

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	Strengthening of macro-fiscal frameworks in Latin America and the Caribbean
▪ TC Number:	RG-T4153
▪ Team Leader/Members:	VALENCIA ARANA, OSCAR MAURICIO (IFD/FMM) Team Leader; MUNOZ MIRANDA, ANDRES FELIPE (IFD/FMM) Alternate Team Leader; ASTUDILLO, KAREN (IFD/FMM) Alternate Team Leader; NATHALIA GONZALEZ SOSA (IFD/FMM); CARMEN MONTESINOS IBANEZ (IFD/FMM); CANILLAS GOMEZ, MARIANA BELEN (IFD/FMM); VILA SAINT-ETIENNE, SARA (LEG/SGO)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	31 May 2022
▪ Beneficiary:	Ministries of finance
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$350,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	36 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 technical cooperation (TC) is to support LAC governments by strengthening the macro-fiscal framework - which is defined set of tools to identify fiscal risks, management of the public finances under fiscal sustainability principles, design, and implementation of fiscal strategy to achieve the fiscal goals- that will contribute to the positioning of countries in order to face the covid 19 crisis, generate fiscal space to recover the path of fiscal consolidation, and contribute to the design of post-pandemic policies that will enable them to resume sustainable growth paths in the medium term. This TC is designed to support member country governments i) analytical tools to identify major variables which impact on the fiscal sustainability; ii) Create metrics to identify macro-fiscal risks and fragilities and provide countries with risk mitigation alerts and greater technical capacity for policy design.
- 2.2 After the international financial crisis, the economies of the LAC region had persistent fiscal deficits. During the drop in commodity prices (2014-2016), this effect was magnified. Still, with the institutional framework strengthening, the introduction of fiscal rules in the region, and improved prospects for recovery, fiscal deficits gradually recovered. Thus, while in 2015, the fiscal deficit was 4% of GDP, by 2019, it was 3.4% of GDP. However, despite the fiscal consolidation efforts, the gross debt had a slightly increasing trend. With the pandemic, this pattern was reversed. Fiscal deficits deepened to 7.5% of GDP, and debt increased 14 pp from 58% of GDP in 2019 to

72% in 2020. This dramatically changes the fiscal outlook and presents challenges for the countries to face the shock by reducing the life and economic losses, especially by avoiding at any cost that the region falls into a debt overhang. While a significant recovery in the real growth rate of around 6% is expected for the region this year, the outlook remains more complex. Therefore, it has become a major priority to have policies for sustainable growth with a framework to protect the most vulnerable who have been impacted by covid 19.

- 2.3 Following the 1997 Asian crisis, Korea began its comprehensive institutional strengthening process by introducing performance budgeting, an integrated financial information system, and medium-term fiscal frameworks. These measures were introduced in the first “National Fiscal Management Plan” covering the period 2004-2008, which has been essential in improving fiscal responsibility and expenditure efficiency, helping to maintain fiscal stability in the medium term. This process has given the country successful experiences in crisis management, as seen in the exemplary recovery from the financial crisis and currently in response to the pandemic. In its ongoing commitment to sustainable fiscal management, Korea is now implementing a new fiscal rule, which would limit debt to 60 percent of gross domestic product and the fiscal deficit to 3 percent, starting in 2025. In light of the fiscal situation facing LAC, which has seen numerous fiscal rule suspensions, Korea’s experience will be critical in the rule reshaping process that will challenge the region in the coming years.
- 2.4 This TC makes it possible to identify the main weaknesses of the macro-fiscal frameworks of the countries that were impacted by the covid 19 crisis. In addition, it enhances countries’ institutional capacity by providing them with tools to design policies for generating fiscal space and a faster and more successful recovery in the post-crisis period. Institutions face the challenge of balancing the tradeoff between credibility and flexibility that is crucial for policymakers to provide short-term fiscal stimulus with medium-term sustainability. Korea’s experience as a standard-bearer in macro-fiscal discipline sets an example for the adoption of better practices and original and more innovative methodologies to build the institutional capacity of the region’s finance ministries.

III. Description of Activities and Outputs

- 3.1 **Component I: Component 1. Korean and OCDE experiences in the macro-fiscal management..** The component will analyze the Korean and the other OCDE economies’ experiences; the main lessons learned can apply to LAC focusing on analyzing mechanisms to strengthen macro-fiscal buffers that allow for counter-cyclical fiscal policy. It will also analyze efficiency issues in allocating fiscal resources to enhance economic growth. Potential partnerships with Korean organizations, such as the Korea Institute of Public Finance (KIPF) and the Korea Development Institute (KDI) will be preferred.
- 3.2 **Component II: Component 2. Evaluating gaps in the fiscal/ macro-economic / institutional variables in LAC countries .** This component focuses on analyzing the main macro-fiscal gaps Latin American countries face and the comparison with the other emerging and advanced economies. This component will finance: i) Identify the macroeconomic, fiscal, and institutional gaps that generate persistent imbalances. ii) Quantify the main macro-fiscal risks faced by countries in the region and analyze mitigation measures against international benchmarks and best practices of advanced economies.
- 3.3 **Component III: Component 3. Formulation of policy recommendations and production of knowledge products and dissemination of results..** This component will focus the organization of events and disseminate results through seminars and workshops held virtually and through the Bank’s communication channels.

Additionally, this includes elaboration of working documents showing the analyses for LAC, the comparative analysis with the Korean experience, and explaining the methodologies used that could be shared with the countries.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Component 1. Korean and OCDE experiences in the macro-fiscal management.	US\$150,000.00	US\$0.00	US\$150,000.00
Component 2. Evaluating gaps in the fiscal/ macro-economic / institutional variables in LAC countries	US\$150,000.00	US\$0.00	US\$150,000.00
Component 3. Formulation of policy recommendations and production of knowledge products and dissemination of results.	US\$50,000.00	US\$0.00	US\$50,000.00
Total	US\$350,000.00	US\$0.00	US\$350,000.00

V. Executing Agency and Execution Structure

- 5.1 The Bank will be the executing agency through the Fiscal and Municipal Management Division (IFD/FMM). The activities will be closely coordinated by the fiscal specialists in the selected countries, who will present the country's requirement and will evaluate (i) the alignment with the objectives of the 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, 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. This TC plans to hire a Korean consultant and a research institution in Korea to have the high technical capability to enable us to conduct the studies. The activities of this TC will be executed in accordance with the procurement methods established by the Bank, namely: (a) Hiring of individual consultants, as established in the AM-650 regulations; (b) Contracting of consulting companies for services of an intellectual nature in accordance with GN-2765-4 and its related operating guides (OP-1155-4) and (c) Contracting of logistics services and other services other than consulting, in accordance with policy GN-2303-28.
- 5.2 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. Given that this TC is regional in nature, before starting a specific activity in any specific country, the non-objection of the corresponding government liaison body with the Bank will be sought. 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. If an OS-TC, details of executing agency should be in the PP, POD or PL/GP. However, include its track record in areas pertinent to the TC activities/components and ability to undertake and effectively manage the TC.

VI. Project Risks and Issues

- 6.1 Risks for this project are low but the major risk is related to a possible delay in TC implementation activities given the current restrictions of the ongoing 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.

- 6.2 Another risk associated with this TC is related to the availability of quality information from the Ministries of Finance or similar agencies for the development of the different products of the TC. To mitigate this risk, the project team will collect extensively existing information, databases, and secondary sources to execute this TC. However, considering the type of this operation is research and dissemination (R&D), the TC should consider a potential slow response from counterparts in collecting primary source of information, likewise it will focus on beneficiary entities 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 allows for updated information.
- 6.3 Any studies report or other knowledge products (e.g., material, graphic, software or otherwise), prepared as stated in the Procurement Plan (Annex IV) shall belong to and remain the property of the Bank. All intellectual property rights in the outputs produced under this TC are vested in the executing agency, the Fiscal and Municipal Management Division (IFD/FMM).

VII. Environmental and Social Classification

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