

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	BELIZE/CID - Isthmus & DR
▪ 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; GILLES, AURELIE FLAVY (CID/CID); SANMARTIN BAEZ, ALVARO LUIS (LEG/SGO); WATSON, BRODRICK RAYLANDO (VPC/FMP); LUNSTEDT TAPIA, CHRISTIAN (VPC/FMP); BALANI, HERO RANJIT (CID/CBL); KEVISH, MARIA LORENA (IFD/FMM)
▪ Taxonomy:	Client Support
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	29 Jul 2021
▪ Beneficiary:	Government of Belize - Ministry of Finance
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$150,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	24 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):	Yes
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation ; Institutional capacity and rule of law

II. Objective and Justification

- 2.1 This TC will support the Institutional strengthening of the Government of Belize in implementing activities that are essential to increase the collection tax arrears and strengthen Macro-Fiscal sustainability, as well as improve a specific area of expenditure quality control.
- 2.2 During the 2010-2019 period, Belize's economy grew at an annual average rate of 2.1%, below the Latin-American and Caribbean (LAC) annual average of 2.4%. Low growth led to a drop in income per capita of 0.9%, while in Central America and the Caribbean it grew at 4.9% and 1.1% respectively.
- 2.3 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.
- 2.4 In 2020, due to the COVID-19 pandemic, tourism flows fell 70%, GDP fell by 14.1%, tax revenue fell by 4.5% of GDP, while 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. International Monetary Fund (IMF) forecasts predict growth of 1.5% in 2021, a rebound of 6.2% in 2022, and growth below 3% in the medium term.

- 2.5 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 recommendations of the latest IMF Article IV , with the aim to reach a sustainable debt ratio (70% of GDP) by 2030.
- 2.6 To accomplish these objectives, the Government of Belize, through the Ministry of Finance (MOF), and the Bank have agreed on the following activities: (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.
- 2.7 This TC will support the institutional strengthening of Government of Belize in implementing essential activities to increase the collection of tax arrears and strengthen Macro-Fiscal sustainability and improve a specific area of expenditure quality control. This TC will complement the loan project Strengthening Public Expenditure Management in Belize (BL-L1038) and the loan in execution (BL-L1031). Furthermore, the TC will also create synergies between the two projects through a long term consultancy resident in Belize.

III. Description of Activities and Outputs

- 3.1 **Component I: Strengthening of the Macro-Fiscal Framework .** (i) Strengthening the Medium-Term Fiscal Framework (MTFF), by reviewing and strengthening current revenue and expenditure forecasting methodologies, following international best practices; and (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.
- 3.2 **Component II: Enhancing Public Expenditure Quality .** (i) Payroll database audit and inconsistencies in control; and (ii) Centralization of payment of utilities with capacity for audit and inconsistencies in control. The support of this TC includes: (i) technical assistance and studies.
- 3.3 **Component III: Strengthening of the debt recovery procedures.** (i) Implementation of a tax arrears recovery unit and review the tax dispute resolution system (ii) Develop and implement a Tax Exemption control model supported; and (iii) Design the bases for the development of e-invoicing system; (iv) develop a proposal legislation for taxing digital commerce and other amendments in VAT; (v) Propose legislative provisions and instruments to strengthen BTS revenue recovery capacity.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Strengthening of the Macro-Fiscal Framework	US\$25,000.00	US\$0.00	US\$25,000.00
Enhancing Public Expenditure Quality	US\$60,000.00	US\$0.00	US\$60,000.00
Strengthening of the debt recovery procedures	US\$65,000.00	US\$0.00	US\$65,000.00
Total	US\$150,000.00	US\$0.00	US\$150,000.00

V. Executing Agency and Execution Structure

- 5.1 At the request of the Government of Belize, this TC will be executed by the Bank. The Bank's Country Office in Belize (CCB/BLZ) in close collaboration with the Fiscal Management Division (IFD/FMM) will have the technical responsibility for the execution of the TC. The designated focal point with responsibility for executing this TC will be the Lead Sector Specialist in IFD/FMM. The bank team will lead implementation, oversight of TC activities and coordination of results with authorities in Belize. IFD/FMM will be responsible for procurement of required services.
- 5.2 All activities will be executed in accordance with the Bank's established procurement policies as follows: (i) AM-650 for individual consultants; (ii) GN 2765-4 and Guidelines OP-1155-4 for consulting firms for services of an intellectual nature; and (iii) GN-2303-28 for logistics and other related services.
- 5.3 To foster ownership and appropriation of the Government of Belize, the Bank team will implement the following strategies: (i) support the Government of Belize establish clear set of project goals and plans by engaging in communication with them on a frequent basis; (ii) identify the needs and priorities of Government of Belize and support the adjustment of goals; and (iii) support the Government of Belize evaluating the progress of the project.
- 5.4 The Bank and the specific personnel involved have experience on the components of this TC, which qualifies for the selection and contracting of consulting services that, where appropriate, are required. 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. In addition, it was identified the following: (i) Institutional capacity - the requesting entity does not have the necessary technical, operational, or institutional capacity to duly and timely execute the activities provided in the respective project. The PEU staff already in place for the execution of the operation BL-L1031 will also be responsible for the execution of the project BL-L1038. Therefore, the execution of the TC will overload the activities, in particular regarding procurement task; (ii) Procedural constraints- The procurement timeline process takes in average 6-8 months and the Office of Contractor General (OCG) completes the final approvals of each procurement process among all projects, in this sense, compliance with internal requirements would delay the execution of the TC, jeopardizing achievement of its objectives; (iii) Impartiality - Beneficiary/Executing Agency and the Bank agree that contracting by the Bank would enhance independence for implementing activities of this TC. 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 1. Risk: identification and selection of adequate human resources within the various beneficiary institutions assigned with sufficient time to strengthening capacity; Mitigation Measure: 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.
- 6.2 2. Risk: limited capacity for data collection and communication risks due to the continuous travel restrictions and social distancing measures due to the pandemic. Mitigation Measure: actively utilize virtual meeting platforms and communication channels until travel restrictions are lifted to conduct field visits and in-person dialogue with the Ministry of Finance, Belize Tax Service, as other local stakeholders that may be required.

VII. Environmental and Social Classification

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