

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Fiscal Policy in the Transition to the New Economy in the wake of COVID-19: Lessons from Korea's Digital and Green New Deal
▪ TC Number:	RG-T3989
▪ Team Leader/Members:	Reyes-Tagle, Gerardo (IFD/FMM) Team Leader; Acevedo Calle, Daniela (LEG/SGO); Astudillo, Karen (IFD/FMM); Canillas Gomez, Mariana Belen (IFD/FMM); Hyunjoon Joo (IFD/FMM); Ospina Garnica, Laura Alejandra (IFD/FMM); Park Kwon, Yery (IFD/FMM); Park, Yaerin (IFD/FMM); Roman Sanchez, Susana (IFD/FMM) Hyunjoon Joo (IFD/FMM); Ospina Garnica, Laura Alejandra (IFD/FMM); Park Kwon, Yery (IFD/FMM); Park, Yaerin (IFD/FMM); Roman Sanchez, Susana (IFD/FMM)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	13 Sep 2021.
▪ Beneficiary:	IDB's Borrowing member countries
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Public Capacity Building Korea Fund for Economic Development(KPC)
▪ IDB Funding Requested:	US\$500,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months of execution and 37 months for disbursements
▪ Required start date:	November 2021
▪ Types of consultants:	Individual
▪ Prepared by Unit:	IFD/FMM-Fiscal Management Division
▪ Unit of Disbursement Responsibility:	IFD/FMM-Fiscal Management Division
▪ TC included in Country Strategy (y/n):	n/a
▪ TC included in CPD (y/n):	n/a
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

II. Objectives and Justification of the TC

- 2.1 The objective of this technical cooperation (TC) is to support LAC governments by sharing knowledge to design and implement a new socio-economic paradigm and relevant fiscal policy to tackle economic and social challenges triggered by the COVID-19 pandemic and promote sustainable growth. This TC is designed to support IDB's member country governments (i) to identify economic and social policy priority areas and establish an overarching national strategy for post-pandemic recovery; and (ii) to implement relevant fiscal policy and tax benefits, and to mobilize public and private investment to promote socio-economic growth and new industries in the wake of the current pandemic.

- 2.2 **Justification.** LAC's economy has been hit hard by the current pandemic, with the sharpest contraction of the GDP of 6.8% in 2020.¹ While the economic recovery is still uncertain and there are variations among countries, it is projected that the LAC economy will partly recover during the course of 2021 and 2022 with an estimated economic growth rate of 5.2% in 2021 and 2.6% in 2022, respectively.² To boost socio-economic recovery and growth, there is an increasing demand for new strategies and programs, and sound fiscal policy and management tools and mechanisms to protect vulnerable populations from the negative impacts of COVID-19 and regain economic growth drivers. For this purpose, there is a growing need for peer learning and knowledge sharing among countries in the global economy for rapid recovery from the impacts of COVID-19.
- 2.3 In July 2020, the Korean government announced the Korean New Deal Policy to address their economic recession and promote structural transformation of the Korea's economy and society as a crucial post-pandemic recovery plan. The Korean government plans to invest US\$ 144 billion to create 1,901,000 jobs by 2025 based on two main areas – Digital New Deal and Green New Deal – to promote job creation and social safety nets.³ The New Deal plan identifies ten key projects in green infrastructure, innovation in mobility and technology, green healthcare, and renewable energy. Also, Korea has pledged for the transition to a low-carbon economy by setting a target of net-zero carbon emissions by 2050 and introducing a carbon tax. Thus, the Korean New Deal policy is a comprehensive plan to shift Korea's economy and society to a new paradigm in the wake of the COVID-19 pandemic. The Korean government plans to implement various fiscal measures, including providing tax incentives and breaks for the Digital and Green New Deal industries, and established the New Deal Policy Fund to jointly mobilize investment through public and private collaboration to fund New Deal projects.
- 2.4 The webinar hosted by the Fiscal Management Division (FMM) of the IDB and the Korean Ministry of Economy and Finance (MOEF) last year in June 2020, introduced Korea's fiscal policy responses to COVID-19. The webinar shared Korea's various fiscal relief tools and policy measures, which provided critical policy implications for LAC countries striving to make post-pandemic social and economic recovery through effective fiscal measures. Particularly, the concept of the Korean New Deal was introduced in the webinar, and it had been well received by the participants from the LAC region. The lessons learned from LAC-Korea cooperation up to date such as the aforementioned webinar, have become crucial justification and motivation to launch this TC.
- 2.5 Against this backdrop, this TC will analyze LAC countries' economic and social policy priority areas and address fiscal and socio-economic challenges on the path to the post-pandemic recovery by utilizing Korea's experience. As LAC countries seek policy avenues and overcome economic and social losses caused by COVID-19, this TC aims to share policy knowledge and promote peer learning and mutual understanding of the best practices of post-pandemic recovery plans and relevant fiscal tools.
- 2.6 This TC will contribute to the design of new operations related to social and economic post-pandemic recovery plans through: (i) in-depth research of the current policy

¹ UN ECLAC. (July 8, 2021). and [The recovery paradox in Latin America the Caribbean](#).

² *Idem*.

³ [Government of the Republic of Korea](#).

challenges, fiscal space and fiscal gaps that will need to be addressed in the post pandemic recovery; and (ii) by providing best practices on fiscal policy and management.

- 2.7 **Alignment.** This TC is consistent with the Second Update to the Institutional Strategy 2020-2023 (AB-3190-2) and is strategically aligned to the cross-sectional area of Institutional Capacity and the Rule of Law, by (i) strengthening the management and planning of public resources which supports the establishment of more distributive fiscal policies contributing to remediate the structural and emerging development challenges stemming from social exclusion and inequality resulted from the COVID-19 pandemic, and (ii) strengthening policy management and institutional capacity to expand investments in preconditions and the development of instruments that nurture innovation and sustainability across sectors, and to create opportunities for economic and social growth and productivity in the post-pandemic era. . The operation contributes to the Corporate Results Framework 2020-2023 (GN-2727-12) through the indicator of support to countries in strengthening the fiscal, tax and expenditure policy and management. Likewise, it is aligned with the priorities of the Sector Strategy on Institutions for the Promotion of Growth and Social Welfare (GN-2587-2), and is consistent with the Sectorial Frameworks for Fiscal Policy and Management (GN-2831-8) which underscores the importance of institutional capacity-building in the public sector to design and implement fiscal policies that improve efficient mobilization and allocation of resources that improve social inclusion and equity, strengthening of institutional capacity to design and implement fiscal policies to improve the allocation of resource for investment expenditure in public infrastructure.
- 2.8 This TC will create synergies with ongoing operations and regional initiatives related to fiscal policy and management approaches in the context of post-pandemic recovery, including “Support to deal with the Economic and Social Effects of COVID-19 Through the Strengthening of Fiscal Policy and Management in CID” (ATN/OC-1855-RG); “Support to the Development of Fiscal Policy with Equity as a Response to COVID-19” (ATN/OC-18118-RG); “Macro-Fiscal Monitoring for LAC in the Pandemic and Post-Pandemic” (ATN/OC-18398-RG); and “Tools to Design Fiscal Transition and Recovery Policies in Response to the COVID-19 Pandemic”(ATN/OC-18381-RG). Particularly, this TC will complement the activities of the current operations by: (i) providing tailored diagnostics and methodology of fiscal policy and management for economic and social recovery for participating countries; (ii) expanding knowledge by bringing best practices and experience including the Korean case in post-pandemic recovery policy planning and implementation; and (iii) building a global knowledge sharing network of fiscal policy experts from LAC countries and other countries including Korea.
- 2.9 In addition, this TC is aligned with and will create a synergetic effect with the ongoing operations such as “Development of the institutional fiscal capacity of Public Private Partnerships” (PPPs) (ATN/KR-16172-RG) given that it dealt with the Korean experience in PPPs’ boosting public investment and achieving higher economic growth, and this proposed TC will look into the aspects of public and private collaboration for public investments and resource mobilization in priority policy areas for social and economic recovery. Also, this TC is well aligned with the TC “Securing Fiscal Space in the Time of COVID-19: Tax Relief and Tax Expenditures Capacity Building in LAC” (ATN/KR-18608-RG), which is aimed to share Korea’s knowledge and experience in monitoring and managing tax relief and expenditures. Along with the aforementioned operation, this proposed TC will promote knowledge sharing on

implementing fiscal and tax policy especially in the context of post-COVID-19. This TC also responds to the objective of the KPC (Public Capacity Building Korea Fund for Economic Development) stipulated in the Fund operational guidelines which is to strengthen public sector management in all fiscal related sectors through assistance aimed at facilitating efficient allocation and use of public sector resources to generate higher public value at the national and the sub-national government level.

III. Description of activities/components and budget

- 3.1 **Component 1. Diagnostics on LAC countries policy challenges and fiscal gaps for post-pandemic recovery (US\$200,000).** This component aims to research in depth how selected LAC countries have been dealing with COVID-19 in the fiscal policy front, with a special focus on their fiscal space and fiscal gaps current status and challenges to respond for the post pandemic recovery. This component will finance: (i) country-specific in-depth research and analyses on the fiscal space and gap; and (ii) the identification of the socio-economic policy priorities in the context of the post-pandemic recovery and macro-fiscal strategies that selected LAC countries should adopt to overcome the challenges and achieve economic growth rebound. The information sources used to carry out the diagnosis on the fiscal challenges and gaps will include datasets provided by respective participating country governments and datasets and reports published by international institutions such as WB, UN ECLAC, and IMF.
- 3.2 **Component 2. Development of methodology on post-pandemic fiscal policy and management (US\$200,000).** This component will build on Component I and will finance the development of methodology tailored to respective participating countries for the post pandemic fiscal policies and management. In doing so, the best practices of post-pandemic recovery plans recommended by international economic institutions such as the OECD, the IMF and other advanced economies will be analyzed. As one of the good practices of post-pandemic fiscal policy measures include Korea's experience and knowhow on the establishment of the Green, Digital and Human New Deal Policy, the provision of tax incentives and benefits to businesses in the New Deal industries, a cascade approach to improve the synergies between the public and private investment, as some examples to be considered. To ensure the operability and scalability of the methodology, the team will seek close engagement and peer reviews with the respective units within the MOFs through: (i) holding periodic virtual review meetings with the respective units and experts; and (ii) mobilize know-hows, experience, and knowledge from domestic experts and receive timely feedback on the proposed methodologies through exchange of technical notes and reviews. Some field experts may be needed to capture the essence of most advanced countries in the region and Korea regarding how best to manage post-COVID-19 fiscal policies. For the latter, experts from renowned institutes such as the Korea Institute of Public Finance (KIPF)⁴ or the Korea Development Institute (KDI) may participate in this TC as consultants. KDI has been a leading think tank in Korea since its establishment in 1971 for its in-depth economic analysis and policy recommendations for social and economic development. KIPF is well recognized as a public research institute that

⁴ KIPF is currently conducting a feasibility study on the introduction of the carbon tax. The study results will be out by the end of 2021.

conducts research and analysis on taxation and public finance. Hence, the involvement of experts from these two institutions in this TC is necessary.

- 3.3 Component 3. Production of knowledge products and dissemination of results (US\$100,000).** The goal of this component is to disseminate findings, recommendations, and lessons learned from the execution of the previous two components. This component will finance a regional seminar or policy dialogue (which will be carried out through hybrid channels combining on-site and virtual channels) to socialize the findings of this TC with the participation of a broader audience including the Ministries of Finance in LAC and Korean partner institutions. The team will also utilize the Bank's channels of communication to further disseminate the findings and recommendations through blogs to a wider audience.
- 3.4** Based on the main lessons learned on the proper execution of knowledge dissemination within the context of the post-pandemic, the knowledge dissemination events, such as seminars and workshops, will go hybrid as continuous caution against the spread of the virus, with a combination of in-person communications and virtual digital tools (e.g., Zoom, MS Teams). In the case of in-person dissemination events, they will be held once the travel restrictions from COVID-19 are lifted, and strict social distancing protocols will be in place.
- 3.5** By the end of this TC, the Bank will have strengthened its knowledge of fiscal gaps and policy challenges faced by various LAC countries in the wake of COVID-19. Also, by facilitating knowledge sharing of best practices including the Korean case, the Bank will have reinforced its grasp of how best to identify social and economic development priorities and to implement optimal policy measures in the face of COVID-19. Moreover, it will have formed strong ties with the authorities of LAC and other regions of the world including Korea, thereby improving its ability to provide more relevant and multi-dimensional policy recommendations to the countries hard-hit by the COVID-19 pandemic. Expected products of this TC include research papers and active knowledge sharing on the topic of post-pandemic recovery plans and relevant fiscal policy. Also, a regional seminar will be organized to disseminate the findings from this TC and connect policymakers and practitioners from the LAC region and other countries and will contribute to leading the global discourse on the implications of post-pandemic economic and social recovery plans.
- 3.6** The estimated budget for the operation amounts to US\$500,000, which will be financed by the KPC fund. The execution period of this TC will be 36 months and 37 months of disbursement period. The products, project monitoring report and project completion report of this TC will be also shared with the Fund Coordinator of KPC.
- 3.7** The prior approval by the donor has been obtained as of September 28, 2021, as required by the Agreement between the Ministry of Strategy and Finance of the Government of Korea and the IDB for the establishment of a Public Capacity Building Korea Fund for Economic Development.

Indicative Budget (US\$)

Activity/Component	Description	IDB/Fund Funding	Total Funding
Component 1. Diagnostics on LAC countries policy challenges and fiscal gaps for post-pandemic recovery	This component aims to research in depth how LAC countries have been dealing with COVID-19 in the fiscal policy front, with a special focus on their fiscal space and fiscal	200,000.00	200,000.00

	gaps current status and challenges to respond for the post pandemic recovery.		
Component 2. Development of methodology on post-pandemic fiscal policy and management	This component will build on Component I and will finance the development of a methodology for the post pandemic fiscal policies and management.	200,000.00	200,000.00
Component 3. Production of knowledge products and dissemination of results	The goal of this component is to disseminate findings, recommendations, and lessons learned from the execution of the previous two components.	100,000.00	100,000.00
Total		500,000.00	500,000.00

IV. Executing agency and execution structure

- 4.1 Given the regional dimension of this technical cooperation and the lack of a regional entity with the capacity to execute and supervise it, the Bank, through its Fiscal and Municipal Management Division (IFD/FMM) will be the executing agency. The Bank's execution is justified by the regional nature of the response to the crisis caused by COVID-19 where the Bank is expected to receive multiple demands from different actors and with different coordination needs. Given that this TC is regional in nature, before starting a specific activity in any specific country, the non-objection of the corresponding government liaison body with the Bank will be sought. The execution by the Bank has the additional benefit of taking advantage of lessons learned and collecting results from different experiences to disseminate knowledge to the region. Supervision costs are not foreseen. The project team will maintain due coordination with the Country Offices of participating countries, including the exchanges and virtual missions that could be carried out during the implementation of the TC. Additionally, prior to the initiation of any project activities within the jurisdiction of participating countries, the project team will obtain a non-objection letter from the corresponding official entity in the participating countries.
- 4.2 The activities will be closely coordinated by the fiscal specialists in the selected countries,⁵ 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 country; and (iii) the complementarity with other resources. In addition, FMM will closely coordinate with other areas, departments, and operations in the Bank to ensure that there is no duplicity nor overlap in the research initiatives related to post-pandemic recovery, and to maximize the possibilities of synergies that are planned to be carried out with this TC. Given this TC is a Bank initiative and a Research and Dissemination (RD) where a regional entity with legal

⁵ For the selection of participating countries of this TC, the project team will closely coordinate with the fiscal economists and specialists at the FMM and the Bank's Country Offices. The project team will consider selecting the participating countries based on each country's (i) prospects of the economic recovery; and (ii) national economic and social recovery plans and priority, particularly related to productivity and growth. The project team will also assure that all LAC regions are represented in this research and dissemination initiative. Based on these criteria, questionnaire will be sent to identified countries' ministries of finance to collect basic information and ensure the interest and will of governments for this technical cooperation.

capacity to execute the TC cannot be identified, it would be appropriate for the Bank to carry out the contracting of consultants vis-à-vis the sustainability of the implementation of the project (OP-619-4 Annex II C 2.2). The sector specialist responsible for the execution of the TC is Gerardo-Reyes-Tagle, Lead Sector Specialist (IFD/FMM).

- 4.3 **Fiduciary regulations.** The financial management of the operation will be governed by the provisions of the Financial Management Guide for Projects Financed by the IDB (OP-273-12).
- 4.4 **Procurement and Contracts.** The activities to be carried out under this operation have been included in the Procurement Plan (Annex IV) and will be executed in accordance with the Bank's established procurement methods, namely: (a) hiring of individual consultants in accordance with the guidelines set out in the AM-650; and (b) hiring of logistics services and other services other than consulting, according to the policy GN-2303-28.
- 4.5 Any studies report or other material, graphic, software or otherwise, prepared as stated in the Procurement Plan (Annex IV) shall belong to and remain the property of the Bank. All intellectual property rights in the outputs produced under this TC are vested in the executing agency, the Fiscal Management Division (IFD/FMM). The Bank as the executing agency of this TC may also guarantee that the products meet the appropriate quality standards and their applicability to other countries in the region and provide them with technical and operational advice.

V. Major issues

- 5.1 Risks for this project are low but the major risk is related to a possible delay in TC implementation activities given the current restrictions of the ongoing pandemic such as travel restrictions. This risk will be mitigated by maintaining an open and fluid dialogue with our counterparts in each participating country, consultancies that can work remotely will be hired, and virtual events will be organized to facilitate the exchange of information.
- 5.2 Another risk associated with this TC is related to the availability of quality information from the Ministries of Finance or similar agencies for the development of the different products of the TC. To mitigate this risk, the project team will collect extensively existing information, databases, and secondary sources to execute this TC. Next potential risk is related to the potential slow response from counterparts in collecting primary source of information due to administrative and coordination issues in participating country governments in identifying problems and solutions. To mitigate this risk, this TC will focus on beneficiary entities that show interest in solving specific problems to face the economic, fiscal, and social crisis, COVID-19, and will seek synergies with operations already approved by the IDB's Fiscal Management Division that allows for updated information. Moreover, the findings of this TC will complement in designing the demand of policy loans as per request of the countries affected by the macro-fiscal shocks.

VI. Exceptions to Bank policy

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

VII. Environmental and Social Strategy

- 7.1 Given the nature of the TC, no negative environmental impacts are foreseen. The TC will support the strengthening of processes and capacities of the Ministries of Finance and similar agencies, for which reason public works or infrastructure will not be financed. In accordance with the Bank's Environmental and Safeguards Compliance Policy (OP703), this operation has been classified in category "C". See [Safeguards Policy Filter Report \(SPF\)](#) and the [Safeguard Screening Form \(SSF\)](#).

Required Annexes:

[Results Matrix - RG-T3989](#)

[Terms of Reference - RG-T3989](#)

[Procurement Plan - RG-T3989](#)