

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Mainstreaming Climate Change into Fiscal Policies and Management
▪ TC Number:	RG-T4163
▪ Team Leader/Members:	Buttazzoni, Marco (IFD/FMM) Team Leader; Delgado, C. Raul (CSD/CCS) Alternate Team Leader; Alejos Marroquin, Luis Alejandro (IFD/FMM); Ardanaz, Martin Jorge (IFD/FMM); Astudillo, Karen (IFD/FMM); Belinda Perez (IFD/FMM); Calijuri, Monica (IFD/FMM); Canillas Gomez, Mariana Belen (IFD/FMM); Carmen Montesinos Ibanez (IFD/FMM); Gomez Reino, Juan Luis (IFD/FMM); Gonzalez De Frutos, Ubaldo Jesus (IFD/FMM); Harper, Leslie Elizabeth (IFD/FMM); Kevish, Maria Lorena (IFD/FMM); Lacambra Ayuso, Sergio (CSD/RND); Lora Rocha, Oscar (IFD/FMM); Marcio Alvarenga (IFD/FMM); Maria Cristina Mac Dowell (IFD/FMM); Martinez Fritscher, Andre Carlos (IFD/FMM); Nicaretta, Romina Tan (KIC/URC); Pimenta, Carlos Cesar (IFD/FMM); Reyes-Tagle, Gerardo (IFD/FMM); Sangines, Mario F (IFD/FMM); Suarez Vazquez, Gines (CSD/RND); Torres Pelaez, Daniela (IFD/FMM); Valencia Arana, Oscar Mauricio (IFD/FMM); Vila Saint-Etienne, Sara (LEG/SGO); Vogt-Schilb, Adrien (CSD/CCS), Marco (IFD/FMM) Team Leader; Delgado, C. Raul (CSD/CCS) Alternate Team Leader; Alejos Marroquin, Luis Alejandro (IFD/FMM); Ardanaz, Martin Jorge (IFD/FMM); Astudillo, Karen (IFD/FMM); Belinda Perez (IFD/FMM); Calijuri, Monica (IFD/FMM); Canillas Gomez, Mariana Belen (IFD/FMM); Carmen Montesinos Ibanez (IFD/FMM); Gomez Reino, Juan Luis (IFD/FMM); Gonzalez De Frutos, Ubaldo Jesus (IFD/FMM); Harper, Leslie Elizabeth (IFD/FMM); Kevish, Maria Lorena (IFD/FMM); Lacambra Ayuso, Sergio (CSD/RND); Lora Rocha, Oscar (IFD/FMM); Marcio Alvarenga (IFD/FMM); Maria Cristina Mac Dowell (IFD/FMM); Martinez Fritscher, Andre Carlos (IFD/FMM); Nicaretta, Romina Tan (KIC/URC); Pimenta, Carlos Cesar (IFD/FMM); Reyes-Tagle, Gerardo (IFD/FMM); Sangines, Mario F (IFD/FMM); Suarez Vazquez, Gines (CSD/RND); Torres Pelaez, Daniela (IFD/FMM); Valencia Arana, Oscar Mauricio (IFD/FMM); Vila Saint-Etienne, Sara (LEG/SGO); Vogt-Schilb, Adrien (CSD/CCS)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	
▪ Date of TC Abstract authorization:	24 Aug 2022.
▪ Beneficiary:	Ministries of Finance of: Argentina, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Perú, Paraguay and Suriname
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Fostering Fiscal Policy for Climate Change in Latin America and the Caribbean(FFP)
▪ IDB Funding Requested:	US\$1,800,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months of disbursement period, and 36 months of execution period
▪ Required start date:	March 1, 2023
▪ Types of consultants:	Individuals and firms
▪ Prepared by Unit:	IFD/FMM-Fiscal Management Division
▪ Unit of Disbursement Responsibility:	IFD/FMM-Fiscal Management Division
▪ TC included in Country Strategy (y/n):	Yes

▪ TC included in CPD (y/n):	NA
▪ Alignment to the Update to the Institutional Strategy 2020-2023:	Institutional capacity and rule of law; Environmental sustainability

II. Objectives and Justification of the TC

- 2.1 The objective of this TC is to focus on existing knowledge gaps to identify needs and opportunities to improve climate change actions within the finance ministries in the region. The specific objectives are to: (i) analyze international best practices and assess their applicability in LAC; (ii) develop specific knowledge products such as studies, methodologies, tools, models, guidelines; and (iii) implement training activities designed to address the needs of Ministries of Finance in the region.
- 2.2 Justification. The adoption of the 2030 Agenda for Sustainable Development and the PA established an unprecedented commitment to make the current economic and social models sustainable, resilient and net-zero carbon emissions. With the adoption of the PA countries committed to limit the increase in global average temperature to a level below 2°C pre-industrial temperature and pursue efforts to limit the increase to 1.5°C. These commitments are reflected in National Determined Contributions (NDCs) and Long Term Decarbonization Strategies (LTSS) in which individual countries establish their own decarbonization and climate resilience objectives.
- 2.3 Achieving the PA goals requires that all countries invest significant resources in climate resiliency and achieve net-zero emissions economies by the 2050s. Such transformations are technically possible and economically viable, but require substantial changes in investment and expenditure patterns, both in the public and in the private sector.
- 2.4 The Ministries of Finance of Latin America and the Caribbean (LAC) have a critical role in mobilizing the economic resources (public and private) needed to implement decarbonization and climate resilience strategies and thus achieve the objectives of the PA. This requires implementing strategies and measures to incorporate the climate dimension in all the activities of the ministries of finance.
- 2.5 Finance ministries across LAC have been increasingly engaged in the climate agenda. They have started to assess the pressures that physical climate change and decarbonization may bring on fiscal balances and are developing fiscal policies and management tools to mainstream climate change. Several countries in the region have adhered to the Helsinki Principles that establish the key areas of intervention of the Ministries of Finance within the framework of the PA.
- 2.6 While important progress has been made, especially in some countries, substantial gaps still exist in most LAC countries: climate risk and opportunities are not fully embedded in macro fiscal analysis; public financial management system don't fully track climate-related spending; public investment and procurement could be used more effectively to pursue decarbonization and climate resiliency goals; fiscal revenues and incentives could be better aligned with climate change goals; governance conditions should be setup for disaster risk management and climate change adaptation, and financing of climate action¹ and the management of debt could be improved. For example, FMM's databases show that only Colombia,

¹ Climate action refers to both decarbonization and resilience.

Costa Rica, and El Salvador evaluate the fiscal risks from extreme weather events, and only one evaluates the fiscal risks from decarbonization. Only five countries (Ecuador, Honduras, Mexico, Nicaragua y Peru) implemented systems to identify and evaluate climate change -related budget expenditures, while one such systems can tag expenditure with negative climate impact. Only Colombia, Perú, Costa Rica, Mexico, and Nicaragua incorporated climate change considerations in public investment management systems and one country (Colombia) has a green taxonomy. Climate change considerations are used in seven in public procurement systems (Brazil, Chile, Costa Rica, El Salvador, Mexico, Barbados, and Guyana) and five countries (Argentina, Chile, Colombia, Mexico, and Uruguay) introduced some form of carbon pricing/tax, but current carbon prices are too low to compensate for the environmental costs of carbon emissions. Finally, two countries (Chile and Belize) have a green financial strategy

- 2.7 **Beneficiaries.** The beneficiaries of this TC are the Ministries of Finance of: Argentina, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, Mexico, Peru, Paraguay and Suriname. These countries were s elected in coordination with the FFP Donor and based on the following criteria: (i) they are classified as an Official Development Assistance (ODA) country by the Organization for Economic Co-operation and Development (OECD)—updated every three years by the OECD, the last version available effective for reporting on 2020 flows; (ii) they are listed as core International Climate Initiative (IKI) countries in Latin America and the Caribbean; (iii) they have made progress on mainstreaming climate change on fiscal policies and management, including actions to mainstream climate change on (i) macro fiscal policies; (ii) public expenditures; (iii) taxes and subsidies and (iv) the leading role of the finance ministries on National Determined Contributions (NDC) and Long-term Strategy; (v) the level of engagement of countries with IDB fiscal projects that include climate finance; and (vi) commitments of fiscal policies on NDC including a review of the NDCs and the identification of concrete fiscal related initiatives to support its implementation.
- 2.8 **Strategic Alignment.** This TC is aligned with the Second Update of the IDB Institutional Strategy 2020-2023 (AB-3190-2), specifically with the cross-cutting themes of: (i) institutional capacity and rule of law, by strengthening the capacity of the government institutions in matters of fiscal management, improving effectiveness and transparency; (ii) climate change, by supporting the incorporation of climate change mitigation and adaptation issues in fiscal policies and management and (iii) environmental sustainability, by incorporating the potential impacts of natural disasters in fiscal sustainability and promoting the management of public investment in sustainable infrastructure. In a complementary manner, the TC is aligned with the Corporate Results Framework 2020-2023 (GN2727-12) by strengthening the IDB's operational work in the cross-cutting issues of climate change and environmental sustainability, as well as the area of institutional capacity building.
- 2.9 This TC is also aligned with the Country Strategies with: (i) Argentina (GN-3051) through the inclusion of multisector actions to improve the reliance of climate change and low-emission economies; (ii) Brazil (GN-2973) mainly in the area of building a public sector that promotes fiscal sustainability and is more efficient while being consistent with the cross-cutting challenge of ensuring environmental sustainability and mitigating climate change and its impacts; (iii) Colombia

(GN-2972) by structuring innovative financing models for addressing the economic and social impacts of climate change; (iv) Costa Rica (GN-2977) by creating a more effective fiscal policy, as well as with respect to the crosscutting strategic pillar of climate change; (v) Dominican Republic (GN-3084) through cross-cutting issue of climate change adaptation; (vi) Ecuador (GN-3103-1) through the cross-cutting issue of climate change and environmental sustainability; (vii) Mexico (GN-2982) through targeted actions related to climate change; (viii) Perú (GN-3110-1) by focusing on cross cutting themes of climate change; (ix) Paraguay (GN-2958) by ensuring activities in climate change and environmental sustainability; and (x) Suriname (GN-3065) through the cross-cutting issue of climate change and environmental sustainability.

- 2.10 This TC is aligned with the Sector Framework Document for Fiscal Policy (GN-28318), which prioritizes increasing the use of fiscal policies and public finance management to tackle climate change. It is also aligned with the Climate Change Sector Framework document (GN2835-8), in particular with the dimensions of supporting countries so that they have (i) institutions that integrate the national objectives and commitments towards climate-resilient and low carbon development; (ii) access to climate finance and effectiveness of its use; (iii) knowledge to effectively support a just transition to a low-carbon, climate-resilient economy; (iv) advances in the incorporation of climate considerations in all sectors affected by ministries of finance actions; and (vi) national systems which articulate disaster risk management and climate change adaptation. Furthermore, this TC is aligned with the Disaster Risk Management Policy (GN-2345-3), which emphasizes a proactive risk reduction approach before disasters occur. Finally, this project is consistent with the three eligible pillars of the Fiscal Policy for Climate Change in Latin America and the Caribbean Fund (FFP): (i) Pillar 1 “Development of fiscal management and financial transparency frameworks for climate change” through the design of a long term climate strategy aligned with current NDCs; a climate finance strategy and action plan for its integration by the Ministry of Finance of Suriname, as well as providing support for the enhancement of fiscal policies, norms, regulations identified in the long-term strategies; and (ii) Pillar 2 “Support the implementation of fiscal management instruments and methodologies and the respective capacity building” and Pillar 3 “Establishment of mechanisms to facilitate the exchange of best practices and track regional progress” through the technical the improvement of public financial management according to the strategy within the Pillar 1 and regional dissemination and knowledge products in fiscal policy and climate change respectively.
- 2.11 Contribution to the Bank’s operative program. This TC will coordinate with other on-going projects that support activities related to developing methodologies, standards, and capacity to integrate and mainstream climate action into fiscal policies and management such as ATN/OC-19028-RG (Fiscal Policy for Climate Change: Support to the Ministries of Finance of Latin America and the Caribbean) and ATN/AC18114-RG; ATN/OC-18115-RG; and ATN/OC-18116-RG (Fiscal Policy and Climate Change). The mentioned TCs developed instruments to integrate climate change into public investment management system and designed an introductory course on how the ministries of finance can mainstream climate change in fiscal policy and management and set up the knowledge agenda for the mainstreaming of climate action in fiscal policy and management and developed a methodology for climate expenditure classification respectively. This

TC will expand these results by developing complementary knowledge products to further support operationalization, including pilot projects.

- 2.12 This TC has been designed in close coordination with the project RG-T4158 “Regional Climate Change Platform of Economy and Finance Ministries”, which aims at supporting the launch and operation of the Regional Climate Change Platform of Economy and Finance Ministries by facilitating a robust dialogue among these ministries on how to incorporate climate change into economic and fiscal policy and for the development of a regional vision of economic sustainability and climate change. The work of both TCs is highly complementary, this TC will produce highly technical knowledge products and tools to integrate climate action into fiscal policy and management, while RG-T4158 focuses on products that inform and enhance a robust dialogue between ministries of finance within the work plan of the Platform.

III. Description of activities/components and budget

- 3.1 **Component 1. Development of knowledge products to integrate climate action² in fiscal policy and management (US\$1,050,000).** The objective of this component is to develop knowledge products such as background studies, methodologies, models, guidelines, and others aimed at integrating climate action into fiscal policy and management. In order to achieve this objective a consulting firm and consultants will be hired. Specifically, this component will finance: (i) institutional arrangements for climate governance and intersectoral coordination; (ii) analyses of best international practices for mainstreaming of climate action and disaster risk management into fiscal management and policies; (iii) developing methodologies to integrate climate action in fiscal strategic planning and policy; (iv) assessing public expenditures, public investment management and green and sustainable public procurement for climate action; (v) methodologies to identify subsidies with negative impact on GHG emissions or climate resilience and quantify their impacts; and (vi) financing climate action and managing debt.
- 3.2 **Component 2. Regional tracking tool on climate related fiscal resources (US\$300,00).** The objective of this component is to create a regional tracking tool to monitor public expenditures caused by climate change, public investment in decarbonization and resilience, and climate finance flows. In order to achieve this objective a consulting firm will be hired. This knowledge product will increase transparency over the fiscal resources directed towards decarbonization and climate change resilience in the region. This will enable ministries of finance, as well as donor countries, to monitor progress, document good practices, and identify opportunities for improvement. This component will finance: (i) developing a common set of indicators to assess countries’ progress over time; (ii) writing guidelines for data collection and system updating; (iii) producing a dashboard to present, in a user-friendly manner, the selected indicators, once activities (i) and (ii) of this component are completed. This information will be publicly available to increase transparency about public funds related to climate change.
- 3.3 **Component 3. Knowledge and results dissemination (US\$450,000).** The objective of this component is to disseminate knowledge products produced in Components 1 and 2. In order to achieve this objective a consulting firm and

² Climate action in the context of this project incorporates decarbonization, climate change resiliency and disaster risk management.

consultants will be hired. This component will finance: (i) integrating resources and fiscal policies and management practices; (ii) publishing technical documents, manuals, and guidelines; (iii) producing events and courses to be delivered in-person, virtually or hybrid format; and (iv) holding an annual regional conference and a knowledge network (composed of experts, policy makers and academic institutions) on fiscal policies for decarbonization, resiliency and disaster risk management. Knowledge products will be disseminated among ministries of finance, public officials from other ministries and other stakeholders with relevance for climate action.

- 3.4 All knowledge products derived from this TC will be the Bank's intellectual property. Any studies report or other knowledge products (e.g., material, graphic, software or otherwise), prepared as stated in the Procurement Plan (Annex IV) will be the Bank's intellectual property. All intellectual property rights in the outputs produced under this TC are vested in the executing agency, the Fiscal and Municipal Management Division (IFD/FMM). Knowledge products will be published through the Bank's web page and other official communication channels.
- 3.5 **Budget.** The total cost of this TC will be US\$1,800,000, which will be financed by the Bank through the Fostering Fiscal Policy for Climate Change in Latin America and the Caribbean (FFP) Fund. The UDR will be the Fiscal Management Division at IDB Headquarters (IFD/FMM). The execution period of this TC will be 36 months, and the disbursement period will be 36 months.

Indicative Budget (US\$)

Activity/Component	Description	IDB/FFP	Total Funding
Component 1. Development of knowledge products to integrate climate action in fiscal policies and management	Develop knowledge products such as background studies, methodologies, models, guidelines, and others aimed at integrating climate action into fiscal policy and management.	1,050,000	1,050,000
Component 2. Regional tracking system on climate-related fiscal resources	Create a regional tracking system to monitor public expenditures caused by climate change, public investment in decarbonization and resilience, and climate finance flows.	300,000	300,000
Component 3. Knowledge and results dissemination	Disseminate knowledge products produced in Components 1 and 2.	450,000	450,000
Total		1,800,000	1,800,000

- 3.6 **Supervision, monitoring and evaluation.** The project team leader of IFD/FMM will be responsible for the supervision, monitoring and evaluation of the TC in close coordination with the alternate team leader and other members of the team. The team leader It will also be responsible for the financial execution of the operation. The project will be monitored and evaluated according to the annual goals and indicators of the results and products that make up the TC results matrix.

IV. Executing agency and execution structure

- 4.1 **Executing Agency.** 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 the Climate Change Division (CSD/CCS), the Environment Rural Development and Disaster Risk Management Division (CSD/RND), Country Office Specialists, IFD/FMM country specialists, and respective ministries of finance of participating countries. In addition, prior to the start of the implementation of the activities under Components 1 and/or 2 of this TC in each country, the corresponding non-objection will be obtained from the Bank's liaison entity.

- 4.2 **Procurement.** 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.

V. Major issues

- 5.1 A risk for the TC is the possible lack of prioritization, among the Ministries of Finance, of the methodologies, tools and fiscal management instruments developed within the framework of this TC, which would compromise the objective of influencing decision-making. This risk will be managed through close coordination with the in-country projects funded by FFP and through continuous dialogue with participating countries, including through the technical groups of the Platform of the ministries of finance.
- 5.2 There is a risk that difficulties will arise during the development of the knowledge products envisioned for Component 1, due to the differences in availability of information and capacities in the participating countries. This risk will be mitigated by hiring professionals with extensive experience in the TC subjects, and by requiring the development of knowledge products that can be adapted to different national demands and circumstances.
- 5.3 A risk for the longer sustainability of the products and results of this TC is the lack of appropriation by high-level ministry officials, which could result from a lack of capacity and interest or from turnover in key ministry personnel. To mitigate this risk, deliverable and action plans will be validated regularly with senior officials of the participating countries, starting early in the project implementation cycle and with regular follow up discussions of progress and good practices. Additionally, technical training sessions will be held regularly, to disseminate the TC products within the ministries, highlight their usefulness and potential and encourage their use. Finally, reports, manuals and on-line courses will help disseminate the results of the TC and help expand its impact in the region.

VI. Exceptions to Bank policy

- 6.1 This TC does not involve exceptions related to the Bank's policies.

VII. Environmental and Social Strategy

- 7.1 This TC will not finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements, of the Banks's Environmental and Social Policy Framework (GN-2965-23).

Required Annexes:

[Results Matrix - RG-T4163](#)

[Terms of Reference - RG-T4163](#)

[Procurement Plan - RG-T4163](#)