

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Better Data, Smarter Technologies and more Efficient Processes: A Roadmap for Greater Fiscal Transparency to Fight Corruption
▪ TC Number:	RG-T3669
▪ Team Leader/Members:	Pessino, Carola (IFD/FMM) Team Leader; Calderon Ramirez, Ana Cristina (IFD/FMM) Alternate Team Leader; Almeida Oleas, Natalia (LEG/SGO); Astudillo, Karen (IFD/FMM); Kevish, Maria Lorena (IFD/FMM); Larios, Jose I. (IFD/FMM); Lora Rocha, Oscar (IFD/FMM); Yarygina Udovenko, Anastasiya (OVE/OVE)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	N/A
▪ Date of TC Abstract authorization:	19 Oct 2020.
▪ Beneficiary:	Latin American 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\$450,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	Execution period: 36 months, disbursement period: 36 months
▪ Required start date:	April 2021
▪ Types of consultants:	Individual consultants and Firms
▪ Prepared by Unit:	IFD/FMM-Fiscal Management Division
▪ Unit of Disbursement Responsibility:	IFD/FMM-Fiscal Management Division
▪ TC included in Country Strategy:	N/A
▪ TC included in CPD:	N/A
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

II. Objectives and Justification

- 2.1 The main objective of this Technical Cooperation (TC) program is to support Latin America and the Caribbean countries in strengthening their fiscal transparency and efficiency. This will be achieved, by harnessing the use of data, expanding the body of knowledge about the topic and by designing and implementing action plans aimed at creating better rules, stronger institutions, and efficient processes to tackle corruption and the mismanagement of public funds.
- 2.2 In the face of shrinking budgets, governments in the region have faced the challenge of not only overcoming technical and allocative efficiencies, but more importantly curbing corruption for improving the management of their public resources.¹ Tackling transparency and efficiency of fiscal policies and practices have become a key factor to improve (i) public sector's performance (ii) economic development and growth; and (iii) the quality of and

¹ Carola Pessino and Juan Carlos Benitez (2019). Blog: [Hacia un gasto inteligente para América Latina y el Caribe](#).

equitable access to public services that are provided to the citizens in the Latin America and Caribbean region.

- 2.3 In normal times, fiscal management in Latin America, generally struggles to provide adequate services while containing corruption. The Coronavirus (COVID-19) pandemic has amplified this challenge, given the increased demand for pharmaceuticals, medical equipment and medical inputs, and services. Existing safeguards might be bypassed due to pandemic urgency². Careful public procurement, enhanced transparency, and rigorous monitoring might help deter opaque behavior and procurements, or generate incentives, checks and balances, internal control mechanisms to both prevent it and detect it early. Empirical evidence shows that where anti-corruption safeguards and initiatives have been implemented, opaque practices and corruption are less likely. And while it is difficult to initiate such reforms during a pandemic, they are necessary given the demands and voices coming from both civil society and private sector agents.
- 2.4 The crucial role of active fiscal management in alleviating the fall-out of COVID-19 pandemic was highlighted in a recent Webinar (June 11, 2020) – [*Riding out COVID-19 pandemic: Korea's Economic and Fiscal Reactions*](#) hosted by the Bank's Fiscal Management Division (FMM) in collaboration with the Korean Government, the Ministry of Economy and Finance (MOEF). Speakers and participants alike reaffirmed that in times of economic turmoil aggravated by the ongoing COVID--19 pandemic, benefits of an economic stimulus package can be maximized when it is carried out in a more efficient and transparent manner.
- 2.5 Regarding corruption³ in this area, evidence has shown that it has the power to weaken key functions of the public sector, including the ability to collect taxes or to make expenditure choices in a fair and efficient way. If, in exchange for bribes, civil servants facilitate tax evasion or corrupt politicians provide ad hoc tax breaks for some people or firms,⁴ others will end up facing higher tax rates, and the government may be unable to generate enough revenue to pay for productive spending (International Monetary Fund (IMF), 2019). Likewise, the quality of public services and infrastructure suffers when project selection reflects opportunities for kickbacks or nepotism. It is estimated that the waste of public funds in bribes and padded budgets is enormous—about 26% over the cost of projects. In Latin America and the Caribbean, losses may approach the upper end of the EU estimates, from 7% to 25% of procurement contracts (Izquierdo, Pessino and Vuletin, 2018).⁵ In the case of revenue management, corruption spans the spectrum of corrupt practices, from bribery and

² According to Pineda et al (2021), based on the estimates of the IDB macroeconomic report (2020), activity is expected to contract at rates that would range on average in the next three years from 0.3% to -3.4%. With deep contractions in GDP growth in 2020, they could reach between -2% to -6% approximately, deteriorating tax revenues and with higher borrowing costs due to increased risk premiums. Consequently, the fiscal deficit would increase in the short term between 1% points to 3.4% of GDP. Regarding public debt, although there has been a growing behavior in recent years, it is estimated that it will continue an upward path, but even more pronounced and persistent in the medium term.

³ Activities that involve bribery and graft, misappropriation theft and fraud by virtue of one's position, self-dealing, patronage, abuse of discretion, creating or exploiting conflict of interest, nepotism, clientelism and favoritism, as well as political manipulation are all generally agreed to constitute corrupt behavior (Graycar and Smith, 2012).

⁴ About this issue, Becker, and Stigler (1974) demonstrated that the temptation of malfeasance is proportional to the amount at stake, the lack of controls, the possible punishment, and the probability of detection.

⁵ The region spends on average 30% of their Gross Domestic Product (GDP) in goods, services, salaries, capital projects and transfers (DIA, 2018).

extortion to embezzlement and misappropriation. In general, the favorable allocation of tax exemptions is part of a system of political patronage (grand corruption) while bribes for reductions in tax exposure tend to be a more common form of petty corruption.

- 2.6 Although, countries in the region have started to implement actions and have committed to improve on this area, progress has not been consistent across the board, and further reforms remain to be unlocked. Especially, regarding the following issues: **proper use of databases is still limited on fiscal matters and there are very few integrated information systems.** For example, tax and social attributes are in different databases and organizations gather the information separately without any coordination, which enable the leaks in transfers (rich people getting subsidies) or lack of coverage and even evasion. The intelligent use of data improves the way to target interventions and transfers; it improves the quality of public spending and increases transparency (i.e., target the correct people that need and receive social assistance, and use better prices when procuring goods, services and works).
- 2.7 Also, **Institutions -in terms of legal frameworks and organizations- are weak and have inadequate processes with limited controls and accountability.** A sound institutional environment in which high level organizations have a proper coverage, capacity and financial resources can limit the vulnerability to corruption. For instance, a tax system that is clear, stable, and not overly complex will be easier to administer and harder to evade.⁶ Thirdly, there is limited diagnostics and indicators that can provide relevant information to prepare action plans; indeed most of the indicators that measure fiscal transparency, such as the Fiscal Transparency Evaluations (FTEs) by the IMF, tend to assess the extent by which public financial management, fiscal management, public procurement and public investment processes comply with “good standards,” instead of addressing the key problems based on the final outcomes or results derived from these systems. Or they are perception-based or experience-based composite measures such as the Transparency International (TI) bribe payers survey or the TI Global Corruption Barometer and Regional Barometers.
- 2.8 Finally, public officials and high-level authorities have limited knowledge about the main leakages and problematic areas that need to be addressed in order to raise quality in their spending and improve their revenue collection and management. Therefore, it is needed to strengthen their capabilities when designing and implementing strategic roadmaps and action plans to tackle corruption and to improve fiscal management practices.
- 2.9 As a response to the mentioned challenges, this program will support governments in the region to achieve higher fiscal efficiency and transparency, by creating a body of knowledge (i.e., conceptual model based on performance-based measures) and a set of tools, including data-intensive ones, to address and monitor fiscal matters, while enhancing public official capabilities and incentives. The former and the latter will create conditions for stronger institutional environments. In addition, the TC will provide an opportunity for applying and sharing lessons learned from more advanced countries, such as the Republic of Korea. The

⁶ Antonokas, Giokas, and Konstantopoulos (2013). [Corruption in Tax Administration: Interviews with Experts](#). In addition, Tax authorities can also play a critical role in helping fight corruption. In addition, according to the Organization for Economic Co-operation and Development (OECD) and World Bank tax crime and corruption are often linked, as criminals do not report income derived from corrupt activities for tax purposes or overreport to launder the proceeds of corruption. As such, tax and law enforcement authorities can benefit from more effective cooperation and sharing of information.

Korea Institute of Public Finance (KIPF) has created a body of knowledge about cutting edge topics in fiscal management. The Korea Public Finance Information Service (KPFIS) has contributed to the enhancement of public finance by supporting the stable operation and management of the digital budget accounting system and by developing fiscal policy. The Fiscal Management Bureau (Ministry of Economy and Finance) has actively worked in implementing policies and practices to achieve fiscal efficient and transparency in the Republic of Korea. Creating a body of knowledge in cooperation with these partners, this program will be at the forefront of the Bank's operational pipeline for anti-corruption initiatives since it will provide a regional roadmap. These efforts are critical given that the budgetary, fiscal and procurement management of the COVID-19 pandemic has revealed the importance of addressing key issues that enable waste and corruption, such as the lack of planning in budget preparation, the limited coverage of procurement rules, the insufficient use of methodologies for programs' evaluation (ex-ante and ex-post) and the scarce use of data and digital tools. In addition, each country will be able to measure -through the toolkit- their strengths and weaknesses and to create an action plan to address the later ones.

- 2.10 This TC will coordinate with other on-going projects that support activities aimed at improving fiscal transparency. Although these TCs were approved in 2020, there will be ample opportunity to create synergies from the studies that each TC finances. For example, with TC ATN/OC-18055-RG (Support to deal with the Economic and Social Effects of COVID-19) FMM will finance studies on specific allocations of public spending and the quality of public spending; and with ATN/OC-18118-RG (Support to the Development of Fiscal Policy with Equity as a response to COVID-19), FMM will conduct research that will provide policy recommendations to existing tax policies and expenditures to increase their redistributive impact.
- 2.11 The TC is consistent with the Second Update to the Institutional Strategy (AB-3190-2) and is aligned with the cross-cutting theme of "institutional capacity and rule of law," as it will support the modernization of fiscal policies and practices. This is also aligned with the goals of enhancing commitments on transparency, integrity, and governance, and convening actors for open government and transparency. In addition, the program is consistent with the main goals of the Public Capacity Building Korea Fund for the Development (KPC), which aims to support activities in the areas of fiscal management, capacity building of human capital, modernization of tax administration, public investment, public financial management, and public procurement systems. The program will also contribute to the Bank operational agenda on fiscal policy and management, by generating knowledge that will foster dialogue with governmental authorities for future and current operations on the topic of fiscal transparency, that are aligned with the Fiscal Policy and Management Sector Framework Document (GN-2831-8), specifically, in relation to its goal of building institutional capacities to improve the efficiency of public resources. Complementarily, the TC is aligned with the Corporate Results Framework 2020-2023 (GN-2727-12) concerning strengthening the IDB's operational work on the cross-cutting theme in institutional capacity and the rule of law through its activities aimed at conducting research on fiscal transparency and corruption control.

III. Description of Activities/Components and Budget

- 3.1 The beneficiaries of this TC are governments of the region.

- 3.2 **Component 1: Research activities on fiscal transparency and anti-corruption, including the context of COVID-19 pandemic (US\$200,000).** This component is aimed at building a body of knowledge about practices, technologies, tools, and methodologies to assess fiscal transparency, efficiency, and corruption. It will include (i) the design of a conceptual framework that explains the critical factors⁷ that are key to understand how corruption works and the incentives that play a role, both at the private and public sector sides, including factors exacerbated by COVID-19 pandemic; (ii) the preparation of a toolkit that assesses both, processes and performance variables related with fiscal transparency and management in the region, including the availability and use of relevant data, scenarios of economic crisis like the COVID-19 pandemic crisis, taking Korea and other more developed countries on this topic as a benchmark, which may include comparative research work between Korea, IMF and OECD; (iii) the drafting of a set of good practices and lessons learned,^{8,9} including those of the COVID-19 response measures; and (iv) the preparation of flagship publication on curbing corruption and mismanagement in the fiscal area.
- 3.3 **Component 2: Implementation of pilot projects with customized strategies and action plans (US\$150,000).** This component will support governments¹⁰ in the designing and implementation of targeted activities in the area. The component will focus on: (i) the design of strategies and actions plans with consideration of ongoing COVID-19 impact; and (ii) the implementation of pilot projects in countries that meet specific criteria during the project execution phase¹¹ and targeted activities aimed at improving the levels of efficiency and curbing corruption in the revenue and/or public spending side.¹²

⁷ According to IDB (2018) "Better spending for Better lives", while professionalization and ex-post evaluation, monitoring, and control are necessary to develop a comprehensive and effective fiscal management system, there are key critical factors—planning, coverage and coordination, competition, and effective digitalization—that the region's countries need to improve to make it more efficient and less prone to corruption.

⁸ It is expected that this document will follow impact evaluation, cost-effectiveness, and cost-benefit analysis methodologies.

⁹ Good experiences would also include examples of proper use of databases and of integrated information systems. For example, the use of the electronic invoice information to improve competition and efficiency in procurement and to enhance the control of taxpayer's while facilitating their voluntary compliance; the creation of integrated social information systems, which may help to target social expenditure and therefore to reduce the leaks in transfers; and the use of digital data-intensive public accountability systems, to improve transparency and public trust.

¹⁰ Beneficiaries will be allowed to request Bank's support in any of these components. Given this demand-driven characteristic, FMM will perform on a case-by-case basis a proper analysis of the situation and proposal (especially for action plans and pilots), applying the following criteria, to determine the eligibility and priority of the interventions: (i) alignment: activities should be aligned with the current country strategy, country programming document or FMM sector framework; (ii) impact: activities that result in greater outcomes in terms of closing gaps and achieving international good practices; and (iii) relevance: activities that are relevant to the objective and components that are included in this TC.

¹¹ During the pilot, the toolkit will be implemented, and a roadmap is expected to be prepared. For this activity, a problem centered approach will be implemented during the execution of pilots, and it will consider the restrictions to/requirements for scalability and/or sustainability of the solutions to be implemented. During project execution, the interest of other countries will be assessed taking into consideration the priority of the country in the context of the pandemic and post-pandemic, the articulation with the policy dialogue in the fiscal area, and complementarity with other TCs and research activities. Prior to the design, preparation, or implementation of these activities the TL will verify that Governments that participate in the pilots provide a letter of non-objection.

¹² During the preparation of this TC, Panama has been identified as a possible pilot country given the undergoing work by the Bank on budgeting, public investment management and spending efficiency. During 2020, FMM has been supporting the government in assessing critical issues related to the effectiveness of public expenditure, including among others: the problem of debt sustainability, the limited transparency and monitoring of public investment projects; the lack of diversity of government procurement suppliers. This TC will expand

- 3.4 **Component 3: Dissemination and training (US\$100,000).** This component will support the development and implementation of publications, technical events and trainings that can foster south-south cooperation in the area. This will include: (i) the publication and communication about the products that are prepared in the TC, this will allow to create more awareness about the program among IDB member countries, especially on the pilot activities; and (ii) an event to present and foster collaboration among IDB specialists, public officials, academia, civil society, and other international organizations that are interested in the topic. It is expected that this event will be conducted in partnership with the Korean Government. Furthermore, all publications, events, and activities will refer to the KPC as financier in accordance with the Fund's Guidelines.
- 3.5 All knowledge products derived from this Technical Cooperation will be the Bank's intellectual property. Knowledge products will be published through the Bank's web page and other means accounted for in the indicative budget.
- 3.6 The total funding required for the program amounts to US\$450,000, which will be financed by the Public Capacity Building Korea Fund for Economic Development (KCP).

Table 1. Indicative Budget (in US dollars)

Activity/Component	IDB	Total Funding
Component 1: Research activities on fiscal transparency and anti-corruption, including the context of COVID-19 pandemic	200,000	200,000
Component 2: Implementation of pilot projects for two countries with customized strategies and action plans	150,000	150,000
Component 3: Dissemination and training	100,000	100,000
Total amount	US\$450,000	US\$450,000

IV. Executing agency and execution structure

- 4.1 Given the substantial experience and knowledge that the IDB has regarding the design and implementation of the type of products that are under the scope of this TC, its regional dimension, and the lack of adequate regional entities with capacity to carry out the Bank will be the executing agency through the Fiscal Management Division (IFD/FMM), which is in accordance with the "Operational Guidelines for Technical Cooperation Products" (GN-2629-1, Appendix X literal (d)) Bank execution will enable the program to consider the variety of experiences and lessons learned from the diverse governments in and outside the region which is critical for the program. Furthermore, this TC of research and development is a Bank initiative based on FMM's expertise in the fiscal area in this and in other regions.
- 4.2 The activities will be closely coordinated by FMM in those countries that will desire to be part of the activities planned in this TC. Based on the policy dialogue, FMM will assess the current country's requirements and will evaluate (i) the alignment with the objectives of this 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, to the extent that specific actions are identified to be carried out individually in countries during the preparation and execution

on these works by providing tools to assess and address main leakages when funds flow into, through and out public sector and provide evidence of fiscal costs associated to these "hotspots" of waste. Also, as identified in the annexes of this document, the Team expects to prepare at least 2 pilot projects and 2 Action Plans for this TC.

of this regional operation, FMM will closely coordinate with the relevant Country Offices to obtain no-objection notes that may be required from the countries that participate in this TC.

- 4.3 **Procurement.** The activities to be executed within the scope of this operation will be based on the following procurement rules: (i) for contracting individual consultants, the Bank project team will observe Human Resource selection procedures (AM-650); (ii) for non-consulting services contracts, the Corporate Procurement Policy and Procedures (GN-2303-28) will be applied; and (iii) for consulting firms, the Policy for the Selection and Contracting of Consulting Firms for Bank-executed Operational Work (GN-2765-4) and its Operational Guidelines (OP-1155-4).

V. Major issues

- 5.1 For the activities to be successful and sustainable, this program will require on-going participation and commitment on behalf of the countries. This will be mitigated by ensuring government's ownership of the process and full participation during the execution stage, for example through the preparation of TORs, the analysis of medium-term reports and the planning of meetings and missions. Also, the TC will maximize the possibilities of implementation, by creating guidelines, roadmaps and disseminating activities that will increase the dialogue among stakeholders. There is also the possible risk of limited response of beneficiary entities to participate due to political sensitivity or the limited knowledge of the program or its benefits. This will be mitigated by building awareness of the project among beneficiary entities through a close collaboration with the diverse networks that are managed by FMM, and that take into consideration the views of a variety of key stakeholders, such as academia, civil society, and private sector. Also, during the execution the team will have close interaction with each client through training workshops and in the preparation of an action plan to address main concerns and weaknesses. Finally, there is a risk in terms of data availability and updated records, this will be mitigated by using different methods to gather and analyze the information including for example, sampling techniques and the use of machine learning to analyze data in open format.

VI. Exceptions to the Bank policy

- 6.1 This TC does not foresee any exceptions to Bank policy.

VII. Environmental and Social Strategy

- 7.1 There are no environmental or social risks associated with the activities outlined in this operation; therefore, its environmental classification is "C", according to the Environment and Safeguard Compliance Policy (OP-703).

Required Annexes:

[Results Matrix - RG-T3669](#)

[Terms of Reference - RG-T3669](#)

[Procurement Plan - RG-T3669](#)