

TECHNICAL COOPERATION ABSTRACT (TC ABSTRACT)

I. BASIC INFORMATION

Country/Region:	Regional
TC Name:	Fiscal Strengthening Support to Caribbean Countries
TC Number:	RG-T2315
Team Leader/ Members:	Gerardo Reyes-Tagle (IFD/FMM); Team Leader; Carola Pessino (IFD/FMM); Karl Garbacik (IFD/FMM); and Lorena Kevish (IFD/FMM).
Date of TC Abstract authorization:	March 2015
Taxonomy:	Research and Dissemination (RD)
Beneficiary:	Ministries of Finance in Latin America and the Caribbean
Executing Agency and contact:	IDB (IFD/FMM)
IDB funding requested:	US\$275,000
Local counterpart funding, if any:	None
Execution period:	24 months
Disbursement period:	30 months
Required start date:	May 1, 2015
Type of consultants:	Individual and firms
Prepared by unit:	IFD/FMM
Unit of disbursement responsibility:	IFD/FMM
TC included in a country strategy:	N/A
Priority Sector GCI-9:	Institutions for Growth and Social Welfare Sector Strategy

II. OBJECTIVES AND JUSTIFICATION

- 2.1 The Bank's Regional Strategy for CARICOM aims at supporting the Caribbean countries in transforming their regional integration process into a tool for more efficient global integration, fostering competitiveness and economic growth. In the fiscal area, the Bank's actions call for streamlining and strengthening public management, fiscal capacity and institutional mechanisms to improve fiscal sustainability, public investment and achieve higher growth rates.
- 2.2 One of the most important goals in the Caribbean Region is to address inequalities in the distribution of income and improve the welfare of the poor in an efficient manner. A key process for this is to conceptualize and measure two things: a) the impact on income distribution of government revenues and expenditures and; b) the policies that affect them along the following axes:

institutional framework to raise revenue and capacity to spend; effect of government budgets - both revenue and expenditure sides - on income among households (fiscal incidence); and tax expenditures. The former assist in understanding how government policies change the distribution of income, how equitable these changes may be, and, in particular, how government policies actually help the poor. The latter addresses the issue that poor institutional frameworks can increase government costs while potentially decreasing social welfare through either inadequate enforcement of revenue measures or cost overruns. Tax expenditures in particular, which do not show up in the public accounts and are not subject to parliamentary scrutiny, constitute a source of lack of transparency in public accounts and public management as well as a serious problem for fiscal sustainability. The Bank has recently made great strides with Jamaica by streamlining their numerous tax institutions into two main ones, Tax Administration Jamaica and Customs. It is also working with Barbados on similar reforms.

- 2.3 The overall objective of this Technical Cooperation (TC) is to support the Caribbean countries in achieving sustainable improvements in their fiscal institutional framework and management systems. For this purpose, the TC will focus on strengthening their institutional capacities and improving current practices of the region's countries in the following areas: tax policy and tax administration systems; public expenditure; and debt strategy and debt management systems. The TC is comprised of the two components listed below.

III. DESCRIPTION OF ACTIVITIES

- 3.1 **Component 1. Institutional Framework Comparative Studies (US\$100,000).** This component aims to produce studies that, when taken together, will lay down the framework for comprehensive cross-cutting institutional reform on the fiscal dimension. The main topics of the studies will cover an assessment of: a) the institutional framework concerning ways to raise revenue and capacity to spend, including an analysis of the tax system (e.g. analysis of the main taxes as well as the various forms of tax incentives for investment) and; b) the fiscal incidence (distributional aspects and incidence both on the revenue and expenditure side). This component will finance the comparative studies for Trinidad and Tobago, the Bahamas, and Suriname¹.
- 3.2 **Component 2. Fiscal Institutional Reform Capacity Building (US\$125,000).** The purpose of this component is to provide these three countries with the capacity to maintain long-term fiscal sustainability through reforms and training based on the studies conducted in Component 1. This component will include the following activities for three countries in the Caribbean Region: a) two

¹ Using Seychelles as a benchmark, the TC will attempt to establish whether the potential shortcomings and challenges of the institutional framework in the Caribbean are exclusively issues of the region or if countries in other regions with similar characteristics experience similar challenges.

workshops to disseminate the lessons learned in the comparative studies conducted in Component 1; b) the establishment of guidelines that strengthen the authorities' understandings about what constitutes a tax expenditure as well as the necessary tools (e.g. methodologies and processes) to measure them; c) two training courses within each targeted country to assist in proper measurement of tax expenditures and implementation of operational reforms to streamline post-reform fiscal institution activities.

- 3.3 **Component 3. Knowledge Dissemination and consensus building (US\$50,000).** This component will finance the dissemination of the results achieved, including the publication of the comparative studies, blog posts by country, and three high-level round tables with both the public and private sectors on restructuring the fiscal institutional framework to reduce cross-institutional redundancy and improve efficiency and transparency. These round tables will promote dialogue and consensus building around the need of sustainable fiscal reforms proposed.

IV. COSTS AND FINANCING

- 4.1 The budget estimated for the activities described in this TC is US\$275,000.

Table 1. Costs and Financing (US\$)

Activities	IDB	Total
1. Component 1: Comparative studies carried out in component 1 (one per country on: institutional framework to raise revenue and capacity to spend; fiscal policy incidence; tax expenditure).	\$100,000	\$100,000
2. Component 2: 6 training courses (2 per country), 2 workshops, and guidelines.	\$125,000	\$125,000
3. Component 3 <i>Knowledge Dissemination</i> : Includes conferences, blog posts and published empirical studies as well as high-level fiscal roundtables on fiscal institutional capacity-building (3)	\$50,000	\$50,000
Total		\$275,000

V. EXECUTING AGENCY AND STRUCTURE OF THE EXECUTION

- 5.1 The IDB will execute the TC through the Fiscal and Municipal Management Division (IFD/FMM). It will ensure that the actions of this TC will complement operations in the pipeline and those being executed by IFD/FMM.

VI. PROJECT RISKS

- 6.1 The main risk of this TC is the possible weak commitment of government officials, especially in the analysis phases. To mitigate this risk, the TC will work

with countries committing to collaborate with the analysis and consider the implementation of suggested reforms through a MOU or similar.

VII. SOCIAL AND ENVIRONMENTAL CLASSIFICATION

- 7.1 Given the involvement of this TC in institutional strengthening and policy dialogue, negative environmental and social impacts are not foreseen. Consequently, this TC is estimated as Category C.