

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	Strengthening fiscal risk management to achieve a fiscally and environmentally sustainable energy transition in LAC
▪ TC Number:	RG-T4257
▪ Team Leader/Members:	REYES-TAGLE, GERARDO (IFD/FMM) Team Leader; ROMAN SANCHEZ, SUSANA (IFD/FMM); ASTUDILLO, KAREN (IFD/FMM); SARA VILA SAINTETIENNE (LEG/SGO); LUIS RECALDE (IFD/FMM)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	14 Mar 2023
▪ Beneficiary:	Bolivia, Costa Rica and Paraguay,
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$1,100,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	36 months
▪ Types of consultants:	Individuals; 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):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

II. Objective and Justification

- 2.1 The main objective of this technical cooperation is to conduct in depth -research and elaborate diagnostic products that serve as input to strengthening and building capacities for the management of fiscal risks associated with climate change mitigation and adaptation to promote and maintain an environmentally and fiscally sustainable energy transition. To achieve this objective, this technical cooperation will focus on the following activities: (i) analysis of fiscal risk associated with stranded assets with emphasis on those related to the energy and extractive sectors; and (ii) strengthening the governance and investment frameworks of public enterprises for climate change mitigation, and iii) improving knowledge on fiscal regimes of extractive industries to turn them into drivers of a sustainable and effective energy transition.
- 2.2 It is essential to improve capacities for the management of fiscal risks arising from low carbon transition policies, especially in those arising from the direct state participation in the energy sector, including the extractive industries. To strengthen these capacities in a cross-cutting manner, it will be necessary to advance in the generation of knowledge and diagnostics that serve as a baseline to design or adapt existing tools and methodologies for fiscal management in the region, which will allow a political response to climate change that goes hand in hand with a sustainable management of public finances.

III. Description of Activities and Outputs

- 3.1 **Component I: Deepening knowledge and building capabilities for fiscal risk management of stranded assets arising from the transition to a low-carbon economy.** This component will finance the following activities: (i) analysis of fiscal exposure to stranded asset risk in energy transition; (ii) actuarial study on cost of relocating or laying off human resources in state-owned assets; (iii) adapt risk management frameworks to include stranded asset risk; and (iv) develop roadmap to strengthen technical/institutional capacities for stranded asset management.
- 3.2 **Component II: Strengthening climate governance in State-Owned Enterprises (SOEs) to cope with a transition to a decarbonizing economy.** This component seeks to strengthen management and governance of public enterprises and their public investment frameworks to reduce emissions, increase climate resilience and adapt to business model changes. It will finance: (i) mapping of SOEs; (ii) diagnosis of tech and data-analysis; (iii) design of proposals for green investments; and (iv) analysis of institutional capacities for climate governance.
- 3.3 **Component III: Adapting tax regimes to achieve extractive industries as enablers of an environmentally and fiscally sustainable energy transition.** This component seeks to improve knowledge on fiscal regimes of extractive industries to propose reforms accelerating energy transition.
- 3.4 **Component IV: Dissemination of knowledge, training, and monitoring. this component will finance the following activities.** (i) the publication and dissemination of technical documents; (ii) training activities in the areas of intervention proposed in previous components; and (iii) exchange of best practices at the national level and iv) monitoring activities to evaluate the progress of the proposed activities

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Deepening knowledge and building capabilities for fiscal risk management of stranded assets arising from the transition to a low-carbon economy	US\$600,000.00	US\$0.00	US\$600,000.00
Strengthening climate governance in State-Owned Enterprises (SOEs) to cope with a transition to a decarbonizing economy	US\$200,000.00	US\$0.00	US\$200,000.00
Adapting tax regimes to achieve extractive industries as enablers of an environmentally and fiscally sustainable energy transition	US\$200,000.00	US\$0.00	US\$200,000.00
Dissemination of knowledge, training, and monitoring. this component will finance the following activities	US\$100,000.00	US\$0.00	US\$100,000.00
Total	US\$1,100,000.00	US\$0.00	US\$1,100,000.00

V. Executing Agency and Execution Structure

- 5.1 The Bank will be executing the technical cooperation through the Fiscal Management Division (FMM).
- 5.2 The Bank will be executing the technical cooperation through the Fiscal Management Division (FMM). The activities will be closely coordinated by the fiscal specialists in the selected countries as well as the fund coordinators, who will present the country's requirement and will evaluate: (i) the alignment with the objectives of the TC; (ii) the impact and additionality with the program in the fiscal area in the countries; and (iii) the complementarity with other related TCs.

VI. Project Risks and Issues

- 6.1 Some potential risks are: (i) Identification and selection of adequate human resources within the various beneficiary institutions assigned with sufficient time to strengthening capacity; (ii) availability of quality information from the Ministries of Finance or similar agencies for the development of the different products of the TC, and (iii) difficulties in coordinating multidisciplinary teams, as well as expected delays in coordination processes between internal areas of the bank. Some mitigation efforts could include: (a) recruit new local human talent and retain within the beneficiary institutions by providing adequate incentives and capacity building to fill gaps within the executing agency over the life of the project, mitigating the current unavailability of human resources; (b) on-site technical visits to collect information and data; and (c) promote coordination mechanisms and continuous dialogue between different areas of the bank.

VII. Environmental and Social Classification

- 7.1 The ESG classification for this operation is "undefined".