

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	REGIONAL/Regional
▪ TC Name:	Program for Strengthening Institutional Capacity to Enhance Financial and Fiscal Discipline of State-owned Enterprises in Latin America and the Caribbean
▪ TC Number:	RG-T3233
▪ Team Leader/Members:	REYES-TAGLE, GERARDO (IFD/FMM) Team Leader; PINEDA AYERBE, EMILIO INIGO (IFD/FMM) Alternate Team Leader; ROMAN SANCHEZ, SUSANA (IFD/FMM); CHOI, JAE YOUNG (IFD/FMM); PARK KWON, YERY (IFD/FMM)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	24 Apr 2018
▪ Beneficiary:	LAC
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US\$550,000.00
▪ Local counterpart funding:	N/A
▪ Disbursement period:	36 months
▪ Types of consultants:	Individuals
▪ Prepared by Unit:	Fiscal &Municipal Management
▪ Unit of Disbursement Responsibility:	Institutions for Development
▪ 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 strengthen the institutional capacity to enhance financial and fiscal discipline of State-owned Enterprises (SOEs) in Latin America and the Caribbean (LAC) in ways to improve their management efficiency and financial soundness. This will be achieved by conducting an assessment of current practices of SOEs' planning and execution and their impact on the fiscal sustainability of the LAC countries (both in terms of quality of expenditure and the public financial management (PFM)). The TC will concentrate in the following areas: (i) investment and financing mechanisms; (ii) government transfers and subsidies; (iii) taxation rules and exemptions; (iv) payroll and pension schemes; and (v) transparency and risk management instruments.
- 2.2 In LAC, SOEs account around 8% of GDP, which compared to other regions, the weight of SOEs is below the average except Asia. SOEs are still present in key sectors of the economy such as utilities and play a crucial role in delivering public services and protect strategic industries of the country. Despite its rationale of solving market failure and to achieve distributional goals, the contribution of SOEs to the economic development in LAC has been undermined. Most SOEs in the region suffers from weak performance and relies heavily on government grants and subsidies to maintain operational levels. Others do not generate enough capital earnings to perform investment activities which consequently leads to a decline in public investments of SOEs in infrastructure or services. Despite the growing concerns surrounding the SOEs lagging performance, there is a lack of a compiled data that makes it difficult to properly analyze its impact in

the economy and exercise accountability for a better management of PFM and SOEs financial performance.

- 2.3 Most SOEs in LAC are funded directly from the government's budget, with few or no rules to control such transfers. There is a lack of clear guidelines and mismanagement of monitoring and evaluation (M&E) capabilities to account the continuing leakage of public finances and weak capacity of the personnel in the Ministry of Finance and line ministries to evaluate SOEs' program. Applying financial and fiscal discipline to SOEs can reduce government liabilities and simultaneously strengthening incentives for improved SOE governance. Reducing preferential access to direct and indirect public financing increases the commercial orientation of SOEs and enable a meaningful assessment of the operational efficiency of these enterprises and its investment activities. Regulating and monitoring the investment practices of SOEs would be crucial to achieve efficiency for the soundness of government finances and sustainable government development.
- 2.4 In this respect, it is necessary to conduct a comparative analysis about the different financial and fiscal practices of SOEs that hinder its performance and identify areas for improvement. By generating an original research drawing on recent regional experiences will contribute to rethink about the role of SOEs in the economic development in LAC and produce a transferable guide to motivate innovating the monitoring and evaluation (M&E) system and to strengthen their fiscal governance of SOEs.

III. Description of Activities and Outputs

- 3.1 Component I. Diagnostic study and review of country cases (including the Korean case) and best practices for LAC countries (US\$200,000). This component aims to diagnose two case studies that can serve as a model for LAC countries to follow. One country case will be Korea given the advance level and good performance of the SOEs in that country and another case to be defined. The purpose of the two case studies is to analyze the current status of investment scheme and fiscal treatment of SOEs and to identify best practices for LAC countries. It involves the following activities: (i) design of the assessment framework on the current status of SOE financing and fiscal management practices in LAC countries; (ii) review of two best practices, one the Korean case and another one to be defined regarding SOEs' investments mechanisms and fiscal treatment; and (iii) design of surveys based on the framework.
- 3.2 Component II. Roadmaps for improving the financing and fiscal discipline of SOEs (US\$190,000). This component will focus on identifying challenges related to financing and fiscal practices of SOEs in the selected countries. It also provides a specific set of recommendations and roadmaps for selected countries to address the problems in their management systems of SOEs. It involves the following activities: (i) data cleaning and analysis of data collected through surveys; (ii) drafting of a specific set of recommendations for selected countries to improve their financial and fiscal management system of SOEs based on best practices; (iii) drafting of a SOEs' governance toolkit including management indicators and assessment methodology. The team will carry out more in-depth analysis through additional data collection and interviews from government officials. An action plan to strengthen financial and fiscal discipline of SOEs will be developed in a more feasible strategy for improving the government's capacity to manage SOEs' investment activities.
- 3.3 Component III: Dissemination of results (US\$160,000). The objective of this component is to disseminate the findings and recommendations of the technical cooperation with the goal of strengthening countries' institutional capacity and promoting policy dialogue. It involves the following activities: (i) one training program held in Korea for the beneficiary countries public officials and SOEs' managers with the support of the Korean government and IDB to share the findings and challenges. This will contribute in

deepening the cooperation between LAC countries and Korea regarding SOEs' public investment financing mechanisms and its fiscal treatments; (ii) publication of papers on survey findings from all components; and (iii) two symposiums will be held in Korea and at the Bank's Headquarters in Washington D.C., with the objective to present the results to government officials and SOEs' stakeholders and adjust them according to the feedback. The symposiums will have two objectives: (i) knowledge sharing of SOE practices and (ii) investment promotion of SOEs. The hiring of a consultant to support in the logistic of this component could be needed, preferably from an Asian country.

- 3.4 **Component I: Component I. Diagnostic study and review of country cases (including the Korean case) and best practices for LAC countries.** This component aims to diagnose two case studies that can serve as a model for LAC countries to follow.
- 3.5 **Component II: Component II. Roadmaps for improving the financing and fiscal discipline of SOEs.** This component will focus on identifying challenges related to financing and fiscal practices of SOEs in the selected countries.
- 3.6 **Component III: Component III: Dissemination of results.** The objective of this component is to disseminate the findings and recommendations of the technical cooperation with the goal of strengthening countries' institutional capacity and promoting policy dialogue.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Component I. Diagnostic study and review of country cases (including the Korean case) and best practices for LAC countries.	\$ 200,000.00	\$ 0.00	\$ 200,000.00
Component II. Roadmaps for improving the financing and fiscal discipline of SOEs.	\$ 190,000.00	\$ 0.00	\$ 190,000.00
Component III: Dissemination of results.	\$ 160,000.00	\$ 0.00	\$ 160,000.00

V. Executing Agency and Execution Structure

- 5.1 The Bank will be executing the technical cooperation through the Fiscal Management Division (FMM).
- 5.2 The Bank will be executing the technical cooperation through the Fiscal Management Division (FMM).

VI. Project Risks and Issues

- 6.1 The first risk is the unwillingness of stakeholders to participate in the survey and data collection process. To mitigate this risk, the team is working through existing IDB networks and will adapt each survey to fit the regional context in collaboration with IDB country offices. The second risk is difficulties in the execution of pilot projects. This risk is best mitigated by seeking the support of entities in the regional countries from the diagnostic to the preparation of the roadmap for the pilots onwards in collaboration with agencies with which the Bank has worked successfully in the past and with the Korean government.

VII. Environmental and Social Classification

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