

International Dialogue

**EU-LAC Forum:
Fiscal Policies for Social Cohesion
and the Fight Against Poverty**

convened by the

Development Policy Forum, InWEnt, Germany

on behalf of the

Federal Ministry for Economic Cooperation and Development (BMZ), Germany

in cooperation with the

Ministry of Foreign Affairs, Peru

Ministry of Economy and Finance, Peru

Ministry of Foreign Affairs, Slovenia

Ministry of Finance, Slovenia

United Nations Economic Commission for Latin America and the Caribbean (ECLAC)

European Commission Federal

Foreign Office (AA), Germany

12 - 13 March 2008

Berlin, Germany

Venue: Federal Ministry for Economic
Cooperation and Development (BMZ)

Marie-Schlei-Saal

Stresemannstraße 94

10963 Berlin

Draft Programme

(As of 7 March 2008)

With special thanks to the
Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), Germany
German Development Institute (GDI), Germany

I. Context

The promotion of social cohesion and the fight against poverty, inequalities and exclusion are shared key policy priorities in the relations of the European Union with Latin America and the Caribbean. This was reaffirmed by the Heads of State and Government of the EU and LAC at their IV Summit in Vienna in May 2006. In particular, the Heads of State and Government recognised “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*). Among all relevant public policies, fiscal policy and taxes are increasingly seen as having important roles to play in the pursuit of higher social equality and in order to promote social cohesion, both in Europe and in Latin America.

The V EU-LAC Summit in Lima in May 2008 will be an opportunity to further develop the bi-regional dialogue and collaboration on key social cohesion themes. The "EU-LAC Forum on Social Cohesion" which was held in Santiago de Chile on 23 - 25 September 2007 identified fiscal policies as one of these themes. In the conclusions and recommendations of the "EU-LAC Forum on Social Cohesion" it is stated that “social policies and social protection regimes should be underpinned by sound and fair public policies, in particular fiscal policies, allowing a better distribution of wealth and ensuring adequate levels of social expenditure.”

The EU-LAC Forum being prepared by the Federal Ministry for Economic Cooperation and Development (BMZ), the Ministry of Foreign Affairs, Peru, the Ministry of Economy and Finance, Peru, the Ministry of Foreign Affairs, Slovenia, the Ministry of Finance, Slovenia, the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), the European Commission and the Federal Foreign Office (AA), Germany, is designed as a more concrete and specific opportunity for further conceptual exchange on the specific role of fiscal policies in the context of social cohesion and the fight against poverty. The EU-LAC Forum aims to identify important topics for the Summit and is therefore an important complement to other EU-LAC activities in this field.

II. Some aspects to be dealt with

Aiming to raise more funds domestically, fiscal policy reforms have moved into the centre of policy agendas in many countries, including in Latin America. Many countries could harness domestic resources more effectively and, at the same time, diversify their sources of revenues. In some countries the tax ratio could be substantially increased without compromising their international competitiveness.

Strategies aiming at strengthening the self-financing capacity of countries have several positive impacts: they can support development, growth, social cohesion and poverty reduction; they raise sovereignty and governmental responsibility; they foster participation and engagement of citizens; business is more secure when making investments and governments can undertake long-term fiscal planning.

Against this background, this EU-LAC Forum offers a substantial contribution in analysing the importance of transparent tax policy, setting fair levy systems, and establishing effective administrative structures. Not only will this Forum contribute to exploring differentiated and appropriate policy strategies and instruments which would strengthen the self-financing capacities, but also go a long way towards identifying potential impacts on social cohesion and the fight against poverty. It will allow the exchange of both, ideas and experiences, and exploring successes as well as challenges resulting from different fiscal and tax regimes.

III. Structure

The EU-LAC Forum has been structured around the central challenges that result from developing and implementing sound fiscal policies.

The major keynote will outline the current reform dynamics on fiscal performance and the key challenges of fiscal policies for social cohesion and the fight against poverty.

Session I focuses on **Existing Fiscal Policies in the EU-LAC Regions**. The question of new fiscal pacts in Latin America and the Caribbean will be raised. Furthermore, the issues of direct and indirect taxation, the risks of the European models and the macroeconomic environment will be brought up.

Session II continues this discussion concentrating on **Revenue Strategies**. Key points will tackle tax evasion and informality, as well as policy issues like ways to broaden the tax base, examples of positive tax incentives, the challenge of strengthening personal income taxes, and the inconstancy of state revenues due to mobility of people, capital and companies.

Following the previous sessions, Session III focuses on **Social Protection and Public Spending**, pointing to the use of state revenues. The discussion includes the topics of social protection and cohesion: the principles of solidarity, financing social protection, institutional setting for social policies, social spending, and the economic cycle and public spending in ageing societies.

Session IV will deal with **Tax Policies: Contributions to Governance** and will offer the opportunity to debate the questions of institutional reforms in tax systems, that lead to effective institutions and increase credibility of the state as a whole. The session will address the question of how to strengthen tax systems, present experiences with transparency, participation and monitoring and regional compensation and development, as well as tackling the link with regional and local revenue systems and decentralisation. This session will also offer the opportunity to discuss models like the financial equalisation scheme in the Federal Republic of Germany between the federal government and the federal states.

To conclude, possible recommendations for the Lima Summit in May 2008 are to be presented.

Wednesday, 12 March 2008

1.00 p.m. Registration and Lunch Buffet

2.00 p.m. **Opening Session**

Words of Welcome **Astrid Kühl**
Director
Development Policy Forum
InWEnt - Capacity Building International
Germany

Opening **Heidemarie Wieczorek-Zeul**
Federal Minister for Economic Cooperation and
Development (BMZ)
Germany

Andrej Bajuk
Minister of Finance
Slovenia

José Arista Arbildo
Vice Minister of Finance Ministry of
Economy and Finance Peru

2.45 p.m. Challenges and Overview
Fiscal policies are increasingly important in the pursuit of social equality and the promotion of social cohesion both in Europe and Latin America. Moreover, adequate and coherent fiscal policies can contribute crucially to stabilising states and political systems. Both regions are heterogeneous within themselves and face different challenges. Thus, it is not a simple question of advanced regions or regions that are lagging behind. How can each region profit from the other?

Chair/ **Marie-Anne Coninx**
Introduction Director Latin America European
Commission Brussels

Keynotes **José Luis Machinea**
Executive Secretary
United Nations Economic Commission for Latin
America and the Caribbean (ECLAC) Santiago
de Chile

Thomas Mirow
State Secretary
Federal Ministry of Finance (BMF)
Germany

Discussion

3.45 p.m. Coffee Break

4.00 p.m.

**Plenary
Session I**

Existing Fiscal Policies in the EU-LAC Regions

This session will offer the opportunity to present the diversity of fiscal policies in the EU-LAC regions. The risks of existing models and the necessity of reforms will also be addressed.

Key questions:

- Why is it necessary to form a new fiscal pact in LAC?
- What models of direct and indirect taxation exist and how can they be implemented?
- What are the risks of the European models?
What is the interdependence between macroeconomic, environmental, and fiscal policy?
- Is there political leeway for developing new fiscal pacts?

Chair

Jesús Ruiz-Huerta Carbonell

Director
Institute for Fiscal Studies
European Commission EUROsociAL programme
Madrid

Keynotes

Alberto José Guevara Obregón

Minister of Finance and Public Credit
Nicaragua

María Gloria Páez Gueyraud

Vice Minister of Finance
Ministry of Finance
Paraguay

Discussant

Oswaldo Kacef

Director
Economic Development Division United
Nations Economic Commission for Latin
America and the Caribbean (ECLAC)
Santiago de Chile

Experts participating in the following discussion:

Hillman Farfán Ruiz, Director of Macroeconomic and Social Studies
Ministry of Economy and Finance, Peru

Manuel Rosales Torres, Director, Economic and Fiscal Policy Office
Ministry of Finance, El Salvador

Claudia von Monbart, Senior Counsellor, External Affairs
The World Bank, Paris

Discussion

5.30 p.m.	Plenary Session II	<p>Revenue Strategies</p> <p>The levels and compositions of revenue structures in the EU-LAC Region vary greatly. The impact of globalisation highlights the necessity for reforms. Revenue structures and mechanisms are also key for their distribution.</p> <p>Key questions:</p> <ul style="list-style-type: none"> ○ How can the problems of tax evasion and informality be confronted? ○ What examples of positive tax incentives exist? ○ What models exist to broaden the tax base? ○ What are the arguments for increasing personal income tax? ○ How can global conditions like increased mobility of people, capital and companies be addressed?
	Chair	<p>Maria Dolores Almeida Responsible Componente de Gestión Fiscal Intergubernamental Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) Quito</p>
	Keynotes	<p>Claudino Pita Executive Secretary Inter-American Center of Tax Administration (CIAT) Panama</p> <p>Teresa Ter-Minassian Director Fiscal Affairs Department International Monetary Fund (IMF) Washington D.C.</p>
	Discussant	<p>Juan-Pablo Jiménez Economic Affairs Officer Economic Development Division United Nations Economic Commission for Latin America and the Caribbean (ECLAC) Santiago de Chile</p>
		<p>Experts participating in the following discussion:</p> <p>María Eugenia Romero Torres, Director, Department of Treasury Secretary of Finance and Public Credit, Mexico</p> <p>Christian Boulais, Senior Tax Expert, EUROsociAL Fiscalidad ADETEF, France</p> <p>Alfonso Bonilla Hernández, Coordinador General de Auditoría Corte de Cuentas de la República de El Salvador, El Salvador</p>
	Discussion	
7.15 p.m.		Departure for Dinner and Sightseeing Trip to the German Bundestag

8.15 p.m. Dinner Reception at the Roof Garden Restaurant, German Bundestag

Thursday, 13 March 2008

9.00 a.m. **Plenary
Session III**

Social Protection and Public Spending

Beginning with Bismarck's social reforms, the EU and Latin America have had markedly different experiences in dealing with social protection policy. Nevertheless, today, the key challenge appears to be quite similar: how to address the increasingly unequal distribution of income and choice in society? This session will focus on the question of how social protection policy - based on the principle of solidarity - can contribute to promoting social cohesion.

Key questions:

- How can social protection be financed?
Which institutional settings are useful for social policies?
- What mechanisms can be implemented to deal with the impacts of the economic cycle on social public spending?
- How can the challenge of social public spending in ageing societies be dealt with?

Chair

Gerhard Enver Schrömbgens

Ambassador
Director General for Latin American and Caribbean Affairs
Federal Foreign Office (AA)
Germany

Keynotes

Eduardo Abedrapo Bustos

State Secretary
Ministry of Planning
Chile

Hugo Alejandro Castillo

Vice Minister of Finance
Secretaría de Finanzas (SEFIN)
Honduras

Discussant

Luiz Ramalho

Commissioner for Latin America / Caribbean
Head of Department
Sustainable Business Development
InWEnt – Capacity Building International
Germany

Experts participating in the subsequent discussion:

Luciana Díaz Frers, Director of Fiscal Policy
Center for the Implementation of Public Policies towards Equity and Growth (CIPPEC), Buenos Aires

Oscar Daniel Cetrángolo, Expert on Public Policy
United Nations Economic Commission for Latin America and the Caribbean (ECLAC), Santiago de Chile

Hans Magnusson, Director, Department for Latin America
Swedish Development Agency (SIDA), Sweden

Pablo Farías, Minister of Social Development
Province of Santa Fe, Argentina

Discussion

11.15 a.m. Coffee Break

11.45 a.m. **Plenary
Session IV**

Tax Policies: Contributions to Governance

Fairness, credibility, and transparency are the basis for the acceptance of tax systems. Interaction with other institutions is crucial for integrating tax policies in a systemic context of good financial governance.

Key questions:

- How can local revenue systems be strengthened? Who is to control government finances, so as to increase credibility and transparency? Which mechanisms need to be installed to improve monitoring and participation in tax systems?
- How can credible tax policies enhance the legitimacy of state action? ○ How important are decentralised institutions?

Chair

Carolina Roca Ruano

Secretaria
Superintendencia de Administración Tributaria (SAT)
Guatemala

Keynotes

Roberto Ugarte Quispaya

Vice-Minister of Tax Policy
Ministry of Finance Bolivia

Lothar Mark

Member of Parliament
Commissioner for Latin America for the Social Democrats Parliamentary Group
German Bundestag

Germany

Discussant **Teresa Curristine**
Senior Analyst
Organisation for Economic Co-operation and
Development (OECD)
Paris

Experts participating in the following discussion:

Silke Pfeiffer, Regional Director for the Americas
Transparency International (TI), Berlin

Carlos Marx Carrasco Vicuña, Director General
Servicio de Rentas Internas (SRI), Ecuador

Jürgen Eckl, International Secretary

The Confederation of German Trade Unions (DGB), Germany

Discussion

2.00 p.m. Lunch

3.30 p.m. **Recommendations Štefan Bogdan Šalej**
Special Envoy for Latin America
Ministry of Foreign Affairs
Slovenia

Andras Uthoff
Officer in Charge
Social Development Division
United Nations Economic Commission for Latin
America and the Caribbean (ECLAC)
Santiago de Chile

Discussion

5.00 p.m. Coffee Break

5.30 p.m. **Closing Session** **Outlook for Lima and Beyond**

Chair **Raúl Patiño**
Director-General for European Community Affairs
Ministry of Foreign Affairs
Peru

Outlook **José Miguel Insulza**
Secretary General

presented by
Alfonso Quiñonez
Executive Secretary for Integral Development
Organization of American States (OAS)
Washington D.C.

Georg Boomgaarden
State Secretary
Federal Foreign Office (AA)
Germany

Closing Remarks

Dorothee Fiedler
Director for Latin America
Deputy Director General
Cooperation with countries and regions: planning and
policy
Federal Ministry for Economic Cooperation and
Development (BMZ)
Germany

Farewell

Astrid Kühl
Director
Development Policy Forum
InWEnt - Capacity Building International
Germany

6.30 p.m. End of Conference

Farewell Buffet