

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Managing the territorial impact of COVID-19: strengthening the multi-level governance and subnational fiscal management capacities of governments in LAC
▪ TC Number:	RG-T3663
▪ Team Leader/Members:	Radics, Gustavo Axel (IFD/FMM) Team Leader; Almeida Oleas, Natalia (LEG/SGO); Astudillo, Karen (IFD/FMM); Gonzalez Sosa, Nathalia (IFD/FMM); Munoz Miranda, Andres Felipe (IFD/FMM); Rodriguez Ramirez, Alejandro (IFD/FMM); Roman Sanchez, Susana (IFD/FMM); Sangines, Mario F (IFD/FMM); Vazquez Ahued, Francisco (IFD/FMM)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	
▪ Date of TC Abstract authorization:	28 Jul 2020
▪ Beneficiary:	El Salvador, México, Paraguay
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Institutions(INS)
▪ IDB Funding Requested:	US\$150,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	25 months
▪ Required start date:	January 4, 2021
▪ Types of consultants:	Individuals
▪ 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. Objectives and Justification of the TC

- 2.1 The objective of this TC is to support countries of LAC reinforce and expand their institutional channels of intergovernmental fiscal coordination and to strengthen the fiscal management capacities of their subnational governments (SNG) to better address the challenges imposed by the COVID-19 crisis and those to follow during the post pandemic period. This TC will especially focus on El Salvador, Mexico, and Paraguay, because they are currently going through reform processes in the previously mentioned topics. Specifically, this TC will: (i) develop diagnoses related to the fiscal response and impact of the COVID-19 crisis on selected governments at the intermediate and local levels, including comparative diagnoses from SNG of the three beneficiary countries and a set of OECD countries that are managing successfully the ongoing crisis across levels of government; (ii) develop an outlook of decentralization in LAC that contains detailed decentralization country profiles of the 26 IDB borrowing members including the collection of fiscal indicators (i.e. revenue, expenditures, transfers, debts) to update the body of knowledge for the post-pandemic period; (iii) produce an analytical study and update standardized databases of the Subnational

Fiscal Information Platform¹, which will be essential for the development of more accurate diagnoses and for data comparison purposes; and (iv) disseminate the diagnoses, knowledge products and tools developed by this TC through the Decentralization and Subnational Fiscal Management Network of LAC -and similar networks- to strengthen the fiscal relations and fiscal management capacities across levels of government during the post-pandemic period, so that countries in the LAC region are better prepared to respond in a coordinated manner in the event of a future crisis or emergency scenario.

- 2.2 During recent years, several countries in LAC have been leading a new wave of government decentralization reform in the region. At the same time, the crisis derived from the COVID19 pandemic is increasing the demands on governments to further fiscal decentralization in different countries of the world and will probably accelerate the reform process in LAC. This provides a critical opportunity to prepare the region for the post-pandemic period, reviewing past mistakes and making sure that institutional reforms and modernization are aligned with good practices in multi-level governance.² Typical fiscal decentralization reforms during the last three decades have been characterized by the allocation of large transfers to subnational governments (SNG) without appropriate consideration of international standards in the sequence of reform; proper/clear assignment of expenditure and revenue functions; and without the provision of adequate technical assistance.³ Thus, these reforms have led to poor results, in terms of widespread citizen dissatisfaction with the quality of local services and episodes of lack of fiscal discipline and transparency at the subnational level.⁴ The discourse around the new wave of decentralization that is taking shape and gaining adepts across LAC should encompass lessons learned and examine experiences beyond the region, to improve the results derived from reform, by making sure public officers understand the relevance of adopting good practices in terms of coordination across levels of government and of strengthening subnational fiscal management, to be better equipped to respond to present and future crises. In the particular cases of El Salvador (where a reform to the property tax is being designed), Mexico (where a new program of fiscal transfers aimed at achieving regional economic convergence is being discussed), and Paraguay (where a new integrated financial management system for municipalities is being developed), it is essential to look for experiences beyond the region to achieve better impacts with the implementation of the aforementioned reform projects.
- 2.3 In many places around the world, especially in developing countries, the COVID-19 crisis made more evident the frailty of those sectors and systems managed by the

¹ The Subnational Fiscal Information Platform of LAC contains homologated fiscal information of approximately 14,000 SNG from 13 countries of the LAC region. It aims to collect fiscal and development indicators including revenue and expenses of SNG, inter-governmental transfers, and level of fiscal autonomy. The current platform contains disclosed information of 4 countries: Brazil, Colombia, El Salvador, and Guatemala. The data of the other selected countries has not been disclosed as per request of the client.

² For further literature about good practices in multi-level governance and subnational finance see [OECD \(2017\) Multi-level Governance Reforms](#).

³ For further literature about the risks associated with decentralization reform and mitigation strategies see [OECD \(2019\) Making Decentralization Work – A handbook for Policy-Makers](#).

⁴ The social movements that took place throughout the LAC region in 2019 are an evidence of citizen dissatisfaction with the capacity of the state to reduce inequalities and to efficiently provide fair opportunities to the entire population. In LAC, the territorial dimension plays an important role in this problem. On average, the level of regional economic disparity is 4 times higher than in OECD countries, which translates into a diminished capacity for the provision of basic public services in many SNG ([OECD, 2016](#)).

public sector (i.e. health, education, etc.) and how ill-equipped are some governments to successfully manage radical uncertainties such as the pandemic. Moreover, the COVID-19 crisis has also exacerbated some of these weaknesses. SNG have particularly endured a lack of financial resources to adequately respond to the pandemic due to a scissors effect -a strong decrease in revenues, combined with a continuous increase in expenditure (OECD, 2020)- and, even when financial resources have been available, many have struggled with their efficient and transparent execution.

- 2.4 In addition, as the pandemic advances in the region, the negative impacts have shown to be deeper and more enduring in countries that have responded in an uncoordinated manner across levels of government. Local governments lacked financial, human and infrastructure related resources to address the health, social and economic obligations related to the emergency, or to guarantee business continuity and the provision of essential basic and public services. Conflicting messages and missed actions taken across levels of government have hindered the efforts to contain the pandemic or have even -directly or indirectly- contributed to new outbreaks of the virus.
- 2.5 In contrast, those countries with well-established institutional channels for a coordinated intergovernmental response and/or with well-defined responsibilities for each level of government have generally obtained much better results containing the pandemic, mitigating its harmful effects and developing plans for the post COVID-19 period. In addition, countries where SNG have more fiscal autonomy seem to have adapted better, not only succeeding in the identification and containment of the virus, but also ensuring the continuity in the provision of public services.
- 2.6 The Bank has a long track record of supporting decentralization and SNG reform. This is embodied in the [Sector Framework Document on Decentralization and SNG \(SFD\)](#), which guides IDB's work in the sector. This SFD includes an action plan for operational support, knowledge creation and dissemination activities, through which the IDB has been promoting strategic topics to support decentralization and SNG in LAC. The body of knowledge created through the implementation of the SFD is allowing to improve understanding on how to implement equalization transfers; identify key issues to improve the quality of public expenditure; and develop proposals to expand subnational tax autonomy. However, it is necessary to deepen the channels of knowledge exchange and enrich them with extra regional experiences that serve as a reference for the establishment of good practices in the region.
- 2.7 In this regard, operations such as RG-T3425 Modernization of Subnational Fiscal Management and Support for Decentralization gave essential support to two strategic initiatives under the SFD: the [Decentralization and Subnational Fiscal Management Network](#)⁵ -constituted by national level institutions that lead decentralization processes and support the strengthening of subnational fiscal management capacity in LAC- allowing its members to hold meetings and to foster alliances with partner institutions to share good practices and lessons learned; and the [Subnational Fiscal Information Platform](#), which has been publishing increasingly updated and comprehensive public financial data of SNG of LAC. However, this TC will soon conclude its execution and, thus, it is essential to give continuity and expand decentralization reform efforts in LAC

⁵ The Decentralization and Subnational Fiscal Management Network of LAC is composed of 22 -mostly- national level government institutions (including Ministries of Finance, Ministries of Interior, and Ministries of Planning and Regional Development) of 15 countries. These countries contain approximately 92% of the SNG of the LAC region.

with a renewed approach, incorporating good practices and lessons from extra regional countries for the post-COVID19 world.

- 2.8 **Strategic alignment.** This TC is consistent with the Second Update to 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 that supports an improvement in integrity and transparency, establish more distributive fiscal policies by improving revenue management and designing more progressive tax systems contributing to remediate the structural and emerging development challenges stemmed from social exclusion and inequality. The operation contributes to the CRF 2020-2023 (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 Fiscal Policy and Management SFD (GN-2831-8), which underscores the importance of institutional capacity-building in the public sector to design and implement fiscal policies that improve efficient mobilization and allocation of resources that improve tax equity and social inclusion. It aligns with the objectives of the Decentralization and SNG SFD (GN-2813-8); and to the Ordinary Capital Strategic Development Program for Institutions (GN-2819-1) by contributing to the development of public policies and institutions that are more effective, efficient, open and citizen-centered.

III. Description of activities/components and budget

- 3.1 **Component I: Diagnoses of the fiscal impact of the COVID-19 crisis on SNG & Outlook of Decentralization in LAC (US\$70,000)⁶.** This component will finance diagnoses to identify regional and local governments mostly impacted by the COVID-19 crisis and its implication for public finance. To enrich the regional experience, a comparative diagnosis of the multi-level governance response against the pandemic in LAC and a set of OECD countries will be conducted. In addition, this component will finance the development of a new publication, an Outlook of Decentralization in LAC volume, with detailed country profiles, to see how more advanced levels of decentralization may have led to differentiated fiscal impacts of COVID-19. The use of standardized data from the Subnational Fiscal Information Platform (see Component 2) will be essential for the development of the country profiles and for more accurate diagnoses and data comparison purposes. The objective of these studies will be to provide LAC countries with diverse inputs to support decentralization policymaking and reform efforts and strengthen multi-level governance and the weak institutional fiscal management capacities of regional and local governments, and to draw lessons learned from the ongoing crisis.⁷ To achieve these objectives, **this component will**

⁶ It will be evaluated if the products to be prepared under Component I are developed solely by the Bank, or in partnership with other public international organizations such as the OECD or ECLAC. If a product is developed in partnership, the IP rights of said product could be shared between both organizations. This would be done only if the partner organization has a comparative advantage that could improve the product (e.g. good access to certain country information or databases), and/or resources to complement with the IADB. If this were the case, all the policies established in AM-331 regarding co-publications would be followed. For the selection of any partner organization, special attention would be put to AM-331 6.4.1. and 6.4.9. and LEG/CLA would be contacted to ask for their guidance on the matter. The IP rights of all the other products will be the Bank's property.

⁷ Moreover, these diagnoses, plus the identified good practices and lessons learned, are expected to later serve as relevant inputs for future operations of the Bank in related subjects. For instance, future operations could employ these inputs to develop specialized methodologies, tools, etc. to be used in pilot interventions across the region.

finance: (i) comparative diagnoses of the territorial impact and multi-level governance response of COVID19 in El Salvador, Mexico, and Paraguay and extra regional OECD countries; and (ii) a volume of decentralization country profiles of the 26 IDB borrowing members, including introductory chapters with stylized facts of the region and references to international good practice.

- 3.2 **Component II: Analytical study and databases standardization of the Subnational Fiscal Information Platform (US\$30,000).** This component will support the update, homologation, and publication of databases of those countries contained in the Platform. This support is critical for the Platform's sustainability, under a new approach based on minimizing the costs of information gathering and maximizing its benefits through better design and dissemination. In addition, it will support the development of an analytical study derived from these databases. The standardized data and study will be critical inputs to successfully develop the products defined under Component 1, since they will aid in the preparation of more accurate diagnoses, for data comparison purposes, and for the development of the country profiles. This component will also support the graphic redesign of the Platform so that it better complies with IDB's corporate identity requirements and for dissemination purposes. **This component will finance:** (i) update, standardization/homologation and publication of databases of at least the largest 8 countries included on the Platform; (ii) analytical study -derived from the Platform's databases and information- to be used as an input for the development of the comparative diagnoses and country profiles described in Component I; and (iii) graphic redesign of the Platform, in order to increase its visibility and appeal.
- 3.3 **Component III: Dissemination of diagnoses and knowledge products (US\$50,000).** This component will aim to manage the knowledge developed under Components 1 and 2 to enhance the lessons learned from the pandemic, and their dissemination through policy dialogues and knowledge sharing activities. The Decentralization and Subnational Fiscal Management Network will be an ideal platform and vehicle for these dialogues and knowledge sharing activities for the post-pandemic period. The aim is for this knowledge to later be used by those countries mostly affected by the COVID crisis, and for it to aid in their policy and decision making. Thus, **this component will finance:** (i) policy briefs and blog articles to be shared with beneficiary countries and policymakers to socialize research results (focused on El Salvador, Mexico, and Paraguay); (ii) technical assistance virtual dialogues / exchanges with the three beneficiary countries; and (iii) a high level dialogue with member countries of the Decentralization and Subnational Fiscal Management Network and extra regional partners for knowledge sharing and to enrich findings and recommendations.
- 3.4 The estimated budget for the operation amounts to US\$150,000.00 which will come from the Ordinary Capital Strategic Development Program for Institutions (INS). The execution period of this TC will be 25 months (24 months for execution and 25 months for disbursement).

Indicative Budget (US\$)

Activity/Component	Description	IDB/Fund Funding	Total Funding
Component 1. Diagnoses of the fiscal impact of the COVID-19 crisis on SNG & Outlook of Decentralization in LAC	1.1 Comparative diagnoses	35,000	70,000
	1.2 Volume of decentralization country profiles	35,000	

Component 2. Analytical study and databases standardization of the Subnational Fiscal Information Platform	2.1 Update, standardization, and publication of databases	12,000	30,000
	2.2 Analytical study	13,000	
	2.3 Graphic redesign	5,000	
Component 3. Dissemination of diagnoses and knowledge products	3.1 Policy briefs and blog articles	10,000	50,000
	3.2 TA virtual dialogues/exchanges	10,000	
	3.3 High level dialogue	30,000	
TOTAL		150,000	150,000

IV. Executing agency and execution structure (estimated length: 1 page)

- 4.1 **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.
- 4.2 The Bank will act as the EA given that⁸: (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 fiscal decentralization 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 due to FMM's substantial experience in these issues and with the management of similar initiatives; (iii) given the regional nature of the response to the crisis caused by COVID-19 where the Bank is expected to receive multiple demands from diverse actors with different coordination needs; (iv) given the direct channels of communication and cooperation that FMM has developed with the OECD instances in charge of overseeing the topics of fiscal decentralization and subnational fiscal management; (v) FMM's experience with the management and maintenance of the Subnational Fiscal Information Platform, and FMM's close relationship with those entities in countries of LAC that generate the original fiscal datasets; and (vi) given that since the establishment of the Decentralization and Subnational Fiscal Management Network, the Bank (through FMM) was chosen as its Technical Secretariat in charge of coordinating its members and activities.
- 4.3 **Supervision.** The Team Leader will be responsible for the supervision and management of the TC, supported by the Alternate Team Leader and 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.
- 4.4 **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,

⁸ The following reasons fall under the "Institutional capacity" and "Regional Technical Cooperation" special circumstances described in Annex 10 of document GN-2629-1.

physical and financial execution status, and findings and recommendations relevant for the remaining execution period of the TC or useful for subsequent projects.

- 4.5 **Procurement and contracts.** All activities to be executed under this TC have been included in the Procurement Plan (see Annex III) and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2765-4 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature and; (c) GN-2303-28 for logistics and other related services.
- 4.6 In case it is required, the Bank will obtain a non-objection letter before performing activities in the territory of any of the beneficiary countries.

V. Major issues

- 5.1 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 for the development of the different products of the TC. To mitigate these risks, the TC will extensively collect information from existing databases, and secondary sources.
- 5.2 There is a risk of delay in the implementation of this TC given the restrictions imposed by the 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.
- 5.3 Another risk for the successful implementation of this TC is related to the long-term difficulties associated with ensuring the sustainability of the outputs developed. This risk will be mitigated by seeking the establishment of new institutional alliances with national, regional or international entities/organizations, and by assigning responsibilities among the participating institutions of this TC in such a way that generates a greater commitment and sense of ownership -from the aforementioned institutions and countries- towards the outputs developed.

VI. Exceptions to Bank policy

- 6.1 This TC does not involve exceptions related to Bank's policies.

VII. Environmental and Social Strategy

- 7.1 Due to their nature, the activities in this TC will not have negative social or environmental impacts. Following ESG's project classification process requirements, it has been determined that this TC falls under Category "C" according to the Environment and Safeguards Compliance Policy (OP-703).

Required Annexes:

[Results Matrix - RG-T3663](#)

[Terms of Reference - RG-T3663](#)

[Procurement Plan - RG-T3663](#)