



ECONOMY AND FINANCE

BUILDING A MOVEMENT

The role played by civil society networks in Colombia's progressive tax reform

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Less inequality is necessary for sustainable development and stable democracies. States play an important role in reducing inequality. They do so through pro-poor spending and regulation, but also through progressive tax regimes.



Against the background of a regressive tax reform in Colombia the Red de Trabajo Fiscal (RTF) was born. It is composed of civil society organisations and think-tanks from the country's most renowned universities.



The author illustrates how the RTF managed to form a powerful coalition that succeeded in creating a new political force in Colombia successfully advocating for progressive tax reform.

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INTRODUCTION

Against the background of a regressive tax reform bill pushed through by President Iván Duque, elected in 2018, the Red de Trabajo Fiscal (RTF) was born in Colombia. It is composed of civil society organisations and think tanks from the country's most renowned universities. Combining their strengths and experience, the RTF managed to form a powerful coalition that succeeded in creating a new political force in Colombia with the aim of achieving progressive tax reform. In 2019, the RTF in collaboration with allies in Congress succeeded in adopting an article in connection with tax reform efforts mandating the establishment of an expert commission to assess the relevance, reasonableness, and legality of tax incentives in the country. This commission and the discussions generated by its report (Comisión de Expertos en Beneficios Tributarios 2021) were instrumental in a proposal included in the 2022 tax reform to eliminate a significant number of unfair and regressive tax incentives.

This most recent bill, passed in 2022, furthermore incorporated many of the proposals and recommendations forwarded by the RTF. These include inter alia measures to combat tax evasion and avoidance, greater tax transparency through the public disclosure of anonymised data on income tax returns, a revamped wealth tax with higher and more progressive tax rates, higher taxes on capital gains and income from dividends, the elimination of tax incentives, as well as a tax on sugar-sweetened drinks and ultra-processed products.

This paper provides an overview of taxation in Colombia to outline the factors that have prompted various actors in civil society to mobilise and coordinate. These include critical steps in forming the coalition and the agenda-building process. We also identify the drivers of change as well as the lessons learnt from this initiative, which may prove to be of use in other situations in which replication of this strategy appears promising.

The work performed by this network has produced significant results with regard to progressive taxation in the country, demonstrating that an active civil society engaged in taxation issues is a key component that is needed to achieve reforms that advance progressive taxation, income, and wealth redistribution, whilst adding vigour to the democratic debate over the economic and fiscal models necessary to address the multiple crises currently besetting the world.

THE COLOMBIAN CONTEXT AND THE BUILD-UP TO THE RED DE TRABAJO FISCAL

Colombia is one of the most unequal countries in Latin America and the Caribbean, already the region exhibiting the greatest income and wealth disparities in the world. Despite »stable« economic growth over the past decades, with very few economic recessions and even fewer economic crises, this growth, primarily driven by extractive industries, has not been sufficient to significantly reduce poverty. In fact, as of 2022, 36.6 per cent of the country's population was living in poverty in monetary terms, and 13.8 per cent in extreme poverty (DANE 2022a).

On the contrary, after a brief period of declining inequality, in recent years inequality has been growing. Monetary poverty, already on the rise even before the pandemic, is today only slightly lower than it was a decade ago (DANE 2022b). The most up-to-date figures for Colombia in terms of income and wealth concentration reveal that the top 10 per cent of the population with the highest incomes account for 55.6 per cent of total income, while the top one per cent of incomes account for 17.8 per cent (World Inequality Database 2022). When it comes to wealth, the concentration is even more extreme, as 64.6 per cent of the total net wealth of the country is in the hands of the wealthiest 10 per cent of households, while a mere 3.9 per cent is held by the bottom 50 per cent. The top one per cent of the wealthiest households own more than a quarter of the country's total wealth, concentrating 33.4 per cent of the total.

A low level of social mobility (OECD 2018), high poverty rates and poverty traps linked to gender and geographical inequalities tell the story of a country displaying economic stability, but plagued by rampant social injustice (Dávila et al. 2022).

Despite this extreme inequality, the tax system in Colombia has not been designed to contribute to reducing these vast socioeconomic gaps, as it is relatively regressive and generates very little revenue through direct taxation to allocate as budgetary resources to fund public services and provide public infrastructure such as roads, hospitals, or public schools. Just like the majority of countries in the region, Colombia derives a significant portion of its tax revenue from indirect taxes, with a very low portion coming from personal income taxation (OECD 2023). Taxation on capital and wealth, although in place, is low since the tax base is narrow and there are multiple carve-outs that make it even narrower. The tax burden is shifted from wealthy individuals and

corporations, including Multinational Enterprises (MNEs), to people in lower rungs of life, since even direct taxes, such as personal income tax, is higher for labour than capital incomes.

As a result, Colombia's tax system fails to generate sufficient fiscal revenue to ensure the provision of high-quality public goods and services to combat extreme poverty, and hence inequality. This can be observed by analysing the change in the GINI coefficient before and after taxes and transfers. While most OECD countries, and even countries in the region like Argentina or Brazil, manage to substantially reduce inequality after tax collection, in Colombia the change in the GINI coefficient is insignificant. Although public spending is not entirely progressive, the design of the tax system contributes to this lack of progressivity.

Tax revenue in Colombia as a per cent of GDP has been below 20 per cent, with the latest numbers for 2022 averaging 19.5 per cent of GDP, less than the average tax revenue collected in Latin America and the Caribbean (21.7 per cent) and significantly lower than the OECD average at 34.1 per cent, a gap of almost 14 percentage points (OECD et al. 2022).

A weak tax administration, a high degree of informality and several tax incentives are additional ingredients in a tax code that is not suited to reducing inequality. Tax incentives are concentrated at the top of income distribution, widening gaps in effective tax rates (Alvaredo / Londoño 2014). This is explained by the political economy of tax reforms in a country where an extreme concentration of wealth effectively influences legislation and policymaking, leading to tax cuts and significantly affecting collection of tax revenue (Daude / Perret / Brys 2015).

Other tax elements can also contribute to inequality, including a lack of corrective taxes to protect public health, such as taxes on sugar-sweetened drinks. Several studies have shown that consumption of unhealthy food products impact mainly low-income households through low productivity due to chronic non-communicable diseases, »presentism« and out-of-pocket spending (León et al. 2021).

In the public debate, there has been a consensus for several years on the need for a structural tax reform in the country.

Nevertheless, these hopes never materialised. Governments were either extremely reluctant to not lose political capital in the negotiations of a tax reform that challenges the interests of elites, or too weak to do so.

Yet, even with a clear need for a more progressive tax system, discussions monopolised by technocracy and business associations centred on the need for tax reform to make the tax system more efficient for a »pro-business« environment in Colombia. Although these are legitimate goals for a tax system, the public debate did not address in any depth the reforms required to make the tax system more progressive, even vigorously opposing progressive tax proposals such as increasing taxation of capital income.

Against this backdrop, civil society and academic institutions working in the fields of social justice, social protection and human rights from a perspective of tax justice saw a need to challenge the dominant narratives surrounding taxation and the direction (and spirit) of a structural tax reform in Colombia. It was only natural to stress the argument that, while there was a legitimate need to make the tax system more efficient and simpler, given the extreme and multiple inequalities in the country, one of the main priorities of tax reform in Colombia needed to be progressive taxation.

There was also a need to add a new voice to the public debate, one that could offer a unique perspective on taxation as well as on the purpose and usefulness of tax systems in Colombia by virtue of different skillsets, approaches and expertise.

Thus, the RTF¹ was born, composed of civil society organisations and think tanks from the country's most renowned universities, which had the leverage to influence and attract attention to a different way of approaching taxes. Combining their strengths and experiences, the RTF managed to forge a powerful coalition that succeeded in creating a new political force in Colombia with the aim of achieving progressive tax reform.

¹ Member organisations: Friedrich-Ebert-Stiftung (FES) Colombia, Centro de Estudios en Derechos Justicia y Sociedad – Dejusticia, Cede-trabajo, Conexión Análisi, Observatorio Fiscal de la Pontificia Universidad Javeriana, Centro Externadista de Estudios Fiscales, Centro de Pensamiento de Política Fiscal de la Universidad Javeriana, programa de Maestría en Tributación de la Universidad de los Andes, Observatorio de Derecho Tributario y Hacienda Pública de la Universidad del Rosario.

BUILDING MOMENTUM FOR PROGRESSIVE TAX REFORMS IN COLOMBIA

Forging a citizen initiative associated with renowned civil society organisations and academic think tanks is not easy. In many cases, even though interests are aligned, communication and connections are not; in some cases, there are no clear objectives to guide the construction of a coordinated strategy and actions; or in other cases, as is the case in many countries around the world, the space for civil society to work in is very narrow or even non-existent.

Fortunately, in Colombia at the time of the creation of RTF, the space for civil society work was adequate (at least in the cities), and there had already been previous collaboration among some of the network members, which facilitated the organisation of meetings with a larger group interested in joining the movement. However, the most crucial factor that allowed for it to take the first steps as a network was a common understanding of the problem it was seeking to address: the alarming levels of inequality in the country and the role of tax policy in either curbing or reinforcing it. This was why the various network members had a shared objective along with concrete solutions to contribute.

The role of tax incentives was pivotal in building a common agenda. At the outset, it was not entirely clear what different diagnoses and solutions various organisations that had joined the network had for the tax system. Soon, however, it became clear that the issue of the multiple special tax regimes within the Colombian tax system, as well as the lack of transparency in the approval and evaluation process, had an impact on the mobilisation of public resources, the reduction of socioeconomic inequalities, and governance and democracy in the country. This made it possible, under the coordination and leadership of FES Colombia, for different actors within the network to come together for the first time to discuss various possibilities and strategies to carry out a review of existing tax incentives and to move towards a systematisation of the approval and evaluation process.

Focusing on tax incentives opened the opportunity to foster discussions within the recently established network on underlying issues related to tax incentives linked to progressivity, such as horizontal equity between taxation on labour and capital, efficiency in collecting taxes from the wealthiest individuals and larger companies, transparency and accountability, among other key topics. These conversations served as the groundwork upon which to build a much

broader agenda covering most of the elements that a progressive tax reform should encompass.

The political context also played a crucial role in strengthening a network determined to work together to influence tax policy decision-making. Former president Iván Duque, elected in 2018, was the only candidate who explicitly campaigned on the promise to introduce new tax incentives for large-scale investments and several specific sectors (to a tax code already overflowing with special regimes), contrary to all the evidence and recommendations of experts in the field. Additionally, he pledged to gradually phase out the wealth tax which Colombia had had since the early 20th century, arguing that this would promote investment.

His assumption of the presidency and his first tax reform, which contained many of these regressive and state-defunding elements, sent a clear signal to social and academic organisations about the need to engage in coordinated efforts (Rodríguez Llach 2018). This was done, first and foremost, to democratically oppose regressive measures and, secondly, to establish a strategic approach aimed at influencing a shift in the fiscal paradigm based on »trickle-down economics« to one centred on fiscal progressivity to reduce poverty and inequality.

IDENTIFYING THE DRIVERS OF CHANGE

Although the RTF's strategy was never formally documented as a theory of change, three main components can be identified: a communications strategy, an advocacy strategy, and a strategy for media campaigns.

With regard to the communications strategy, several components played pivotal roles as drivers of change. Firstly, educational work on tax-related issues was crucial in establishing a basic understanding that would facilitate substantive discussions on taxation in Colombia. Until that moment, technocratic and influential economic groups had been acting as gatekeepers in discussions about taxation, resulting in a tacit exclusion of the majority of the citizenry. This, in turn, translated into a lack of understanding for taxation principles and concepts or the main issues surrounding the tax system. Simplifying these concepts and principles, communicating the key features of the Colombian tax system (Observatorio Fiscal Universidad Javeriana 2018), and carrying out campaigns targeting a non-specialised audience, provided fertile ground for ensuing citizens' discussions about taxes.

Another key element in the communications strategy was the use of communicative techniques that disrupted conventional approaches to taxes. Videos on social media addressing various tax-related topics and current events, especially on platforms such as TikTok, reaching out to specific segments of the population, allowed the RTF to reach new audiences, including a younger population that rarely engaged in such discussions. These actions made it possible to approach the topic differently and draw attention to the Colombian tax system, not only through new messaging techniques and narratives, but also by employing innovative communication platforms.

These actions, combined with more traditional communication efforts relying on tools such as Op-Eds and press articles, facilitated a democratisation of the debate and helped influence the public discourse on taxation.² All this allowed new actors to engage with these issues and become more actively involved in civil society's call for a progressive tax reform.

In terms of advocacy, targeted strategies aimed at different actors led to lively discussions and proposals for progressive taxation. Targeting decision-makers and policymakers was key. By leveraging various connections and relationships of network members, a wide range of policymakers and influential decision-makers were persuaded to attend meetings and events organised by the RTF. They listened to the network's wide-ranging viewpoints and proposals, providing feedback and reactions. This not only strengthened the network's positions and proposals, making them politically feasible – it also helped build trust-based advisory relationships with these actors.

Simultaneously, an advisory relationship was established with the Legislative Working Units³ of Congress, capitalising on the technical expertise of various organisations within the network. Given that tax reforms are debated in Congress, a positioning as experts before parliamentary advisory groups was crucial in influencing perspectives on the need for reform of the tax system. Furthermore, open communication with these groups allowed the RTF to obtain valuable information in advance and to respond adequately to events as they unfolded. This relationship provided access to significant levers of influence, including the statements made during the Congressional hearings for the 2019 tax reform.⁴

Another crucial element was extending advocacy to a general audience, namely citizens. To achieve this, a key factor in attracting attention was to link the network's actions with various milestones in the national context, thereby connecting tax-related issues to topics closely followed by the public. During election campaigns, the Network conducted various analyses of candidates' proposals, debates, and interviews, which were subsequently disseminated through press articles and videos on social media.⁵ Similarly, during the COVID-19 pandemic, the network organised a series of

² Links to different articles featured by the RTF are available at: <https://www.elespectador.com/tags/red-de-trabajo-fiscal/>

³ The Legislative Working Units (Unidades de Trabajo Legislativo) are teams assigned to all members of Congress to advise, research, inform and instruct delegates on various topics relating to bills that are debated in Congress.

⁴ A video recording is available at: <https://www.youtube.com/watch?v=yxMRnrTCCOg&t=2343s>

⁵ See, for example, Espitia 2022.

webinars⁶ featuring highly recognised figures influential in shaping public opinion to advocate for progressive fiscal responses that would protect those hit hardest by the pandemic due to the absence of a sturdy social safety net. This coupled with interventions by different network members in high-visibility public forums organised by media outlets or trade unions and associations, turned the public discourse in favour of progressive tax policies.

Finally, the strategy of focusing on media actions constituted a third element strengthening the Network's role in the public sphere. Leveraging the wide-ranging skills of its members, high-impact actions were undertaken. For instance, some members of the RTF filed a constitutional complaint⁷ against the tax system for failing to comply with constitutional principles of progressivity, equity, and efficiency, sparking in-depth discussions about the progressivity of the tax system in various spaces (media and TV debates)⁸ that effectively influenced the public debate. The Network also presented concrete alternative tax reform proposals⁹ that were more progressive and generated greater revenue than those proposed by the government (Red de Trabajo Fiscal 2020). This encouraged citizens to envision different ways of reforming the tax system both to narrow socioeconomic gaps and better finance the Colombian state in the effort to respect the human rights of its population. All these tactics were accompanied by the involvement of public figures championing the network's messages and actions, thereby amplifying the network's influence across various segments of society.

6 See: <https://www.facebook.com/Dejusticia/videos/538072907074030/>; see also: <https://www.facebook.com/ofiscalpuj/videos/561910411160451/>; <https://www.facebook.com/fescol/videos/qu%C3%A9-pasa-con-los-mecanismos-constitucionales-de-control-democr%C3%A1tico-y-las-medidas/1464199233780881/>; <https://www.facebook.com/fescol/videos/entivodamos-inicio-al-tercer-conversacovid-de-la-red-fiscal-quierosaber-est%C3%A1n-en-/777172129483437>.

7 See <https://www.dejusticia.org/demandamos-todo-el-sistema-tributario-ante-la-corte-constitucional/>.

8 See also: <https://www.larepublica.co/analisis/jose-ignacio-lopez-2780651/demandar-el-estatuto-tributario-3051178>; <https://www.larepublica.co/analisis/jorge-ivan-gonzalez-506394/tributacion-regresiva-3014584>.

9 See also: https://www.ofiscal.org/_files/ugd/e33cdb_8e4b800b-2d254a8799e03e3d24dcc872.pdf.

ASSESSING THE OUTCOMES

While it takes time for a process of network-building and exerting influence on such a contentious issue as taxation to produce actual results, it is important to highlight some of the tangible outcomes that can be associated with the RTF's work on progressive taxation over the last five years.

Above all, public opinion has come to regard the RTF as an independent network, possessing the technical expertise to support its positions and proposals, whilst maintaining close ties to social movements and the citizenry. This unique profile and weighty voice in discussions about taxation in the country have earned it the status of an authoritative voice, frequently consulted by media, with extensive press coverage¹⁰ being devoted to its advocacy campaigns. This recognition was underscored by the RTF being included in the »People of the Year« 2021 edition¹¹ of the newspaper *El Espectador*, one of the most well-known and reputable media outlets in the country.

However, perhaps one of the most salient outcomes produced by the Network's activities can be seen in certain decisions regarding taxation and the proposals for tax reforms forwarded in Colombia in recent years. In the 2019 tax reform, for example, in collaboration with allies in Congress the RTF succeeded in having an article adopted mandating the creation of an expert commission to assess the relevance, reasonableness, and legality of tax incentives in the country, a priority issue for the RTF ever since its inception. This commission and the discussions surrounding the report it presented (Comisión de Expertos en Beneficios Tributarios 2021) were instrumental in the proposal included in the 2021 tax reform¹² to eliminate a significant number of unfair and regressive tax incentives.

Furthermore, the latest bill, passed in 2022, incorporated many of the proposals and recommendations made by the RTF (Ministerio de Hacienda y Crédito Público 2022). These included measures to combat tax evasion and avoidance, greater tax transparency through the publication of anonymised data from income tax returns, a revamped wealth tax with higher and progressive tax rates, higher taxes on capital gains and income from dividends, the elimination of tax incentives, as well as a tax on sugar-sweetened drinks and ultra-processed products, among other things. While there is still much work to be done to make the Colombian tax system truly progressive, these results undoubtedly constitute significant steps along the path.

It is important to mention that this reform included these components largely because some members of the RTF were appointed to positions in President Gustavo Petro's new government, providing the movement significant influence in the Ministry of Finance as well as in the Tax Administration (DIAN). The prior work of the network gathering academic inputs, promoting technical discussions about feasible progressive tax reforms, and introducing concrete proposals played a pivotal role in making possible the type of reform that was passed in 2022.

¹⁰ See also: <https://www.elespectador.com/economia/como-deberia-ser-la-proxima-reforma-tributaria-articulo/>
<https://www.semana.com/economia/articulo/reforma-tributaria-de-colombia-en-2021/308244/>.

¹¹ »La importancia de elevar el nivel a la discusión sobre los impuestos en Colombia« available at: <https://www.elespectador.com/economia/la-importancia-de-elevar-el-nivel-a-la-discusion-sobre-los-impuestos-en-colombia-personajes-del-ano-2021-el-espectador/>.

¹² Available at: https://www.minhacienda.gov.co/webcenter/ShowProperty?nodeId=%2FConexionContent%2FWCC_CLUSTER-160311%2F%2FidcPrimaryFile&revision=latestreleased.

LESSONS FROM THE RTF EXPERIENCE FOR ADVOCATES OF PROGRESSIVE TAXATION WORLDWIDE

From this recounting of the RTF's experience, valuable lessons can be learned for other civil society organisations, labour unions and tax justice movements all over the world in the quest to build and strengthen networks to influence political decisions that advance progressive taxation. Recognising that the political environment, the civil society ecosystem, and many other factors can change depending on context, the learnings outlined here are framed as generally and universally as possible to enhance their usefulness and facilitate their implementation in other settings.

One of the most significant lessons from the work of the RTF is the paramount importance of a flexible structure and governance system. This flexibility has proven to be a cornerstone of our success, enabling us to respond swiftly to critical junctures and emerging issues without being bogged down by cumbersome decision-making processes. Unlike more rigid organisational models, the adaptable structure of the Network has allowed it to remain agile in a rapidly changing environment. When faced with opportunities or challenges, it is able to mobilise members and resources efficiently, making timely interventions that can have a profound impact on advocacy efforts. This flexibility has allowed the members to participate in actions that resonate with their individual priorities and expertise while declining involvement in initiatives that may be constrained by funders' limitations or strategic considerations. Ultimately, this emphasis on adaptability has made the RTF more resilient and better equipped to navigate the complex landscape of social and political change.

Another critical lesson gleaned from the work of the RTF is the critical importance of presenting concrete alternative tax reforms proposals with sophisticated technical content. This approach has served as a linchpin in the Network's advocacy efforts, as it not only highlights the existence of viable alternatives, but also underscores the Network's technical capacity and commitment in proposing solutions that align with principles of progressive taxation. By consistently delivering comprehensive and well-informed tax reform proposals, the RTF has signalled to policymakers and the public that there are alternative paths forward that can significantly reduce inequality while simultaneously bolstering revenue streams. This emphasis on substantive tax reform has not only shaped the discourse, but also strengthened the Network's credibility

and reliability as a proactive force in addressing socio-economic disparities and advocating for tax policies that benefit broader society.

Finally, diversity of capabilities, expertise, profiles, and connections among RTF members has been an invaluable asset as well. This diversity has proven to be a catalyst in building political momentum and reaching a wide range of actors across various sectors. The RTF has demonstrated the remarkable impact that organisations can have by focusing on taxation from multiple perspectives. Some members specialise in economic aspects, while others approach it from a tax law perspective, while yet others view it through the lens of human rights. Each of these vantage points contributes to a rich tapestry of arguments, narratives, and strategic approaches that enhance collective advocacy efforts.

Moreover, the presence of organisations with established relationships among a wide variety of political actors, such as labour unions, environmental and feminist movements has expanded its reach, enabling it to engage with a multitude of diverse stakeholders.

Engaging in tax justice advocacy is a task that may seem distant and impenetrable to the general public, often shrouded as it were in technical discussions and shielded by powerful interest groups. However, tax justice is a pivotal component in the struggle against socioeconomic inequalities, both at the national and global levels. Mobilising society is essential to counter lobbies' grip on fiscal policies and to ensure that these policies work for the betterment of society. They should serve as a means to finance public services, thereby reducing poverty and inequality, as well as urgently needed funding for the transition to clean energy and to address climate change.

Constructing multidisciplinary networks with diverse membership representing various perspectives on taxation, and bolstered through academic support, proves to be an effective strategy for building political momentum and obtaining critical mass to push for the implementation of progressive reforms. These reforms should primarily focus on taxing capital and wealth, with the aim of contributing to social justice and upholding the democratic principles of our soci-

eties. The COVID-19 pandemic, the crisis in the cost of living due to rising food and energy prices, and the looming threat of climate change have underscored the urgent need to shift the fiscal paradigm if societies are to achieve their social and environmental aims and objectives.

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Against the background of a regressive tax reform in Colombia the Red de Trabajo Fiscal (RTF) was born. It is composed of civil society organisations and thinktanks from the country's most renowned universities. Combining their strengths and experience, the RTF managed to form a powerful coalition that succeeded in creating a new political force in Colombia with the aim of achieving progressive tax reform. In 2019 an expert commission was established to assess the relevance, reasonableness, and legality of tax incentives in the country. This commission and the discussions generated by its report were instrumental in the proposal included in the 2022 tax reform to eliminate a significant number of unfair and regressive tax incentives. The author illustrates how this successful campaign was build and which lessons can be drawn from the Colombian experience for tax justice advocacy in other places.

Further information on the topic can be found here:

<https://www.fes.de/themenportal-die-welt-gerecht-gestalten/weltwirtschaft-und-unternehmensverantwortung/steuergerechtigkeit>

