

Technical Cooperation Document

I. Basic Information for TC:

▪ Country/Region:	BELIZE
▪ TC Name:	Support Strengthening Public Expenditure Management in Belize
▪ TC Number:	BL-T1142
▪ Team Leader/Members:	Calijuri, Monica (IFD/FMM) Team Leader; Astudillo, Karen (IFD/FMM) Alternate Team Leader; Balani, Hero Ranjit (CID/CBL); Gilles, Aurelie Flavy (CID/CID); Kevish, Maria Lorena (IFD/FMM); Lunstedt Tapia, Christian (VPC/FMP); Sanmartin Baez, Alvaro Luis (LEG/SGO); Watson, Brodrick Raylando (VPC/FMP)
▪ Taxonomy:	Operational Support
▪ Operation Supported by the TC:	BL-L1031, BL-L1038 and BL-L1031
▪ Date of TC Abstract authorization:	29 Jul 2021.
▪ Beneficiary:	Ministry of Finance, Economic Development & Investment (MoF)
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Institutions(INS)
▪ IDB Funding Requested:	US\$150,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period:	24 months of execution and 25 months of disbursement.
▪ Required start date:	December, 2021.
▪ Types of consultants:	Individuals
▪ Prepared by Unit:	IFD/FMM-Fiscal Management Division
▪ Unit of Disbursement Responsibility:	CID/CBL-Country Office Belize
▪ TC included in Country Strategy:	Yes
▪ TC included in CPD:	Yes
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law; Productivity and innovation

II. Description of the Associated Loan/Guarantee:

- 2.1 The general objective of the program Strengthening Public Expenditure Management ([5353/OC-BL](#)) is to promote Belize's fiscal sustainability. The specific objective of the program is to increase the efficiency of public resources by strengthening public financial management. The program has a single component, "Strengthening Financial Management", and four subcomponents: (i) financial management; (ii) procurement; (iii) technological infrastructure; and (iv) capacity building strengthening. The program was approved on September 29, 2021, and its objectives will be achieved by building on ongoing Public Financial Management (PFM) modernization efforts oriented towards identifying and mitigating expenditure inefficiencies (waste), which can generate savings in the short and medium-term, allowing for faster recovery from the pandemic. This Technical Cooperation (TC) will complement the country's efforts to increase tax collection through institutional strengthening and the use of digital technologies for the continuous improvement of the tax administration.

The general objective of the program Strengthening of Tax Administration (TA) ([4839/OC-BL](#)) is to contribute to strengthening TA aimed at increasing revenue collection. The specific objectives are the following: (i) increasing the government's effectiveness in tax collection; and (ii) increasing the efficiency of TA. These objectives will be achieved by improving TA governance and operational processes and modernizing the technological infrastructure. The program has three components: Component 1- Strengthening Tax Administration Governance; Component 2- Improvement of Operational Processes; and Component 3- Modernization of Technological Infrastructure. Each component is comprised of several subcomponents. This program was approved on July 30, 2019.

III. Objectives and Justification of the Technical Cooperation (TC):

- 3.1 **Objective.** The objective of this TC is to support the Ministry of Finance, Economic Development & Investment (MoF) in their institutional strengthening efforts to promote Belize's fiscal sustainability. Specifically, this TC will contribute to strengthen the macro-fiscal framework, enhance the quality of public expenditure, and strengthen the debt recovery process.
- 3.2 **Justification.** During the 2010-2019 period, Belize's economy grew at an annual average rate of 2.1%, below Latin-American and Caribbean's (LAC) annual average of 2.4%. Low growth led to a drop in income per capita of 0.9%, compared to Central America and the Caribbean where it grew at 4.9% and 1.1%, respectively.
- 3.3 At the same time, Belize's fiscal situation deteriorated due to elevated public expenditures, driven by a high wage bill, transfers, and procurement spending. Inefficiencies in these areas amount to 6.3% of Gross Domestic Product (GDP), the third highest in the region (BID, 2018). Furthermore, a lack of a proper fiscal discipline framework hindered tax and public financial management performance.
- 3.4 In 2020, due to the COVID-19 pandemic, tourism flows fell 70%, GDP fell by 14.1%, and tax revenue fell by 4.5% of GDP; however, expenditures to support families and enterprises affected by the crisis, increased to approximately 2.6% of GDP. Furthermore, damage by hurricanes Eta and Iota, had an estimated cost of 0.4% of GDP. The International Monetary Fund (IMF) forecasts¹ the growth to be 8.5% in 2021, a rebound of 5.4% in 2022, and growth of 2% in 2026.
- 3.5 The Government of Belize is committed to achieving a path of fiscal sustainability with a strategy centered on three areas: (i) expenditure reduction, (ii) increased revenues and (iii) debt restructuring. Such strategy is outlined in the Budget Speech for FY2021/22, based on the Plan Belize Manifesto and supported in the latest IMF Article IV recommendations to reach a sustainable debt ratio (70% of GDP) by 2030.
- 3.6 To accomplish these objectives, the Government of Belize, through the MOF, and the Bank have agreed on the activities to be developed with the Bank's support: (i) implement an expenditure program aimed at achieving savings through efficiency gains; (ii) increase collection of tax arrears through activities; and (iii) strengthen Macro-Fiscal sustainability.

¹ [IMF World Economic Outlook. October, 2021.](#)

- 3.7 In this scenario, it is crucial to develop fiscal discipline tools to ensure that the current fiscal consolidation efforts are sustained, and public debt does not increase again, after a reduction driven by the debt restructuring process through the buy-back of the Superbond.
- 3.8 **Strategic Alignment:** This TC is aligned with the Second Update of the Institutional Bank Strategy 2020-2023 (AB-3190-2) and is aligned with the cross-cutting theme on Institutional Capacity and the Rule of Law, through the strengthening of tax policy and the institutional capacity of the MOF and other government agencies to ensure the quality of public spending. Likewise, it is aligned with the IDB Group Country Strategy Update with Belize 2020-2021 (GN-2746-3)² through the objective of fostering export-led growth and greater trade integration by strengthening the economic efficiency and simplicity of the tax system and reducing non-tax barriers. It is also aligned with the upcoming Belize Country Strategy, through fiscal sustainability and management. The TC contributes to the IDB Group Corporate Results Framework 2020-2023 (GN-2727-12) through the following indicators: (i) countries with strengthened tax and spending policy and management; and (ii) institutions with strengthened managerial and digital technology capacities. The TC is aligned to the Ordinary Capital Strategic Development Program's priority area of Effective, Efficient, and Transparent Institutions (GN-2891-10) through the implementation of a Fiscal Responsibility Law (FRL) and the development of a proposal of legislation for taxing digital commerce, and other amendments in value-added tax which will strengthen the enforcement of the rule of law. The TC contributes to Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-2) and is consistent with the Sector Framework for Fiscal Policy and Management (GN-2831-8) in the following dimensions: (i) increase the collection of taxes; and (ii) improve the efficiency and quality of spending and service provision. Finally, this TC is aligned with the technology and innovation priority established in the IDB's Group Vision 2025 (AB-3266-2).

IV. Description of activities/components and budget

- 4.1 **Component 1: Strengthening of the macro-fiscal framework (US\$25,000).** This component will finance the following activities: (i) strengthening the Medium-Term Fiscal Framework (MTFF), by (i) reviewing and strengthening current revenue and expenditure forecasting methodologies, following international best practices, including financing and public debt forecasting, as well as macroeconomic forecasts which are used as inputs to the fiscal forecasts ; (ii) developing a proposal for the implementation of a Fiscal Responsibility Law (FRL), which includes the introduction of a fiscal rule based on a debt anchor and the creation of an independent fiscal council; and (iii) delivering a workshop for the dissemination of the MTFF to the MOF; and (iv) preparing and delivering training and capacity development to promote the use of the forecasting tools among MOF staff
- 4.2 **Component 2: Enhancing public expenditure quality (US\$60,000).** This component will finance the following activities: (i) diagnostic of payroll database and inconsistencies in control; (ii) centralization of payment of utilities with capacity for

² Approved on December 18, 2013, extended until December 31, 2019 (GN-2746-2), and until December 31, 2021 (CS update GN-2746-3).

audit and inconsistencies in control; and (iii) internal communication to the dissemination of activities.

- 4.3 **Component 3: Strengthening of tax revenue recovery (US\$65,000).** This component will finance the following activities: (i) proposal to implement a tax arrears recovery unit, including a proposal of methodology to quantify the stock of tax arrears and provide support to determine how much of those arrears are recoverable; (ii) review the current procedures and propose a Tax Exemption control model (iii) design the bases for the development of e-invoicing system; (iv) develop a proposal of legislation for taxing digital commerce, and other amendments in value-added tax; (v) develop a proposal of legislative provisions and instruments to strengthen Belize Tax Services revenue recovery capacity; and (vi) internal communication to the dissemination of activities.
- 4.4 **Expected results.** At the end of the execution of this TC, it is expected that: (i) the MOF will have a proposal to set the ground for the implementation of a Macro-Fiscal framework based on the best practices; public expenditure quality control implemented in payroll database, centralization of payment of utilities; and an improved debt recovery procedure.
- 4.5 **Budget.** The TC's total budget is US\$150,000, to be financed with resources from the Strategic Program for the Development of Institutions (INS) financed by the Ordinary Capital. The project does not include a local counterpart.

Indicative Budget (US\$)

Activity/Component	Description	IDB/Fund Funding	Total Funding
Component 1	Strengthening of the macro-fiscal framework	25,000	25,000
Component 2	Enhancing public expenditure quality	60,000	60,000
Component 3	Strengthening of the debt recovery procedures	65,000	65,000
Total		150,000	150,000

- 4.6 **Fiduciary responsibility.:** The team leader will be responsible for the use of resources and compliance with Bank policies during the execution of this technical cooperation. It will also be responsible for the financial execution of the operation, based on the TC procurement plan. In coordination with the TC team leader, the fiduciary supervision will be carried out at least once a year and led by the fiduciary specialists in the Country Office in Belize.
- 4.7 **Supervision, Monitoring and Evaluation:** The project team leader will be responsible for the supervision, monitoring, and evaluation of the TC. The project will be monitored and evaluated according to the annual goals and indicators set forth in the results matrix. Supervision activities will be financed with resources from the transactional budget. The preceding is in strict compliance with the provisions of Annex II of document OP-619-4.

V. Executing agency and execution structure:

- 5.1 At the request of the MoF of Belize, the TC will be executed by the IDB. Execution by the Bank is in accordance with Annex II of document OP-619-4 and is justified by the impartiality of the Bank in hiring consultants which will increase the independence in the development of the operation. The Bank has highly specialized technical, methodological, and conceptual knowledge of the technological and organizational issues that are required. Furthermore, it is well known that the Bank has adequate technical experience, expert networks, and knowledge of international experiences. The Bank, as the executing Agency for this TC, will also be able to 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 execution of the components will be carried out in close collaboration with the MOF, which is the executing Agency of the Strengthening Public Expenditure Management Program ([5353/OC-BL](#)). This execution arrangement will ensure a close relationship with the activities of this TC in support of the program.
- 5.3 **Supervision.** The project team leader will be responsible for the supervision of the TC with the support of the alternate team leader and project team.
- 5.4 **Monitoring and evaluation.** The Bank, as Executing Agency, will present annual progress reports in the TC Monitoring, in Convergence system, which will include, among other aspects, a description of the activities carried out, the products and results obtained, the physical and financial execution status of the planned activities, difficulties encountered and suggestions for adjustments for the remaining execution period or useful for subsequent projects.
- 5.5 **Acquisitions.** All activities to be executed under this TC have been included in the Procurement Plan (Annex IV) and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-4 and Guidelines OP 1155-4 for Consulting Firms for services of an intellectual nature; and (c) GN-2303-28 for logistics and other related services.

VI. Major issues

- 6.1 The Project Team does not anticipate significant risks that could impede the satisfactory execution of the TC. The potential risks are the following:
- 6.2 **Sustainability.** That the tools developed and implemented in the scope of this TC are not sustainable over time. To mitigate this risk, guides and manuals will be developed to promote appropriation for the use of these tools by the MoF. The TC has focused on institutional strengthening aspects that demonstrate the greatest need and feasibility of implementation and have been highly demanded by the counterpart. As a mitigation strategy, the execution of the components will be carried out in close collaboration with the different technical areas of the MOF to ensure the assimilation and transfer of knowledge derived from the execution, both technical and fiduciary. Also, training and workshops will be delivered to ensure that the staff at MoF appropriate the new methodologies and can apply them in the preparation of further MTFF.
- 6.3 **Implementation.** There is a risk of delay in the implementation of this TC due to restrictions still imposed by the ongoing pandemic (e.g., travel restrictions) that affects

in-person technical assistance and missions. There are also implementation risks associated with changes in authorities and/or potential changes in the political and social climate in the country. These risks will be mitigated by maintaining an open and fluid dialogue with our counterpart to facilitate the exchange of information and planning the activities of this TC. Also, virtual technical assistance and missions will be conducted if in-person activities are not possible due to the pandemic.

VII. Exceptions to Bank policy:

- 7.1 There are not foreseen exceptions to Bank policies.

VIII. Environmental and Social Strategy:

- 8.1 This Technical Cooperation is not intended to 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 Environmental and Social Policy Framework (ESPF).

Required Annexes:

[Request from the Client - BL-T1142](#)

[Results Matrix - BL-T1142](#)

[Terms of Reference - BL-T1142](#)

[Procurement Plan - BL-T1142](#)