

## ABSTRACTO DE COOPERACIÓN TÉCNICA

### I. Información Básica del Proyecto

▪ País/Región:	REGIONAL/BID
▪ Nombre de la CT:	Políticas fiscales para la equidad en ALC
▪ Número de CT:	RG-T4198
▪ Jefe de Equipo/Miembros:	RASTELETTI, ALEJANDRO GABRIEL (IFD/FMM) Team Leader; ASTUDILLO, KAREN (IFD/FMM) Alternate Team Leader; CARMEN MONTESINOS IBANEZ (IFD/FMM); PESSINO, CAROLA (IFD/FMM); ACEVEDO CALLE, DANIELA (LEG/SGO)
▪ Taxonomía:	Research and Dissemination
▪ Número y nombre de la operación que apoyará la CT:	N/A
▪ Fecha del Abstracto de CT:	19 Sep 2022
▪ Beneficiario:	Ministries of Finance of LAC
▪ Agencia Ejecutora:	INTER-AMERICAN DEVELOPMENT BANK
▪ Financiamiento solicitado del BID:	US\$600,000.00
▪ Contrapartida Local:	US\$0.00
▪ Periodo de Desembolso:	36 meses
▪ Tipos de consultores:	Individuos
▪ Unidad Responsable de Preparación:	IFD/FMM - División de Gestión Fiscal
▪ Unidad Responsable de Desembolso:	IFD/FMM - División de Gestión Fiscal
▪ CT incluida en la Estrategia de País (s/n):	No
▪ CT incluida en CPD (s/n):	No
▪ Alineación a la Actualización de la Estrategia Institucional 2010-2020:	Capacidad institucional y estado de derecho; Igualdad de género

### II. Objetivos y Justificación de la CT

- 2.1 El objetivo general de esta cooperación técnica es mejorar la equidad fiscal mediante el desarrollo de nuevas herramientas y metodologías que mejoren la capacidad institucional de los ministerios de finanzas para gestionar la equidad. Los objetivos específicos son utilizar evidencia empírica para: (i) medir el impacto de la equidad fiscal en diversas intervenciones fiscales; (ii) diseñar políticas que propicien la redistribución a través de la tributación, una mejor focalización y priorización del gasto, equidad de género y oportunidades de capital humano; y reducir la pobreza y la informalidad; y (iii) gestionar la equidad de forma transversal entre los distintos niveles de gobierno utilizando herramientas fiscales.
- 2.2 In Latin America, inequality is higher than in advanced economies. According to the latest incidence analysis available for LAC (several years to 2020) and developed countries (2019), Gini coefficients of after-tax disposable income and direct transfers were 60% higher in Latin America than in OECD and EU countries. The size of public spending and the low redistributive impact of taxes contribute to perpetuating inequality. When comparing countries in LAC (Argentina, Brazil and Uruguay) with advanced economies that spend approximately the same, the developed countries redistribute even more. In LAC, direct taxes and cash transfers reduce inequality by only 6.2%, on average, while in a sample of developed countries the decrease is 37% (or 6 times less) (Izquierdo, Pessino and Vuletin, 2018). The high levels of informality in LAC (above 50%) greatly affects its capacity for redistribution. A large fraction of the poor is engaged in informal work and, thus, does not contribute to

formal pension systems making it very difficult to redistribute to the poor through formal pensions. For example, in El Salvador and Guatemala, the two richest quintiles receive about 80 percent of total pension income, while the two poorest deciles receive only about 10 percent. Combating informality is key, and perhaps the best policy in this area is reducing non-wage labor costs—including labor taxes – to reduce the gap between formal and informal labor costs. But this is not enough, the non-contributory programs established to cover the poor without social security encourage informality; therefore, a paradigm shift is needed where social transfers must occur when the individual works formally through tax credits, basically eliminating the subsidy to informality. There are also shortcomings in fiscal management that limit the redistributive impact from a gender perspective. Gender equity and other diverse groups explain an important part of inequality. The economic gaps between men and women are huge. Before the pandemic, for every 100 men living in poor households, 112 women were in similar condition. Likewise, 28% of women over 15 years of age had no income of their own, compared to 12% of men in the same range (ECLAC, 2020). The pandemic worsened this situation, drastically reducing women's economic empowerment by further deepening the feminization of poverty. Compared to 93% of men, only 67% of women in LAC participate in the formal workforce and more than 126 million work in the informal sector (UNWOMEN, 2020). While it is known that the tax system can affect women's decisions about where and how much to work, as well as their consumption patterns (Astudillo et al., 2022), little is known about the effects of the tax system on women's decisions and opportunities in LAC. There are also no targeting efforts, including tax incentives that increase opportunities for women, particularly those with lower incomes.

Measuring fiscal equity is key for governments to be able to design fiscal policies that improve income redistribution. This TC will seek to provide governments with tools that will allow governments in the region to measure fiscal equity of different fiscal interventions to better manage the reduction of poverty and inequality, which will also help improving the design and development effectiveness of the Bank's operations.

### III. Descripción de las Actividades y Resultados

- 3.1 **Componente I: Fiscal equity analysis.** Activities: analysis to determine the extent of fiscal policy to reduce inequality and poverty, and by how much in 9 countries; microsimulations to assess consequences of fiscal policy reforms including changes in spending programs and taxation by deciles; and microsimulations with individual modeling and behavioral or indirect effects of specific policy changes at the household level with a gender and diversity dimension to ensure fiscal policies are not biased.
- 3.2 **Componente II: Policy design.** Activities: development of policy recommendations based on evidence to design efficient policies conducive to improve tax redistribution, better spending targeting and prioritization, gender equity, and human capital opportunities; and reduce poverty and informality.
- 3.3 **Componente III: Institutional strengthening.** Activities: design and implementation of tools and diagnostics for fiscal management transversally using budgets and other fiscal instruments to ensure that redistributive programs or taxes that further reduce poverty and inequality are promoted but do not risk fiscal sustainability. Dissemination activities such as initial training in fiscal equity management will be carried out to ensure the sustainability and appropriation of the operation.

### IV. Presupuesto

#### Presupuesto Indicativo

Actividad/Componente	BID/Financiamiento por Fondo	Contrapartida Local	Financiamiento Total
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Fiscal equity analysis	US\$450,000.00	US\$0.00	US\$450,000.00
Policy design	US\$100,000.00	US\$0.00	US\$100,000.00
Institutional strengthening	US\$50,000.00	US\$0.00	US\$50,000.00
<b>Total</b>	<b>US\$600,000.00</b>	<b>US\$0.00</b>	<b>US\$600,000.00</b>

## **V. Agencia Ejecutora y Estructura de Ejecución**

- 5.1 Given the regional dimension of this TC and the lack of a regional entity with the capacity to implement it, the Bank will be the executing agency through the Fiscal Management Division (IFD/FMM) in close coordination with country tax specialists. The activities of this TC will be executed in accordance with the procurement methods established by the Bank, namely: (a) Hiring of individual consultants, as set forth in the AM-650 standards; (b) Contracting of consulting firms for intellectual services in accordance with GN-2765-4 and its related operating guides (OP-1155-4) and (c) Contracting of logistics services and other services other than consulting, in accordance with policy GN-2303-28.
- 5.2 In line with the criteria established in Annex II of the Procedures for the Processing of TC Operations (OP-619-4), the Execution by the Bank is justified by the regional nature of this program, which will allow effective coordination of the work to be carried out with the ministries of finance. The Bank's execution is justified by the fact that this program involves strengthening the design of fiscal policies to reduce poverty and increase equity. The technical capacity and experience that the Bank has through the Fiscal Division in matters of fiscal management and policy, will allow the expected result of this TC to be achieved, which is to provide the ministries of finance with tools to reduce poverty and inequality through sound fiscal policy.

## **VI. Riesgos Importantes**

- 6.1 Among the risks of the project are the low appropriation by countries of the studies, tools, models, and solutions developed in the field of this TC. To mitigate this risk, the TC team will coordinate closely with the beneficiary countries and with the country offices, to ensure the relevance of the products for the countries, promoting their appropriation. There is also a risk that the applications and solutions developed and implemented in the field of this TC are not sustainable over time. To mitigate this risk, TC products will be disseminated among countries and FMM will promote the continued use to the tools developed.

## **VII. Salvaguardias Ambientales**

- 7.1 La clasificación ESG para esta operación es "indefinida".