

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	Program for Strengthening Fiscal Policy and Management of the Extractive Industries in the Effects of the COVID-19 Crisis
▪ TC Number:	RG-T3666
▪ Team Leader/Members:	REYES-TAGLE, GERARDO (IFD/FMM) Team Leader; WALTER, MARTIN (INE/CCH) Alternate Team Leader; ROMAN SANCHEZ, SUSANA (IFD/FMM); PARK KWON, YERY (IFD/FMM); GONZALEZ ALZUALDE, YOHANA BEATRIZ (IFD/CTI); VALENCIA ARANA, OSCAR MAURICIO (IFD/FMM); DELGADO, C. RAUL (CSD/CCS); ASTUDILLO, KAREN (IFD/FMM); NEGRET GARRIDO, CESAR ANDRES (LEG/SGO); PEREZ RINCON, BELINDA (IFD/FMM); GOMEZ REINO, JUAN LUIS (IFD/FMM); MUNOZ MIRANDA, ANDRES FELIPE (IFD/FMM); FERNANDEZ PAINO, IDA MARIA DEL PILAR (IFD/FMM); OSPINA GARNICA, LAURA ALEJANDRA (IFD/FMM); PARK, YAERIN (IFD/FMM); LUIS RECALDE RAMIREZ (IFD/FMM)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	14 May 2020
▪ Beneficiary:	Ministries 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; 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 technical cooperation (TC) is to support governments in the region strengthen fiscal policies to manage extractive industries (EI) during the pandemic caused by COVID-19 and the ensuing oil price shock. Specifically, this TC will (i) develop diagnostics of the dual impact of COVID-19 crisis and oil price shock in economies that heavily rely on extractive industries and that are suffering due to measures imposed by the countries to manage the spread of the virus; (ii) assist in the formulation of fiscal policy responses for immediate actions and reduction of the fiscal stress in the medium and long-term, (iii) assist the governments in developing fiscal recovery plans for the post-pandemic period mostly affected by the macro-fiscal shock , and (iv) disseminate diagnostics and plans to strengthen institutional capacity to promote the use of sound fiscal policies in the post pandemic period.
- 2.2 Due to the income they generate, EI play a strategic role in the social, environmental, economic and political development of the countries. In 2018, the extractive industries sector exports globally totaled US \$ 2.1 trillion (15.7% of the total export) just behind

the automotive industry, 50 percent of the countries in the world have activities related to production in the hydrocarbon sector, while 80 percent have it in mining. The Latin America and the Caribbean (LAC) region is the world's main source of metals and the fourth largest hydrocarbon in the world.

- 2.3 Recently along with the COVID-19 crisis, countries heavily relying in revenues from the extractive industries have to cope with another shock, a collapse in oil prices where the effect seem immediately visible in some countries. Economic difficulties around the world and the disruption of global value chains will reduce demand for the region's good and services, mostly notably oil and tourism. Collapsing oil prices will further depress demand, where oil and gas are the most important sector in many economies. Some national oil companies have already planned to slush collective capital spending this year as the coronavirus rattles regional energy markets. Most of the countries in the region already have limited fiscal space, making maintaining spending extremely challenging as oil revenues drop. However, this will have a dual effect as in some economies the reduction in oil prices could provide a buffer for the balance of payments and the fiscal response of the COVID-19 related shock.
- 2.4 To attend this crisis, the International Monetary Fund (IMF) have recommended short- and medium-term policy responses targeted to sectors and actors affected by the shocks. In the short-term, (i) oil exporters should mobilize the necessary resources to mitigate the direct health, social and economic effects; (ii) should accommodate temporary increases in spending through use of buffers (drawing on existing liquid assets, new borrowing, or grants and elimination of subsidies); (iii) should measure the fiscal response on country-specific factors, including health care needs, magnitude of the oil revenue loss, the extent of buffers and available fiscal space consistent with debt sustainability, and the room for response of other macroeconomic policies; (iv) suspend temporarily fiscal rules that could muster the oil exporters' ability to muster a fiscal response (for example, on withdrawing resources from oil funds or on increasing spending). The success of the short-term policy response would be enhanced by a commitment to preserve fiscal sustainability in the medium-term. In the medium-term, (i) oil exporters would need to prepare for a prolonged period of low oil prices requiring a medium-term fiscal adjustment, fiscal consolidation, strengthening of automatic stabilizers by expanding safety nets that could help quickly direct resources and fiscal adjustment to rebuild buffers; (ii) a credible fiscal framework will be essential to support a strategy of easing policy over the short run and a gradual consolidation over the medium-term, particularly for exporters with limited fiscal space by revising fiscal frameworks (including fiscal rules) and updating long-term anchors and medium-term targets.

III. Description of Activities and Outputs

- 3.1 **Component I: Diagnostics of the dual impact of COVID-19 crisis and commodity price shock in LAC** . This component will finance diagnostics of the dual impact of COVID-19 crisis and oil price shock in countries that are oil dependent. It will assist in the formulation of fiscal policies and responses for immediate actions and reduction of the fiscal stress in the medium and long-term.
- 3.2 **Component II: Economic recovery plans post pandemic COVID-19** . This component will support the formulation of short- and medium-term policy responses targeted to sectors and actors affected by the shocks caused by the pandemic. Activities may include development of strategies and baselines, economic recovery plans, methodologies to assess the impact of policies, and definition of roles of the Ministries of Finance, competent line ministries and regulatory agencies to cope with the macro-fiscal shocks of the pandemic.
- 3.3 **Component III: Dissemination of diagnostics and plans** . This component will finance the dissemination of diagnostics and policy plans conducted in the component

1 and 2 and organize dissemination events such as a webinar for public officials and the public to create a space of policy dialogue and knowledge sharing for the post pandemic period.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Diagnostics of the dual impact of COVID-19 crisis and commodity price shock in LAC	US\$70,000.00	US\$0.00	US\$70,000.00
Economic recovery plans post pandemic COVID-19	US\$50,000.00	US\$0.00	US\$50,000.00
Dissemination of diagnostics and plans	US\$30,000.00	US\$0.00	US\$30,000.00
Total	US\$150,000.00	US\$0.00	US\$150,000.00

V. Executing Agency and Execution Structure

- 5.1 This TC will be executed by the IDB, through the Fiscal Management Division (IFD / FMM). The Bank's execution is justified by the regional nature of the response to the crisis caused by COVID-19 where the Bank is expected to receive multiple demands from different actors and with different coordination needs. The execution by the Bank has the additional benefit of taking advantage of lessons learned and collecting results from different experiences to disseminate knowledge to the region. The activities will be closely coordinated by the fiscal specialists in the countries, who will present the country's requirement and will evaluate (i) its alignment with the objectives of the TC; (ii) its impact and ability to complement other resources and activities and (iii) the amount requested.
- 5.2 The activities of this TC will be executed in accordance with the Bank's established procurement methods, namely: (a) Hiring of individual consultants, as established in the AM-650 standards; (b) Contracting of consulting firms for services of an intellectual nature according to GN-2765-1 and its associated operating guides (OP-1155-4) and (c) Contracting of logistics services and other services other than consulting, in accordance with the GN-2303-20 policy.

VI. Project Risks and Issues

- 6.1 The main risk associated to this TC could be the lack of quality information and institutional weaknesses that could delay execution. However, considering the type of this operation is research and dissemination (R&D) it is expected to draw a high interest and active engagement of the beneficiary entities and contribute to the policy dialogue and technical support given by the Bank to its clients. Moreover, the findings of this TC will complement in designing the demand of policy loans as per request of the countries affected by the macro-fiscal shocks.

VII. Environmental and Social Classification

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