerous withholding systems at the source. For this reason, a joint approach should be adopted in any attempt at tax reform in order to avoid unwanted effects in terms of revenue-raising and distributional impact.

(c) Simplified tax regimes

One of the greatest public policy obstacles to supporting and promoting economic development in the Latin American and Caribbean countries is the relatively high and persistent level of economic informality of various types. Because of this, tax systems can suffer from considerably lower amounts of tax revenues actually collected with respect to their potential level. What is more, the ultimate effects of any tax reform may be distorted in relation to criteria of efficiency and distributive equity.

In response to this phenomenon, one of the main paths taken by the countries of the region has been to introduce simplified tax regimes for small taxpayers in order to reduce the workload of tax administrations, make their inspection processes more effective and progress with necessary economic formalization. Pioneering experiments were implemented in the mid-1990s in Brazil, Costa Rica, the Plurinational State of Bolivia (1996) and Argentina (1998). These regimes have sought to facilitate the payment of personal and corporate taxes by payers that share a set of very particular characteristics: (i) they are very numerous, which makes official control difficult; (ii) they have low incomes and poor organizational structure, and are therefore more unstable with a greater risk of default; (iii) they perform many of their transactions in highly informal circuits, which prevents them from accessing the rights and guarantees established in the institutional and regulatory frameworks in case of need; and (iv) they move readily in and out of the formal system (including taxation), making it harder for the tax administration to trace them.

In essence, these regimes aim to simplify the rules and administrative procedures for compliance with tax obligations as well as to reduce tax costs by excluding those who meet certain conditions from the general rules of the main taxes applied in each country through presumptive tax calculation methods or through special lower rates. They thus seek to establish a tax bridge that will facilitate and support taxpayers' gradual transition from informality to the general tax regime and thereby improve the management of the respective tax administration agency's resources (Gómez Sabaini and Morán, 2012).

Simplified tax regimes are widespread in Latin America, with some differential tax treatment mechanisms for small taxpayers in almost all the countries. In most cases, these are for individuals and one-person businesses engaged in economic activities, although there are also countries, such as Brazil, Costa Rica, Chile, Mexico, Paraguay, Peru and Uruguay, where these regimes are extended or are focused exclusively on small companies (measured by level of billing). In general, they allow voluntary registration and self-categorization, and are concentrated in the sectors of commerce, services, small-scale agricultural production, and transportation of passengers and small merchandise.

A key part of these simplified regimes are the criteria used to establish taxation thresholds and limit their scope to certain taxpayers. In Latin America, the most widely used measure is gross annual income, although in some cases other restrictions are also used (sometimes simultaneously, as in Argentina, Colombia and Peru) to limit the use of these mechanisms: the amount of land employed, number of establishments, electricity consumption, rent paid, number of employees and disposable capital. The countries of the region determine tax liability by indirect mechanisms or “presumptive” techniques. The most common of these techniques today is a fixed fee by income category. This enables maximum simplification in the liquidation of the tax and significantly reduces the administrative cost for small taxpayers. In formal terms, most countries impose two obligations: (i) the regular submission of sworn statements and (ii) compliance with billing processes, which in some cases must be done online.

In general, the pioneer regimes in the region have adopted replacing the formal VAT obligation as their primary objective (similarly to the practice in some developed countries) given the difficulty of reliably controlling and identifying the number of transactions and the billing levels of the smallest and most numerous taxpayers. Technological advances during the past decade in several countries of the region, especially the mass implementation of electronic invoicing, have improved prospects in this regard.

However, a wide variety of simplified regimes replacing personal income tax liability have also sprung up in the region. This trend, which has not occurred in developed countries, seems to reflect the difficulties various countries have encountered in bringing new taxpayers into the general tax regime amid high levels of informality. Thus, revenue collection has been increasingly dependent on the contribution of employed wage workers, whose taxes are withheld at source.

There are cases today, especially in Latin America, where simplified regimes focus specifically on income tax, such as the Special Income Regime in Peru or the Single Tax in Chile. There are also cases where it is included within a package of substitutions (mainly of VAT) as is the case, for example, with the Simplified Tax Regime (RISE) in Ecuador or the Simplified Taxation Procedure (PST) in the Dominican Republic. There are also regimes in the region that have been in place for over 20 years, such as the Integrated Tax System (STI), the Unified Agricultural Regime (RAU) in the Plurinational State of Bolivia, or the Monotributo in Argentina, as well as with others that were more recently introduced for small business owners, such as the Simple Taxation Regime (RST) in Colombia or the Simplified Regime for Small Businesses (RESIMPLE) in Paraguay, both in place since 2020, which speaks to the consolidation of this regional trend in taxation.

The most recent case in the region is the Simplified Trust Regime (RESICO) in Mexico, in force since January 2022, which simplifies income tax and VAT compliance for both individuals and companies up to a certain amount of gross annual income. In addition to offering lower tax rates and relaxing certain formal requirements, such as submitting statements of transactions with third parties, a new feature of this regime has to do with the automatic manner of determining personal income tax. The income statement filed monthly is now pre-filled by the tax administration, based on information from electronic receipts issued by individuals.²⁶

In several countries in the region, simplified tax regimes represent a gateway into the taxation realm. Participation in the tax system would otherwise be unfeasible for those in informality, given the usually high costs of tax compliance. In this regard, the technical design of the simplified regime—including the rules that influence taxpayers’

²⁶ This new mechanism has replaced the Tax Incorporation Regime implemented in 2014, whose main incentive was full exemption from personal income tax in the first year of registration, followed by gradual reduction of the benefit (10% per year) over 10 tax periods.

mobility within it—and its links with the taxes being substituted, particularly personal income tax, is crucially important. The consolidation of widely generous simplified regimes can create incentives for taxpayers to remain indefinitely in these special regimes, which presents a series of negative impacts for the solvency, equity, and efficiency of the tax system as a whole.

In most cases, even in the highest income categories, the simplified fixed monthly payment regimes tend to cost taxpayers less, financially and administratively, than the general tax regimes. In this scenario, beyond possible adjustments to the parameters of simplified regimes, an alternative approach would be to adopt some special mechanism to temporarily reduce the entry costs of the general tax regime and support a gradual transition of taxpayers into it. For example, Argentina attempted this in Law No. 27618 of 2021 (Fiscal Support and Inclusion Regime for Small Taxpayers), under which various mechanisms and tax incentives were set up to facilitate transition and access to the general regime. One of these is a voluntary scheme that offers a discount on VAT liabilities for three years after registration, of 50% in the first year, 30% in the second and 10% in the third.

At the same time, in order to expand social protection coverage to workers not previously covered, some countries in the region (Argentina, Brazil and Uruguay were by far the first) have included obligations relating to payments into contributory pension and health insurance systems in their simplified tax regime for small taxpayers. Among these cases, the mechanism known as *monotributo* has undergone rapid and extensive development since its inauguration at the end of the last century. However, administrations must also consider the need to accurately calibrate thresholds, tax instalments, the benefits allowed to taxpayers and the requirements and procedures related to the cost of entry to the general tax regime and financing of social security (Cetrángolo and others, 2018).

In sum, although the revenue raised by these simplified regimes is fairly insignificant in all the countries of the region, they are useful as tools to facilitate the transition of large numbers of taxpayers operating in the informal economy towards the general tax regime in force in each country. In addition, amid the economic slowdowns in evidence in the region since the start of the COVID-19 pandemic, these regimes have made it possible to provide formal support to a large number of small taxpayers via simpler, direct access to various support and economic promotion programmes. With regard specifically to personal income tax, the characteristics and operation of simplified regimes must be calibrated with the general tax regulations so that taxpayers do not perceive the transition between the two regimes as a leap into the void given the differential costs associated with each. In some countries, it will be important to take this into account when considering and undertaking possible personal income tax reforms.

D. Economic effects and phenomena associated with personal income tax

The profoundly adverse impacts of the COVID-19 crisis have made it more necessary than ever to re-energize and consolidate the foundations for economic growth in the countries of the region. It is no longer viewed as acceptable or sustainable for a growth process to be promoted without consideration for the basic principles of social inclusion, distributive equity (including its gender-related aspects), macroeconomic resilience (which is essentially underpinned by the sustainability of public accounts), and environmental protection, which necessarily entails the responsible use of natural resources (ECLAC, 2022).

Fiscal policy as a whole has been shown to be of vital importance in cushioning the effects of the crisis and of driving the ensuing economic recovery. This has been accomplished by calibrating a series of policy measures (with certain aspects of those measures varying in line with the particular circumstances in the various countries of the region) to spur and support the growth of consumption, production, and investment in most of the sectors of critical importance for each national economy.

Strengthening personal income tax regimes while bearing in mind their limitations has emerged as one of the key factors in the necessary reformulation of the countries' public finances. This section offers an analysis of the effects of personal income taxes on economic growth and income distribution. It also looks at the high levels of personal income tax evasion found in the region.

1. Relationship between personal income taxes and economic growth in the region

The relationship between fiscal policy and growth has been an ongoing topic of research and debate both in academic circles and among economic policymakers. While some experts maintain that taxation does not have any bearing on the growth rate, the majority view is that the relationship between the two warrants special attention. Some analysts have argued that the way in which fiscal policy influences economic growth depends on the time horizon being considered and, in some cases, the distribution of the tax burden across multiple generations (McLure and Zodrow, 1994). In a broader sense, the way in which agent behaviour is perceived and the degree of credibility of government strategies can also be influential factors (Martner, Podestá and González, 2017).

This debate entails a discussion of the importance and sign of fiscal multipliers that can be used as predictors of the variations in GDP that may be triggered by changes in policies on public revenues or expenditures. A number of studies on this subject focus specifically on developed countries with heavy tax burdens. While the statistics and measurement techniques in this area suffer from recurring limitations and weaknesses, there appears to be some empirical evidence that taxes dampen growth (Alesina, Favero and Giavazzi, 2015). Also in reference to highly developed countries, a number of studies on the tax structure have emphasized that systems of taxation that lean heavily on the use of income taxes are associated with lower growth rates (Salinas and Delgado, 2012; Akgun, Cournède and Fournier, 2017).

These assessments, which have been founded exclusively on evidence for developed countries, have led some scholars and international agencies to advocate a systematic reduction in maximum tax rates based on the argument that that they depress saving and private investment and, by extension, reduce the long-term growth rate and national saving rate. This recommendation, when applied to developing countries, implies that these taxes, especially those levied on individuals, should be reduced or replaced with other supposedly less distortionary levies, such as VAT, notwithstanding the potential costs in terms of equity and tax progressivity (O'Reilly, 2018).

An approach aligned with the situation in the countries of Latin America and the Caribbean, however, must first consider the possibility that the negative relationship between the tax burden and economic growth may not be entirely linear but instead could be influenced by the initial tax rate levels in each particular case. This is the principal conclusion of a recent study on the potential effects of a VAT increase in the countries of the region, which finds that the tax multiplier depends on the initial tax rates in effect (Gunter and others, 2021). According to these authors, an increase of two percentage points in this tax rate, which would have a significant impact on tax

receipts in all cases, may have virtually no effect at all on GDP in countries with low tax rates, such as Costa Rica, El Salvador, Guatemala and Paraguay, and could even have a slight growth effect in Panama, where the rate is currently 7%. This could also be the case with income taxes in a number of Latin American and Caribbean countries where the legally established rates are considerably lower than they are in developed countries (World Bank, 2022).

Even in cases where the estimates suggest that taxes such as VAT would be less harmful for growth than direct income taxes in Latin America and the Caribbean, the observable differences between the region and developed countries may nonetheless also be linked to the designs of their tax regimes, especially in relation to personal income taxes, where design flaws may be reinforcing the negative impacts of this kind of tax (Acosta Ormaechea, Pienknagura and Pizzinelli, 2021). Accordingly, reforms aimed at improving the way in which this tax works could boost tax receipts for the countries of the region without having any significant cost in terms of growth and with additional benefits in terms of the progressivity of the tax regime.

A more comprehensive approach that is tailored to the situation in the region could therefore give rise to a tax system and, in particular, a personal income tax regime, which could have a positive effect on growth in various ways. First of all, the funds generated by such a system—which the State could then spend on goods and services such as roads, water and sanitation works, health and education— would help to augment the yield of private investments. Second, this tax serves as a redistributive tool. The deep-running socioeconomic inequalities existing in Latin America and the Caribbean undercut the sustainability of any economic growth process. Personal income taxes appear to be the main market-based tax instrument that policymakers can use to influence income and wealth distribution, in conjunction with a public expenditure and transfers policy package aimed at the same objective (ECLAC, 2017). Lastly, the increased receipts generated by this tax would contribute to the countries' macroeconomic stability by placing governments in a more solid fiscal position, reducing the countries' exposure to domestic crises and making the adoption of countercyclical policies feasible.

Personal income taxes are known by area specialists to be one of the main automatic fiscal stabilizers available to countries that are trying to smooth out the fluctuations that are an inherent part of the business cycle. When they are effective, automatic fiscal stabilizers help to stimulate the economy during recessions and to cool it down when it is overheating and therefore help to regulate the level of economic activity. The empirical evidence, however, indicates that few of these instruments are in use in Latin America and the Caribbean and that their effectiveness as stabilizers is more limited than it is in more developed countries (Martner, 2000; Suescún, 2007) largely because of the fairly low level of receipts generated by personal income taxes in the region (ECLAC, 2018).²⁷

A recent study based on microsimulations for selected Latin American countries (Colombia, Ecuador and Peru) in the light of the impacts of the COVID pandemic concludes that personal income taxes had no more than a modest effect as an automatic stabilizer in 2020 and that their impact was concentrated in the top income decile in all cases (Avellaneda and others, 2021). Factors contributing to that result included the prevalence of informal employment and a number of design flaws in the tax, especially the high level of exemptions and the presence of deductions for personal expenses. Reforms for overcoming these problems may therefore have multiple macrofiscal benefits that could more than make up for any residual negative effect on these economies' growth in the long run.

²⁷ This shortcoming is exacerbated, on the expenditure side, by the fact the expansion of unemployment insurance systems has been severely limited by the high degree of informality in the countries' economies and labour markets.

2. The effect on equity: progressivity and the potential for redistribution

As noted earlier, the characteristic that sets personal income tax apart from other tax instruments is its potential usefulness as a redistributive tool. Generally speaking, as a means of supplementing the direct impact of a package of transfers and public social spending programmes and of the complementary effect of other direct taxes, personal income taxes may be one of the main tools for curbing the emergence and growth of income inequalities and gaps.

In order for this tax to fulfil this function, however, it must be properly designed and efficiently implemented in a way that will ensure that the tax burden is distributed among taxpayers according to their ability to pay. The tax must also be broad in scope in terms of both its tax base and the universe of taxpayers in each specific national context. This is what will ultimately determine the level of receipts and their actual redistributive impact. The design of any tax instrument must also take into consideration the impact that it can have on cross-cutting gender gaps in the countries of the region, which are generally heightened by economic inequalities (see box II.6).

Box II.6

Personal income taxes and gender equality

Growing concern in recent decades about gender inequalities has led to the reformulation of many public policies and this, in turn, has prompted the preparation of numerous empirical and academic studies on the subject. Many of these policies (including tax policies) are not, however, gender-neutral despite the international commitments assumed by many countries to counter discrimination against women. The discussion around the incorporation of public policies that are based on a gender perspective is a key issue when it comes to considering different possible tax reforms, and this is especially so in the case of personal income tax reforms.

A pioneering study that made an important contribution to the literature on this subject defined two types of gender biases—explicit and implicit biases—based on whether the differences between the situations of men and women are or are not referred to in the relevant laws (Stotsky, 1997). In the specific case of personal income taxes, the main gender biases may stem from the regulations on joint tax returns, the differentiated treatment of income streams according to their source, deductions and exemptions, and the share of women and the share of men in the various occupational categories (Almeida Sánchez, 2021).

For example, in the case of joint tax returns, there may be a negative bias against the person who earns less, who is often a woman. This is because, if the same tax rate is applied to the total declared earnings on a given return, the tax burden on the lower wage (which tends to reflect the income gap between men and women) will be greater than it would otherwise be. Individual tax statements, which are used in the large majority of Latin American and Caribbean countries, preclude this type of gender bias. They may, however, be influenced by a different type of bias if non-labour rents or the profits of family businesses, which are treated more favourably in a number of countries, are assigned to only one member of the household. This is the case in Ecuador, for example, where such revenues are declared by the person who runs the business (a role generally associated with men). The lack of progressivity in tax brackets or the very light taxation of capital (and assets) also tend to entail biases against women, especially in economies or specific sectors where women are underrepresented.

Over time, tax deductions have changed and they now often take into consideration economically dependent household members, including older adults and persons with some degree of disability, thereby putting an end to a long-standing gender bias in tax policy against the persons who usually perform caregiving tasks in the household. At the regional level, Argentina, Ecuador and Uruguay allow deductions for children and for children with disabilities. In the first case, a deduction was recently introduced for the cost of day care or nursery school. A bill submitted to Congress by the Chilean government in mid-2021 also calls for deductions for childcare. These deductions could possibly discourage women from taking an active role in the labour market, as well as treating single-parent households headed by women unequally. Taxes need to be designed in a way that takes new forms of household organization into account, and some countries have begun to do so in their tax reform bills in order to help to reduce this type of bias. For example, since 2021 Argentina has allowed deductions for live-in partners, regardless of the family make-up of a household and of the genders of its members. It has also recently increased the special deductions for fees paid to members of boards of directors, trustees and managing partners by 40% if the recipient is a woman and by 60% if the recipient is a transvestite, transsexual or transgender person in order to help encourage their participation in these roles.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Stotsky, “How tax systems treat men and women differently”, *Finance & Development*, vol. 4, No. 1, Washington D.C., International Monetary Fund (IMF), 1997; M. D. Almeida Sánchez, “La política fiscal con enfoque de género en países de América Latina”, *Macroeconomics for Development series*, No. 217 (LC/TS.2021/105), Santiago, ECLAC, 2021, and national legislation.

Despite recurring methodological problems and the scarcity of reliable microdatabases, numerous studies and assessments using various approaches over the last two decades have arrived at a number of general conclusions regarding the redistributive impact of fiscal policy in general, and of personal income taxes in particular. By compiling these different pieces of empirical evidence, the main stylized facts in this respect can be identified.

First, from a global perspective, fiscal policy has a far more limited impact in reducing inequality in the countries of Latin America and the Caribbean than it does in developed countries. This is mainly because of the effect of monetary transfers, although there are substantial differences between one country and the next in that regard. There is also, however, a residual impact that is attributable to tax instruments such as personal income taxes and social security contributions, although the distributive impact of the latter depends on the way in which benefit mechanisms are organized (Hanni, Martner and Podestá, 2015; Lustig, 2017).

Second, the available estimates indicate that the tax system as a whole has a very small redistributive effect in most cases and that its impact may be slightly regressive in some (Barreix, Roca and Villela, 2006; Barreix, Bès and Roca, 2009), chiefly because of the relative predominance of indirect taxes (such as VAT) over progressive direct forms of taxation.

Third, with specific reference to personal income taxes, a number of studies have found that the design of this type of tax is highly progressive, despite the technical shortcomings that it may suffer from in each of the countries of the region (Hanni, Martner and Podestá, 2015), because it is heavily concentrated in the higher-income strata. Available data for 2017 indicated that, on average for 18 countries of the region, 88.0% of the receipts from this tax came from the top income decile, whereas the corresponding figure for European Union countries was 39.2%. The incorporation of the upper-middle classes into this area of taxation has thus been, and still is, one of the main challenges for tax policy in Latin America (ECLAC, 2017).

Fourth, even the small percentage of the population that is subject to personal income taxes actually pays very little. Barreix, Benítez and Pecho (2017) have calculated the effective tax rates as the ratio between the established tax rate for the fiscal year and the gross income of each income decile for that year as reported on the returns received by national tax authorities in a representative sample of 11 countries of the region. In all cases, the mean effective rates were far below the rates set out in national tax regulations and, in most cases, did not even exceed the minimum personal income tax rate. Other studies have reached similar conclusions based on household survey data. For example, an ECLAC study (2017) showed that, at one extreme, the mean effective tax rate for the last decile in the Latin American countries averaged 4.8% in 2014, which was far below the rate calculated for European Union countries (21.3%) and even farther below the average maximum legally established rate in the region (27.5% in 2014).

Fifth, these gaps between the effective and legally established rates in countries where the personal income tax is firmly consolidated are attributable to the specific design of that tax in those countries. In these cases, there are a substantial number of personal deductions and exemptions and favourable treatment for capital income, which in most cases, is taxed at a rate that is considerably proportionally lower than the rates that apply to wage income (and that in some instances is not taxed at all). Recent estimates for a sample of seven Latin American and Caribbean countries indicate that income from rentals, dividends, and other similar sources represents over 10% of the total income of households in the higher deciles on average (Acosta Ormaechea, Pienknagura and Pizzinelli, 2021).²⁸

²⁸ As suggested by these authors, this figure is probably an underestimation of the actual impact of non-labour income owing to inaccurate reporting or underreporting by the higher earners in household surveys. Nonetheless, similar or even higher figures have generally been obtained in studies based on or corrected on the basis of information taken from the sworn declarations of taxpayers.

The argument about the harmful effects that personal income tax can have on saving and investment has prevailed in most of the debates surrounding tax reform and has been backed up by the identification of a series of structural defects in tax administration systems. Advances in tax reform—such as the establishment of dual regimes following the pioneering example set by Uruguay in 2007—have been few and far between. The progress that has been made in this respect thus appears to fall short of what is needed under the current circumstances given the limited distributive impact of these taxes, as discussed earlier (Gómez Sabaini and Morán, 2016).

Because of all these factors—plus very high levels of tax avoidance and evasion, which will be discussed in depth in the following section—personal income taxes can do very little to boost receipts (which are already far below the revenues that they yield in developed OECD countries). These taxes therefore have little impact in terms of income redistribution throughout Latin America and the Caribbean, despite their relatively high degree of progressivity. According to ECLAC (2017), the reduction in the Gini coefficient brought about by personal income taxes in 2014 ranged between 0.3% (Paraguay) and 5.9% (Mexico) and averaged 2.0% for 18 Latin American and Caribbean countries, as compared to 12.5% for the European Union nations.

This aspect of personal income taxes is typical of low-income developing countries, as noted by Benedek, Benítez and Vellutini (2022). Using a very large sample (157 countries), these authors found that the redistributive capacity of personal income taxes (in terms of a relative reduction in inequality) has remained nearly unchanged throughout the period 2007–2018, although there are large differences between countries with different income levels (including developed, emerging, and developing countries). If the results are broken down by income level, however, it becomes apparent that developing countries have actually managed to increase the progressivity of their personal income tax models during that period, and by much more than developed or emerging nations have. However, this trend has been fully offset by the trend in effective collections of this tax in the various groups of countries. The offsetting trend seems to rise in step with the income level of each country and, as underscored earlier, are linked to specific differences between one country and the next in terms of the proportion of the population subject to the tax.

3. Tax evasion: estimates of its extent and enforcement mechanisms

Beyond differences in technical design and administration of this tax, over the past few decades one of the main obstacles to consolidation as a component of the tax systems of Latin America and the Caribbean has been the high level of non-compliance. The fairly scarce yet compelling empirical evidence on the subject indicates that evasion is more frequent and greater (in terms of forgone fiscal revenues) for the various types of income taxes than it is for other major types of taxes, such as VAT (Gómez Sabaini and Morán, 2020). This therefore has an impact not only on the solvency of the tax system but also on its equity in both vertical and horizontal terms.

First of all, an exploration of the determinants of tax evasion will foreseeably require a thorough analysis of the situation in each of the countries of the region, since this phenomenon has deeply rooted historical, economic, social and even idiosyncratic causes (Bergman, 2009). However, studies on the subject have identified certain shared contextual factors that exacerbate it in most cases. For example, there is a clear link between evasion and the economic informality that is typical of the countries of Latin America and the Caribbean (Gómez Sabaini and Morán, 2012). In addition, tax morale (societal rejection of practices associated with non-compliance with tax obligations), corruption, poor governance and poor institutional quality also have some influence on the scope and intensity of tax evasion in the region (Alm and Martínez-Vázquez, 2007).

Another crucial aspect is the complex political economy associated with taxation, particularly income taxation. As a result, taxation has been heavily concentrated on wage earners, who are subject to tax withholding mechanisms in the best of cases. For other potential taxpayers (especially independent and own-account workers), most of the countries of the region have various types of simplified tax regimes. In those that do not, the general regimes that are applied have limited enforcement mechanisms, and effective tax collection therefore hinges on the accuracy and truthfulness of sworn tax declarations.

Aside from the determinants of tax evasion, overcoming the challenge posed by the evasion of personal income taxes will require a diagnostic analysis for which one crucial input is missing, as the available evidence concerning non-compliance with this specific tax is scant, incomplete and discontinuous, preventing researchers from tracking what progress has been made in this respect in recent years. In many cases in the region, the high level of tax evasion is deduced on the basis of assumptions and rough estimates which do not always lend themselves to comparisons with other frames of reference. Certainly, this is not only due to a lack of interest in quantifying the magnitude of this phenomenon. The fact of the matter is that these more general measurements (based on indirect methods) crucially depend on the quality and completeness of national accounts and their comparability and alignment with international standards or conventions. Furthermore, the proliferation of differentiated treatments and exemptions hinders the proper use of aggregates drawn from national accounts for gauging the size of the tax base.

More detailed measurements depend on the willingness and ability of the tax administration agencies of each country to gather the necessary information from the sworn declarations of taxpayers and to compare it with systematized records of financial or real operations and transactions. Clearly, the task of measuring tax non-compliance, especially in the case of income taxes, is one that remains to be taken up by most of the countries of Latin America and the Caribbean (Gómez Sabaini and Morán, 2020).

Even with all of these provisos, the few estimates that are available give cause for concern, as the amount of tax revenue that is lost because of tax evasion is significant in all the countries. This is all the truer given the low effective level of personal income tax throughout the region. In 2010, a pioneering project undertaken by ECLAC laid the methodological foundations for the measurement of non-compliance with this tax (Jiménez, Gómez Sabaini and Podestá, 2010). Even though more than a decade has passed since then, those estimates are still one of the few pieces of evidence concerning the scope of this phenomenon for some countries. The rates of evasion that were calculated at the time that study was conducted were 49.7% for Argentina, 46.0% for Chile, 58.1% for Ecuador, 36.1% for El Salvador, 69.9% for Guatemala and 32.6% for Peru, and the lost revenues amounted, approximately, to between 0.6% and 1.6% of GDP.

For a small group of countries, however, more recent studies and estimates are available from which a number of practical lessons can be drawn.²⁹ This information also provides a more precise, up-to-date picture of the high levels of personal income tax evasion in the region. For example, in Panama, the General Revenue Bureau (DGI, 2020) has estimated that non-compliance with personal income tax, as calculated by the differential between theoretical and actual collections, amounted to 23.4% in 2019, or the equivalent of 0.5% of GDP. These figures are significantly lower than those calculated for previous years, starting from the tax evasion rate of 36.7% calculated

²⁹ All the studies that were consulted used a descending methodology in which the level of non-compliance is calculated on the basis of the differential between theoretical and actual revenues using information drawn from national accounts and household surveys. The end result is a single figure for revenues not collected, which may be the combined outcome of various factors (evasion, avoidance, arrears and involuntary underreporting).

for 2014 (nearly 0.8% of GDP for that year) (DGI, 2020). This is one of the cases that demonstrates the importance of setting up a system for calculating such estimates on a regular basis and of maintaining and refining a standard methodology for this purpose that will make it possible to identify trends over the medium term.

In the Dominican Republic, the most recent official estimates point to a tax non-compliance rate of 57.1% in 2017, which also indicates that there has been a slight decline, since the estimated rate was 63.8% in 2011. In quantitative terms, the lost revenues in 2017 came to the equivalent of 1.7% of GDP. The difficulty of arriving at these figures mainly has to do with the numerous limitations of the available statistics. It is therefore essential for the countries to coordinate their efforts to compile, process and screen the information that can be derived from the various sources and institutions. The case of the Dominican Republic is a success story that illustrates the effectiveness of the methodology it has used. These new estimates are the fruit of a concerted effort on the part of various public bodies (including the Dominican Tax Administration) to process and manage business and personal data (Ministry of Finance/Central Bank of the Dominican Republic/Ministry of Economic Affairs, Planning and Development, 2018).

Among the few cases in which recent official estimates are available, it is also possible to discern differences by type of taxpayer. In fact, evasion is much greater among independent workers (or workers deriving income from various services) who conduct businesses or other profit-making activities (and are subject to personal income tax rather than a simplified regime) than it is among wage earners because of the existence of tax withholding systems, which make it much harder for the latter to evade their tax obligations. One of the countries in which this can be seen is Costa Rica, where the most recent study estimated total non-compliance with personal income taxes resulted in lost revenues of nearly 0.86% of GDP in 2018. This differential, which was greatest in the period from 2012 to 2018, was derived from two separate calculations. For wage-earners and pensioners, the evasion rate was only 3.5% in 2018 (0.05% of GDP) and had been trending downward since 2015 but, for individuals conducting profit-making activities, the non-compliance rate was 82.7% in 2018 (0.81% of GDP) and had been trending upward since 2015 (Fonseca Villalobos and Araya Mayo, 2021).

The results for one of the most recent studies in Mexico are similar, with the evasion rate for personal income taxes being estimated at 18.7% in 2016. That figure was arrived at after weighting three very different levels of non-compliance: (i) a rate of 11.5% for wage earners; (ii) a rate of 56.0% for individuals conducting business activities; and (iii) a rate of 73.5% for persons with rental income. In all three cases, however, the rate of evasion was trending downward (San Martín Reyna and others, 2017).

Mexico stands out among the countries of the region for its sustained efforts over the last decade to improve its quantification and analysis of non-compliance with different kinds of taxes using various approaches. For several years now, the Tax Administration Service (SAT) has had a legal obligation to work with at least two national academic institutions to publish a study on tax evasion each year. This has enabled it to produce increasingly accurate, diverse and technically sophisticated estimates over time. Thus, for example, in the last few years, studies have been conducted that offer a thorough quantitative analysis of non-compliance with the tax on wage payments that: (i) identify the economic sectors in which evasion has the greatest impact (Zamudio Sánchez and others, 2018); (ii) delve into specific types of evasion practices (Zamudio Sánchez, Jiménez Machorro and Rodríguez Yam, 2019); and (iii) use novel methodologies such as social network analyses to detect and quantify evasive manoeuvres used by employers (Zamudio Sánchez, Rodríguez Yam and Jiménez Machorro, 2020).

Over the last decade, given the situation in the region suggested by the available estimates, it has become increasingly evident that a dual approach is called for in order

to measure non-compliance and to develop strategies for addressing, tracking and reducing tax evasion in the region. This approach must also encompass the various features specific to each country and the income streams generated by resident taxpayers in jurisdictions outside a country's geographic borders that, in many cases, enjoy comparative fiscal and tax advantages.

As most of the countries have been moving towards the introduction of a worldwide tax system, in which people must pay taxes on income earned both in their country of residence and overseas, this dual approach is imperative and will entail the deployment of a series of local strategies (including the widespread use of electronic invoicing systems, the automation of tax withholding mechanisms and the systematization of tax recording, declaration and payment systems) in conjunction with the coordinated advances that can gradually be made through international cooperation and initiatives for achieving greater fiscal transparency.

E. Challenges and alternatives for strengthening the fiscal capacity of personal income tax

One of the main distinguishing features of taxation in Latin America and the Caribbean is undoubtedly the limited significance of personal income tax. This has persisted over time despite the changes in the level and structure of tax revenues in the region in recent decades. In fact, this is the region that has most expanded its tax burden in relation to GDP over the period, which among other things, has reduced the gap with the OECD countries in this regard.

From the point of view of the structure of collection, general taxes on goods and services predominate in the region unlike in OECD countries (where income tax collection represents more than a third of the total). The revenue from personal income tax in Latin America and the Caribbean is barely 2.1% of GDP on average, much lower than the 8% of GDP collected by the OECD countries. In addition, in most of the countries of the region, over two thirds of income tax revenue is from corporate tax.

This chapter has sought to illustrate the great heterogeneity of cases, which must not be forgotten, notwithstanding some general stylized features that were identified. Among these features are the predominance of progressive rates on a sliding scale of personal income, the relative constancy of the top marginal rates, and the growth of the minimum tax rates during the first decade of the century, which have been reversed in more recent years.

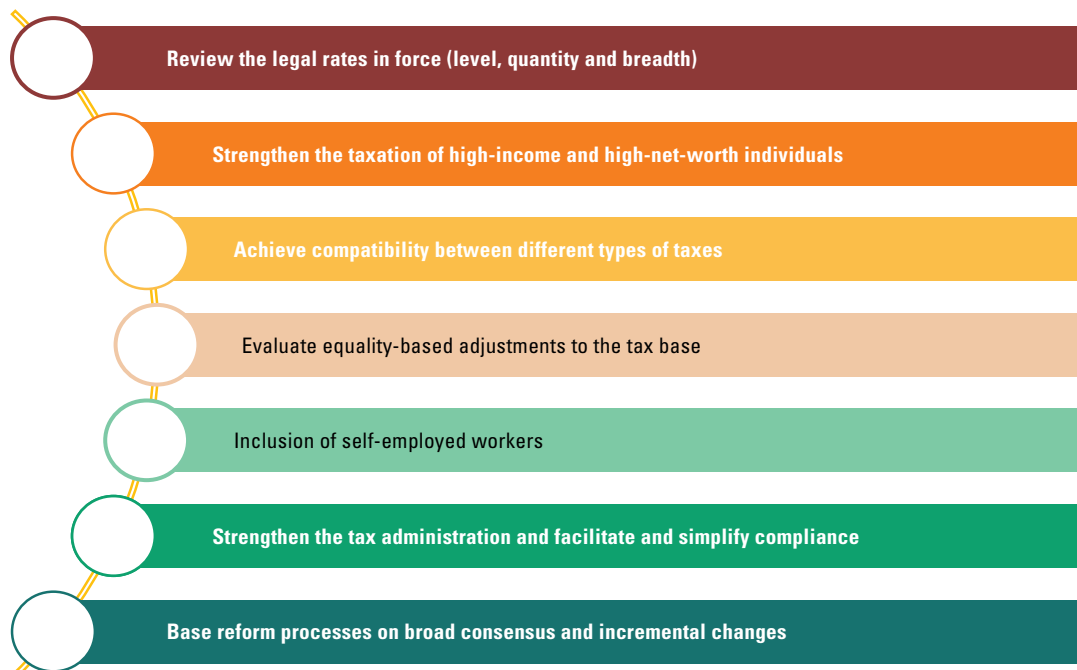
The limited development of personal income taxation deprives countries of an essential tax tool for achieving public finance solvency, potentially improving income distribution and strengthening countercyclical policy, as it is one of the most important automatic stabilizers. Income tax reforms should aim to minimize the effects on efficiency, consolidate designs with a greater redistributive impact and combat evasion through other reforms, which will require a careful path of consensual changes to overcome the recurring political constraints related to reforms affecting the higher-income sectors.

In order to meet these objectives, a group of seven potential areas of personal income tax reform are analysed below. These could be identified as the most important challenges for the countries of the region in this regard (see diagram II. 2). In all cases, it will be key to bear in mind the urgent need to seek a balance between sometimes conflicting objectives. For example, a more progressive income tax design (in terms

of the amount and breadth of the rates applied and the specific treatment of different types of income) may be more complex in regulatory and administrative terms, which could affect levels of compliance. Setting very low exemption levels could contribute to better revenue-raising adequacy and possibly a stronger redistributive impact, although this would likely be at the expense of greater allocative efficiency distortions that would affect taxpayers' decisions and behaviour. The opposite occurs with taxation of very-high-income individuals. Here, if the level of income to which the top rates are applied is too high, however progressive, it would reach very few taxpayers and would not perform adequately to raise revenues and would not have a significant redistributive impact either. In any case, each country will have to resolve a complex set of trade-offs, depending on its ambitions and possibilities.

Diagram II.2

Main areas of a comprehensive reform aimed at strengthening personal income tax in the countries of the region



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from the countries.

1. Review the legal rates in force (level, quantity and breadth)

In relation to personal income tax, one of the most obvious differences between the countries of the region and the developed countries is the level of the top marginal rates. The significant gap in the average values of the two groups of countries dates back several decades and contrasts with the current general corporate tax rates, where there has been an almost universal downward trend at the international level.

Given the general consensus on the advisability of consolidating progressive tax rate systems for the countries of the region, the level at which higher-income individuals and families are taxed must inevitably be discussed in order to improve the tax's redistributive impact. In this area of reform, it is not always feasible to establish international reference values to serve as a practical guide for tax policymakers in the region. It must also be

recalled that the top tax rates in several of OECD countries include additional flat or progressive surcharge regimes administered by subnational governments. This option has always encountered obstacles in the countries of Latin America and the Caribbean, because of the territorial organization of public finances and the possibilities of efficient tax management in those jurisdictions.

In addition, the general recommendation to increase top statutory rates—which, as will be seen, is usually opposed by the elites and by pressure groups with real influence over political decisions—must take into account the different starting points of the countries in Latin America and the Caribbean. Some countries may be identified with greater potential to take this step, especially those with top rates above 35%, some of which have successfully strengthened their rate structure in recent years (before the COVID-19 pandemic). In all cases, legal changes to raise the effective taxation on high incomes should be reflected in the personal income tax regulations as well.

Likewise, the differences encountered in the income level to which the top marginal rates are applied point to the need to strike a balance between the degree of progressivity sought and its actual impact in revenue and distribution terms. This will ultimately depend on the number of individuals liable for the highest rates. More generally, and despite the great diversity of cases, the choice and calibration of the scale of statutory rates as well as the breadth and amount of income brackets must also seek a certain balance between the (theoretical) redistributive capacity of the tax and the simplicity of its design. The idea is to avoid hindering either voluntary compliance by taxpayers or tax management by the authorities. On the other hand, in some cases, the adoption of relatively low minimum statutory rates (between 5% and 10%) could facilitate the gradual incorporation of taxpayers who are currently outside the general tax regime (or are included in simplified regimes). This would reduce the implicit cost involved for the stakeholders and would contribute to the formalization of their economic transactions and related income.

2. Strengthen the taxation of high-income and high-net-worth individuals

Raising personal income tax rates and changing the tax scales in order to increase progressivity is only one of the ways to strengthen effective taxation of higher-income individuals and ensure that the tax really helps to reduce inequality. In this regard, any attempt to reform personal income tax should form part of a comprehensive approach to strengthen direct taxation.

On the one hand, although real progress has been made in this area, capital income continues to enjoy beneficial treatment compared to work-related income in most of the countries of the region. There are still countries in which capital income is not directly taxed. However, taxation of capital by itself is unlikely to be an efficient tool to reduce wealth distribution inequality. Personal income tax is levied on capital gains once they have been realized (based on the income received), i.e. when the financial assets are sold and there is a positive difference between the sale price and the purchase price. Unrealized gains are not taxed and the available evidence suggests that wealthier individuals tend to defer the sale of financial assets, which contributes to the generation of greater future wealth and produces certain mechanisms that reinforce and perpetuate inequality.

Therefore, to complement the effective scope of personal income tax, it is important to explore the possibility of strengthening direct taxation by introducing or consolidating taxes on property and on personal or family wealth. Recent reforms introduced in

Argentina, Colombia and the Plurinational State of Bolivia provide interesting examples in this regard. In particular, wealth taxes are levied on an accrual basis, thereby capturing unearned income in the taxation base, equivalent to a presumed return derived from asset possession. For this reason, the definition of the taxation base should include (and adequately measure) equity in companies, which is highly concentrated among the richest individuals. A comprehensive approach to direct taxation that focuses on the redistributive aspect would also need an instrument to counteract the intergenerational transmission of wealth, creating space to introduce a tax on inheritances (where there is none) as well as on estates and gifts in order to avert taxpayer avoidance behaviours.

As has been noted, the use of these direct taxes could provide real administrative benefits with regard to the cross-control of taxpayers' statements. It would also allow the capital gains arising from reported assets possession to be effectively identified. It should not be forgotten that in many countries in the region, property taxation is a responsibility shared with subnational governments, so special coordination would be required to achieve a consistent system that avoids unwanted double taxation.

3. Achieve compatibility between different types of taxes

Probably the most significant ongoing progress in relation to personal income tax over the past 15 years has to do with the adoption of semi-dual taxation systems in most of the countries of the region, which introduced low flat rates for the main streams of capital income (dividends, interest, and royalties). In several of these cases, these brackets were previously exempt or untaxed. These mechanisms have broadened the scope of personal income taxation and improved its revenue-raising and redistributive potential, which is why they are recognized as a significant advance over the previous mechanism, which was typically incomplete and differentiated by source of income. Until now, the structural limitations linked to the administration of personal income tax in the region have prevented a gradual transition towards a comprehensive taxation system, which would tax all income at progressive rates. In that sense, the dual or semi-dual variants may be considered a satisfactory compromise solution. However, the recent tax reform adopted in Colombia, with modifications to the tax treatment of distributed dividends and the unification of the tax schedule, is an encouraging change in the regional paradigm, which could serve as a reference for the rest of countries in years to come.

Consequently, going forward, countries should afford special attention to the need to ensure broad and effective taxation of capital income, even if at differentiated rates. Just as withholding systems for wage income have proven effective in several countries, technological and administrative advances should make it possible to extend these to other types of capital income (with institutions and employers as intermediaries of the tax administration). This would end the absolute reliance on the veracity of taxpayers' statements by reducing the opportunities and spaces for tax evasion and avoidance. Potential reforms should also make especially sure to avoid creating any incentive for taxpayers to engage in trade-offs (for example, by retaining corporate profits to avoid paying personal income tax). For this, it is crucial to minimize differential treatment in the effective taxation of capital income, either in terms of the rates applied or with respect to criteria for valuation and determination of taxable income and its inclusion within the tax base.

Given that these technical aspects are all integral parts of the same tax instrument, their design and implementation must take into account the links between corporate income tax and taxation of personal income from corporate sources. In this regard,

many countries in the region have tended towards equalizing the general corporate tax rate with the top marginal rate on personal income. As these countries normally use a classic double taxation system, this route places an implicit limit on the level of rates applicable to capital income. However, future personal income tax reforms should not, at least in the short and medium terms, make regulatory changes that could erode corporate income tax, which is an important source of tax revenue today in the countries of the region.

4. Evaluate equality-based adjustments to the tax base

In addition to reviewing the statutory rates in use, to progress towards permanently strengthening the personal income tax, it is essential to concentrate on possible improvements in the make-up of the taxable base. As noted earlier, this includes elements of its design, such as deductions, exemptions and other general and special treatments determined by the characteristics of individuals or their families. It has been seen here that cases are highly diverse in the region, so that any conclusions and recommendations must be treated with caution. As is evident from the typology of countries offered in this area, there are no universally applicable prescriptions and any one of them would require some adaptation to national contexts within the region.

On the one hand, all the countries use some mechanism to establish a level of tax exemption, leaving a variable portion of the economically active population untaxed. The vast majority of cases apply standard deductions (a non-taxable threshold) or an initial income bracket subject to a zero rate. Mexico remains one of the few countries that uses a tax credit that is computed once the tax liability has been generated. Although each of these alternatives have their own relative advantages and disadvantages, they all produce a similar end effect in terms of revenue and distribution, since they determine the income threshold above which taxpayers liable for income tax begin to pay it, or above which the minimum (positive) marginal rate is applied. In several countries in the region, this threshold exceeds the regional average and comes close to their per capita GDP, which is more than twice the average for OECD countries. Any improvement in this aspect will expand the income tax base by increasing the universe of taxpayers, and will thus be another main element in its overall redistributive impact.

On the other hand, in most of the countries' personal income tax regulations also contain a series of concessions that affect their tax base. The most common, and perhaps the most justifiable in terms of horizontal equity criteria, are family responsibilities and deductions for certain personal expenses related to the generation of taxable income. However, there are also several special regimes and subjective and objective exemptions (generally linked to the differential treatment of different income streams, including social security benefits) that: (i) may reflect other objectives and are more difficult to justify; (ii) form part of the tax expenditure associated with the tax; and (iii) for this reason, warrant efforts to rationalize them in order to avoid inequities and limit the associated forgone revenue.

At the same time, and taking a broader approach to equity in view of the large body of evidence on wage and wealth gaps in the economies of the region, it can be said with some certainty that tax reforms that aim to improve the redistributive impact of personal income tax and succeed in doing so will undoubtedly have an implicit positive effect on gender equality, owing to the greater progressivity or effective collection of the tax.

5. Inclusion of self-employed workers

The situation of independent workers in personal income taxation has always needed special consideration, but the challenges of taxing this group are all the more complex in highly informal economies. Informality, a typical characteristic of the economies of the region, has very adverse effects on levels of tax collection, income distribution, the expansion of social protection and the consolidation of policies for stabilizing economic cycles.

Under these conditions, proper treatment of this group of taxpayers requires special care not only in the administration of the tax (as will be seen later), but also in its design. Among other aspects, particular attention should be paid to the situation of self-employed workers given the complexities of each social security system and the reforms already made to it, including its financing through wage contributions. To the extent that these contributions are received as deferred or in-kind wages (depending on the type of social security benefit they finance), they should not be treated as part of the traditional tax burden on work-related income in the way that income tax is. Furthermore, if income tax is calculated on the basis of wage income net of social security contributions, it makes sense to tax income from pensions as part of the tax base. Given that the two tax instruments use various withholding systems, a joint approach should be adopted in any attempt at tax reform in order to avoid unwanted effects in terms of revenue collection and distributional impact.

At the same time, the need to tax independent workers tends to lead the countries in the region to produce simplified tax regimes aimed at bringing them gradually into the formal system and, in some cases, expanding social protection. However, these attempts have not been free from other issues, which need to be corrected. It is generally accepted that these regimes are sufficiently generous (in terms of the costs associated with tax compliance) to promote the gradual incorporation of taxpayers into the general tax regime of each country. However, special care must be taken in the technical design to avoid setting up incentives for taxpayers to remain indefinitely in these special regimes, which could produce negative impacts on the solvency, equity and efficiency of the tax system. At the same time, in cases where these regimes include obligations to contribute to social security, it will be necessary to accurately calibrate thresholds, tax instalments, the benefits to taxpayers and the requirements and procedures that influence the cost of entry to the general tax system and social security financing.

With regard specifically to personal income tax, it is essential to calibrate the characteristics and operation of the simplified regime with the general tax regulations so that taxpayers do not perceive the transition between the two regimes as leaping into a void because of the different costs and complexities of each. Given that possible changes could require a period of adaptation for taxpayers, emphasis should be placed initially on reducing the existing gap between the two regimes. In some cases, this could be achieved via special mechanisms to allow gradual incorporation into the general tax regime, which could be promoted, for example, by temporary economic incentives (such as discounts or tax deferrals) and certain administrative facilities.

Another point that should not be overlooked is the transformation in labour markets wrought by technological advances and the digitalization of the economy. The new forms of work in an increasingly changing and uncertain global environment are already having an impact on regulatory and institutional frameworks. Although it is still too early to confirm structural changes in this regard, the restrictions imposed by the COVID-19 pandemic are known to have triggered a series of responses and adaptations that could have accelerated these labour market trends in most countries. Today, and perhaps

more in the future, individuals can offer products and provide various commercial, financial and professional services without having to settle in destination countries. In return, they receive income of various kinds (including cryptocurrencies) and through various channels, which are not always under the control of tax administrations. Just as has been seen with the issues surrounding the taxation of corporate profits in different jurisdictions, the relocation of work could create a new challenge for tax policy in the countries of Latin America and the Caribbean. For these reasons, the tax treatment of self-employed workers and their participation in personal income tax—and in social protection systems—will become increasingly important in this discussion.

6. Strengthen tax administration, and facilitate and simplify compliance

In most of the countries in the region, tax evasion continues to be the main obstacle to consolidating the respective tax systems as the fundamental basis of public financing. Particularly with regard to personal income tax, the very scant evidence available shows how serious the situation is given the valuable tax resources forgone, and speaks to the urgency of concentrating efforts in this area.

The first point to mention therefore is the urgent need to conduct and make public estimates to quantify the magnitude of evasion of the main taxes. There are many alternatives and methodological approaches, such as offering the possibility of pursuing gradual learning processes and increasingly sophisticated studies, which may be seen from the advances made in Mexico in this regard. It is also known that these estimates usually depend to a high degree on the quality of each country's statistics, especially those associated with the respective national accounts systems. In this regard, great progress could be achieved by different public bodies with the capacity to process and manage private personal and corporate data working together.

The second point is that taxpayer oversight and inspection strategies must increasingly rely on the possibilities offered by the information and communication technologies (ICTs). Investment in human and technical resources is vital in order to manage the vast amount of financial and transactional information required to detect the evasion and avoidance manoeuvres that underpin most of the problem. The mass uptake of new tools (such as electronic invoicing) represents an important aid in combating the informality that, as mentioned, undermines the foundations of any tax system. The tax agencies should also ensure that interaction with taxpayers is as smooth as possible, with an emphasis on facilitating voluntary taxation compliance. Any advance that simplifies administrative procedures, reduces compliance costs, and makes use of technological tools (for example, applications for digital devices, or electronic tax registration and declaration, including variants pre-filled or suggested by the tax administration) will bring real benefits towards the aim of reducing non-compliance levels.

Lastly, it has become increasingly evident that a dual approach should be adopted to simultaneously adapt to the particularities of the domestic context of each country and capture the income generated by taxpayers residing in foreign jurisdictions that may offer relative fiscal and tax advantages. It is essential here to continue and increase strategies to control cross-border evasion on the basis of international tax information sharing agreements and treaties. To this end, countries must seek to join—and actively participate in—consolidated global initiatives such as the Inclusive Framework on Base Erosion and Profit Shifting led by OECD and the Group of 20 (G20) and the Global Forum on Transparency and the Exchange of Information for Tax Purposes (OECD). In turn, given the importance of the United States as an investment destination, any bilateral and reciprocal agreement for the automatic exchange of tax information with

that country could also produce concrete benefits, probably within the framework of the Foreign Account Tax Compliance Act (FATCA). The benefits arising from these networks of interaction between tax administrations in different countries would not be confined to income tax; it could also facilitate the identification of assets in other jurisdictions. This would broaden the potential base of taxes on capital assets and offer the possibility of strengthening effective taxation of the wealthiest individuals.

In light of the progress made in taxation of corporate income at the international level in little more than a decade, this is also a good time to raise the need to build and promote regional initiatives to reach underlying consensus on personal income tax. Such initiatives should take advantage of the achievements of the past decade and the new availability of data and information technologies in addition to the multiple channels of technical cooperation between fiscal institutions in the region. In this regard, the recent regional initiative “Towards inclusive, sustainable and equitable global taxation”, which is led by the Government of Colombia and ECLAC, and whose first summit will be held in July 2023, is emerging as a very valuable opportunity to advance more resolutely along these lines.³⁰

7. Base reform processes on broad consensus and incremental changes

The challenges in evidence today represent a combination of long-standing structural problems in personal income tax to which no satisfactory solution has been found to date. On the contrary, a series of new challenges have arisen that oblige a reformulation of the traditional directions of reform, without forgetting their importance. It is about the need to make income tax into a true instrument of development in light of recent events and the new agendas of the countries of the region. The proposal made in this general framework for the discussion of potential tax reforms points to the need for a solid regional consensus on the matter.

The social consensus on the need to strengthen income tax usually depends on the success of other public policy reforms. By way of illustration, two especially important ones are described here. First, advancing personal income taxation must be part of broader strategies aimed at achieving greater economic formalization. To the extent that large sectors of the economy remain outside the regulations, it will be very difficult to consolidate income tax specifically. Second, expanding income taxation also requires public policy reform to help validate the use of resources. A common excuse for tax evasion or avoidance by sectors with more resources is the claim that they do not receive adequate services from the State (such as health, education and security).

In societies in which serious distributive inequities coexist with minority actors who have real veto power over the necessary reforms (as has been seen in many cases in the region), these constraints must be taken into account in the search for solutions. Given the obvious difficulty of achieving broad consensus—and while there is continuous pursuit of dialogue and negotiation within democratic institutions—it may be best to try to agree upon different paths of reform that allow for incremental changes, in order to gradually achieve sustainable improvements in conflictive contexts (Fuentes, 2012).

In addition, the aforementioned aspects cannot be considered separately from the technical design and proper timing of preparation, communication, discussion, adoption and implementation of reform initiatives. It is essential to precede this with a sound diagnosis of the difficulties in each case and the alternative changes. In federal

³⁰ For more information, see [online] <https://www.minhacienda.gov.co/webcenter/portal/TributacionIncluyente>.

countries or in countries with a decentralized fiscal organization, care must also be taken in the relationship between the different levels of government who usually administer portions of direct taxes whose distributive effects, as noted earlier, must complement income taxation.

As has been seen, personal income tax is emerging today as the tax instrument with the greatest potential to increase resources, while moving more decisively towards desirable redistribution of income on the basis of equity criteria. In this regard, it is important to analyse the characteristics of income tax in the countries of the region today, in its technical design, its multiple economic effects and its different interrelationships with other instruments of the tax systems. This marks a positive step towards developing a reference framework for strengthening this tax as a central element in the financing of the 2030 Agenda for Sustainable Development and in the consolidation of greater social cohesion throughout the region.

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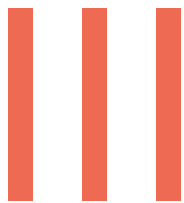
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CHAPTER



Public expenditure targeting gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities

Introduction

- A. Methodological proposal for measuring public expenditure targeted to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities
- B. Estimation of public expenditure related to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities
- C. Challenges and final thoughts

Bibliography

Annex III.A1

Introduction

Latin American countries display high levels of inequality between the different population groups. Persistent disparities in education, employment, income generation and access to health care are compounded by unequal access to opportunities and differences in participation in public and political life, among other inequities.

As noted in *Social Panorama of Latin America, 2021* (ECLAC, 2022a), the inclusion of demographic groups that tend to face structural marginalization and discrimination poses a challenge for social protection systems. Tools are required to identify these groups and design services and benefits adapted to their specific needs. Compounding this, the pandemic has posed major challenges for current information systems; and it has created the need for new mechanisms to ensure inclusion for the populations worst affected, such as women, Indigenous Peoples, Afrodescendants and persons with disabilities.

The crisis caused by the coronavirus disease (COVID-19) pandemic has refocused public policy on the importance of protecting public expenditure targeted to the most vulnerable population groups. Moreover, the rapid demographic and epidemiological transition in Latin American and Caribbean countries will put increasing pressure on public spending. This makes it crucial to safeguard programmes in areas related to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities.

In this context of burgeoning social demands, countries must strengthen public policies that narrow the various social, economic and structural gaps that characterize the region, thus protecting the most vulnerable. To be able to make the right decisions, it is important to invest in the production and development of public expenditure statistics, with a view to improving the quantity and quality of the information available.

The preparation of budgets that quantify and analyse public expenditure, adopting a cross-cutting perspective that takes into account issues of gender, Indigenous Peoples, Afrodescendants and persons with disabilities, provides a key tool for governments, enabling them to: promote equality throughout the different stages of the budget process; reduce the various disparities that exist in the countries of the region and steer public policies towards achieving the priority goals that comprise the 2030 Agenda for Sustainable Development.

Under the principle of “leaving no one behind”, the Sustainable Development Goals (SDGs) of the 2030 Agenda are especially relevant to the most disadvantaged groups. They represent a commitment to eradicate poverty, reduce inequalities and vulnerabilities, and end discrimination and exclusion, including that based on gender, and against Indigenous Peoples, Afrodescendants and persons with disabilities.

As recommended by ECLAC (2021), 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. Budget classification systems are currently linked to each country’s public gender policies, and it is therefore necessary to promote the creation of a standardized classification system that allows for comparison between countries.

The development of a common methodology for quantifying public expenditure relating to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities will make it easier to monitor national policies and plans, and to evaluate fulfilment of the international commitments adopted by the countries, while also enhancing comparability between them.

Accordingly, this chapter seeks to propose and apply a methodology to identify, measure, classify and analyse public expenditure aimed at reducing inequalities based on gender, race, ethnicity and disability in four Latin American countries —Argentina, Guatemala, Mexico and Uruguay.

These countries have confronted the challenge of identifying public expenditure priorities in one or more of these areas, taking into account their national development plans and their specific plans in these areas, as well as their adherence to international commitments and agreements.

ECLAC has highlighted the need to propose methodologies at the regional level to help governments perform this type of analysis in complex contexts, where the availability of information and its level of disaggregation vary greatly from country to country. While the methodological approach and classification of expenditure described in this study are expected to enhance international comparability, countries have their own legal and institutional frameworks that do not necessarily coincide with these classifications. Consequently, it is important that they continue to publish public expenditure data in accordance with their national plans, to enable the indicators presented here to complement the data published by each country.

The chapter is organized as follows: section A develops a methodological proposal for measuring public expenditure in the four priority areas mentioned. It describes in detail the steps to be followed in applying the proposal, and presents a novel taxonomy; it also identifies the sources of information needed to apply the proposed methodology and to create expenditure indicators in the priority areas. Section B presents and analyses the results of the quantification and classification of public expenditure in these priority areas, including tax expenditure with social aims targeted to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities. Lastly, section C offers some concluding thoughts, identifies the main challenges and presents a series of guidelines on the methodology developed.

A. Methodological proposal for measuring public expenditure targeted to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities

On the basis of an evaluation of the official methodologies used by the four countries analysed, together with the experience of ECLAC in applying, to these countries, the approach of the Social Expenditure Database (SOCX)¹ of the Organisation for Economic Co-operation and Development (OECD) and an analysis of international practices, a common methodology is proposed below for measuring cross-cutting public expenditure aimed at reducing inequalities and discrimination based on gender, race, ethnicity and disability.

The importance of the methodology proposed here involves identifying and measuring cross-cutting expenditure (that is, expenditure that spans different functions of government and multiple public agencies), focusing on Indigenous Peoples, Afrodescendants and persons with disabilities. Expenditure of this type can only be

¹ For further details on this methodology, see [online] <https://www.oecd.org/social/expenditure.htm>. Social expenditure statistics based on the SOCX approach can be consulted for a group of Latin American and Caribbean countries in ECLAC (n/da).

identified using programmatic categories, since it is impossible to distinguish them directly, either in national budgets or in the statistics generated from the functional classification of expenditure, since cross-cutting expenditure in a given thematic area does not correspond to one of the divisions, groups or classes of the Classification of Functions of Government (COFOG).

1. Quantification of cross-cutting public expenditure

This section describes the steps to be taken to quantify public expenditure related to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities. Although the process is common to all cases, a specific taxonomy is proposed subsequently in each case.

(a) Programmes, projects or activities, and executing agencies or entities

A first step involves identifying and analysing the objectives, targets, initiatives, results and beneficiaries of the different budget programmes or subprogrammes, with a view to deciding whether they contribute to reducing inequalities or gaps attributable to gender, ethnicity, race or disability. The agencies or entities responsible for the implementation of these programmes are also identified at this stage.

When selecting programmes or projects, it is important to consider both those that have a direct (main or exclusive) purpose and those that have an indirect (secondary or broad) purpose related to reducing inequality in the area in question, and to “label” them.

Programmes with a direct objective foster the reduction of inequality directly, because they either include affirmative action in favour of these groups, or else they are focused exclusively on them. Examples include antenatal care programmes (which reduce gender gaps), educational programmes for students with disabilities, or programmes that support or promote Indigenous cultures. Although indirectly targeted programmes do not act to reduce these inequalities directly, nor benefit these groups exclusively, they do highlight them and contribute to reducing inequalities in these areas. Examples include training and technical assistance programmes targeting microentrepreneurs, conditional cash transfers to families with children, and the supply of food to people living in conditions of vulnerability.

The programmes considered should not be limited to those specifically addressing issues relating to gender equality, Indigenous Peoples, Afrodescendants or persons with disabilities (for example, subsidies for childcare, rehabilitation for persons with disabilities, or scholarships for Indigenous Peoples, as the case may be). They should also include programmes that aim to adopt policies that are sensitive to gender or disability, or that focus on Indigenous Peoples or Afrodescendants (such as programmes to evaluate the impact of these public policies).

Insofar as the information available in each country allows, the resources allocated to each group should be earmarked at the activity level, or in the lowest-level programmatic category, to make it easier to identify budget items targeted to reducing those gaps within each programme. Moreover, having information disaggregated at the level of activity, actions or works minimizes the need for weightings, thus making the estimate more precise, while also enabling a more appropriate classification among the different autonomies, categories or subcategories which are proposed below.

In terms of the level of government to be analysed, as in the case of social expenditure statistics generated from the SOCX approach, it would be ideal to have coverage at the general government level. This would take account not only of central government but also the programmes implemented by social security institutions and those of intermediate and local governments. However, in Latin American and Caribbean countries, it is very difficult to obtain consolidated information from the three levels of government that includes a breakdown at the programmatic expenditure level.

(b) Share of resources allocated in each programme, project or activity with a view to reducing inequalities in the priority areas

If the lowest-level programmatic category (whether a programme, subprogramme, project or activity) includes more than one item or action, or if it benefits various groups or sectors of the population, the proportion of the corresponding resources that is actually used to reduce the gaps in question needs to be determined.

This is done by using weightings that can be calculated either from the programme's own statistical information, such as data on the programme's public production (for example, the percentage of beneficiaries who are women, Indigenous Peoples, Afrodescendants or persons with disabilities, as the case may be), or from demographic statistics or projections for the country or for the project's area of intervention (calculating the percentage of women, Indigenous Peoples, Afrodescendants and persons with disabilities in the total population). However, the latter may be less precise.

Table III.1

Types of weightings used to calculate resources targeted to the reduction of inequalities or gaps attributable to gender, ethnicity, race or disability

Type of criterion	Description	Weighting
Total	100% of the beneficiary population are women, Indigenous Peoples, Afrodescendants or persons with disabilities, as the case may be.	Weighting = 1
List of beneficiaries or target population	If information is available on the number of programme beneficiaries in each population group, the proportion of the target population is calculated to define the weighting.	Weighting = Number of beneficiaries in the target group / Total number of programme beneficiaries
Geo-reference	When the programme only specifies that it benefits one or more areas of the country, the potential beneficiary population is estimated considering the population of that locality.	Weighting = Number of people in the target group in the locality / Total population of the locality
Demographic calculation	If the programme benefits all people in the country without distinguishing between women and men, or between Indigenous and non-Indigenous Peoples, or between Afrodescendants and non-Afrodescendants, or between persons with and without disabilities, the proportion of the target group (women, Indigenous Peoples or Afrodescendants, persons with disabilities) relative to the total population is used.	Weighting = Number of people in the target group in the country / Total population of the country

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of M. D. Almeida, "Presupuesto basados en resultados con enfoque de género: los casos de Argentina, Brasil y Guanajuato", *Aprendizajes en Cohesión Social*, No. 44, EUROsociAL, 2020.

Accordingly, the following formula is used to calculate the programme resources associated with the priority area in question:

$$\text{Expenditure of the programme or activity allocated to reducing the inequality} = \text{Total expenditure of the programme or activity} \times \text{weighting}$$

Lastly, as in the case of the OECD SOCX methodology, administrative expenses should generally not be included in the quantification. In principle, only the costs of administering certain programmes or services, such as employment programmes, childcare services, care for persons with disabilities, and health and education expenditure, are included.

(c) Classification of programmes, projects or activities

Having identified and quantified the relevant programmes, projects and activities, an initial classification applicable to the three analyses involves grouping the different programmes or subprogrammes according to the functional classification of the expenditure.

According to *Government Finance Statistics Manual 2014* (IMF, 2014), the functional classification of expenditure is a detailed classification of the socioeconomic functions or objectives pursued by general government units through different types of expenditure. The functions are divided into the following 10 categories:

- (i) General public services – expenditure related to the administration, management or support of executive and legislative organs; expenditure on financial, fiscal and external affairs; management of foreign economic aid; expenditure on general services; public debt transactions (such as interest payments); and general transfers between different levels of government.
- (ii) Defence –expenditure on military defence, civil defence and foreign military aid.
- (iii) Public order and safety –expenditure on police, fire protection, courts and prison services.
- (iv) Economic affairs –expenditure in respect of general economic, commercial and labour affairs; other economic affairs, services and various programmes related to agriculture, forestry, fishing and hunting; expenditure on programmes in the fuel and energy sector; expenditure on affairs, services and programmes related to mining, manufacturing and construction; expenditure related to the operation, use, construction or maintenance of transportation systems and facilities; expenditure related to communication systems; and expenditure for programmes in other industries (such as distribution, warehousing, storage, hotels, restaurants and tourism).
- (v) Environmental protection –expenditure on waste and wastewater management, pollution abatement, and the protection of biodiversity and landscape.
- (vi) Housing and community amenities –expenditure on issues and services related to urban development, eradication of irregular settlements and housing construction, along with expenditure related to community development and planning, water supply and street lighting.
- (vii) Health –services provided both to individuals and to collective entities. It is subdivided as follows: medical products, appliances and equipment; outpatient services; hospital services; and public health services.
- (viii) Recreation, culture and religion –the provision of recreational, sporting and cultural services and the management of the corresponding facilities, along with the management, supervision and regulation of radio, television and publishing services, and expenditure related to religious and other community services.

- (ix) Education –services provided to individual pupils and students and expenditure for collective services. Collective educational services relate to issues such as the formulation and administration of government policy, the establishment and enforcement of standards, the regulation, authorization and supervision of educational institutions, and applied research. Expenditure on education is divided into the following groups: pre-primary and primary education, secondary education, post-secondary non-tertiary education, tertiary education, education not definable by level, and subsidiary services to education.
- (x) Social protection –services and transfers to individuals and families and expenditure on services provided to collective entities. Collective social protection services are concerned with the formulation and administration of social policy, the formulation and enforcement of laws and standards for providing social protection; and applied research in social protection. It encompasses the following groups:
- **Sickness and disability:** Benefits in cash or kind for sickness or disability, sickness benefits, disability pensions, care services for persons with disabilities, assistance with daily tasks for the sick, housing for persons with disabilities, among others.
 - **Old-age:** Benefits in cash and in kind against the risks associated with old age, such as old-age pensions and nursing care, lodging and board.
 - **Survivors:** Benefits in cash or kind provided to the survivors of a deceased person, such as pensions and funeral expenses.
 - **Family and children:** Benefits in cash or kind provided to households with dependent children, such as maternity and dependent child allowances, childbirth benefits, childcare leave, housing allowances, pre-school meals, childcare services, and orphanage and foster care expenses.
 - **Unemployment:** Unemployment benefits, benefits paid to workers who retire early owing to unemployment, vocational training programmes and provision of housing, food or clothing for unemployed persons and their families.
 - **Housing:** Benefits in kind to help vulnerable families with housing costs and rents, and the construction of social housing.
 - **Other measures against social exclusion:** Cash and non-cash benefits for the needy, immigrants, Indigenous Peoples, refugees, alcohol and substance abusers, and victims of criminal violence, among others.

In addition to the Classification of Functions of Government, it is possible to create a second classification of programmes, projects and activities specific to each vulnerable sector, taking into account the particular needs or characteristics in each case. These specific groupings are presented in detail in the following subsections.

The following diagram summarizes the proposed stepwise approach.

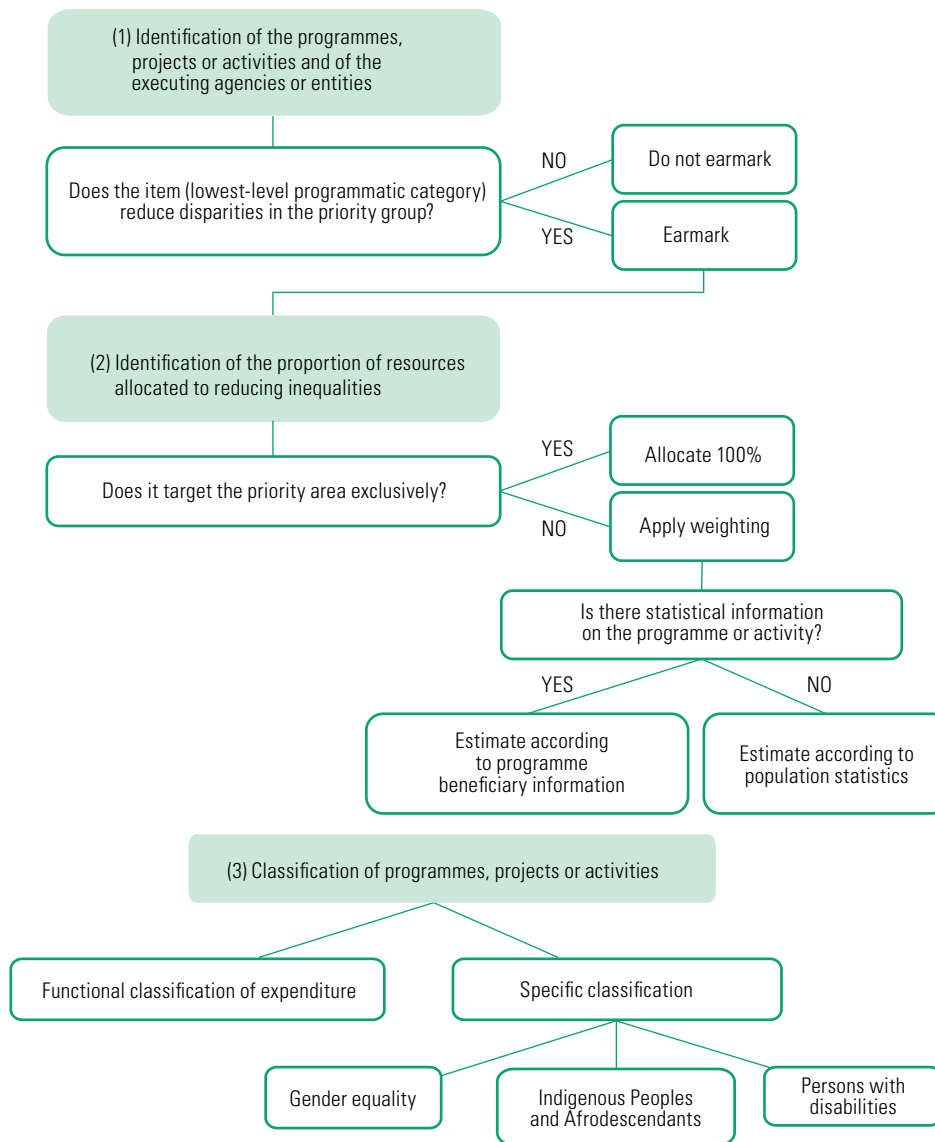


Diagram III.1
Process of identifying and estimating public expenditure to reduce disparity in priority areas

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

2. Public expenditure targeting gender equality: classification of expenditure by type of autonomy

According to ECLAC, to analyse public expenditure from a gender perspective, programmes, projects or activities should be classified according to different types of autonomy.² According to ECLAC (n/db), autonomy means women having the capacity and conditions to freely make decisions affecting their lives. To achieve a greater autonomy, different issues must be addressed, including freeing women from the exclusive responsibility of reproductive tasks and care, which implies ensuring the exercise of reproductive

² As a reference, the Convention on the Elimination of All Forms of Discrimination against Women, which is considered a fundamental instrument on women's rights, establishes that "States Parties shall take in all fields, in particular in the political, social, economic and cultural fields, all appropriate measures, including legislation, to ensure the full development and advancement of women, for the purpose of guaranteeing them the exercise and enjoyment of human rights and fundamental freedoms on a basis of equality with men" (United Nations, 1979). There are also other international and regional commitments, such as the Declaration on the Elimination of Violence against Women; the Beijing Declaration and Platform for Action (adopted at the Fourth World Conference on Women in 1995); the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (in particular, Goal 5), and the commitments agreed upon in the framework of the Regional Conference on Women in Latin America and the Caribbean. For a review of the main instruments containing commitments that have fiscal policy implications, see ECLAC (2021).

rights, ending gender violence and taking all necessary initiatives for women to participate in decision-making in equal conditions.

It is thus important to measure public expenditure and analyse the different programmes that strengthen the various dimensions of women's autonomy. ECLAC distinguishes between the following three types of autonomy:

- (i) **Physical autonomy.** This is measured through two dimensions that reflect major social problems in the region: women's reproductive rights and gender-related violence.
- (ii) **Economic autonomy.** This is women's capacity to generate income and personal financial resources to meet their needs based on access to paid work under conditions of equality with men, which takes into account the distribution of time spent on unpaid domestic and care work between women and men.
- (iii) **Decision-making autonomy.** This refers to women's involvement in decision-making at various levels of the different branches of government, and as reflected in measures designed to promote women's full participation under conditions of equality, whether in the public or political sphere and, particularly, in decision-making.

ECLAC also proposes a holistic analysis of autonomies, stressing the need to analyse gender-inequality phenomena from an interrelated perspective, rather than treating each one in isolation. This should make it possible to understand the different mechanisms that intertwine and give rise to or reinforce inequality between men and women. For example, violations of rights related to physical autonomy affect women's economic autonomy in terms of their capacity to generate their own income, lower levels of productivity, absenteeism from work, poverty and property ownership, among other factors. Consequently, a lack of physical autonomy affects the conditions needed to achieve economic autonomy, and vice versa.

In keeping with the existence of interrelationships among the different autonomies, an additional fourth category encompasses programmes that have a cross-cutting impact on all autonomies. These include expenditure on education and programmes related to strengthening equality, combating discrimination, and protecting and defending human rights from a gender perspective.

Table III.2 outlines a proposal of types of programmes, projects or activities that could be classified under each type of autonomy.

Table III.2
Proposal of programmes, projects or activities that contribute to women's autonomy

Type of autonomy	Subtype of autonomy	Examples of programmes, projects or activities
Physical autonomy	<ul style="list-style-type: none"> – Health – Food – Eradication of gender violence 	<ul style="list-style-type: none"> – Maternal, sexual and reproductive health – Prevention and care in respect of HIV/AIDS and other sexually transmitted infections (STIs) – Food aid for women's centres and shelters – Care and prevention services in respect of violence against women – Support for shelters for women victims of gender violence
Economic autonomy	<ul style="list-style-type: none"> – Labour policies – Care systems – Income support – Productive development policies – Other policies for economic autonomy 	<ul style="list-style-type: none"> – Job training and employment generation programmes – Childcare programmes and day-care services – Care services for persons who are dependent or sick, and for older persons, among others – Family allowances – Pensions – Programmes that foster greater participation by women in economic development – Microloans – Social housing – Land titling
Decision-making autonomy	<ul style="list-style-type: none"> – Culture – Citizen participation 	<ul style="list-style-type: none"> – Promotion of cultural events with a gender perspective – Promotion and support of culture – Training for the democratic exercise of citizenship
Cross-cutting	<ul style="list-style-type: none"> – Education – Strengthening equality and combating discrimination – Respect for rights 	<ul style="list-style-type: none"> – Study scholarships – Gender equality policies in the education sector – Comprehensive sexuality education – Programmes to promote substantive equality between women and men – Strengthening of gender mainstreaming – Gender equality dissemination and awareness campaigns – Protection and defence of human rights

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

Note: The classification reflects the three forms of autonomy defined in "Autonomies", Gender Equality Observatory for Latin America and the Caribbean, [online] at <https://oig.cepal.org/es/autonomias>.

3. Public expenditure targeted to persons with disabilities: categorization according to internationally recognized rights

The design of a classification of programmes, projects or activities targeted to persons with disabilities can take account of their internationally recognized rights and the various barriers that prevent their inclusion and full participation in different areas.

According to the United Nations International Convention on the Rights of Persons with Disabilities, “Persons with disabilities include those who have long-term physical, mental, intellectual or sensory impairments which in interaction with various barriers may hinder their full and effective participation in society on an equal basis with others” (United Nations, 2007a).

The Convention also stresses the importance of ensuring the full realization of all human rights and fundamental freedoms for persons with disabilities. These include the right to life; to education on the basis of equal opportunities; to work on an equal basis with others; to live independently and to be included in the community; to recognition as persons before the law; to equality and non-discrimination, to health, access to justice, liberty and security of person; and to participate in political and public life and in cultural life, recreation, leisure and sport, among others. In particular, to enable persons with disabilities to live independently and participate fully in all aspects of life, States must take action to ensure equal accessibility for persons with disabilities to the physical environment, transportation, information and communications, including information and communications technologies (ICTs), and other services and facilities that are open or provided to the public.

Based on the internationally recognized rights of persons with disabilities and considering the different barriers that hinder their development in the different spheres, table III.3 proposes a classification of programmes, projects or activities that can reduce the inequality faced by persons with disabilities.

Table III.3

Proposal of programmes, projects or activities that reduce inequality for persons with disabilities

Type	Subtype	Examples of programmes, projects or activities
Health, food and assistance	<ul style="list-style-type: none"> – Health – Food – Assistance to persons with disabilities 	<ul style="list-style-type: none"> – Medical care for beneficiaries of disability pensions – Prevention and control of disabilities – Rehabilitation services for persons with disabilities – Food assistance to families that have children with disabilities – Personal care and programmes of assistance for daily living activities – Day-care centres
Human capital and income generation	<ul style="list-style-type: none"> – Education – Labour policies – Care systems – Income support – Productive development policies – Other economic policies 	<ul style="list-style-type: none"> – Strengthening of special education services – Inclusive education programmes – Scholarships – Assistance to enable persons with disabilities to enter the labour market – Training for inclusion of persons with disabilities in the labour market – Support for the care of children with disabilities who have working mothers – Invalidity pension – Family allowances – Disability subsidies – Pension for occupational hazards owing to disability – Support for microenterprises of persons with disabilities

Type	Subtype	Examples of programmes, projects or activities
Comprehensive development and rights of persons with disabilities	<ul style="list-style-type: none"> – Comprehensive development of persons with disabilities – Promotion and guarantee of rights – Eradication of discrimination and violence 	<ul style="list-style-type: none"> – Actions to foster the inclusion of persons with disabilities – Programmes for the comprehensive development of persons with disabilities – Promotion, protection and monitoring of the Convention on the Rights of Persons with Disabilities – Programmes to ensure access to justice for persons with disabilities – Dissemination and awareness-raising campaigns on the rights of persons with disabilities
Accessibility	<ul style="list-style-type: none"> – Special infrastructure for persons with disabilities 	<ul style="list-style-type: none"> – Programmes to eliminate physical barriers that impede access to public spaces and use thereof – Promotion of universally designed goods, services, equipment and facilities (usable by everyone without adaptation) – Installation of toilet facilities for persons with disabilities, construction of ramps, traffic lights with sound and signage in Braille, for example

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

4. Public expenditure targeted to Indigenous Peoples and Afrodescendants: categorization according to their internationally recognized rights

A specific classification of public expenditure aimed at reducing the disparities faced by Indigenous Peoples and Afrodescendants can be designed in light of the specific needs of these population groups and their internationally recognized rights, encompassing programmes, projects or activities related to combating discrimination and the growing inequalities they face.³

In 1965, the General Assembly of the United Nations adopted the International Convention on the Elimination of All Forms of Racial Discrimination, which entered into force on 4 January 1969. Based on the 1963 United Nations Declaration on the Elimination of All Forms of Racial Discrimination, the Convention is one of the main international human rights treaties and the principal international instrument for combating racism, racial discrimination and xenophobia. Its underlying principles are the inherent dignity and equality of all human beings, and the notion that all persons are born free and equal in dignity, rights and fundamental freedoms, without distinction as to race, colour, nationality, sex, language or religion. In its first article, it defines racial discrimination as “any distinction, exclusion, restriction or preference based on race, colour, descent, or national or ethnic origin which has the purpose or effect of nullifying or impairing the recognition, enjoyment or exercise, on an equal footing, of human rights and fundamental freedoms in the political, economic, social, cultural or any other field of public life” (United Nations, 1965).

Key milestones were the Durban Declaration and Programme of Action agreed upon at the World Conference against Racism, Racial Discrimination, Xenophobia and Related Intolerance of 2001.⁴ This is a United Nations plan of action that proposes concrete measures to combat racism, racial discrimination, xenophobia and related intolerance, addressing a wide range of issues. The Durban Declaration and Programme of Action recognizes that victims of racism and racial discrimination include African, Afrodescendent, Asian and Indigenous Peoples, as well as migrants, refugees and persons belonging to national or ethnic minorities, among others.

³ Although it would be ideal to present public expenditure statistics for Indigenous Peoples and Afrodescendants separately, in practice this has proven impossible with the information currently available. For example, in Mexico, several programmes, included in the cross-cutting annex on expenditure fostering the comprehensive development of Indigenous Peoples and communities, have both Indigenous Peoples and Afro-Mexicans as target populations or priority groups. In Guatemala, the thematic budget for Indigenous Peoples includes programmes associated with Mayan, Xinka and Garifuna people (Afrodescendants and Indigenous Caribbean people).

⁴ See [online] <https://www.un.org/en/durbanreview2009/ddpa.shtml> and <https://www.un.org/en/fight-racism/background/durban-declaration-and-programme-of-action>.

In addition, the Indigenous and Tribal Peoples Convention, 1989 (No. 169) of the International Labour Organization (ILO) recognizes the rights of Indigenous and Tribal Peoples. According to the Convention, Indigenous Peoples are those who are descended from populations that inhabited the country at the time of conquest or colonization and who retain some or all of their own social, economic, cultural and political institutions. Tribal peoples are those whose social, cultural and economic conditions distinguish them from other sectors of the national community and who are governed in whole or in part by their own customs or traditions or by special laws or regulations. The Convention also emphasizes the importance of being aware of their Indigenous or tribal identity in order to be considered as such.

This Convention is a very important international instrument relating to the rights of Indigenous Peoples. It has been ratified by 24 countries thus far, of which 15 in Latin America and the Caribbean, including Argentina, Guatemala and Mexico.⁵ It asserts that these Peoples enjoy the same rights and opportunities that national legislation grants to other members of the population; it recognizes their cultures and traditions; and it emphasizes their rights to work, economic opportunities, land and territory, health and education, among others.

Also, the United Nations Declaration on the Rights of Indigenous Peoples was proclaimed in 2007 (United Nations 2007b), recognizing and reaffirming that Indigenous Peoples, whether as a collective or as individuals, have all the human rights and fundamental freedoms recognized in international law, without any form of discrimination. The main substantive rights set out in the Declaration include the right to self-identification (to freely determine their political status and freely pursue their economic, social and cultural development); the right to lands, territories and resources; the right to education, employment, vocational training, housing, sanitation, health, social security; and the right to live with dignity while maintaining their traditions and cultures, among other rights.

Moreover, as a contribution to implementation of the agreements reached at the World Conference against Racism, Racial Discrimination, Xenophobia and Related Intolerance, held in Durban in 2001, the United Nations proclaimed the International Decade for People of African Descent, which began on 1 January 2015 and will end on 31 December 2024, with the theme “People of African descent: recognition, justice and development.” The Decade places special emphasis on protecting the rights of Afrodescendants, recognizing their contributions and preserving their rich cultural heritage. It also focuses on promoting the right to equality and non-discrimination; supporting education and awareness-raising on equality; collecting, analysing and disseminating statistical data on the situation of Afrodescendants; and adopting measures to enable their full, equal and effective participation in public and political affairs without discrimination. States must also ensure access to justice and guarantee equality before the law and the eradication of violence and discrimination; and they must adopt measures, such as affirmative action, to enable Afrodescendants to exercise their human rights and fundamental freedoms. The Decade also addresses the right to development and proposes a set of measures related to combating poverty, access to education and quality health services, the elimination of racial discrimination in the workplace, and access to adequate housing. The Decade urges States to adopt and implement policies and programmes that provide effective protection for Afrodescendants who experience multiple, compound or intersecting forms of discrimination on other related grounds, such as gender, age, language, religion, politics, social origin, property, disability or other status (United Nations, 2014).

⁵ See the list of countries that have ratified the ILO Indigenous and Tribal Peoples Convention, 1989 (No. 169) [online] at https://www.ilo.org/dyn/normlex/es/f?p=NORMLEXPUB:11300:0::NO::P11300_INSTRUMENT_ID:312314.

On the basis of the internationally recognized rights of Indigenous Peoples and Afrodescendants, table III.4 presents a proposed classification of programmes, projects or activities that contribute to development among these population groups, exercise of their rights and the reduction of the inequality they suffer.

Table III.4

Proposal of programmes, projects or activities that reduce the inequality faced by Indigenous Peoples and Afrodescendants

Type	Subtype	Examples of programmes, projects or activities
Health and nutrition	<ul style="list-style-type: none"> – Health – Food 	<ul style="list-style-type: none"> – Strengthening of medical care in places where Indigenous Peoples live – Strengthening of medical care for Afrodescendants – Free health care and supply of medicines for persons without social security – Promotion of intercultural health systems – Programmes to distribute milk and food for Indigenous or Afrodescendent families living in poverty – Delivery of school breakfasts and food support
Human capital and income generation	<ul style="list-style-type: none"> – Education – Labour policies – Care systems – Income support – Productive development policies – Other economic policies 	<ul style="list-style-type: none"> – Support for the education of Indigenous Peoples – Intercultural bilingual education – Educational scholarships or grants for Indigenous or Afrodescendent students – Training and employment for Indigenous Peoples or Afrodescendants – Childcare support for Indigenous workers – Pensions – Agricultural productivity programmes – Assistance for family, campesino and Indigenous farming – Programmes that guarantee prices to smallholder farmers – Microloans
Comprehensive development, rights and culture	<ul style="list-style-type: none"> – Comprehensive development of Indigenous Peoples and Afrodescendants – Promotion and guarantee of rights – Eradication of discrimination and violence – Protection of Indigenous and Afrodescendent culture 	<ul style="list-style-type: none"> – Programme to promote the comprehensive well-being of Indigenous Peoples or Afrodescendants – Planning and coordination of public action in support of Indigenous Peoples – Actions to protect, promote and disseminate the human rights of members of Indigenous and Afrodescendent communities – Information and awareness campaigns on respect for cultural diversity – Indigenous culture programmes – Preservation and development of Indigenous languages – Programmes that promote and guarantee cultural diversity – Subsidies for Indigenous Peoples' communications media
Right to land, housing and infrastructure	<ul style="list-style-type: none"> – Right to land and decent housing – Social infrastructure – Other infrastructure projects 	<ul style="list-style-type: none"> – Programme for the resolution of territorial conflicts with Indigenous Peoples – Housing programmes in rural settlements and places where Indigenous Peoples live – Works for the provision of drinking water, sewerage, electrification, basic educational or health infrastructure, for example, in Indigenous populations – Programmes for the construction and maintenance of rural roads in places where Indigenous Peoples live

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

5. Sources of information on expenditure targeted to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities

Applying the proposed methodology requires public expenditure data with a breakdown by programme or activity. In the cases of Argentina, Mexico and Uruguay, this information is available at the central government level.⁶ In other words, there is no consolidated information for programmatic budget structures from the subnational levels of government, because programme information at the intermediate and local

⁶ Although the cross-cutting analysis of the budget is done at the central government level, the National Directorate of Economy, Equality and Gender (Argentina, Ministry of Economy, 2023) identifies 17 Argentine provinces (Buenos Aires, Catamarca, Chaco, Chubut, Córdoba, Entre Ríos, Jujuy, La Rioja, Mendoza, Misiones, Neuquén, Río Negro, Salta, San Luis, San Juan, Santa Fe and Tierra del Fuego) and the Autonomous City of Buenos Aires that have made progress in preparing budgets with a gender perspective. In Mexico, according to the National Women's Institute (INMUJERES), only a few states have made substantive changes to incorporate the gender perspective in their planning and budgeting processes (see [online] http://puntogenero.inmujeres.gob.mx/presupuestos/pre_t5_pan01_pag01.html). The state of Guanajuato is an example (see Almeida, 2020).

government levels is not centrally compiled. Nonetheless, information on transfers from the central level to subnational governments, to finance this type of programme, is included, along with the expenditure of social security agencies.

In the case of Guatemala, according to the official methodology for the thematic classifiers, in addition to central government information (central administration together with decentralized, autonomous and social security entities), local governments (municipalities that form the departments) were also included.

In cases where the country already had information on cross-cutting expenditure in a given area, these official sources were used, whether databases or published documents (or both). By contrast, if there was no official cross-cutting analysis, an effort was made to identify the main programmes from official published information, mainly taking into account databases of budgetary spending by programmatic category, subprogramme, activity, and so forth. However, in the latter case the country probably has other programmes that have not been included in the estimation; so, this exercise reflects a minimum level of resources allocated to these priority areas.

At the present time, the four countries studied have official estimates of cross-cutting expenditure targeting gender equality, so these statistics were used. However, in the case of Uruguay, the figures from the official databases were supplemented with unearmarked gender-equality expenditure published in the 2021 budgetary accounts and execution report (Uruguay, 2021) and information obtained from social security.

As of March 2023, when this chapter was being written, only Argentina officially monitors spending on the care of persons with disabilities, while Guatemala and Mexico make estimates of development expenditure targeting Indigenous Peoples. Starting in 2023, Argentina will publish information on expenditure related to Indigenous Peoples, pursuant to Circular 1/2022 of the National Budget Office.⁷

In general, budget execution figures (accruals basis) were used, although not in Guatemala because the data in question were not presented in a complete and consistent manner for the priority areas analysed. It was therefore decided to use the current amount budgeted for each programme by the different agencies of central government, together with the decentralized, autonomous and social security entities and the local governments (municipalities). This information was extracted mainly from SICOIN.

In the specific case of Guatemala, several difficulties had to be overcome; consequently, the priority expenditure indicators will be revised as more complete and consistent official data becomes available. Although the databases of the thematic classifiers that can be consulted through SICOIN contain itemized data for most institutions, it was impossible to identify information for all ministries and entities involved. In some cases, information on certain expenditure items that was not in the SICOIN databases was found in reports issued by the classifier's governing body (for example, the Presidential Secretariat for Women (SEPREM) in the case of gender), or by the Ministry of Public Finance. Moreover, although each thematic classifier's governing body is currently required to publish semi-annual reports on these cross-cutting analyses, in practice not all do publish them, and those that do have different criteria for presenting the information. Moreover, the period published does not always cover the entire year, which makes it difficult to analyse and compare classifiers and time periods. For these reasons, this country's data have been obtained from a variety of sources, depending on the priority group in focus, as summarized in table III.5.⁸

⁷ See Argentina, Ministry of Economic Affairs (2022).

⁸ Annex III.A1 contains links to the information sources used in table III.5.

Table III.5

Sources of information on expenditure targeted to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities

Country	Theme	Information sources
Argentina	– Gender equality	– National budget databases with cross-cutting analysis: monitoring of gender policy expenditure
	– Disability	– National budget databases with cross-cutting analysis: financial monitoring of care for persons with disabilities
	– Indigenous	– Not available ^a
Guatemala	– Gender equality	– Presidential Secretariat for Women (SEPREM), <i>Clasificador Presupuestario con Enfoque de Género con base en la PNPDIM y PEO 2008-2023 Informe semestral: período de julio a diciembre, 2021</i> , June 2022 – Follow-up reports on the normal thematic classifier by entity, integrated accounting system (SICOIN), Gender Perspective Classifier 8: for central administration and its equivalent for decentralized, autonomous and social security entities (SICOINDES) – Expenditure Budget by Local Government Programme 2021: Expenditure Reports by Thematic Classification (obtained from the local government integrated accounting system (SICOINGL))
	– Disability	– Programmatic budget execution databases held on the Budget Transparency Portal for central administration, and decentralized, autonomous and social security entities – Expenditure Budget by Local Government Programme 2021: expenditure reports database by purpose and function
	– Indigenous	– Follow-up reports on the normal thematic classifier by entity, Integrated Accounting System, Classifier 1 of Indigenous Peoples: SICOIN for central administration and SICOINDES for decentralized, autonomous and social security entities – Expenditure Budget by Local Government Programme 2021: Expenditure Reports by Thematic Classification (obtained from SICOINGL)
Mexico	– Gender equality	– Cross-cutting annexes of Public Account 2021; Cross-cutting item No 4 of Expenditure promoting equality between women and men (Budget Transparency Portal)
	– Disability	– Cross-cutting annexes of Public Account 2021; Cross-cutting item No 7 of Resources to serve vulnerable groups (Budget Transparency Portal) – Public Account 2021 (Budget Transparency Portal) – Statistical Report 2021 of the Mexican Social Security Institute (IMSS) – Weights: Fourth Government Report 2021–2022, published by the Office of the President of the Republic (2022); and the 2020 Population and Housing Census, implemented by the National Institute of Statistics and Geography (INEGI)
	– Indigenous	– Cross-cutting annexes of 2021 Public Account; Cross-cutting item No 1 of Expenditure promoting the comprehensive development of Indigenous Peoples and communities (Budget Transparency Portal)
Uruguay	– Gender equality	– Budgetary credit detail database, Budget Transparency Portal – Annex on Gender Equality Policies of the 2021 Financial Accountability Report – Social Security Bank (BPS) databases
	– Disability	– Budgetary credit itemized database, Budget Transparency Portal – BPS databases – Weights: BPS and National Population, Household and Housing Census of Uruguay, 2011, National Institute of Statistics
	– Afrodescendants	– Budgetary credit itemized database, Budget Transparency Portal – National Institute of Employment and Vocational Training (INEFOP): Rendición de cuentas y Balance de Ejecución Presupuestal. Personas públicas no estatales y organismos privados que perciben fondos públicos. Anexo Parte E. Ejercicio 2021 – Weights: Rendering of accounts 2021 by line item (Ministry of Education and Culture) and Office of Planning and the Budget, Evaluaciones de Diseño, Implementación y Desempeño (DID): una herramienta para la mejora continua de los servicios públicos. Acciones afirmativas para personas afrodescendientes en el marco de la Ley núm 19122, Montevideo, 2019

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

^a The available information is insufficiently detailed to perform this cross-cutting analysis. In March 2023, when this chapter was being written, the Government of Argentina was working with the 13 institutions involved in this area (pursuant to Circular 1/2022 of the National Budget Office), and is expected to have a budget earmarked for this area by the second quarter of 2023.

B. Estimation of public expenditure related to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities

In general, public expenditure aimed at reducing inequalities and gaps based on gender, race, ethnicity and disability varies widely across the four selected countries of the region —both in terms of its amount and composition and in the importance of the different programmes linked to these priority groups.

However, it is important to note that the results presented below represent a preliminary exercise, and the figures may be adjusted as more precise access to official data becomes available.

1. Public expenditure related to gender equality

In 2021, public expenditure in support of gender equality amounted to less than 1% of GDP in Guatemala, Mexico and Uruguay, but more than 3% in Argentina. This type of expenditure represented 14% of total national government spending in Argentina, but no more than 3% of total spending in the other three (see table III.6).

Table III.6

Latin America (4 countries): expenditure on gender equality policies by functional classification, 2021
(Percentages of GDP)

	Argentina	Guatemala ^a	Mexico ^b	Uruguay ^c
1. General public services	0.000	0.059	0.004	0.000
2. Defence	0.000	0.000	0.000	0.000
3. Public order and security	0.001	0.156	0.002	0.033
4. Economic affairs	0.329	0.050	0.071	0.000
5. Environmental protection	0.000	0.004	0.000	0.000
6. Housing and community services	0.000	0.160	0.012	0.003
7. Health	0.030	0.143	0.022	0.002
8. Recreational activities, culture and religion	0.001	0.020	0.000	0.000
9. Education	0.001	0.073	0.100	0.008
10. Social protection	2.933	0.195	0.296	0.663
Expenditure on gender policies (Percentages of GDP)	3.29	0.86	0.51	0.71
Expenditure on gender policies (Percentages of total expenditure)	14.2	3.3	1.7	2.2

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

Note: In Argentina, government-level coverage corresponds to national administration (central administration, social security institutions and decentralized agencies); in Guatemala, it encompasses central administration, decentralized, autonomous and social security entities, and local governments; in Mexico, it includes the federal government; and in Uruguay, it includes the central government and the Social Security Bank (BPS).

^a The figures shown for Guatemala are significantly lower than the official ones because the value reported by the Ministry of the Interior programmes has been adjusted here in line with the correction made by the Presidential Secretariat for Women (SEPREM) as of 2022. The figures refer to the current budget.

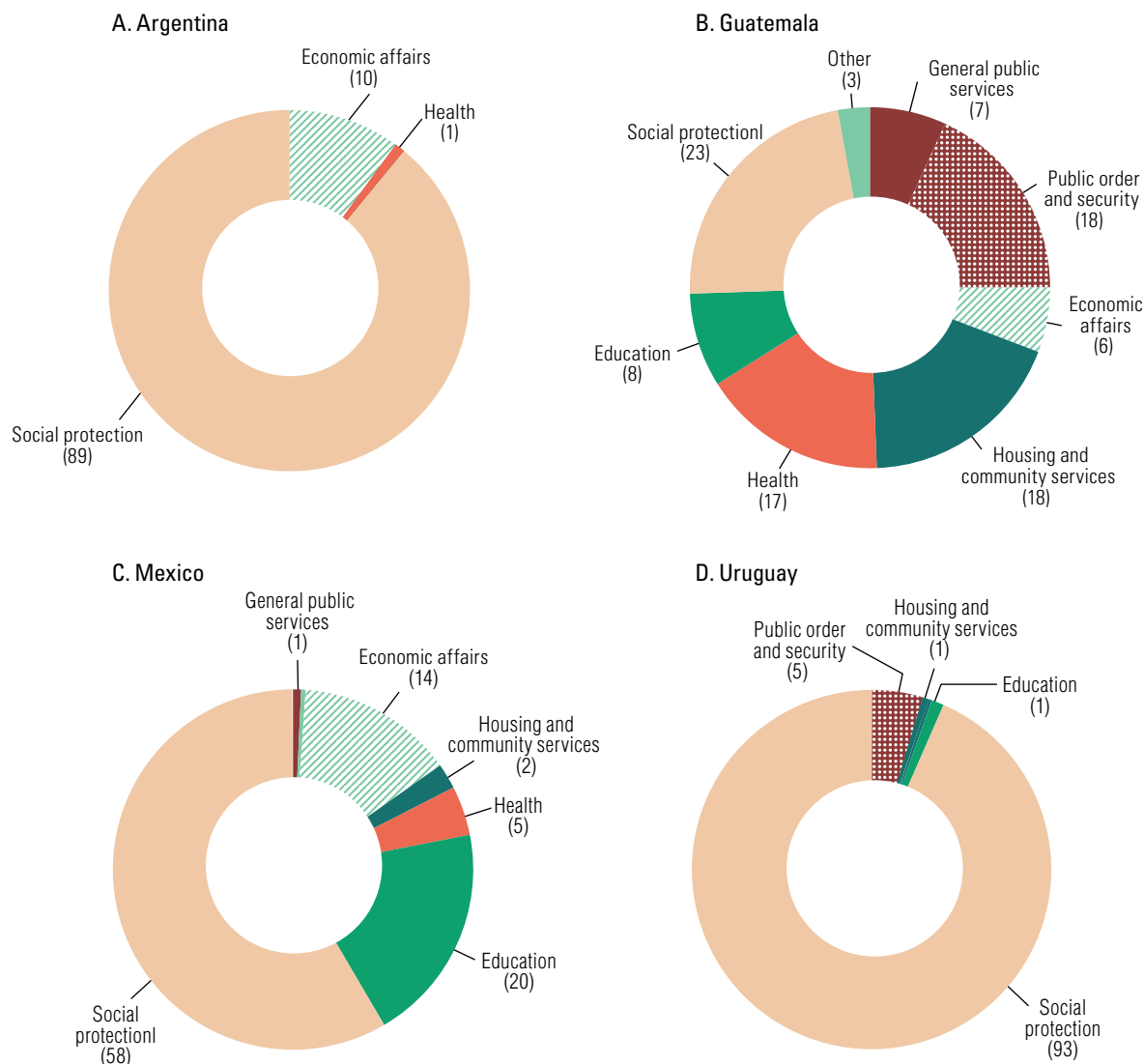
^b The figures obtained for Mexico differ slightly from the official figures because the proposed methodology excludes certain administrative expenses, such as those relating to administrative support activities.

^c In Uruguay, in addition to earmarked central government spending (Projects 121 and 840), unearmarked spending has also been included (published in the Gender Equality Policies Annex of *Rendición de cuentas y balance de ejecución presupuestal*), as well as certain Social Security Bank programmes.

A cross-cutting analysis of gender-equality expenditure with a breakdown by function of government reveals social protection programmes as the most important in all four countries, although their relative importance varies (see table III.6 and figure III.1). In Argentina and Uruguay, the social protection function accounts for 90% or more of total gender-related expenditure. In Argentina, the social protection function is largely dominated by the payment of pension benefits under the pension moratoria. These enable beneficiaries to receive a pension in recognition of the domestic and care work that they have performed either as stay-at-home spouses or as workers in the precarious informal sector, whether unpaid or without pension contributions. According to official statistics, 74% of the beneficiaries of this programme are women (Argentina, Ministry of Economic Affairs/Head Office of the Cabinet of Ministers, 2022b). Also important in this country are the Universal Social Protection Allowance Programme, whose main component is the Universal Child Allowance (AUH), which is administered by women and provides a household income, and the Food Card Programme which aims to guarantee access for families to the basic food basket.

Figure III.1

Latin America (4 countries): relative share of the functions of government in total expenditure for gender equality, 2021
(Percentages)



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

Public expenditure promoting gender equality in Uruguay includes earmarked central government expenditure (Projects 121 and 840), unearmarked expenditure (published in the Gender Equality Policies Annex of the document *Rendición de cuentas y balance de ejecución presupuestal*), and a number of programmes run by the Social Security Bank (BPS) that are deemed to contribute to reducing gender disparities. In Uruguay, expenditure in the social protection function is dominated by the payment of Social Security Bank family allowances, including those received by children or minors in the care of workers (Act No. 15084), and benefits under the Equity Plan (Act No. 18227), which are granted to families in a situation of socioeconomic vulnerability. Family allowances accounted for 76.5% of the country's total expenditure on gender equality, or 0.54 percentage points of GDP. Next in importance are the resources allocated by BPS to maternity, paternity and care subsidies, which provide economic support to female workers during antenatal and postnatal leave and to workers on special adoption leave or paternity leave, and provide subsidies for the care of newborn or adopted children. In Uruguay, these subsidies amounted to 0.11% of GDP, or 15% of total gender-related expenditure.

In Mexico, 58% of total spending on equality between women and men corresponds to the social protection function, which includes the payment of pensions to ensure the well-being of older adults. One of the government's priorities is to include women in this programme, through the provision of universal economic support to persons over 65 years of age. Also significant are the resources allocated to the Sowing Life programme, which provides technical assistance and economic and material support to rural women; and the Support Programme for the Well-Being of Children of Working Mothers, which provides economic support to the mother, father or guardian responsible for the maintenance, care and upbringing of children.

In Guatemala,⁹ the social protection function is also the most important in relative terms, since it represents 23% of public expenditure on policies with a gender perspective. However, the distribution of spending between the different functions of government is more homogeneous than in the other three countries, since housing and community services, public order and security, and health each represent about 17% or 18% of total expenditure in this area.

The main programmes of the social protection function include benefits paid to military personnel and their dependents of the Armed Forces Social Security Institute, such as normal retirement pensions (*jubilaciones*) and subsidies in respect of compulsory retirement, invalidity, disability and death. These are related to the gender thematic classifier and account for one third of the resources allocated to the social protection function in this priority area. Also noteworthy are the conditional cash transfer programme for health and education, whose main objective is to reduce malnutrition and promote access to health and education services for families living in poverty and extreme poverty with children under 15 years of age and pregnant women; and also the programme to guarantee adequate food consumption, which provides vulnerable families with food parcels or cash transfers to enable them to buy food.

In Guatemala, the housing and community services function encompasses several programmes administered at the municipal level, such as those that aim to improve access to drinking water and public sanitation, and the construction, improvement and maintenance of roads benefiting vulnerable populations. In the health domain, programmes include health promotion and preventive medicine, the prevention of maternal mortality, and prevention and control of sexually transmitted and zoonotic diseases, among others. These programmes seek to reduce adverse impacts on the health of individuals, especially women.

In Guatemala, programmes that are related to the public order and security function and have a gender perspective include services provided in the magistrates courts (*juzgados de paz*), courts of first instance and courts of appeal, as well as other justice programmes. Also included in this function is the Ministry of the Interior's Programme of Security Services for Persons and their Property, which provides care and protection services for women victims of violence, with police assistance and support. It also provides care for assault victims, as well as crime and preventive security services, along with technical assistance and training in citizen security and community-based prevention of violence.

In Uruguay, the public order and security function receives the second largest amount of funding allocated to gender equality, accounting for 4.6% of this priority expenditure. This function includes the Crime Prevention and Repression Programme, which includes activities aimed at preventing and stopping crimes and assisting the judicial system in its investigation, maintaining security and non-violent coexistence with a gender perspective.

In Mexico, the function of government with the second largest amount of funding allocated to equality between women and men is education, which accounts for 20% of this priority expenditure. This function runs various scholarship programmes—for primary

⁹ In the case of Guatemala, the figures presented here for 2021 differ from the official figures published in Guatemala, SEPREM (2021), since this institution adjusted the data as from 2022. According to Guatemala, SEPREM (2022), a technical assistance process found that not all of the resources reported by the Ministry of the Interior were actually used to promote women's rights. However, corrected data for 2021 were not published, so this study used the official adjustment for 2022 as a basis for estimating the value corresponding to the Ministry of the Interior for that year.

or secondary education (Benito Juárez), higher education (Youth writing the future and the Elisa Acuña Scholarships) and also for postgraduate education. Scholarships are awarded with the aim of encouraging female students to gain access, persevere with and complete education.

Another priority function in cross-cutting expenditure with a gender perspective in Mexico relates to economic affairs, accounting for 14% of total spending on equality between women and men. This area includes the Youth Building the Future programme, which offers free training in firms and work centres to 18–29 year-olds in vulnerable situations, with a view to facilitating their entry into the labour market. It also includes the Production for Well-being programme, which provides technical assistance and direct support enabling small-scale producers and vulnerable groups to invest in productive activities.

This function of government is also relevant in terms of the resources allocated to gender policies in Argentina, since it absorbs 10% of this priority expenditure at the national government level. In this function, the actions of the Empowering Work National Programme for Socio-productive Inclusion and Local Development aim to contribute with paid employment, since the programme grants an individual economic benefit, in exchange for which participants must fulfil a counterpart requirement involving the completion of studies, vocational training, trade apprenticeships or participation in production-, employment- or community-oriented social projects.

Classifying gender-related expenditure by type of autonomy, Argentina, Mexico and Uruguay invest more in programmes aimed at strengthening women's economic autonomy, with 70% of expenditure concentrated in this area. By contrast, in Guatemala, physical autonomy programmes were the most important, absorbing 44% of public expenditure targeted to the gender thematic classifier (see table III.7 and figure III.2).

Table III.7

Latin America (4 countries): expenditure related to gender policies by type of autonomy, 2021
(Percentages of GDP)

	Argentina	Guatemala ^a	Mexico ^b	Uruguay ^c
1. Physical autonomy	0.502	0.380	0.026	0.052
1.1 Health	0.030	0.143	0.022	0.002
1.2 Food	0.436	0.081	0.000	0.002
1.3 Eradication of gender violence	0.036	0.155	0.004	0.047
2. Economic autonomy	2.788	0.236	0.377	0.652
2.1 Labour policies	0.329	0.004	0.038	0.000
2.2 Care systems	0.000	0.008	0.009	0.108
2.3 Income support	2.459	0.099	0.248	0.540
2.4 Productive development policies	0.000	0.036	0.071	0.000
2.5 Other policies for economic autonomy	0.000	0.090	0.011	0.003
3. Decision-making autonomy	0.001	0.021	0.000	0.000
3.1 Culture	0.001	0.020	0.000	0.000
3.2 Citizen participation	0.000	0.001	0.000	0.000
4. Cutting across the autonomies	0.003	0.224	0.104	0.007
4.1 Education	0.001	0.073	0.100	0.007
4.2 Strengthening equality and eradicating discrimination	0.002	0.127	0.004	0.000
4.3 Respect for rights	0.000	0.024	0.001	0.000
Total	3.295	0.861	0.507	0.710

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

Note: In Argentina, government-level coverage corresponds to national administration (central administration, social security institutions and decentralized agencies); in Guatemala, it encompasses central administration, decentralized, autonomous and social security entities, and local governments; in Mexico, it includes the federal government; and in Uruguay, it includes the central government and the Social Security Bank (BPS).

^a The figures shown for Guatemala are significantly lower than the official ones because the value reported by the Ministry of the Interior programmes has been adjusted here in line with the correction made by the Presidential Secretariat for Women (SEPREM) as of 2022. The figures refer to the current budget.

^b The figures obtained for Mexico differ slightly from the official figures because the proposed methodology excludes certain administrative expenses, such as those relating to administrative support activities.

^c In Uruguay, in addition to earmarked central government spending (Projects 121 and 840), unearmarked spending has also been included (published in the Gender Equality Policies Annex of *Rendición de cuentas y balance de ejecución presupuestal*), as well as certain Social Security Bank programmes.

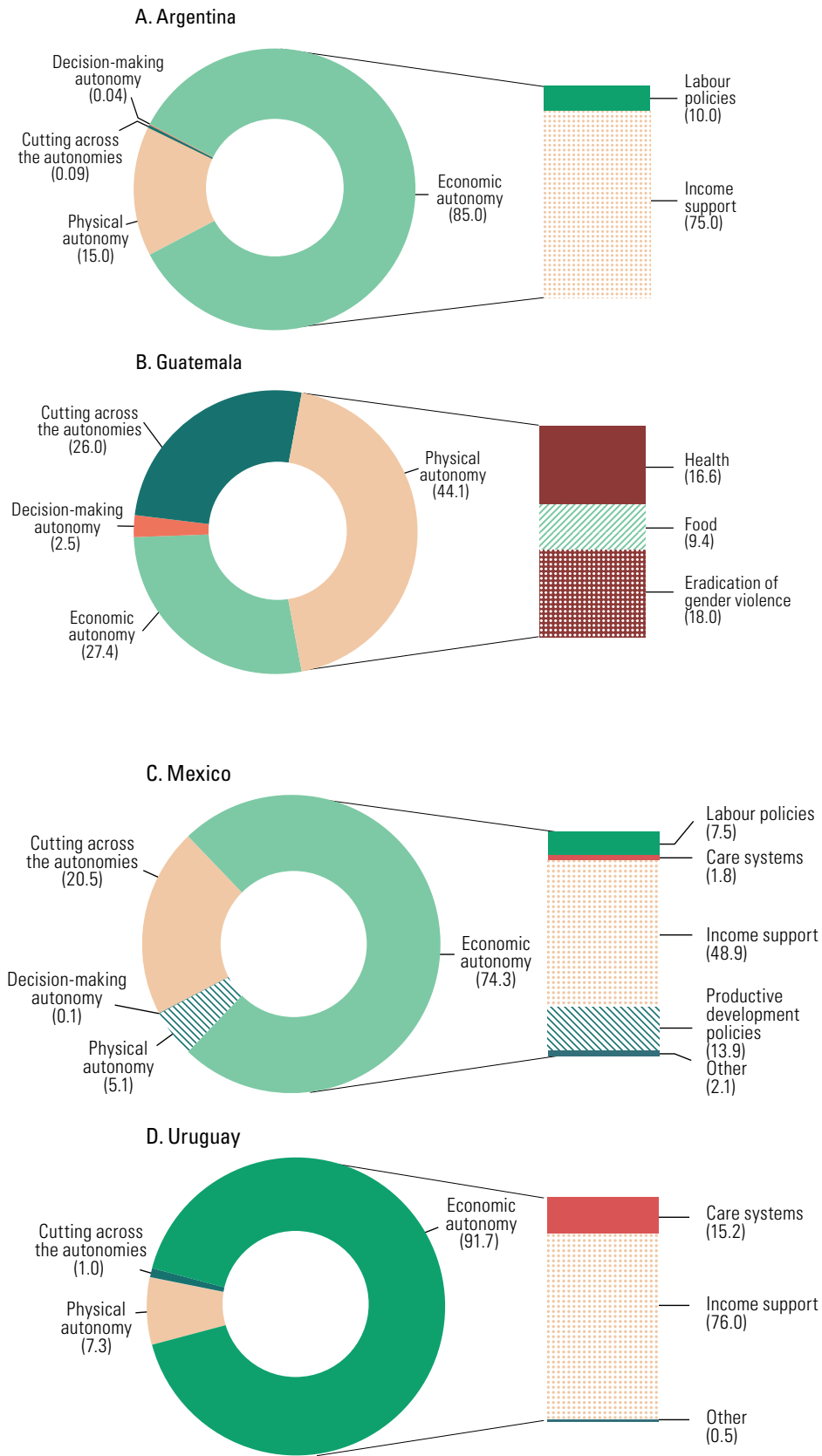


Figure III.2
Latin America
(4 countries): relative
share of the different
autonomies in total
spending related to
gender policies, 2021
(Percentages)

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

In terms of economic autonomy, policies aimed at strengthening women's capacity to generate income on an equal footing with men include those that support women's income. In the case of Argentina, they consist fundamentally of benefits obtained from the social security moratorium and the universal social protection allowance mentioned above, together with non-contributory pensions for mothers with seven or more children living in socially vulnerable conditions. Pensions to support the well-being of older adults are particularly important in Mexico, as are family allowances in Uruguay. In Guatemala, this subcategory includes the conditional cash transfer programme for health and education and the pension benefits of the Armed Forces Social Security Institute.

Also important in respect of this autonomy are initiatives and programmes related to employment policies, care systems, productive development and social housing, among others. In Argentina, for example, the labour policies subcategory includes the resources of the aforementioned Empowering Work Programme and the single social tax (*monotributo social*), while in Mexico the Youth Building the Future Programme is important. In terms of programmes related to care systems, Uruguay spends 0.11% of GDP, mainly on maternity, paternity and care subsidies paid by the Social Security Bank and, to a lesser extent, funds allocated to improve access to early education and childcare services.

In terms of productive development policies with a gender perspective, Mexico has the Sowing Life programme and the Production for Well-Being programme; microcredit programmes that provide financing, advice and training to women microentrepreneurs and family microenterprises; and pricing programmes, either to guarantee income to small- and medium-scale producers (guaranteed price programme for basic foods) or to make sure that the prices of products in the basic food basket are affordable for vulnerable populations (the Rural Supply Programme operated by DICONSA). In Guatemala, productive development programmes are also important, such as the Family Agriculture Support Programme, which aims to serve the rural population living in poverty and extreme poverty, prioritizing Indigenous and campesino women, Indigenous Peoples, smallholder farmers, and the like. This programme operates by strengthening technical and food production capacities, the technification of production based on best practices, and the provision of agricultural goods and inputs, among other initiatives. Guatemala also has the Land Access Programme, implemented by the Land Trust Fund (FONTIERRAS), which deploys appropriate financial mechanisms to enable individual or organized campesino farmers to gain access to land and make use of the corresponding natural resources, under economic and environmental sustainability criteria, thus reducing conflicts over access to land and ensuring peace.

In the case of physical autonomy, the countries that invest the most are Argentina and Guatemala, with expenditure equivalent to 0.50% and 0.38% of GDP, respectively. In Argentina, the Food Card Programme is intended to help vulnerable families buy food. There are also health programmes with a gender perspective, such as the Programme for the Development of Sexual Health and Responsible Procreation, and the programme of interventions in perinatal health, childhood and adolescence, among others; and also programmes related to the eradication of gender-based violence, including the Programme for the Formulation of Policies against Gender-Based Violence. The latter includes the *Acompañar* programme, in which a key objective is to strengthen the economic independence of women and LGBTI+ persons subject to gender-based violence. The programme provides a subsidy equivalent to the adjustable minimum wage (*salario mínimo, vital y móvil*) for six consecutive months and comprehensive support including access to psychosocial care, in coordination with provincial and local governments.



In Guatemala, programmes in the subcategory of eradicating gender violence have the greatest weight in the domain of physical autonomy, accounting alone for 18% of gender-related expenditure. This subcategory includes the programmes with services provided in the courts of first instance, magistrates courts and those of criminal and forensic analysis —attached to the judicial system— and security services for persons and their property, as explained above in the functional analysis. The initiatives of the Office of the Ombudsperson for the Rights of Indigenous Women and the Unit for the Supervision, Monitoring and Evaluation of Bodies Specialized in the Crime of Femicide and Other Forms of Violence against Women, in which the main objective is to reduce and eradicate violence against women, are also included in the eradication of violence subcategory, albeit with less relative importance. The physical autonomy category also includes health-related programmes, such as those mentioned above (17% of gender expenditure), and food, which includes the programme to support adequate food consumption (9%). The latter consists of the delivery of food rations, breakfasts and prepared lunches, along with conditional cash transfers for the purchase of food delivered to vulnerable families in situations of poverty, extreme poverty, crisis or emergency.

In Mexico, the largest amount of funding for this autonomy is allocated to health programmes in general; specific maternal, sexual and reproductive health programmes; and vaccination programmes. There are also programmes related to gender violence, such as the Comprehensive Programme to Prevent, Address, Punish and Eradicate Violence against Women and the Programme in Support of Specialized Shelters for Women Victims of Gender Violence.

In Uruguay, the largest expenditure related to this autonomy is for programmes to eradicate and tackle gender-based violence, such as the Programme for the Prevention and Repression of Crime (which includes activities aimed at preventing and repressing crimes and assisting the judicial system in investigations, maintaining security and non-violent coexistence with a gender perspective); the provision of judicial services in gender courts, and the programme to address situations of gender-based and domestic violence, which provides care teams for both women and male aggressors, care services for women trafficked for sexual exploitation, temporary shelters, housing alternatives, training, for example. Also included are health-care programmes, funding for contraceptives and HPV vaccinations, and the supply of food to women's centres and shelters.

All four countries analysed spend least on decision-making autonomy. This subcategory includes programmes aimed at strengthening cultural participation with a gender perspective, such as programmes to support public libraries, artistic activities and cultural events; and also programmes related to women's participation in civic life, such as training and education for the democratic exercise of citizenship, or programmes to strengthen women's leadership in politics.

Lastly, as noted in the Gender Equality Observatory for Latin America and the Caribbean of ECLAC,¹⁰ there are significant interrelationships between the autonomies, which demonstrate the comprehensive nature of policies to reduce gender gaps. Thus, in the category of programmes that cut across all autonomies, in addition to the key importance of spending on education, there are also programmes to strengthen gender mainstreaming; major initiatives to strengthen substantive equality between women and men, and the protection and defence of human rights from a gender perspective. This category is relatively more important in Guatemala, where it absorbs 26% of total expenditure targeted to gender, and in Mexico, where it accounts for 21%.

¹⁰ See [online] <https://oig.cepal.org/en/>.

2. Public expenditure targeted to persons with disabilities

Among the countries analysed, only Argentina publishes a cross-cutting analysis of expenditure targeted to persons with disabilities; while in Mexico this priority group is included, along with other groups, in the cross-cutting analysis of funding to address the needs of vulnerable groups. Therefore, in order to quantify expenditure targeting persons with disabilities in Guatemala, Mexico and Uruguay, an attempt has been made to identify the main programmes from the published official information. However, these countries probably have other programmes or initiatives that have not been included in this estimation, so the exercise reflects the minimum funding allocated to this priority area.

In 2021, public expenditure targeting persons with disabilities represented 0.79% of GDP in Argentina, 0.11% in Guatemala, 0.18% in Mexico and 1.29% in Uruguay. This type of expenditure accounted for over 3% of total public expenditure in Argentina and Uruguay, while in Guatemala and Mexico it was equivalent to 0.4% and 0.6%, respectively (see table III.8).

Table III.8

Latin America (4 countries): cross-cutting expenditure targeted to persons with disabilities, by functional classification, 2021
(Percentages of GDP)

	Argentina	Guatemala	Mexico	Uruguay
1. General public services	0.000	...	...	...
2. Defence	0.000	...	...	...
3. Public order and security	0.000	...	0.0001	...
4. Economic affairs	0.002	0.000	0.001	0.002
5. Environmental protection	0.000	...	...	...
6. Housing and community services	0.000	...	0.0002	...
7. Health	0.118	0.025	0.006	0.019
8. Recreational activities, culture and religion	0.001	...	...	...
9. Education	0.000	0.001	0.002	...
10. Social protection	0.666	0.087	0.169	1.266
Expenditure targeting persons with disabilities (Percentages of GDP)	0.79	0.11	0.18	1.29
Expenditure targeting persons with disabilities (Percentages of total)	3.4	0.4	0.6	3.9

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

Note: In Argentina, government-level coverage corresponds to national administration (central administration, social security institutions and decentralized agencies); in Guatemala, it encompasses central administration, decentralized, autonomous and social security entities, and local governments; in Mexico, it includes the federal government; and in Uruguay, it includes the central government and the Social Security Bank (BPS).

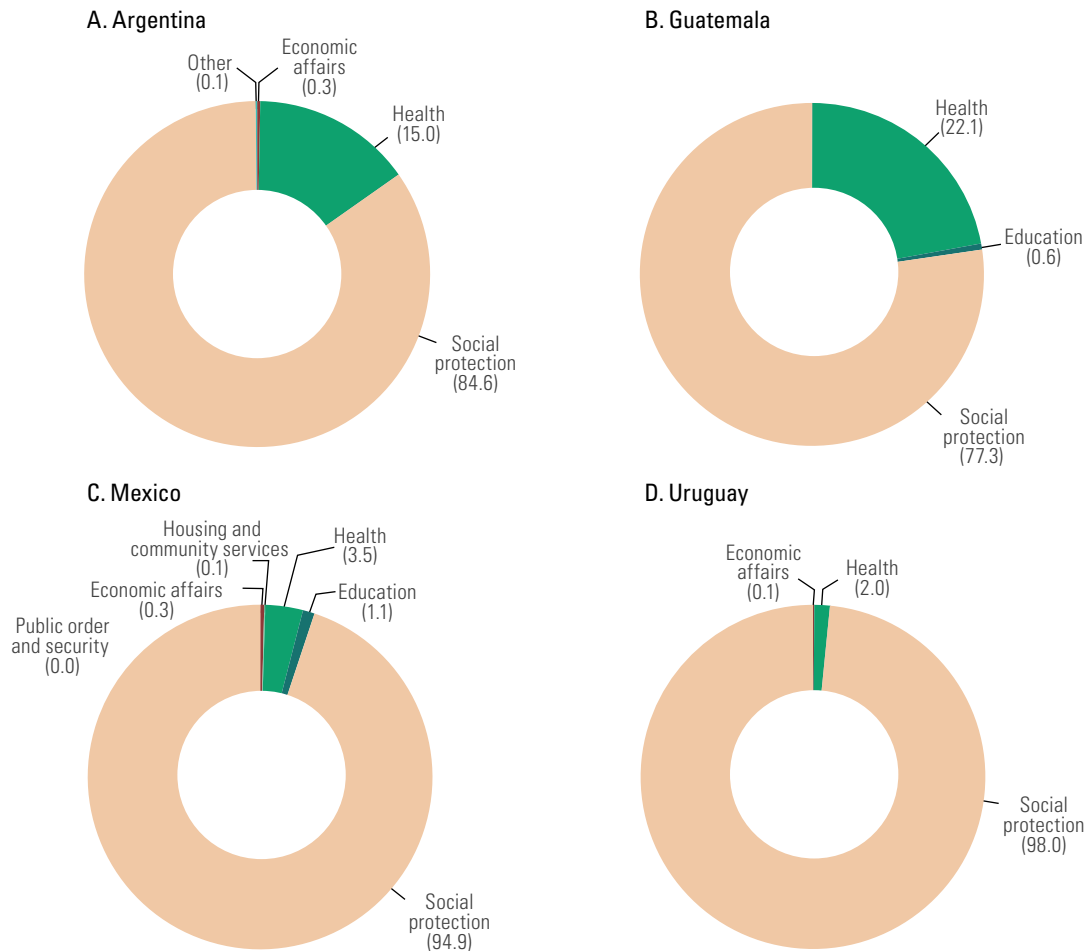
As in the case of expenditure in support of gender equality, the cross-cutting analysis of spending on persons with disabilities, by function of government, shows clearly the preponderance of social protection programmes in the four countries, which account for between 77% and 98% of total expenditure targeting this vulnerable group (see table III.8 and figure III.3).

In Argentina, the payment of non-contributory invalidity pensions is the largest item in the social protection function, accounting for 67% of expenditure on disability, with the aim of providing economic support to persons living in a situation of social vulnerability, without assets, resources or income. The second largest item, family allowances, absorbs 16% of spending targeted to persons with disabilities.

In Guatemala, 77% of spending in favour of persons with disabilities goes to the social protection function. The Guatemalan Social Security Institute (IGSS) accounts for over 80% of total expenditure targeted to disability, mainly through disability pensions, accident and sickness benefits, which are contributory in nature. The invalidity risk pension insures the worker who, as a result of an illness or accident, becomes permanently disabled and unable to continue performing his or her functions. In addition, IGSS pays its affiliates cash benefits when they are temporarily unable to work owing to accident or illness.

Figure III.3

Latin America (4 countries): relative share of functions of government in total cross-cutting expenditure targeted to persons with disabilities, 2021
(Percentages)



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

In Mexico, the social protection function mainly includes pensions, especially the invalidity pensions paid by the Mexican Social Security Institute (IMSS) and the Institute for Security and Social Services for State Workers (ISSSTE), and the pension for the welfare of persons with permanent disabilities. These two items between them account for 70% of disability expenditure. The latter is non-contributory and provides bimonthly economic support to vulnerable persons with permanent disabilities, while the former corresponds to contributory pensions for persons insured through IMSS or ISSSTE in the event of suffering a disability as a result of an accident or illness occurring outside the work environment. Next in importance are the pensions paid to IMSS or ISSSTE affiliates who have suffered an accident or illness in the course of their work, or in connection with it, resulting in partial or total disability. These two programmes jointly account for a quarter of the funding allocated to benefits for persons with disabilities.

In Uruguay, this function includes the payment of BPS retirement and other pensions, in particular invalidity retirement pensions and the non-contributory invalidity pension, which jointly account for 86% of disability expenditure. The latter is a non-contributory monthly benefit paid to persons with disabilities who lack resources, while the former correspond to contributory pensions payable in the event of disability.

The function of government that absorbs the second largest amount of funding for persons with disabilities in the four countries is health. In Argentina, 15% of total expenditure targeting this priority group corresponds to this function, led by expenditure on medical care for non-contributory pension beneficiaries. This programme is intended for persons with disabilities who have neither social security nor prepaid health insurance. In other words, it provides comprehensive medical care to the beneficiaries of national non-contributory pensions who do not have health insurance. It consists of financing, implementing and coordinating the medical and social care of its members, both for beneficiaries of non-contributory pensions and for their dependants living in the same jurisdiction.

In both Guatemala and Mexico, the health function has mainly covered expenditure on hospitals or institutes for the prevention, diagnosis, treatment and rehabilitation of persons with disabilities; while in Uruguay, it includes expenditure on medical assistance, spectacles and prostheses of the Social Security Bank (BPS).

With regard to the specific classification of expenditure targeting persons with disabilities, the significance of funding to strengthen the human capital and income earning capacity of this vulnerable group can be seen mainly in terms of the income from pensions and disability benefits in the four countries (see table III.9 and figure III.4), along with family allowances for disabled children in Argentina and Uruguay. The latter consist of a cash transfer for each child with a disability cared for by the beneficiary. According to official data, considering the allowances for active and inactive workers, and national public sector workers as a whole, more than 285,000 children with disabilities were covered in Argentina in 2021. In addition, 15% of the total expenditure on family allowances for active and inactive workers, and national public sector workers, was allocated to persons with disabilities, while 4% of the total resources of the universal social protection allowance programme was allocated to this group.¹¹

Table III.9

Latin America (4 countries): cross-cutting expenditure targeting persons with disabilities, by main category, 2021
(Percentages of GDP)

	Argentina	Guatemala	Mexico	Uruguay
1. Health, food and assistance	0.127	0.025	0.006	0.096
1.1 Health	0.118	0.025	0.006	0.019
1.2 Food	0.009	0.000	...	0.008
1.3 Assistance to persons with disabilities	0.000	...	...	0.070
2. Human capital and income generation	0.656	0.084	0.171	1.172
2.1 Education	0.000	0.001	0.002	...
2.2 Labour policies	0.002	0.000	0.001	0.002
2.3 Care systems	0.000	0.000	0.000	...
2.4 Income support	0.654	0.083	0.168	1.170
2.5 Productive development policies	0.000	...	...	...
2.6 Other economic policies	0.000	...	0.000	...
3. Comprehensive development and rights of persons with disabilities	0.004	0.003	0.0003	0.0179
3.1 Comprehensive development of persons with disabilities	0.004	0.003	0.000	0.0179
3.2 Promotion and guarantee of rights	0.000	...	0.000	...
3.3 Eradication of discrimination and violence	0.000	...	0.000	...
4. Accessibility	0.000	...	0.0001	...
4.1 Special infrastructure for persons with disabilities	0.000	...	0.0001	...
Total	0.787	0.112	0.178	1.286

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

Note: In Argentina, government-level coverage corresponds to national administration (central administration, social security institutions and decentralized agencies); in Guatemala, it encompasses central administration, decentralized, autonomous and social security entities, and local governments; in Mexico, it includes the federal government; and in Uruguay, it includes the central government and the Social Security Bank (BPS).

¹¹ See Argentina, Ministerio de Economía/Jefatura de Gabinete de Ministros (2022a).

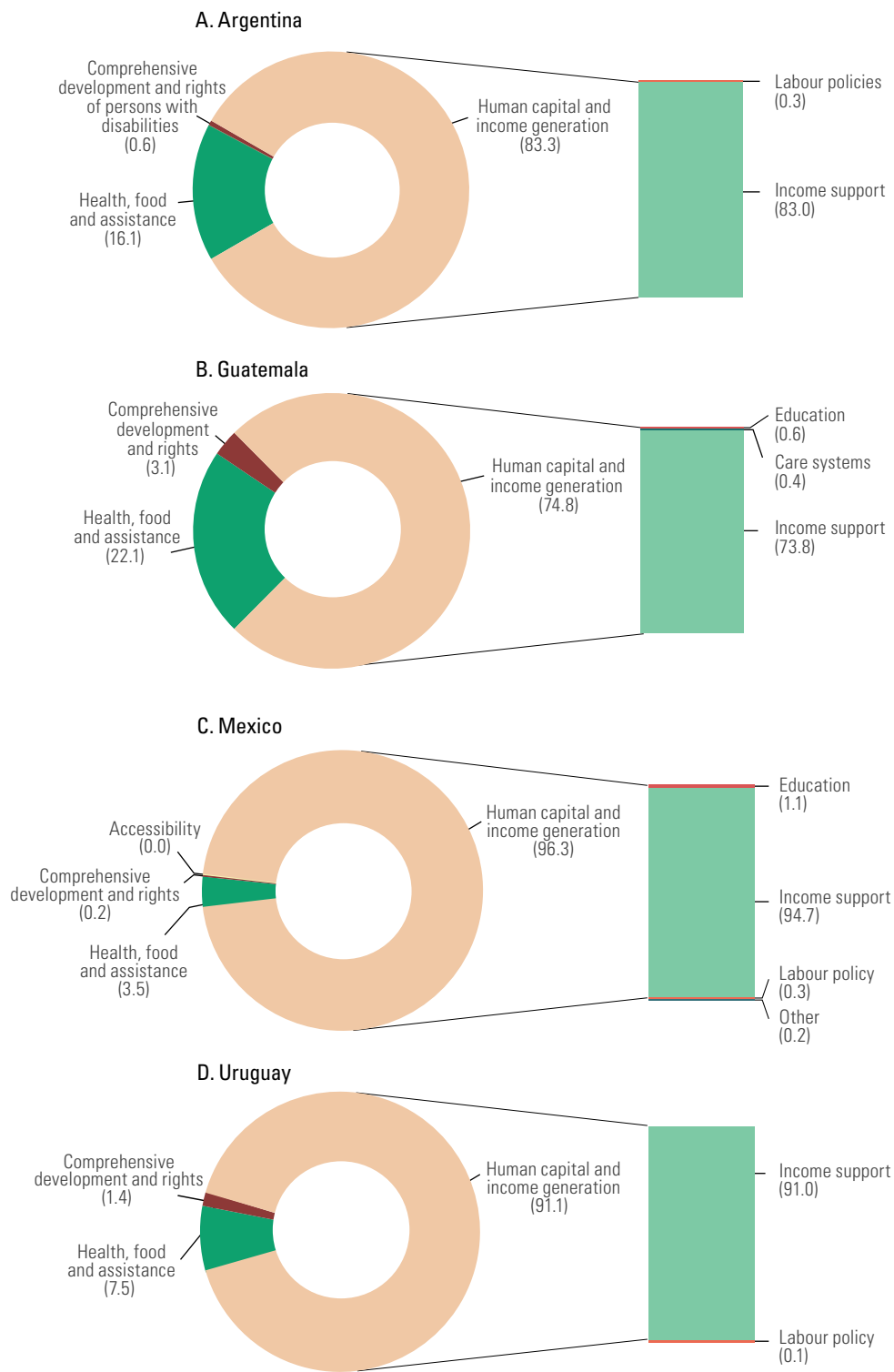


Figure III.4
Latin America (4 countries): relative share of the different categories in total cross-cutting expenditure targeted to persons with disabilities, 2021 (Percentages)

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

Although relatively much less important in terms of resources, this category also includes training and job placement programmes for workers with disabilities. In the case of Mexico, for example, it includes the Youth Building the Future programme, through which, according to the Fourth Government Report 2021–2022 of the Office of the President of the Republic (Mexico, Office of the President of the Republic, 2022), 4,025 persons with disabilities participated in a vocational training process. In addition, the National Employment Service (SNE) provided job placement and mobility services through the Employment Promotion Programme (PAE); and about 22% of the total number of persons served by the National Employment Network (RNVL) had a disability.

This category also includes expenditure related to education policies that benefit this population group. For example, in Guatemala, scholarships are awarded to girls and adolescent women with disabilities; and expenditure related to special education and habilitation for children with disabilities are also included in the category. In Mexico, there is a programme for students with disabilities in the public higher education system of the National Technological Institute of Mexico (TecNM), the Programme to Strengthen Special Education Services (PFSEE), and the Programme to Assist Federal High Schools That Have Students with Disabilities (PAPFEMS).

Care systems represent another subcategory, which in Mexico includes payments from the Programme to Support the Well-Being of Girls and Boys, Children of Working Mothers (Modality A), in the case of children with disabilities. The programme provides economic support for their care and education, which, in the case of children with disabilities, amounts to 3,600 pesos every two months and is granted until the day before their sixth birthday. According to Mexico, Office of the President of the Republic (2022), from September 2021 to June 2022, a total of 238,722 single parents or guardians received assistance under modality A, benefiting 250,331 children of whom 1,042 had a disability of some kind.

The second most important category corresponds to health, food and assistance to persons with disabilities. In Argentina, as noted above, this includes medical care for the beneficiaries of non-contributory pensions, as well as the resources allocated to the Food Card programme. The latter consists of a monthly payment to cardholders to supplement family income and afford access to basic food products. This programme targets socially vulnerable families, especially households with children up to 14 years of age, expectant mothers, and parents with disabled children of any age who receive one or more of the universal child allowance, the universal pregnancy allowance for social protection, or the allowance for a child with a disability. The cards for persons with children with disabilities absorb about 2% of the total expenditure of this programme.¹²

In Guatemala and Mexico, this category includes expenditure for the care and rehabilitation of persons with disabilities. Similarly, in Uruguay, the resources allocated to care in respect of dependency and disability are included in the Integrated National Care System (SNIC) – Social Protection, which provides personal assistants to enable persons with disabilities to carry out activities of daily living, among other services.

In all four countries, the next most important category includes programmes promoting the comprehensive development and rights of persons with disabilities, such as assistance to persons with disabilities, civil society organizations and firms for their inclusion, comprehensive development and prevention of discrimination; initiatives to ensure fulfilment of their rights and the application of international conventions; awareness-raising and training activities; the provision of economic support to civil institutions that provide services that foster the comprehensive development of persons with disabilities; and other cross-cutting policies promoting the development of persons with different abilities.

¹² See Argentina, Ministry of Economic Affairs/Head Office of the Cabinet of Ministers (2022a).

Lastly, the accessibility category includes public expenditure on initiatives and works that make the physical infrastructure of public facilities more accessible for persons with disabilities. This includes the adaptation of bathrooms for persons with disabilities, the construction of ramps, the installation of traffic lights with sound and the production of signage in Braille, among other items. However, in general, the level of disaggregation of the available data is insufficient to make a separate quantification of the resources allocated to this purpose.

3. Public expenditure targeted to Indigenous Peoples and Afrodescendants¹³

In 2021, public expenditure supporting the comprehensive development of Indigenous Peoples was equivalent to 0.39% of GDP in Guatemala and 0.45% in Mexico and represented 1.5% of total public expenditure in both countries (see table III.10).

Table III.10

Latin America (3 countries): expenditure targeted to Indigenous Peoples or Afrodescendants, by functional classification, 2021
(Percentages of GDP)

	Guatemala ^a	Mexico ^b	Uruguay ^c
1. General public services	0.002	0.000	...
2. Defence	0.000	0.000	...
3. Public order and security	0.013	0.000	...
4. Economic affairs	0.030	0.030	0.003
5. Environmental protection	0.000	0.000	...
6. Housing and community services	0.031	0.029	...
7. Health	0.004	0.070	...
8. Recreational activities, culture and religion	0.005	0.000	...
9. Education	0.309	0.064	0.001
10. Social protection	0.000	0.253	0.000
Expenditure targeting the Indigenous or Afrodescendent populations (Percentages of GDP)	0.393	0.447	0.004
Expenditure targeting the Indigenous or Afrodescendent populations (Percentages of total expenditure)	1.5	1.5	0.02

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

Note: It was impossible to report public expenditure statistics for Indigenous Peoples and Afrodescendants separately, for reasons of information availability. In Mexico, several programmes, included in the cross-cutting annex on expenditure fostering the comprehensive development of Indigenous Peoples and communities, have both Indigenous Peoples and Afro-Mexicans as target populations or priority groups. In Guatemala, the thematic budget for Indigenous Peoples includes programmes associated with Mayan, Xinka and Garifuna people (Afrodescendants and Indigenous Caribbean people). In Guatemala, government-level coverage encompasses the central administration, decentralized, autonomous and social security entities and local governments; in Mexico, it includes federal government; and in Uruguay it consists of central government.

^a The figure shown for Guatemala differ from the official ones, published in the Integrated Accounting System (SICOIN), because the value reported by the Ministry of the Interior programmes has been adjusted according to the official adjustment made as of 2022. The data refer to the current budget.

^b The figures obtained in Mexico differ slightly from the official figures because the proposed methodology excludes certain administrative expenses, such as those relating to administrative support activities.

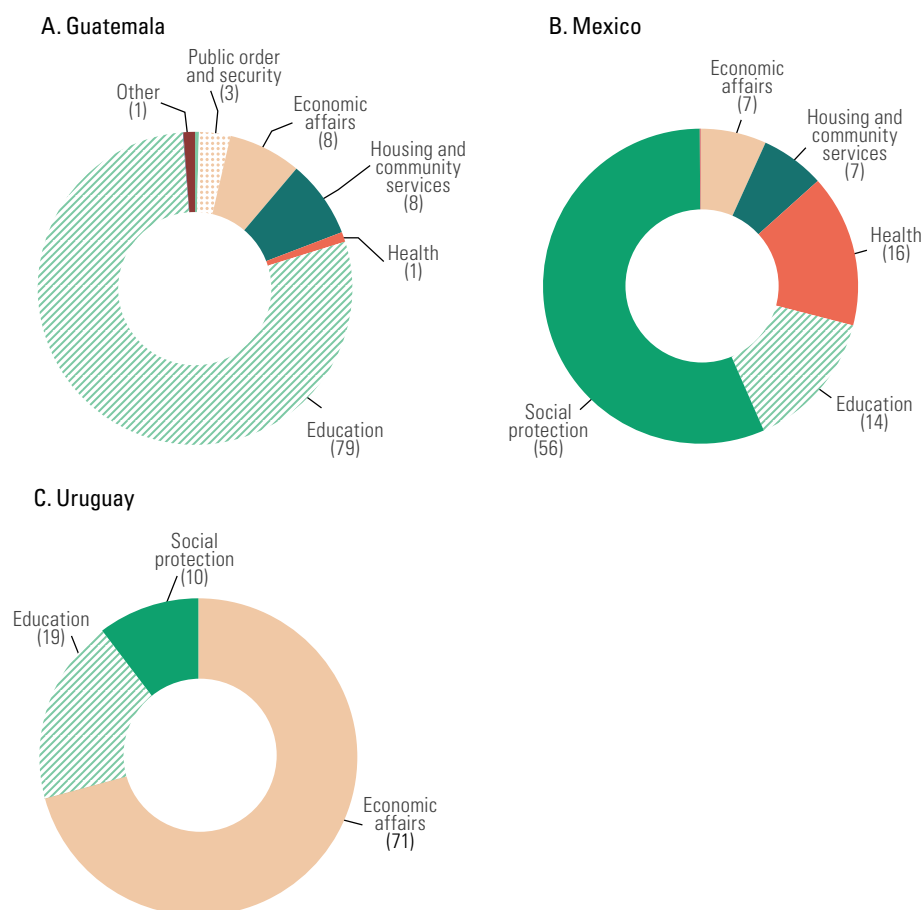
^c Uruguay does not perform an official cross-cutting analysis of expenditure on this issue. Only spending related to the Afrodescendent population is considered here, although the level of disaggregation available in the official data is not sufficient to identify all activities and initiatives targeted to this priority group. Accordingly, this value may have been underestimated.

¹³ In the case of Mexico, several programmes, included in the official statistics of the cross-cutting annex on expenditure fostering the comprehensive development of Indigenous Peoples and communities, have both Indigenous Peoples and Afro-Mexicans as target populations or priority groups. In Guatemala, the thematic budget for Indigenous Peoples includes programmes associated with Mayan, Xinka and Garifuna people (Afrodescendants and Indigenous Caribbean people), while the figures presented for Uruguay only consider expenditure related to Afrodescendants. Argentina is not included because the available information is insufficiently detailed to perform this cross-cutting analysis. In March 2023, when this chapter was being written, the Government of Argentina was working with the 13 institutions involved in this area (pursuant to Circular 1/2022 of the National Budget Office), and expected to have a budget earmarked for this area by the second quarter of 2023.

In Uruguay, public expenditure targeting the Afrodescendent population in 2021 was estimated at 0.004% of GDP, or 0.02% of total central government expenditure. However, as noted in the case of persons with disabilities, this country does not perform an official cross-cutting analysis, so an effort has been made to identify the main programmes implemented in this area from the official published information. Nonetheless, the amount in question could be underestimated, because the level of disaggregation available in the data does not make it possible to identify all of the activities and initiatives targeted to this priority group.

The distribution, across functions of government, of expenditure in support of Indigenous or Afrodescendent populations varies among the countries analysed (see table III.10 and figure III.5).

Figure III.5
Latin America (3 countries): relative share of functions of government in total expenditure targeted to the Indigenous or Afrodescendent populations, 2021
(Percentages)



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

In Guatemala, 79% of public expenditure supporting Indigenous Peoples goes to education. In this area, multicultural and bilingual education programmes run by central government represent 69% of expenditure in support of this population group. This is not surprising given the cultural diversity of Guatemala's population, of

which 43.75% is of Indigenous origin according to the 2018 census. Most of the funds allocated to education targeted to Indigenous Peoples are used to finance pre-primary and primary education.

Housing and community affairs, which are mainly local government responsibilities, are the next most important function. Programmes include the construction and maintenance of roads, urban mobility, public spaces, and access to drinking water and basic sanitation, among others.

Next is the economic affairs function. In this case, the largest resources executed correspond to FONTIERRAS programmes, such as the land access programme which provides loans and subsidies to facilitate the purchase or lease of agricultural and forestry land for Guatemalan peasant families with insufficient or no land and living in poverty. This decentralized agency also links to the thematic classifier for Indigenous Peoples the Sustainable Agrarian Communities Development Programme, which provides technical advice on how to manage goods and services to protect water resources, conserve soils, use forestry plantations, protect forests and zone territories for productive projects, in addition to providing subsidies for the purchase of food and working capital to implement such projects. It also includes the FONTIERRAS programme for the regularization of processes for adjudicating State lands, which gives campesino families the legal certainty needed to undertake a productive activity.

The official figures of the Indigenous Peoples thematic classifier in the case of Guatemala do not include information on the programmes executed through certain ministries or institutions that play a key role in reducing the inequalities that affect this segment of the population. For example, it does not include the expenditure by the Ministry of Public Health and Social Welfare or by the Ministry of Agriculture, Livestock and Food, since neither of these two ministries publishes information in the SICOIN thematic classifiers.¹⁴ Nor does this database include certain programmes of the Ministry of Social Development that could be related to this priority group within the Indigenous classification. Therefore, the data presented for this country (see table III.10 and figure III.5) are not complete and may be underestimated, particularly in the areas of health, social protection and economic affairs. The only health information available is that of local governments, as published in the database used to notify thematic local government expenditure.

In Mexico, the cross-cutting function-of-government analysis of expenditure to foster the comprehensive development of Indigenous Peoples and communities shows that, as in the case of issues relating to gender and persons with disabilities, social protection programmes receive the largest amount of funding, accounting for 56% of total spending targeted to this vulnerable group. In the social protection function, the payment of pensions for the well-being of adults aged 65 years or over, most of whom are in a situation of poverty and do not have access to a social protection system, absorbs one third of the total. Substantial funding is also allocated to the Sowing Life programme (19% of the total), which provides agricultural technical assistance with an intercultural perspective, along with economic support and material assistance to help farmers make the land more productive and achieve food and agroforestry self-sufficiency.

This is followed by the health function, which accounts for nearly 16% of expenditure benefiting Indigenous Peoples in Mexico. This function includes the programme providing health care and free medicines to the population without social security, which

¹⁴ Unlike expenditure related to gender-equality, where the figures for these ministries could be obtained from information published by the lead agency (SEPREM), this was not possible in programmes related to the development of Indigenous Peoples, because no reports were available from the respective governing body, the Guatemalan Indigenous Development Fund of Guatemala (FODIGUA). However, it was possible to include information from the Land Fund (FONTIERRAS) that was not in the SICOIN database but was obtained from the thematic report of this decentralized institution, published by the Ministry of Public Finance.

is prioritized in regions, municipalities and localities with a low Human Development Index (HDI) and high or very high levels of exclusion.

In Mexico, another priority function of cross-cutting expenditure promoting the comprehensive development of Indigenous Peoples is education, which accounts for 14%. This function includes the Benito Juárez Scholarship for Well-being programmes, for both basic and higher education, as well as the Indigenous Education Support Programme, which provides food, housing, scholarships and complementary activities to students aged 5–29 years enrolled in public schools at all levels who belong to Indigenous and Afro-Mexican peoples and communities.

The economic affairs and the housing and community services functions each account for 7% of total expenditure related to Indigenous Peoples and communities. The former includes the Production for Well-being programme, which provides technical assistance and access to financing, prioritizing small-scale producers and vulnerable groups such as the Yaqui peoples and those located in priority areas. In the Housing and Municipal Services function, funding provided to the Contribution Fund for Municipal and Federal District Territorial Areas Social Infrastructure (FISMDF) includes works and initiatives targeting the population living in priority areas, localities with high and very high levels of social deficits, or populations living in extreme poverty. It supports areas such as drinking water, sewage, drainage and latrines, electrification, basic education or health infrastructure, housing improvement and urbanization.

In Uruguay, the analysis of expenditure benefiting Afrodescendants shows that programmes related to economic affairs account for 71% of total expenditure targeted to this vulnerable group. This amount includes an estimate of spending by the National Institute of Employment and Vocational Training (INEFOP) on training and skill-development courses, in which Afrodescendants participate according to the quota established in Act No. 19122.¹⁵

Act No. 19122 on affirmative actions for Afrodescendants establishes norms to encourage participation by members of this population group in the education and labour domains, including the following:

- In the public sector, 8% of the jobs falling vacant during the year must be filled by Afrodescendants, following a public call for applications.
- INEFOP must reserve, for Afrodescendants, at least 8% of places on its various training and skill-development programmes.
- The Carlos Quijano postgraduate scholarships,¹⁶ which apply nationally and abroad, must allocate at least 30% of the fund for Afrodescendants.
- The national and departmental scholarship and student support systems must reserve quotas for Afrodescendants.

Compliance with this law, in terms of minimum quotas when awarding scholarships, is reflected in the education function's 19% share in priority expenditure targeting the Afrodescendent population. This includes an estimate of spending on scholarships for the Afrodescendent population, since Account Rendering – Item 11, concerning the Ministry of Education and Culture, reports that in 2021, 10,041 high school scholarships were awarded nationwide, of which 20% went to Afrodescendants, while 16 were awarded to Uruguayan postgraduate students, including three Afrodescendants (19%) (Uruguay, 2021).

¹⁵ A weighting of 11.7% was used for the estimation, representing the proportion of Afrodescendent participants in INEFOP courses, according to Uruguay, Office of Planning and the Budget (2019).

¹⁶ Financial assistance scholarships for postgraduate studies, doctorates, master's degrees, specializations and diplomas in national or foreign institutions.

The next most important function is social protection, which accounts for 10% of expenditure targeted to this priority group. This function includes the expenditure of the Department for the Promotion of Public Policies for Afrodescendants of the Ministry of Social Development (MIDES), the aim of which is to apply a series of affirmative actions to promote policies that improve the quality of life of Afrodescendants.

With regard to the specific classification of expenditure promoting the comprehensive development of the Indigenous or Afrodescendent population, the three countries reveal the relative importance of funding to strengthen the human capital and income earning capacity of this vulnerable group (see table III.11 and figure III.6).

Table III.11

Latin America (3 countries): expenditure targeted to Indigenous Peoples and Afrodescendants, by main category, 2021 (Percentages of GDP)

	Guatemala ^a	Mexico ^b	Uruguay ^c
1. Health and food	0.004	0.081	...
1.1 Health	0.004	0.070	...
1.2 Food	0.000	0.011	...
2. Human capital and income generation	0.317	0.322	0.003
2.1 Education	0.309	0.064	0.001
2.2 Labour policies	0.001	0.000	0.003
2.3 Care systems	0.000	0.000	...
2.4 Income support	0.000	0.147	...
2.5 Productive development policies	0.006	0.110	...
2.6 Other economic policies	0.001	0.000	...
3. Comprehensive development, Indigenous rights and culture	0.017	0.008	0.0004
3.1 Comprehensive development of Indigenous Peoples	0.000	0.008	0.0004
3.2 Promotion and guarantee of rights	0.000	0.000	...
3.3 Eradication of discrimination and violence	0.013	0.000	...
3.4 Protection of Indigenous culture	0.004	0.000	...
4. Right to land, housing and infrastructure	0.054	0.036	...
4.1 Right to land and decent housing	0.023	0.002	...
4.2 Social infrastructure	0.000	0.029	...
4.3 Other infrastructure projects	0.031	0.005	...
Total	0.393	0.447	0.004

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

Note: It was impossible to report public expenditure statistics for Indigenous Peoples and Afrodescendants separately, for reasons of information availability. In Mexico, several programmes, included in the cross-cutting annex on expenditure fostering the comprehensive development of Indigenous Peoples and communities, have both Indigenous Peoples and Afro-Mexicans as target populations or priority groups. In Guatemala, the thematic budget for Indigenous Peoples includes programmes associated with Mayan, Xinca and Garifuna people (Afrodescendants and Indigenous Caribbean people). In Guatemala, government-level coverage encompasses the central administration, decentralized, autonomous and social security entities and local governments; in Mexico, it includes federal government; and in Uruguay it consists of central government.

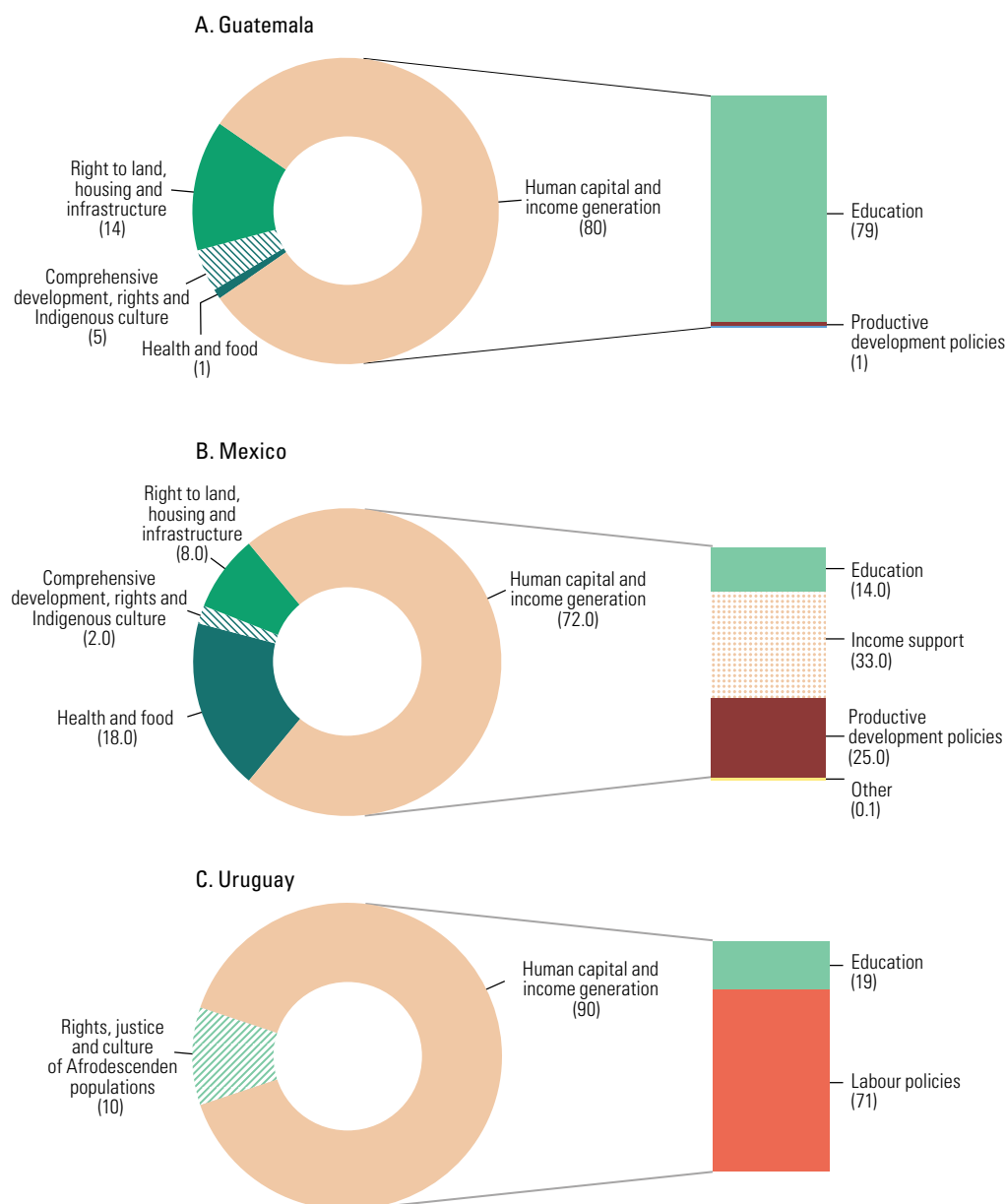
^a The figures shown for Guatemala differ from the official ones, published in the Integrated Accounting System (SICOIN), because the value reported by the Ministry of the Interior programmes has been adjusted according to the official adjustment made as of 2022. The data refer to the current budget.

^b The figures obtained in Mexico differ slightly from the official figures because the proposed methodology excludes certain administrative expenses, such as those relating to administrative support activities.

^c Uruguay does not perform an official cross-cutting analysis of expenditure on this issue. Only spending related to the Afrodescendent population is considered here, although the level of disaggregation available in the official data is not sufficient to identify all activities and initiatives targeted to this priority group. Accordingly, this value may have been underestimated.

Figure III.6

Latin America (3 countries): relative share of the main categories in total spending targeted to the Indigenous Peoples and Afrodescendants, 2021
(Percentages)



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

In Guatemala, this category represents 80% of total expenditure benefiting Indigenous Peoples, with the education subcategory being the largest item, given the funding invested in bilingual and multicultural pre-primary and primary education programmes run by central government. Intercultural bilingual education is designed and executed in two languages, the native or first language and Spanish. It fosters the coexistence of people of different cultures and is targeted at the four Indigenous Peoples that coexist in the country: Maya, Garifuna, Xinka and Ladino. The programme's activities include the delivery of bilingual and intercultural preschool and primary

education services, the provision of textbooks and bilingual teaching materials, and the training and professional development of teachers of this type of education. This subcategory also encompasses the programmes of the National Literacy Commission (CONALFA), which provides educational alternatives for persons who are 15 years of age and older who are interested in learning to read and write, or continuing and completing their primary education, or both, offering services in Spanish as well as in the Mayan, Garifuna and Xinka languages.

In Mexico, the importance of the human capital and income generation category reflects the significant outlays for the Pensions for the Well-being of Older Adults, as well as a group of programmes mentioned above that aim to strengthen productive development (including Sowing Life, Production for Well-being and the Rural Supply programme implemented by DICONSA). In Uruguay, the larger share of this category is due both to the vocational training courses offered by INEFOP and to the scholarships for secondary and postgraduate education awarded to Afrodescendants.

In Mexico, the second most important category is health and food, which, in addition to the programme of health care and free medicines provided to individuals lacking social security, includes the IMSS Well-being programme and the social assistance component of the Multiple Contributions Fund (FAM). The latter transfers funding to the various states in the form of social assistance, such as school breakfasts, food aid and nutritional packages for the population living in extreme poverty. In the case of Guatemala, as noted above, the Ministry of Health and Social Assistance does not report programmes related to the Indigenous Population thematic classifier, so complete information for this category is not available.

The category that encompasses programmes related to land rights, access to adequate housing and infrastructure is also important in Guatemala and Mexico. In the former, for example, the Land Fund programmes (FONTIERRAS), described above, along with certain municipal infrastructure programmes, have large amounts of funding assigned. In Mexico, programmes include FISMDF (mentioned above), projects for the construction and/or maintenance of feeder and rural roads, programmes to support social housing (such as the National Reconstruction Programme), the Agrarian Justice Programme (which contributes to the legal security of land tenure), and the Agrarian Dispute Resolution Programme, which seeks to resolve ancestral disputes concerning rural land ownership and tenure.

In the comprehensive development, rights and Indigenous culture category, the most important programmes in Guatemala are those that combat discrimination and violence. Examples include the Programme of Security Services for the People and their Property, which assists individuals who have suffered violence and also provides preventive security and anti-crime services under conditions of equal access; and the initiatives of the Office of the Ombudsperson for the Rights of Indigenous Women. There are also programmes to protect Indigenous culture, services to preserve and disseminate their heritage, promotion of participation and representation of multicultural citizenship, initiatives to foster positive recognition of cultural diversity, and programmes to foster the development of the Mayan languages.

In Mexico, for example, these include the Programme for the Comprehensive Well-Being of Indigenous Peoples (PROBIPI), which contributes to the comprehensive development and common well-being of Indigenous and Afro-Mexican peoples; the Programme for the Planning and Coordination of Public Initiatives for Indigenous Peoples, which deals with activities to promote and coordinate public policies for the development of these peoples and communities; the Indigenous Education and Culture Programme, which undertakes initiatives for the preservation and development of Indigenous languages; and other programmes that include measures to ensure the protection,

defence and promotion of the human rights of Indigenous Peoples and communities. In the case of Uruguay, this category includes the aforementioned expenditure of the MIDES Department for the Promotion of Public Policies for Afrodescendants.

Lastly, according to the results of a recent study published by the United Nations Population Fund (UNFPA) on Uruguay (Aloisio and Rivero, 2022), it seems important to strengthen the regulations and capacities of racial equity mechanisms at the central government level in Uruguay, since most national legislation in recent decades has prioritized policies for the recognition of Afrodescendent identity over policies to redistribute economic resources. Accordingly, the study recommends reconsidering the implementation of Act No. 19122, since it has proven ineffective in terms of Afrodescendent labour market inclusion. It only provides opportunities in the public sector, without considering incentives in the private sector. It is also considered important to strengthen scholarships for Afrodescendent youth and adults in secondary and tertiary education, in order to improve their positioning in the labour market and reduce the racial gap in education.

4. Tax expenditure with social aims targeted to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities

Countries can use the tax system as a tool of social policy to reduce inequalities related to gender, disability, and ethnic or racial differences. According to OECD (2019), tax measures with a social impact can be viewed as substitutes for cash benefits because they perform the same policy function as transfer payments (such as child tax credits), or those that stimulate the private provision of social benefits (for example, a tax deduction for the provision of private health insurance or for non-profit non-governmental organizations).

The cost of these differentiated tax treatments can be estimated in terms of the revenue foregone as a result of the special tax measures. These may consist of exemptions (income that is excluded from the tax base); deductions (amounts that reduce the tax base); tax credits (amounts that are subtracted from the tax liability); reduced rates (lower tax rates on specific products, economic sectors or population groups, such as persons with disabilities); and tax deferrals (postponement of the tax liability over time, such as accelerated depreciation schemes).

Tax expenditure with social aims related to gender, disability and Indigenous or Afrodescendent populations are estimated at between 0.9% and 1.7% of GDP, on the basis of official reports on tax expenditures in the countries analysed (see table III.12).

Table III.12

Latin America (4 countries): tax expenditure with social aims related to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities, by type of tax, 2021
(Percentages of GDP)

	Argentina	Guatemala	Mexico	Uruguay
Corporate income tax	0.09	0.10	0.02	0.06
Personal income tax	...	0.12	0.41	0.01
VAT	0.83	1.07	1.27	1.38
Other taxes	...	0.01	...	0.01
Total	0.93	1.28	1.70	1.45

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

In Argentina, the largest amount of revenue foregone stems from the reduced VAT rate on meat, fruit, legumes and fresh green vegetables. This accounts for 35% of the total revenue foregone due to tax measures benefiting the priority groups. There are also other significant tax benefits with a social purpose in the case of VAT, such as the exemption for medical services relating to social works and the National Institute of Social Services for Retired Persons and Pensioners (PAMI), which accounts for 21% of the total revenue loss associated with priority groups. Ninety per cent of the total tax expenditure on priority groups stems from differentiated VAT treatment. Argentina also provides preferential corporate income tax treatments related to the priority groups considered. Examples include exemption for civil associations, foundations, mutual associations and cooperatives, which account for 10% of the total revenue losses due to tax measures benefiting these priority groups.

The largest tax expenditure with social aims in Guatemala stems from the VAT exemption on food sold in markets for less than 100 quetzales, which accounts for more than 58% of the total revenue loss from tax measures related to priority groups. There are also other VAT benefits for social purposes, such as exemptions on the sale of low-value and small houses and land parcels; on the purchase and sale of generic drugs and retrovirals; and on school enrolment, fees and transport costs for both public and private schools. Guatemala also grants corporate income tax exemptions to entities such as private schools and social welfare institutions, along with exemptions from personal income tax for waged employees (indemnities or pensions for death or disability) and subsidies for health, housing, education and food for individuals. Exemptions from both taxes account for 17% of tax expenditure with social aims. There are also exemptions relating to other taxes, such as the excise duty on fuel distribution and the motor vehicle tax, although these are less costly in terms of revenue foregone.

In the case of Mexico, the zero VAT rate on food accounts for over 60% of the total revenue foregone as a result of tax measures for social purposes related to the priorities of gender, persons with disabilities and/or the Indigenous population. In addition, there are other tax benefits with social purposes in this tax, such as the VAT exemption for educational services and the zero rating of medicines. As a result, three quarters of the total tax expenditure on priority groups corresponds to VAT. There are also differentiated personal income tax treatments for priority groups, involving both personal deductions and exemptions. In terms of lost revenue, there are significant exemptions for retirement and other pensions and old-age benefits (which includes cases of disability and invalidity) and the exemption for social benefits (such as disability subsidies, education grants, day-care centres, and cultural and sports activities). In the case of corporate income tax, tax expenditure related to social purposes is less significant and consists of deductions or deferrals.

In Uruguay, differentiated VAT treatment accounts for an estimated 95% of the total revenue loss from tax measures benefiting these priority groups and includes exemptions, reduced rates and tax credits. The largest tax expense is the VAT exemption for health services provided to National Health Fund (FONASA) beneficiaries. Other important tax expenditure result from applying the minimum VAT rate to the sale of certain foods and products included in the basic food basket (such as beef, poultry, bread, fish, oil, rice, flour, pasta, salt, sugar, yerba mate, coffee, tea and soap) and for health services, and the exemption from this tax granted to education services. There are also corporate income tax benefits that are related to the priority groups considered, consisting of exemptions from the tax on income from economic activities (IRAE) for the construction of social housing and for educational and cultural institutions. Tax expenditure that could be related to social purposes in the case of personal income tax are less significant, and relate to the assessment of personal income tax (IRPF) on a family-unit basis. Social housing is also exempt from other taxes, such as non-resident income tax, wealth tax and transfer tax.

In terms of the type of tax benefit, in Argentina over half (52%) of the total tax waiver for social purposes correspond to reduced VAT rates on meat, fruit, legumes, fresh green vegetables, bakery products and prepaid medical services. The remaining 48% comes from exemptions, which are explained largely by the VAT exemption on medical services for social security and PAMI. However, there are also exemptions in this tax on education services, and on the sale of medicines and milk. In Guatemala, by contrast, 100% of tax expenditure with social aims correspond to tax exemptions (see table III.13).

Table III.13

Latin America (4 countries): tax expenditure with social aims related to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities, by type of tax benefit, 2021
(Percentages of GDP)

	Argentina	Guatemala	Mexico	Uruguay
Exemption	0.45	1.28	0.50	0.91
Reduced rate	0.48	...	1.12	0.44
Deduction	...	...	0.07	0.00
Deferral	...	...	0.00	...
Credit	...	...	...	0.10
Other	...	...	...	0.00
Total	0.93	1.28	1.70	1.45

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

In Mexico, two thirds of total tax waivers with social aims correspond to reduced rates (owing to the relative importance of 0% VAT rates on food and medicine); 29% are exemptions (in personal income tax or VAT) and the remaining 4% are deductions (in both personal and corporate income tax).

Lastly, in Uruguay, 63% of the total tax expenditure with social aims corresponds to exemptions in the different taxes (the most significant are VAT exemptions on the provision of health services to FONASA beneficiaries, on education services, and on social housing and the sale of milk); 30% stems from reduced VAT rates (on food, products included in the basic food basket, health services and medicines), and the remaining 7% are VAT tax credits (such as the 22-point VAT reduction for the Uruguay Social Card and the VAT credit for services provided by collective health-care institutions).

C. Challenges and final thoughts

A country's fiscal policies are not neutral with respect to the various inequalities that exist; they have a differentiated impact on women, on Indigenous Peoples and Afrodescendants, on persons with disabilities, or according to other conditions or characteristics. Cross-cutting budget analysis based on priority areas is fundamental for evaluating public policies—in particular for identifying the impact of public revenues and expenditure in these sectors, with a view to redistributing resources towards the most vulnerable groups. It thus becomes a strategic instrument for ensuring equal opportunities in the various areas, guaranteeing the exercise of human rights and fundamental freedoms for all, and improving the living conditions of the groups in question.

Reducing inequalities and discrimination based on gender, race, ethnicity and disability requires the design and implementation of fiscal policies that take into account

the interests, needs and priorities of women, Indigenous Peoples, Afrodescendants and persons with disabilities, as well as the differentiated impact of these policies on each of those groups.

It is therefore important to integrate a cross-cutting analysis of these issues into the different stages of the public management cycle, starting from the diagnostic assessment of these vulnerable sectors, passing through policy planning, budgeting and application, to evaluation and accountability. Governments can thus access transparent and explicit information on the true destination of public funds and allocate them in a way that is consistent with the strategic objectives. Similarly, the use of this analytical tool by governments in the region is a fundamental element in promoting possible reforms aimed at constructing more progressive fiscal systems that avoid biases against the most vulnerable populations and contribute to achieving the Sustainable Development Goals.

In recent years, the four Latin American countries analysed in this chapter have made progress in developing cross-cutting analyses of fiscal expenditure. However, not all of them apply these analyses to the three topics studied; and the approach used, as well as the disaggregation and presentation of the data, vary from one country to another.

ECLAC has recognized the need for progress in developing classification systems and appropriate criteria to determine and measure public expenditure that have a positive impact on the priority groups, and ensure that this information is comparable across countries and time periods. Budget classification systems are currently linked to the public policies of these vulnerable sectors in each country, so it is necessary to make progress in creating a normalized approach that allows for international comparisons.

This chapter has developed and applied a methodology to determine, measure and analyse public expenditure related to the reduction of inequalities and discrimination based on gender, race, ethnicity and disability in Argentina, Guatemala, Mexico and Uruguay. This common approach is expected to facilitate the monitoring of public policies on priority issues, contribute to evaluating fulfilment of the international commitments undertaken by the countries, and also serve as a useful tool for comparing results among the countries of the region and for identifying best practices in this area.

On the basis of the review of the methodologies applied by the countries and the challenges that had to be overcome to apply the proposed approach and the taxonomy specific to each topic, for the measurement of public expenditure aimed at reducing inequalities and discrimination based on gender, race, ethnicity and disability, the following is a set of guidelines aimed at strengthening and giving continuity to these statistics in the countries of Latin America and the Caribbean:

- Institutionalize the production of cross-cutting analyses of the different priority issues within ministries of economy or finance and national budget offices, since it is essential that the agencies leading the budget process coordinate and mainstream these policies through the budget. In this coordination task, it is also important to involve the main entity responsible for the welfare and rights policies of the population group in question, such as the ministry or secretariat for social development, a ministry specialized in this area, a specialized unit attached to a ministry with another portfolio, or an entity that reports directly to the Office of the President of the Republic, depending on each country's social institutions.¹⁷ It is also important that other key ministries, agencies or entities be involved, such as social security institutions, ministries of education, health, labour and social development, agencies in charge of consolidating information from subnational governments, and so on.

¹⁷ For an analysis of social institutions in Latin American and Caribbean countries, see ECLAC (2022b).

- An important element in preparing cross-cutting budgets is the regular preparation of official reports on these priority issues and the obligation to submit them to the corresponding legislative bodies, both when the budget bill is presented and when the annual account is rendered.
- It is also recommended that complete and exhaustive quarterly and annual monitoring reports on these expenditures be published, detailing and explaining potential differences between what was executed and what was originally budgeted. It is important that these reports present complete and consolidated information from the relevant entities and, where possible, from the different levels of government, according to uniform criteria for data presentation and covering the entire fiscal year.
- It is important that internationally accepted methodologies for functional expenditure, as in *Government Finance Statistics Manual 2014* (IMF, 2014), are adopted in each country's statistical production processes. The availability of fiscal statistics is fundamental for improving the accountability and transparency of public finances. Moreover, the adoption of internationally accepted standards allows for cross-country comparative analysis, both with respect to the purpose of public expenditure and to assess the impact of fiscal policy on the most vulnerable sectors.
- However, statistics obtained from the functional classification of expenditure do not enable countries to directly identify the cross-cutting expenditure they wish to measure, whether in relation to gender equality or related to Indigenous Peoples, Afrodescendants, persons with disabilities, or other issues. Instead, detailed information is required at the budgetary programme level. In other words, cross-cutting expenditure on a particular issue is not specifically identified by one of the divisions, groups or classes of the Classification of Functions of Government; but it is necessary to resort to the programmatic categories to identify it, because it is included on a cross-cutting basis in the different functions of government.
- In this regard, to facilitate the continuity and institutionalization of cross-cutting analytical statistics, countries that already have public expenditure databases organized according to the functional and programmatic classification can add the fields or variables needed to label them in the relevant area. They can also identify, with the corresponding code, the autonomy classification or specific taxonomy proposed in section A, as well as coding the corresponding subcategory.
- It is important that the resources allocated to each priority area be earmarked at the activity level or at the lowest programmatic category level, in order to make it easier to detect the budget items allocated to reducing inequality in the three priority sectors within each of the programmes. Moreover, a disaggregation at the activity, initiative or work level minimizes the use of weights, thus making the estimate more precise, while also allowing for a more appropriate classification among the different autonomies, categories or subcategories proposed above.
- Although the proposed approach is expected to enhance comparability between countries in the region, governments have their own national frameworks that do not necessarily coincide with these classifications. It is therefore important that they continue to publish public expenditure figures in accordance with their national plans, so that the proposed indicators complement the information published in each country.

- One area for improvement in several countries is the strengthening of public finance transparency portals, to enable them to publish fiscal statistics in a timely, complete, detailed and consistent manner. In addition to including downloadable open data files in accessible formats such as databases or spreadsheets, it is important to include metadata to help users understand the structure of the databases and guide them when interacting with the data in question.
- The value of the information provided by transparency portals increases when it includes expenditure by programme, subprogramme, and activities or works, because the portals serve as a fundamental input for the production of cross-cutting expenditure statistics. It is therefore important to prepare programme budgets, not only to enable these databases to be created, but also to establish and strengthen results-based budgeting frameworks.
- Transparency portals should include a description of each programme, including its objectives, beneficiary population, the benefits offered, eligibility criteria for receiving the benefit, year of implementation, name changes over time, and so forth. It is also useful to include links to the different data sources, should the user need further information, as well as the date of the last publication of the data, the date of the next update and a record of changes made to the databases.
- It is very useful to create different mechanisms for feedback with users, which can be found easily on the portal, and which include interaction through different social networks, the provision of various forms of contact that allow queries to be made about the information published, and the establishment of mechanisms for evaluating and assessing the response and assistance received by users, as well as the creation of a record of usage statistics.
- In these portals it should be possible to download, in consolidated files, the entire panorama of cross-cutting public expenditure targeting a given vulnerable group over different fiscal periods (not just the current year, but also historical series) and with a broad government level coverage, including the central level, social security institutions, and intermediate and local governments.
- In cases where they have not yet been published, cross-cutting expenditure statistics could be included as open data on transparency portals, making them readily available to government authorities and officials, as well as to researchers, academics and the public at large. This would make it possible to analyse trends in the allocation of fiscal resources, priorities in the provision of public goods and services, and programmes that help close gaps; and to identify possible sources of expenditure inefficiency. This would also enhance transparency in the use and destination of public resources.
- The proposed methodology can be extended to other countries in the region and could also be adapted to the specifics of other issues —such as expenditure on adapting to climate change and mitigating its effects— or to other vulnerable groups —such as cross-cutting expenditure on children and adolescents, young adults or older persons.

Thus, this new way of analysing public budgets, from a cross-cutting public policy perspective, can be of major assistance to governments in adapting the provision of goods and services to the specific needs of the most vulnerable and discriminated population groups, thus helping to reduce the gender gaps and inequalities faced by Indigenous Peoples, Afrodescendants and persons with disabilities in the region's countries.

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Annex III.A1

Table III.A.1

Latin America (selected countries): sources of information on public expenditures related to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities

Country	Area	Links to information sources
Argentina	Gender equality	https://www.presupuestoabierto.gob.ar/sici/datos-abiertos
	Persons with disabilities	
Guatemala	Gender equality	https://seprem.gob.gt/wp-content/uploads/Informe-semestral-del-CPEG.pdf
		https://sico.in.minfin.gob.gt
		https://sicoindes.minfin.gob.gt/
	Persons with disabilities	https://portalgl.minfin.gob.gt/index.php/reporte-de-egresos/
		https://portalgl.minfin.gob.gt/index.php/reporte-de-egresos/
	Indigenous peoples	https://sico.in.minfin.gob.gt
https://sicoindes.minfin.gob.gt/		
https://portalgl.minfin.gob.gt/index.php/reporte-de-egresos/		
Mexico	Gender equality	https://www.transparenciapresupuestaria.gob.mx/Datos-Abiertos
	Persons with disabilities	https://www.transparenciapresupuestaria.gob.mx/Datos-Abiertos
		https://www.cuentapublica.hacienda.gob.mx/es/CP/2021
		http://www.imss.gob.mx/conoce-al-imss/memoria-estadistica-2021
	Indigenous peoples	https://www.gob.mx/cuartoinforme
Uruguay	Gender equality	https://www.transparenciapresupuestaria.opp.gub.uy/inicio/datos-abiertos
		https://www.transparenciapresupuestaria.opp.gub.uy/inicio/presupuesto-nacional/rc
		https://www.gub.uy/ministerio-economia-finanzas/sites/ministerio-economia-finanzas/files/documentos/publicaciones/tomo-ii-politicas-igualdad-genero_1.pdf
		https://www.bps.gub.uy/1920/boletin-estadistico.html
	Persons with disabilities	https://www.transparenciapresupuestaria.opp.gub.uy/inicio/datos-abiertos
		https://www.bps.gub.uy/1920/boletin-estadistico.html
	Afrodescendants	https://www.transparenciapresupuestaria.opp.gub.uy/inicio/datos-abiertos
		www.gub.uy/ministerio-economia-finanzas/sites/ministerio-economia-finanzas/files/documentos/publicaciones/brc2021_anexo_partee.pdf
		https://www.gub.uy/ministerio-economia-finanzas/tematica/rendicion-cuentas-balance-ejecucion-presupuestal

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

In 2022, the fiscal situation in Latin America and the Caribbean was characterized by rising tax revenues and declining in public spending, resulting in smaller fiscal deficits. Nevertheless, public debt remains high. Against this backdrop, this edition of the *Fiscal Panorama of Latin America and the Caribbean* proposes a fiscal policy for growth, redistribution and productive transformation. It examines options for strengthening personal income tax, to boost its revenues and redistributive potential. In a context of mounting pressure on public spending, it is vital to take strategic approach, to make spending more effective in closing social gaps. This report therefore proposes a new methodology for identifying, measuring and classifying public spending related to gender equality, Indigenous Peoples, Afrodescendants and persons with disabilities.



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