

## TC ABSTRACT

### I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ 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; ROMAN SANCHEZ, SUSANA (IFD/FMM); PARK KWON, YERY (IFD/FMM); PARK, YAERIN (IFD/FMM); ASTUDILLO, KAREN (IFD/FMM); ACEVEDO CALLE, DANIELA (LEG/SGO); HYUNJOON JOO (IFD/FMM); OSPINA GARNICA, LAURA ALEJANDRA (IFD/FMM); CANILLAS GOMEZ, MARIANA BELEN (IFD/FMM)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	13 Sep 2021
▪ Beneficiary:	Regional
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$500,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	36 months
▪ Types of consultants:	Individuals
▪ 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 objective of this technical cooperation (TC) is to support LAC governments by knowledge sharing 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 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 LAC's economy has been hit hard by the current pandemic, with an estimated contraction of the economy of approximately 4.6 percent. 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 2.6 percent. 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 economic recession and promote structural transformation of the Korean 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. 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 public and private investment to fund New Deal projects.
- 2.4 The successful 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 and the concept of Korean New Deal, which had been well received by the participants from the LAC region. 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. Particularly, this TC will create a synergetic effect with the ongoing operations such as "RG-T2902 Development of the institutional fiscal capacity of Public Private Partnerships" and "RG-T3679 Securing Fiscal Space in the Time of COVID-19: Tax Relief and Tax Expenditures Capacity Building in LAC" in sharing Korea's knowledge and experience in tax relief and expenditures in the time of Covid-19.

### III. Description of Activities and Outputs

- 3.1 **Component I: Diagnostics on LAC countries policy challenges and fiscal gaps for post-pandemic recovery.** This component will finance in-depth research and analysis on the fiscal space and gap, the identification of their socio-economic policy priorities in the context of the post-pandemic recovery and how LAC countries have been dealing with Covid-19 on the fiscal policy front.
- 3.2 **Component II: Development of methodology on post-pandemic fiscal policy and management.** This component will finance the development of a methodology for the post-pandemic fiscal policy and management. Best practices of post-pandemic recovery plans recommended by the OECD and IMF will be analyzed. Also, Korea's experience and knowledge on the establishment of the Green and Digital New Deal Policy, provision of tax incentives and benefits to business in the New Deal industries, public/private investment will be considered as an example as a successful case of economic recovery.
- 3.3 **Component III: Production of knowledge products and dissemination of results.** This component will finance the organization of dissemination and knowledge products to socialize the results of the TC, including workshops, seminars, technical reports, and blogs.

### IV. Budget

#### Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Diagnostics on LAC	US\$200,000.00	US\$0.00	US\$200,000.00

countries policy challenges and fiscal gaps for post-pandemic recovery			
Development of methodology on post-pandemic fiscal policy and management	US\$200,000.00	US\$0.00	US\$200,000.00
Production of knowledge products and dissemination of results	US\$100,000.00	US\$0.00	US\$100,000.00
<b>Total</b>	<b>US\$500,000.00</b>	<b>US\$0.00</b>	<b>US\$500,000.00</b>

## **V. Executing Agency and Execution Structure**

- 5.1 The Bank will be the executing agency through the Fiscal and Municipal Management Division (IFD/FMM). The activities to be executed under this operation will be included in the Procurement Plan and will be executed in accordance with the Bank's established procurement methods, namely: (a) recruitment of individual consultants, as established in AM-650 standards; (b) recruitment of consulting firms for services of an intellectual nature according to GN-2765-4 and its associated operational guides (OP-1155-4); and (c) recruitment of logistic services and other services other than consulting, of according to policy GN-2303-28. 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.
- 5.2 The Bank is best-placed to coordinate information and activities with relevant public and private sector stakeholders during the COVID-19 pandemic, which is drawing heavily on public sector personnel and financial resources. Furthermore, the Bank will be able to leverage its extensive network of internal and external subject-matter experts and well-established relationships with stakeholders in order to facilitate timely execution.

## **VI. Project Risks and Issues**

- 6.1 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 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.

## **VII. Environmental and Social Classification**

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