

## EU-LAC FORUM

### **Fiscal Policies for Social Cohesion and the Fight Against Poverty**

Berlin, Germany, 12 - 13 March 2008

Conclusions and recommendations for the V EU-LAC Summit

The promotion of social cohesion, that is to say the fight against poverty, inequality and exclusion, constitutes one of the shared key policy priorities in the European Union's relations with Latin America and the Caribbean. At the IV Summit, held in Vienna in May 2006, the Heads of State and Government recognized “the need to promote responsible public policies conducive to a better distribution of wealth and of the benefits of economic growth” (*Vienna Declaration, paragraph 35*).

The EU-LAC Social Cohesion Forum that took place in Santiago de Chile from 23 to 25 September 2007 identified the financing of public policies and especially fiscal policy as one of the priorities in the bi-regional dialogue.

The EU-LAC Forum: Fiscal Policies for Social Cohesion and the Fight Against Poverty held on 12 and 13 March 2008 offered the opportunity for a more concrete and specific exchange of ideas on the role of fiscal policy in the context of social cohesion. The Berlin Forum was organized by the Federal Ministry for Economic Cooperation and Development (BMZ), the Ministry of Foreign Affairs of Peru, the Ministry of Economy and Finance of Peru, the Ministry of Foreign Affairs of Slovenia, the Ministry of Finance of Slovenia, the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), the European Commission and the Federal Foreign Office (AA). The Forum brought together ministers, deputy ministers, senior officials, experts and other representatives of states in Latin America, the Caribbean and the European Union, as well as representatives of regional and international organizations.

The Berlin Forum agreed upon the following key messages, which will be transmitted to the V EU-LAC Summit due to take place in Lima on 16 May 2008:

1. In view of the fact that cohesion relates to the idea of belonging to a society based on the concept of citizenship, we recognize that the best way to promote social cohesion is through strengthening economic, social and cultural rights.
2. The European Union-Latin America dialogue thus has a special interest in promoting public policies. It seeks to establish a bridge between two regions facing similar problems, such as demographic change, environmental issues, the widening gap between rich and poor, as well as the transformation of labour and social systems. In response to these challenges and in awareness of the different conditions for tackling these problems, states in both regions have to promote or redefine social contracts.
3. In the light of this situation and being conscious of the advances which have already been achieved in many countries, we, the participants of the **EU-LAC Forum: Fiscal Policies for Social Cohesion and the Fight Against Poverty** held on 12 and 13 March 2008 in Berlin, believe that
  - a. our countries should continue to resolutely strive to orient their fiscal policies towards social cohesion with greater levels of equity and sustainability. Both regions are confronted with the challenge of eliminating tax exonerations, reducing tax avoidance and evasion, as well as regulating the mobility of tax bases. Moreover, in numerous countries the levels of taxation appear insufficient to finance the required

policies, especially in the Latin American and Caribbean region. This problem is aggravated by the regressive character of many tax systems. In the face of this situation, **improving the design and collection of revenues**, primarily of direct taxes, could reduce the volatility of tax revenues and, at the same time, have a positive impact on distribution and social justice.

- b. our countries have to advance their efforts to **improve fiscal credibility** both with regard to their tax systems and to their public spending policies. To this end it is necessary that public expenditure is geared towards citizens' priorities with a view to ensuring greater participation of citizens and their representatives in public decision-making at all levels of the state. Similarly, governments are called upon to promote transparent and responsible fiscal policies, oriented towards fiscal sustainability and with countercyclical criteria. Finally, it is essential to boost fiscal compensation and territorial solidarity to overcome excessive inequality within countries.
  - c. additional measures are needed to **ensure that public policies focus on the fight against poverty and on social cohesion**. It is well-known that social cohesion depends partly upon the growth or the quality of social spending as well as upon the capacity to achieve a solid and sustainable consensus on important social integration projects. Furthermore, it is necessary to revise the design of financing by enhancing social protection coverage through a combination of tax and non-tax sources.
  - d. the two regions have to **intensify cooperation and increase the exchange of experiences** in the search for solutions to address the problems mentioned above. This includes, among other things, the fight against tax evasion and the exchange of fiscal information. Within the scope of the cooperation between the two regions, capacity building in fiscal matters must play a prominent role.
4. The necessary reforms require strong consensus and political will, as well as institutional and administrative capacity. This is the crux of the **new fiscal pact**. The current economic upswing should be capitalized on to initiate this pact. At the same time, it has to be underlined that this is an ongoing task aimed at achieving ever greater acceptance of each of the aspects mentioned above, in particular the creation of opportunities, capacities and solidarity. Modern fiscal policies are based on continuous learning and on the ongoing modernization of different forms of intervention aimed at increasing equity and a sense of belonging in a growing economy.
  5. We propose that the bi-regional dialogue on social cohesion be **continued**, with special emphasis on fiscal policy.