

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	Promoting Fiscal Recovery and the Vision 2025 Agenda in the Decentralization and Subnational Government Sector
▪ TC Number:	RG-T3941
▪ Team Leader/Members:	RADICS, GUSTAVO AXEL (IFD/FMM) Team Leader; ASTUDILLO, KAREN (IFD/FMM); ROMAN SANCHEZ, SUSANA (IFD/FMM); RODRIGUEZ RAMIREZ, ALEJANDRO (IFD/FMM); VILA SAINT-ETIENNE, SARA (LEG/SGO); ACEVEDO CALLE, DANIELA (LEG/SGO); ARDANAZ, MARTIN JORGE (IFD/FMM)
▪ Taxonomy:	Client Support
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	19 Jul 2021
▪ Beneficiary:	Costa Rica, Paraguay, Peru
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$250,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	37 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	IFD/FMM - Fiscal Management Division
▪ Unit of Disbursement Responsibility:	IFD/FMM - Fiscal Management Division
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

II. Objective and Justification

- 2.1 The objective of this TC is to promote the subnational fiscal recovery and intergovernmental coordination of countries in LAC and to strengthen the capacity of subnational governments (SNG), in line with IDB's Vision 2025. In particular, this TC will develop country-specific diagnoses, focusing on the opportunity areas of the Vision 2025 more akin to the nature of the functions of SNG, including promotion of the digital economy to enhance public service delivery and improve the competitiveness of small and medium companies; and the prioritization of responses in gender and diversity and climate-change action. In addition, this TC will develop studies to tackle traditional and new challenges of LAC's SNG that have been highlighted by the pandemic, including, among the former, weak subnational fiscal capacities, high dependence on transfers, and regional fiscal disparities; and among the latter, underdeveloped intergovernmental coordination mechanisms. These priorities are reflected in the policy dialogues that the Bank has been coordinating within the "Decentralization and Subnational Fiscal Management Network"; hence, the activities proposed in this TC are regional in nature, although they will focus on three countries that have expressed interest and allow for a contrast in LAC's regions and experiences: Costa Rica, Paraguay, and Peru.
- 2.2 Despite the vaccination efforts, the COVID-19 crisis is ongoing in the LAC region, in which it is having a disproportionate impact: as highlighted in IDB's most recent

macroeconomic report, although LAC has only 8% of the world's population, it already had more than 25% of the world's casualties. On top of the health crisis, the pandemic is also having a profound impact in the public finances, both at the national and the subnational levels of government, reducing revenues; increasing expenditures to respond to the emergency, at the expense of growth-promoting public investment; and deteriorating fiscal balances across the board.

- 2.3 Prior to the arrival of COVID-19, LAC's intergovernmental finances had already been experiencing various systemic problems, including a high subnational dependence on transfers; low fiscal effort of SNG; poor quality of subnational service delivery; and transfer systems with weak capacity to address the prevalent high regional inequalities. The pandemic has exposed and exacerbated many of these problems. Moreover, the pandemic has also highlighted a number of pitfalls of intergovernmental coordination mechanisms, which were either absent, or not prepared to respond to the health crisis: As stressed in a recent OECD report, regardless of the degree of decentralization, those countries that had in place functioning intergovernmental coordination mechanisms were able to provide a faster and more effective response to the pandemic than those that did not, signaling the importance of establishing and/or improving those mechanisms in LAC countries.
- 2.4 SNG, which comprise on average more than 25% of public expenditure in the region, need to become more transparent, agile, and efficient in the provision of goods and services for their citizens and the development of the private sector; the adoption of digital solutions is vital in reaching these goals. SNG are frequently -and severely- fiscally affected by climate-change related events and have a key role to play in climate-change action (in mitigation, adaptation, and resilience efforts). Lastly, many of the challenges observed in the region in terms of gender and diversity, including limited access to opportunities, are amplified at the subnational level in LAC countries: SNG have an essential role to play to counter those challenges, empowering and assisting women and other vulnerable populations -through their services and functions- at the territorial level.
- 2.5 The IDB has recently developed its Vision 2025 for the region, which establishes the Bank's current priorities aligned with the Group's Institutional Strategy. This Vision aims at achieving three medium-term strategic goals –reactivation of the productive sector; promotion of social progress; and strengthening of good governance and institutions- with the final objective of inducing sustainable and pro-inclusive growth for the LAC region. This Vision identifies five opportunity areas –regional integration; the digital economy; support for SMEs; gender and diversity; and climate-change action– to focus the Bank's lending and technical assistance in its support to LAC's governments -at the national and subnational levels- to effectively spur recovery and to bring lasting structural benefits to the region. Vision 2025 could contribute to bolstering the public finances of LAC's SNG.

III. Description of Activities and Outputs

- 3.1 **Component I: Diagnoses of subnational fiscal challenges to implement IDB's Vision 2025.** The objective of this component is to better understand the challenges and opportunities to strengthen the capacity of SNGs in line with IDB's Vision 2025. It will finance: (i) assessment of the subnational fiscal digital management framework; (ii) diagnoses of climate-action at the territorial level; (iii) analysis of gender and diversity responsive fiscal policy at the subnational level of government. The studies will focus on, but not be restricted to, Costa Rica, Paraguay and Peru.
- 3.2 **Component II: Strengthening post pandemic subnational fiscal recovery and intergovernmental fiscal coordination.** The objective of this component is to finance studies that allow to tackle traditional and new challenges emerging from the impact of the pandemic on the subnational sector. Areas of opportunity include institutional

strengthening of agencies of intergovernmental coordination; estimation of SNG fiscal disparities and instruments to tackle them; and proposals to improve the subnational fiscal position following the emergency response.

- 3.3 **Component III: Knowledge management and dissemination.** The objective of this component will be to support knowledge management and dissemination of the products financed by this TC, including: (i) policy briefs and blog articles to be shared with sector policymakers to socialize research results; and (ii) a high level -in person- regional meeting with the Decentralization and Subnational Fiscal Management Network of LAC, for knowledge sharing and to enrich findings and recommendations.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Diagnoses of subnational fiscal challenges to implement IDB's Vision 2025	US\$100,000.00	US\$0.00	US\$100,000.00
Strengthening post pandemic subnational fiscal recovery and intergovernmental fiscal coordination	US\$100,000.00	US\$0.00	US\$100,000.00
Knowledge management and dissemination	US\$50,000.00	US\$0.00	US\$50,000.00
Total	US\$250,000.00	US\$0.00	US\$250,000.00

V. Executing Agency and Execution Structure

- 5.1 Executing agency. This project will be executed by the Bank, through its Fiscal Management Division (FMM), which will act as the Executing Agency (EA). The main functions and responsibilities of the EA will be: (i) to prepare and implement the workplan of this TC; (ii) to develop the required terms of reference for consulting services; and (iii) to carry out the selection and contracting of the required consulting services in accordance with Bank's rules, policies, and procedures.
- 5.2 Supervision. The Team Leader will be responsible for the supervision and management of the TC, supported by the Team Members of the project. To facilitate the supervision of the project's execution and to reduce costs related to monitoring and follow-up, FMM specialists at participating IDB country offices are part of the Team.
- 5.3 Monitoring and evaluation. The Bank, as EA, will produce annual progress reports through Convergence TC Monitoring System. These reports will include -among other elements- a description of completed activities, obtained outputs and outcomes, physical and financial execution status, and findings and recommendations relevant for the remaining execution period of the TC or useful for subsequent projects.
- 5.4 The Bank will act as the EA given that: (i) due to the technical capabilities and expertise of FMM in topics related to systematization and exchange of experiences, and facilitation of regional policy dialogue regarding intergovernmental fiscal coordination and subnational fiscal management; (ii) due to the regional dimension of this TC and the lack of a regional entity with the capacity to coordinate and execute it; and; (iii) due to FMM's substantial experience in these issues and with the management of similar initiatives.

VI. Project Risks and Issues

- 6.1 The main risks associated to this operation are related to the collection and availability of quality information requested from Ministries of Finance, or similar agencies at the subnational level, for the development of the different diagnoses and studies of the TC. To mitigate these risks, the TC will extensively collect information from existing databases, and secondary sources.
- 6.2 There is a risk of delay in the implementation of this TC given the restrictions imposed by the ongoing pandemic (e.g., travel restrictions). This risk will be mitigated by maintaining an open and fluid dialogue with our counterparts in each participating country; by hiring individual consultants that can work remotely; and by organizing virtual events to facilitate the exchange of information.

VII. Environmental and Social Classification

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