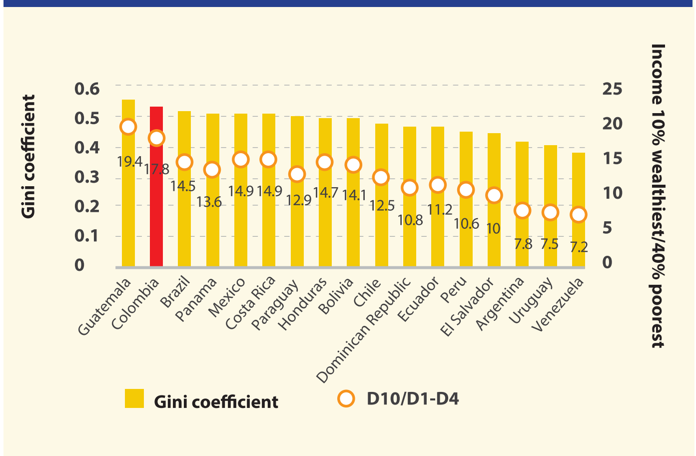
FISCAL POLICY, PEACE AND HUMAN RIGHTS

In the context of its Peace Agreement, Colombia has made significant progress in several recommendations accepted in its last Universal Periodic Review in 2013. The largest challenge today is the implementation of this Agreement, and in overcoming enormous deficits in economic, social, and cultural rights, which disproportionately affect indigenous, Afro-descendent, peasant (campesino), and other populations. The insufficient mobilization of public resources to finance the Agreement's implementation and other reforms necessary to address grave socioeconomic injustices, as well as the country's dependence on an unsustainable and inequitable development model, are some of the main obstacles facing the fulfillment of human rights. Colombia is in the process of entering the OECD, but it lags significantly with the OECD's indicators on social and fiscal areas.

COLOMBIA IS THE SECOND MOST UNEQUAL COUNTRY IN THE MOST UNEQUAL REGION OF THE WORLD. In Latin America - the most unequal region on the planet - a person in the richest quintile earns 15 times what a person in the poorest quintile earns. In Colombia, those in the richest quintile earn 22 times more than those in the poorest. (CEPAL, 2017: 56). The richest 1% holds 20.4% of total income (World Income Database, 2017). The distribution of key resources, such as land, is the most unequal of the continent: the largest 1% of farms account for 80% of rural land (OXFAM, 2017). Inequality is also reflected in enormous disparities in the enjoyment of rights: an indigenous girl in the Guainía department is 778 times more likely to die of malnutrition before she reaches five years of age than a boy in Bogotá (INS, 2016: 6). In 2016, 59 children died of malnutrition, of which 73% were indigenous (INS: 2016b: 74).

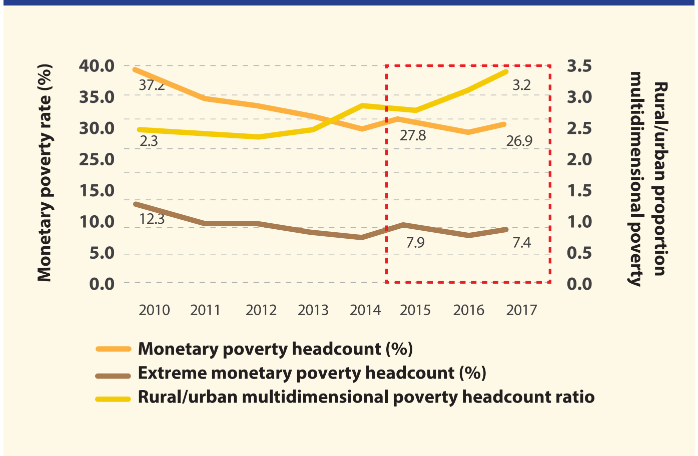
FIG 1. Inequality in Latin American countries, 2014-2015



Source: CEPAL, 2017

PROGRESS FIGHTING POVERTY IS SLOWING WHILE TERRITORIAL GAPS ARE WIDENING. For the first time since 2002, rates of income poverty and extreme income poverty increased in 2016. These rates dropped again in 2017, but at a slower pace. Although multidimensional poverty has reduced consistently since 2010, the gap between urban and rural areas has widened. Between 2010 and 2016, the multidimensional poverty rate in Colombia's Pacific Region increased from 3.5 to 5.6 times higher than the rate in Bogotá. In some regions of the country, such as Bogotá, both monetary and multidimensional poverty increased during the past two years.

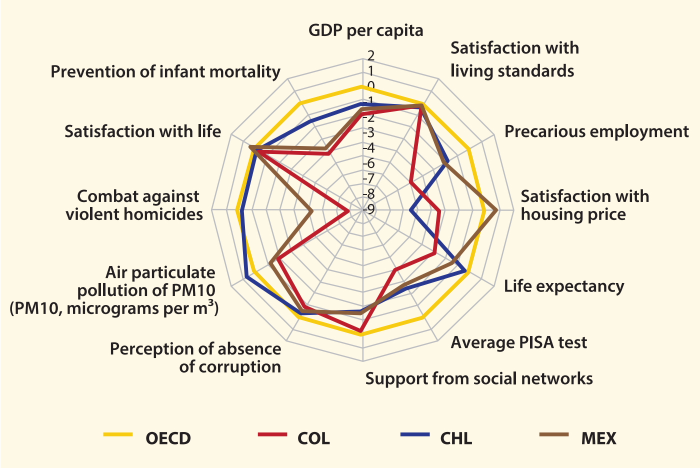
FIG 2. Monetary poverty and urban/rural gap, 2010-2017



Source: DANE, 2018

SOCIAL INDICATORS LAG IN COMPARISON TO OECD COUNTRIES AND OTHER COUNTRIES IN THE REGION. Economic growth in Colombia has not been inclusive. It is farthest behind with respect to social, labor, and public order indicators. The limited capacity of the pension system reflects the precarious state of labor inclusion and the State's inability to design policies to correct it: less than 40% of individuals older than 65 receive a pension, which is much lower than the average of OECD countries (90%), as well as the Latin American average (63%) (OECD, 2015: 34). Social and labor inclusion is even more acute for certain populations. For example, 47% of Afro-descendant women between 15 and 29 years of age neither study nor work, which is the highest rate in the region, along with Honduras (CEPAL, 2017: 39).

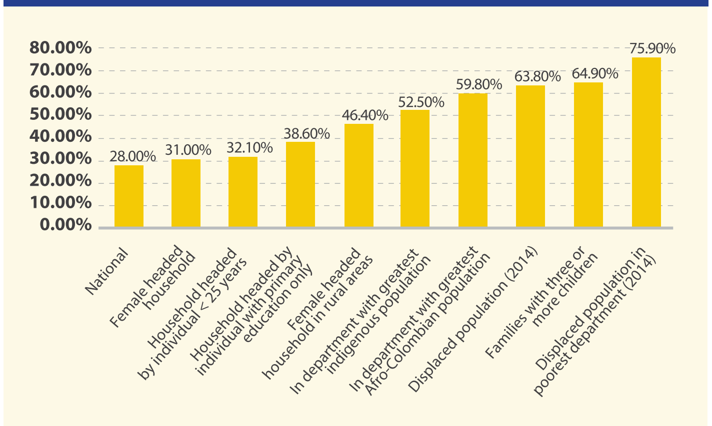
FIG 3. Wellbeing indicators in Colombia, OECD, and Latin American countries (standard deviation from the OECD average; negative values reflect a worse situation), 2015



Source: OECD, 2015

POVERTY AND VIOLENCE DISPROPORTIONATELY AFFECT DISADVANTAGED GROUPS. The age, gender, race, ethnicity, and status as a victim of armed conflict are all factors that increase social vulnerability of households in Colombia (see Fig. 4). A family displaced by violence in Chocó is seven times more likely to fall into poverty than an average family in Bogotá. Some populations are disproportionately targeted by violence: for example, six out of ten massacre victims have been peasants. (CNMH, 2013).

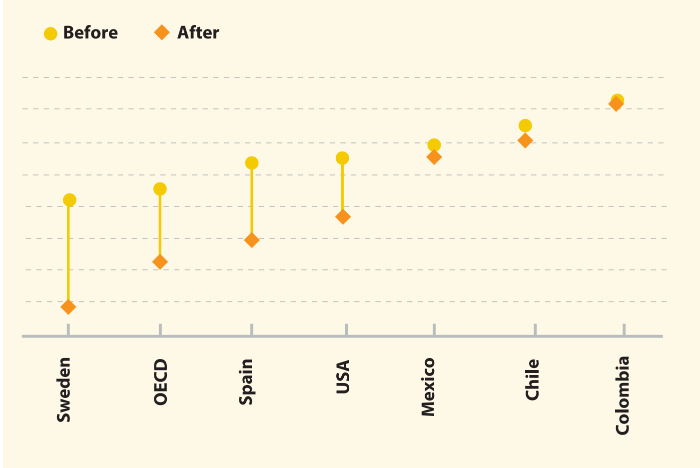
FIG 4. Monetary poverty rate for different household groups.



Source: DANE, 2017. Pobreza Monetaria y Encuesta de Goce Efectivo de Derechos.

FISCAL POLICIES DO NOT CORRECT ECONOMIC INEQUALITY, AND SOMETIMES EVEN INCREASE IT. In Colombia, inequality remains practically the same before and after taxes and transfers. The redistributive capacity of the State is very low, not only in comparison with the OECD (see Fig. 5), but also with respect to other Andean countries (CESR, 2017). Fiscal policy even increases poverty, as the heavy weight of indirect taxes, such as VAT, cancel the effect of transfers to low-income populations (Lustig, 2016). There are areas in which public spending is also regressive. For example, the 20% highest earners receive 86% of public spending in pensions (Nuñez, 2009).

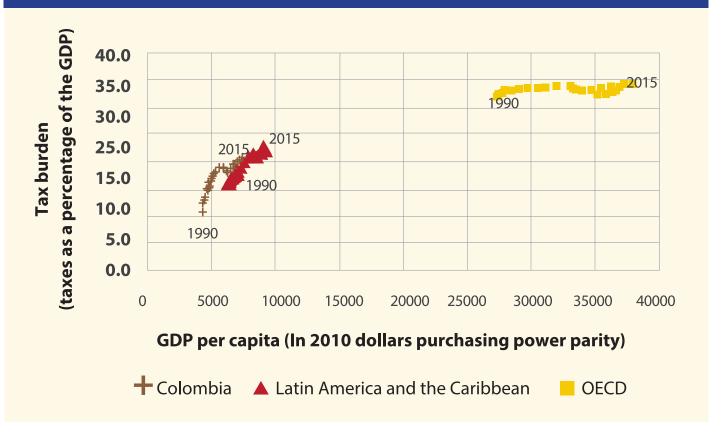
FIG 5. Gini coefficient before and after taxes and transfers, 2015



Source: OECD, 2017, most recent year available

GREATER AND MORE EQUITABLE TAX COLLECTION IS NECESSARY TO FULFILL RIGHTS. Colombia has tax rates below the Latin American average and far below the OECD average, both at the current and past OECD averages (see Fig. 6). The tax system is insufficient, inequitable, and institutionally weak. Income and wealth taxes, key redistributive instruments, are underused (Valdés, 2017). While in 2015, the OECD collected 8.4% of its GDP via personal income taxes, in Colombia this tax made up barely 1.2% of the GDP, which is below even the Latin American average of 1.8% (OECD, 2018). More than 60% of the income of the richest 1%, and nearly 80% of the income of the richest .01%, is not subject to any type of tax (Alvaredo & Londoño, 2013).

FIG 6. Evolution of the tax burden in Colombia vs. OECD & Latin America

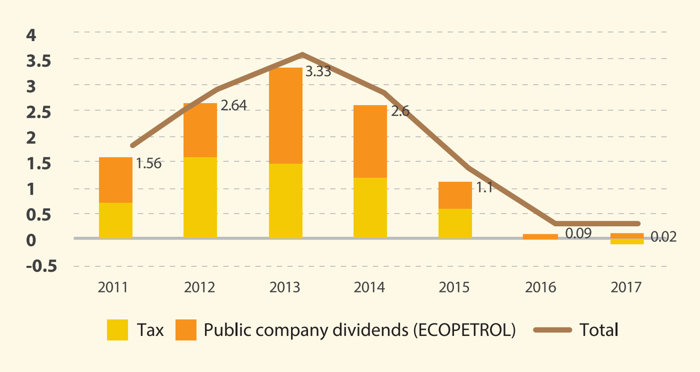


Source: OECD, Revenue Statistics in Latin America; World Bank.

DEPENDENCE ON THE EXTRACTIVE SECTOR AND THE FALL IN COMMODITY PRICES HAS REDUCED PUBLIC REVENUE WHEN IT IS NEEDED MOST. Public revenue from hydrocarbons and mining dropped by 1.84% of GDP between 2014 and 2015, which is a steeper drop than the Latin American average (OECD, 2017: 95-106). This is an unprecedented reduction in revenue, with slim possibilities for recovery due to the end of the boom in commodity prices. This is occurring in a context in which the implementation of the Peace

Agreement is estimated to require around COP 129.5 trillion (nearly 13% of the 2016 GDP) (Ministry of Finance, 2017: 222-245). It is also disconcerting that the executive branch has refused to sign off on new social protection legislation, under the questionable argument of a lack of financing (El Tiempo, 2017).

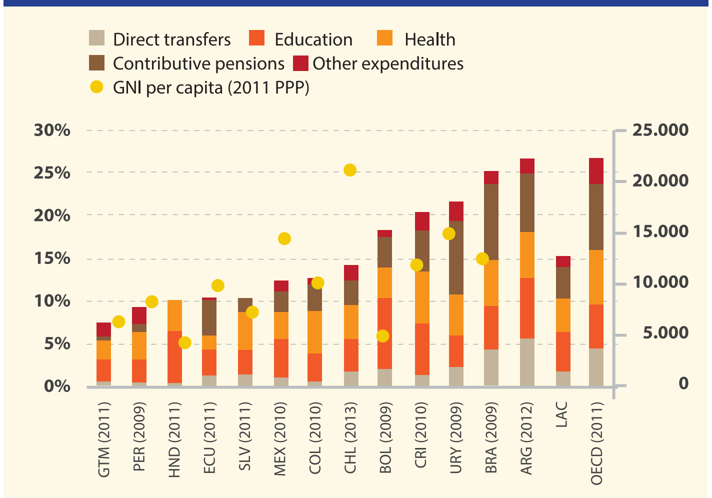
FIG 7. Public revenue from oil in Colombia 2011-2015 (as a percentage of GDP)



Source: Ministry of Finance and Public Credit (2017: 19)

SOCIAL SPENDING IS BELOW THE LATIN AMERICAN AVERAGE AND SHOULD BE PRIORITIZED. Although Colombia is not among the countries with the lowest social spending in the region, it is far below the average for the OECD as well as Latin America. While in 2015, the average social spending per capita of Latin American central governments was USD 1,189 per capita, in Colombia, spending was only USD 660 per capita (CEPAL, 2017: 125). Prioritizing effective and truly progressive social spending is fundamental to reducing inequality, especially given the current economic slowdown.

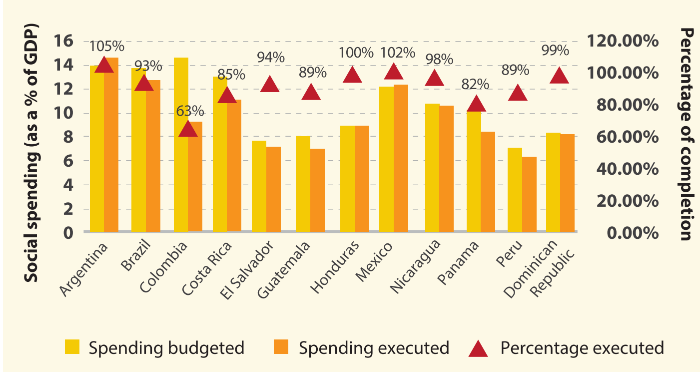
FIG 8. Composition and magnitude of social spending in Latin American and OECD countries (as a percentage of GDP)



Source: OECD, Panorama of Public Administrations (2017: 33).

FAILURES IN EXECUTION INCREASE THE INEFFICIENCY OF SOCIAL SPENDING. Social spending is not only low, but also, in comparison with other countries in Latin America in 2015, Colombia had the highest levels of incomplete execution of social spending budgets.

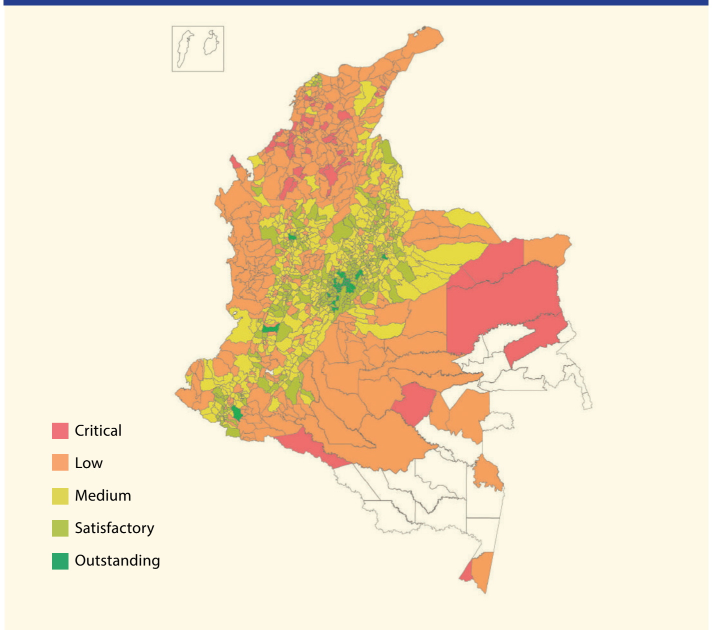
FIG 9. Budgeted and executed social spending in the region



Source: CEPAL (2017: 118-119)

ECONOMIC DEVELOPMENT MODEL AND WEAK INSTITUTIONS THWART PROGRESS IN RURAL, POOREST MUNICIPALITIES. Municipalities in the country's periphery have weak institutions and the worst overall performance indicators, according to measurements of the National Planning Department (see Fig. 10). The decision to support an extractive development model has failed to reduce the urban/rural gap. For example, mining municipalities tend to have much worse social, institutional, and environmental indicators than other neighboring municipalities. The overall performance index of these municipalities is even worse than that of coca-producing municipalities, whose performance levels are critical (Rudas & Espitia, 2013).

FIG 10. Overall Performance Index in Colombian municipalities (average 2006-2013)



Source: García Villegas et al. (2017: 33)

MOBILIZING SUFFICIENT RESOURCES TO FINANCE THE PEACE AGREEMENT AND OTHER URGENT SOCIAL REFORMS IS FUNDAMENTAL. The Peace Agreement contains some basic reforms that are indispensable for overcoming the rights deficits of rural populations, which should be complemented with other, more ambitious reforms to allow the country to move toward a sustainable and inclusive development model. The Peace Agreement would generate a dividend of around 0.3 percentage points annually of economic growth during the next 15 years, at the end of which the economy would be 4.5 percentage points ahead of current projections (Treasury Department, 2017: 243). But ensuring sustainability of reforms requires fiscal policies that mobilize the maximum resources available to fulfill social, economic and cultural rights, without any type of discriminatory bias, and to ensure a universal social protection floor, in accordance with human rights obligations.

THERE ARE VIABLE FINANCING ALTERNATIVES WITHOUT SACRIFICING SOCIAL SPENDING.

- Although information on tax incentives is incomplete and opaque (Dejusticia, forthcoming), official data indicates that tax incentives represented a loss in the corporate and personal income tax of 9.4% of the 2016 GDP (Treasury Department, 2017: 322), which is equivalent to 55% of the resources necessary to implement the Peace Agreement over the next 15 years. The fiscal cost of these tax incentives is the highest in the region (CEPAL, 2018).
- It is estimated that corporate income tax evasion reached 39% between the years 2007 and 2012, which is equivalent to losing 2.3% of the GDP annually (Ávila & Cruz, 2015). This amount is nearly three times what has been allocated to the implementation of the Peace Agreement in 2017 (0.85% of the GDP).
- Illicit financial flows in Colombia are around 2.1% of the GDP (Justicia Tributaria, 2017). In Andean countries, these flows represent a loss of USD 110 million annually just in the mining sector, which is equivalent to 1% of income tax collection from legal persons (Hanni & Podestá, 2016: 80).
- The Attorney General has estimated that losses due to corruption amounted to COP 40 trillion in 2016 or 4.6% of GDP (Asobancaria, 2017). This is more than the 2016 tax reform hopes to collect. This reform, in prioritizing indirect taxes, may in fact increase income inequality (Cedetrabajo, 2017). Just one recent episode of corruption involving the Cartagena Refinery has caused COP 8.5 trillion in losses, according to the Comptroller General. This amount could be used to build 600,000 free homes, and cut the country's new housing deficit in half (Comptroller, 2016).
- According to CEPAL, increasing the effective personal income tax to 20% for the 10% highest income earners and to 10% for the 8th and 9th deciles would reduce the income gap between the richest and poorest 10% in Latin America from 29 times the income of the poorest 10% to 6 times their income (Hanni *et al.*, 2015: 24). Given the extreme concentration of income and paltry levels of taxes Colombian elites pay (Ávila, 2017), taking advantage of progressive taxation is essential to finance policies which overcome deficits in economic, social, and cultural rights.

RECOMMENDATIONS:

The signatory organizations request the Human Rights Council pay attention to the deficit of economic, social and cultural rights in Colombia, which represents an impediment to peace building efforts. Additionally, we request the Council to recommend that the Colombian State:

- **Ensure that human rights obligations are considered in all aspects** of the social, tax and fiscal policy reforms, and in the implementation of the Peace Agreement.
- **Prioritize measures to address the extreme levels of socioeconomic inequality** through strategies that include greater progressive taxation; better design, administration, and an increase in social spending; the development of redistributive social policies, and the guarantee of a universal social protection floor, with a special emphasis on the rights of peasants, indigenous, and Afro-descendant populations, as well as the reduction of regional, gender, and racial/ethnic gaps.
- **Mobilize sufficient fiscal resources** for the progressive realization of economic, social and cultural rights and for the sustainable financing of the Peace Agreement through measures such as reviewing tax incentives, combatting tax evasion and avoidance, implementing progressive taxation schemes (income and capital), and other innovative tax instruments, such as green taxes or health taxes (e.g. the tax on sugary drinks).
- **Strengthen tax cooperation** with other States in combatting tax abuses in Colombia that deprive the country of valuable resources for the fulfillment of human rights.

ABOUT THE ORGANIZATIONS PRESENTING THIS DOCUMENT

This factsheet was prepared by the Center for Economic and Social Rights (CESR), the Center for the Study of Law, Justice and Society (Dejusticia), and the Friedrich Ebert Stiftung Foundation in Colombia (FESCOL) for Colombia's universal periodic review before the Human Rights Council in May 2018.

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TWENTY FIVE YEARS FIGHTING FOR SOCIAL JUSTICE THROUGH HUMAN RIGHTS

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