

## TC ABSTRACT

### I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ 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; ROMAN SANCHEZ, SUSANA (IFD/FMM); RODRIGUEZ RAMIREZ, ALEJANDRO (IFD/FMM); MUNOZ MIRANDA, ANDRES FELIPE (IFD/FMM); VAZQUEZ AHUED, FRANCISCO (IFD/FMM); ASTUDILLO, KAREN (IFD/FMM); SANGINES, MARIO F (IFD/FMM)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	28 Jul 2020
▪ Beneficiary:	El Salvador, Mexico, Paraguay
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$150,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	25 months
▪ Types of consultants:	Individuals; Firms
▪ Prepared by Unit:	IFD/FMM - Fiscal Management Division
▪ Unit of Disbursement Responsibility:	IFD - Institutions for Development Sector
▪ 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 Support countries of LAC to reinforce and expand their institutional channels of intergovernmental fiscal coordination and to strengthen the fiscal management capacities of their subnational governments to better address the challenges imposed by the COVID-19 crisis and those to follow during the post pandemic period. Specifically, this TC will: (i) develop sector studies and 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 the LAC region 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 volume 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) relaunch and update the Subnational Fiscal Information Platform, 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. 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. 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. 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.
- 2.3 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.
- 2.4 In this regard, 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 - 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 with a renewed approach, incorporating good practices and lessons from extra regional countries for the post-COVID19 world.

### **III. Description of Activities and Outputs**

- 3.1 **Component I: Diagnoses of the fiscal impact of the COVID-19 crisis on SNG & Outlook of Decentralization in LAC.** This component will finance: (i) comparative diagnoses of the territorial impact and multi-level governance response of COVID19 in selected countries in LAC and extra regional OECD countries; (ii) sectoral studies on related topics (e.g. subnational fiscal discipline, capital transfers, etc.); and (iii) 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 studies and databases standardization of the Subnational Fiscal Information Platform.** This component will finance: (i) analytical studies -derived from the Platform's databases and information- to be used as inputs for the development of the comparative diagnoses and country profiles described in Component I; (ii) update, standardization/homologation and publication of databases of 12 countries on the Platform; and (iii) graphic redesign of the Platform.
- 3.3 **Component III: Dissemination of diagnoses and knowledge products.** This component will finance: (i) dissemination of results of studies through virtual channels; (ii) policy briefs and blog articles to be shared with beneficiary countries and policymakers to socialize research results; (iii) technical assistance virtual dialogues/exchanges; and (iv) 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.

#### IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Diagnoses of the fiscal impact of the COVID-19 crisis on SNG & Outlook of Decentralization in LAC	US\$70,000.00	US\$0.00	US\$70,000.00
Analytical studies and databases standardization of the Subnational Fiscal Information Platform	US\$30,000.00	US\$0.00	US\$30,000.00
Dissemination of diagnoses and knowledge products	US\$50,000.00	US\$0.00	US\$50,000.00
<b>Total</b>	<b>US\$150,000.00</b>	<b>US\$0.00</b>	<b>US\$150,000.00</b>

#### 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 prepare the annual operating plan and budget, and monitor its execution; (iii) to develop the required terms of reference for consulting services; (iv) to carry out the selection and contracting of the required consulting services in accordance with Bank's rules, policies and procedures; and (v) to prepare/review the project's physical and financial progress reports.
- 5.2 **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.
- 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 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.

## **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 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.
- 6.2 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 firms and individual consultants that can work remotely; and by organizing virtual events to facilitate the exchange of information.
- 6.3 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.

## **VII. Environmental and Social Classification**

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