

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Support to deal with the Economic and Social Effects of COVID-19 Through the Strengthening of Fiscal Policy and Management in CCB
▪ TC Number:	RG-T3695
▪ Team Leader/Members:	Astudillo, Karen (IFD/FMM) Team Leader; Calderon Ramirez, Ana Cristina (IFD/FMM); Canillas Gomez, Mariana Belen (IFD/FMM); Centeno Lappas, Monica Clara Angelica (LEG/SGO); Gonzalez Alzualde, Yohana Beatriz (IFD/CTI); Gonzalez Sosa, Nathalia (IFD/FMM); Harper, Leslie Elizabeth (IFD/FMM); Kelly Castillo, Emily Leticia (IFD/CTI); Park Kwon, Yery (IFD/FMM); Pessino, Carola (IFD/FMM); Reyes-Tagle, Gerardo (IFD/FMM); Roman Sanchez, Susana (IFD/FMM) Pessino, Carola (IFD/FMM); Reyes-Tagle, Gerardo (IFD/FMM)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	11 May 2020.
▪ Beneficiary:	Barbados, Guyana, Jamaica, Suriname, The Bahamas, and Trinidad and Tobago
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Institutions(INS)
▪ IDB Funding Requested:	US\$625,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	Execution period: 24 months; Disbursement period: 25 months
▪ Required start date:	August 15, 2020
▪ Types of consultants:	Individuals
▪ Prepared by Unit:	IFD/FMM-Fiscal Management Division
▪ Unit of Disbursement Responsibility:	IFD-Institutions for Development Sector
▪ TC included in Country Strategy (y/n):	N/A
▪ TC included in CPD (y/n):	N/A
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

II. Objectives and Justification of the TC

- II.1 The general objective of this technical cooperation (TC) is to generate knowledge that provides inputs in support of the governmental efforts in Barbados, Guyana, Jamaica, Suriname, The Bahamas, and Trinidad and Tobago (CCB) to strengthen the efficiency, effectiveness and equity of fiscal policy and management in order to attend to the economic and social challenges of the emergency caused by COVID-19. The specific objectives are: (i) to generate knowledge that informs the development of methodologies with a view to re-establishing sustainable and equitable growth for the periods during and post-pandemic in key areas affected by COVID-19; and, (ii) conduct regional and non-regional research to design innovative solutions that, based on the knowledge acquired, can inform policy dialogue in the region in support of the reactivation of the economy in the period during and post pandemic.

- II.2 Justification.** The economic crisis caused by the COVID-19 pandemic is affecting and will strongly affect Latin America and the Caribbean (LAC). According to the IDB's Macroeconomic Report, the average annual loss of Gross Domestic Product (GDP) for the period 2020-2022 would be between 2.1 and 4.8%, depending on the severity of the crisis. Even other estimates, such as the most recent World Economic Outlook (WEO) estimates of the International Monetary Fund (IMF), are less optimistic and estimate average falls of 8% with respect to the situation without a pandemic in 2020. LAC countries have increased the available resources by 4.1% of GDP, which is an unprecedented level in the region, although the level is lower than the average of developed countries ([Pineda, Pessino y Rasteletti, 2020](#)). For its part, the Economic Commission for Latin America and the Caribbean (ECLAC) estimates that an increase in poverty would be observed in LAC with 35 million new poor people and 22.6 million new people in extreme poverty.
- II.3** At the sub regional level (CCB), the impact on growth will depend on the evolution of the pandemic outside and within the borders of each country, its vulnerability, and response capacity. Given the speed with which the situation evolves in the world and the uncertainty surrounding the region given the crisis caused by COVID-19, growth estimates in the region are rapidly decreasing and published data become obsolete. However, to give a comparative look at the subregion, the IMF estimated in April 2020 the following growth rates:

Region	Country	2020	2021
CCB	Barbados	-7.6	7.1
CCB	Guyana	52.8	6.3
CCB	Jamaica	-5.6	3.5
CCB	Suriname	-4.9	4.9
CCB	Las Bahamas	-8.3	6.7
CCB	Trinidad y Tobago	-4.5	2.6

Source: International Monetary Fund, World Economic Outlook Database, April 2020

- II.4** Given the impact of COVID-19 on economic activity and public accounts, and the enormous drop in GDP growth, the period during and after the pandemic will require policies to support both the reconstruction of the economy and fiscal consolidation. To encourage a return to growth with equity, it will be necessary to design and implement comprehensive plans that serve as an economic stimulus and that support the most vulnerable households and firms during the period of return to normality, including structural reforms. These plans must consider budgetary restrictions, so as not to compromise fiscal sustainability. In LAC, the design of these plans is difficult since many countries in the region lack solid tools that allow them to rigorously analyze and compare the cost of public policies and their impact on growth, unemployment, poverty and vulnerability, and equity. This lack of reliable tools negatively impacts the design of public policies, which leads to inefficiencies in the allocation of scarce public resources, slowing down the economic recovery and increasing the social cost of the crisis.
- II.5** Anticipating the magnitude of the challenge of formulating policies to support both the reconstruction of the economy and fiscal consolidation, the IDB is taking immediate measures to increase its capacity and response times. In this sense, the need has been identified to accompany these efforts with TC resources, in order to: (i) identify and structure appropriate measures in each case; (ii) strengthen the capacity of the countries to operationalize said measures; and (iii) strengthen the capacity of the

public entities selected by the countries to execute said measures and accompany them over time.

- II.6 Regarding fiscal balances, a deterioration is expected, explained by the increase in spending and the fall in tax revenues. Based on the estimates in the IDB's macroeconomic report (2020), LAC's economic 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 of GDP growth in 2020 where many countries were already bordering on -2% to -6% approximately, some countries are anticipating double-digit falls, deteriorating tax revenues and with higher borrowing costs due to higher premiums. Consequently, the fiscal deficit would increase in the short term between 1 percentage points (pp) to 3.4 pp of GDP. Regarding public debt, although in recent years an increasing behavior was appreciated, it is estimated that it would continue an ascending path, but even more pronounced and persistent in the medium term. LAC faces the crisis starting from a vulnerable fiscal situation, where the process of fiscal consolidation has stagnated in recent years, and with most countries with few degrees of freedom or with a substantial deterioration in public finances. The effect of the pandemic would translate into possible increases in the deficit in 2020 up to 8% of GDP and 4% of GDP in the medium term.¹ Consequently, public debt could reach levels of 65% of GDP in 2020 and with an increasing outlook of around 75% in the medium term. In order to achieve debt stabilization and improve the region's fiscal position, it will be necessary, in a post-pandemic context, for economic activity and tax revenues to grow faster than the accumulation of past deficits.
- II.7 Faced with this outlook, LAC countries are adopting measures to mitigate the situation so that its consequences do not last over time. Some of these measures will mean an increase in health spending and transfers to vulnerable sectors, which, together with the foreseeable fall in income, will generate even greater public deficits. In the short term, these deficits will be financed with an expansion of the debt. However, after the reactivation phase begins, it will be necessary to take tax measures that strengthen public revenues with fiscal discipline and promotes equity but do not jeopardize the recovery. These measures should also distinguish between which measures are transitory and which are permanent. For example, for post-pandemic tax measures to be effective, it is necessary to strengthen beneficiary accounting records so as to know which are those most vulnerable, which facilitates the adoption of more effective social measures, and capture the income from the sale of goods and services marketed by digital platforms that are negatively affecting small businesses².
- II.8 Although the measures announced by the countries of the region have been numerous, the scope of these measures has been mostly modest compared to that of developed countries where the packages of measures announced to combat the health and economic crisis have reached an average cost of 16.3% of GDP, with more than 40% of GDP in Italy. In LAC, although the sizes of response packages continue to increase, their cost, as announced, is equivalent, on average, to a quarter of the cost of packages announced by developed countries (4.1% of GDP). Without including measures for loans to companies, mainly to Small and Medium Enterprises (SMEs),

¹ Pineda, Valencia, y Andrian (2020). *Posibles consecuencias macro-fiscales del COVID-19 en América Latina* (<https://blogs.iadb.org/gestion-fiscal/es/posibles-consecuencias-macro-fiscales-covid-19-america-latina/>)

² Barreix, Garcimartin, Verdi (2020). *Ideas para una mejor tributación en la post-crisis del COVID-19* (<https://blogs.iadb.org/gestion-fiscal/es/ideas-para-una-mejor-tributacion-post-crisis-coronavirus/>)

these packages represent 2.7% of GDP. There is a great dispersion in the size of these packages announced by the countries of the region, with total maximums of 15.1% of GDP in Chile, 11.1% in Peru and 8% in El Salvador. This spending is mainly intended to protect household income and the liquidity of firms (3.6% of GDP), rather than to address the health emergency (0.5%).³

- II.9 **Strategic alignment.** The TC is consistent with the Second Update of the Institutional Strategy 2020-2024 (AB-3190-2) and is strategically aligned to the cross-sectional area of Institutional Capacity and the Rule of Law, by strengthening the management and planning of public resources which supports an improvement in integrity and transparency. The operation contributes to the Corporate Results Framework (CRF) 2020-2023 (document GN-2727-12) through the indicator of support to countries in strengthening tax and expenditure policy and management. Likewise, it is aligned with the priorities of the Sector Strategy on Institutions for the Promotion of Growth and Social Welfare (GN-2587-2), and is consistent with the Sectorial Frameworks for Fiscal Policy and Management (GN-2831-8), and Decentralization and Sub-National Governments (document GN-2813-8), in the dimensions: (i) increase the capacities for income mobilization; and (ii) improve the efficiency and quality of spending and service provision. The TC also aligns with document GN-2819-1, corresponding to the Strategic Programs for the Development of Institutions (INS) financed with Ordinary Capital, by: (i) contributing to the development of policies and institutions that are more effective, efficient, open and citizen-oriented, and (ii) improve the provision of services to citizens.

III. Description of components and budget

- III.1 **Component 1. Research of fiscal policy and management during and after the pandemic (US\$375,000).** Through this component, the TC will generate knowledge that will inform the development of methodologies and tools with a view to reestablish sustainable and equitable growth for the period during and after the pandemic in key areas affected by COVID-19. This component will finance the following activities: (i) studies and development of tools to strengthen medium-term fiscal / budgetary frameworks and fiscal risk management; (ii) studies to improve public debt management; (iii) tax policy studies to improve equity and efficiency; (iv) studies on specific destinations of public spending and the quality of public spending; and (v) training associated with the methodologies and tools developed for the macro-fiscal management, budget and public investment units.
- III.2 **Component 2. Research of innovative technologies to address the pandemic and post pandemic challenges (US\$150,000).** The objective of this component is to conduct research in and outside of the region, and based on the analysis of best practices and challenges, design innovative solutions that can inform policy dialogue that supports actions for an economic recovery with equity in the period during and after the COVID-19 pandemic in CCB countries. The following activities to be financed through this component may include⁴: (i) diagnoses of financial administration management; (ii) preparation of business continuity plans for the tax administration;

³ Pineda, Pessino, Rasteletti (2020). *Política y gestión fiscal durante la pandemia y post-pandemia en América Latina y el Caribe* (<https://blogs.iadb.org/gestion-fiscal/es/politica-y-gestion-fiscal-durante-la-pandemia-y-la-post-pandemia-en-america-latina-y-el-caribe/>)

⁴ The selection criteria of the countries that wish to participate include: priority by the country in the context of the pandemic and post-pandemic, the articulation with the policy dialogue in the fiscal area, complementary with other technical assistance and research activities

and (iii) evaluations to improve inter-institutional coordination for the interoperability of systems.

III.3 Component 3. Knowledge management strategies for the fiscal approach of the pandemic and post pandemic (US\$100,000). This component aims to manage the knowledge and tools developed in Components 1 and 2 in order to enhance the lessons learned from the pandemic caused by COVID-19 in the region and to assess the adaptability and scalability of the measures implemented during the pandemic that lead to resume economic growth with equity in CCB. This component will finance activities⁵ such as: (i) dissemination of results of studies carried out virtually and through the channels currently used by the Bank for dissemination of knowledge; (ii) coordination of regional dialogues with beneficiary countries and relevant policy makers to socialize research results; (iii) creation of virtual environments that promote continuous learning; (iv) toolkits to help policy makers in decision-making on the implementation of measures.

III.4 The estimated budget for the operation amounts to US\$625,000 which will come from Program for the Development of Institutions (INS) financed with Ordinary Capital of the Bank. The execution period of this TC will be 24 months (18 months for execution and 6 months for disbursement). The products and results of this TC will also be shared with the Secretariat of the Program.

Indicative Budget (US\$)

Component	Description	IDB/ INS Funding	Total Funding
Component 1. Research of fiscal policy and management during and after the pandemic	Through this component, the TC will generate knowledge that will inform the development of methodologies and tools with a view to reestablish sustainable and equitable growth for the period during and after the pandemic in key areas affected by COVID-19.	375,000	375,000
Component 2. Research of innovative technologies to address the pandemic and post pandemic challenges	The objective of this component is to conduct research in and outside of the region, and based on the analysis of best practices and challenges, design innovative solutions that can inform policy dialogue in support of actions conducive to an economic recovery with equity in the period during and after the COVID-19 pandemic in CCB countries.	150,000	150,000

⁵ The selection criteria of the countries that wish to participate include: priority by the country in the context of the pandemic and post-pandemic, the articulation with the policy dialogue in the fiscal area, complementary with other technical assistance and research activities

Component 3. Knowledge management strategies for the fiscal approach of the post pandemic	This component aims to manage the knowledge and tools developed in Components 1 and 2 in order to enhance the lessons learned from the pandemic caused by COVID-19 in the region and to assess the adaptability and scalability of the measures implemented during the pandemic that lead to resume economic growth with equity in CCB	100,000	100,000
TOTAL		625,000	625,000

IV. Executing agency and execution structure

- IV.1 Given the regional dimension of this technical cooperation and the lack of a regional entity with the capacity to execute it, the Bank, through its Fiscal and Municipal Management Division (IFD/FMM), will be the executing agency. The Bank's substantial experience in the fiscal area, in this and in other regions, will guarantee the sustainability of the implementation of the technical cooperation. The execution by the Bank has the additional benefit of having accumulated lessons learned garnered from various experiences in these topics and its capacity to disseminate knowledge in this region. In addition, FMM will closely coordinate with other areas in the Bank to ensure that there is no duplicity nor overlap in the research that is planned to be carried out with this TC.
- IV.2 The activities will be closely coordinated by the Fiscal Specialists assigned to CCB countries, who based on the policy dialogue, 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 CCB countries during the preparation and execution 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.
- IV.3 **Fiduciary regulations.** The financial management of the operation will be governed by the provisions of the Financial Management Guide for Projects Financed by the IDB (OP-273-12).
- IV.4 **Audited reports and financial statements.** Considering that the Bank will be the executing agency, in accordance with the provisions of the Financial Management Guide for Projects Financed by the IDB (OP-273-12), the presentation of financial audit reports is not required.
- IV.5 **Procurement and Contracts.** The activities to be carried out under this operation have been included in the Procurement Plan (Annex IV) and will be executed in accordance with the Bank's established procurement methods, namely: (a) hiring of individual consultants, as established in the regulations AM-650; (b) hiring of consulting firms for services of an intellectual nature according to GN-2765-4 and its

associated operating guides (OP-1155-4) and (c) hiring of logistics services and other services other than consulting, according to the policy GN-2303-28.

V. Major issues and risks

- V.1 The main risk associated with the execution of the TC is related to the availability of information from the Ministries of Finance or similar agencies for the development of the different products of the TC given the mitigation measures of the pandemic. To mitigate this risk, the TC will focus on countries that show interest in solving specific problems to face the economic, fiscal, and social crisis, COVID-19, and will seek synergies with operations already approved by the IDB's Fiscal Management Division that allow for updated information.
- V.2 There is a risk of 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.

VI. Environmental and Social Strategy

- VI.1 Given the nature of the TC, no negative environmental impacts are foreseen. The TC will support the strengthening of processes and capacities of the tax administration, for which reason public works or infrastructure will not be financed. In accordance with the Bank's Environment and Safeguards Compliance Policy (OP703), this operation has been classified in category "C". See [Safeguards Policy Filter Report \(SPF\)](#) and the [Safeguard Screening Form \(SSF\)](#).

Required Annexes:

[Results Matrix_99324.pdf](#)

[Terms of Reference_59235.pdf](#)

[Procurement Plan_70293.pdf](#)