TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	Fiscal Policy and Climate Change
▪ TC Number:	RG-T3640
▪ Team Leader/Members:	EGUINO, HUASCAR (IFD/FMM) Team Leader; PIMENTA, CARLOS CESAR (IFD/FMM) Alternate Team Leader; GONZALEZ SOSA, NATHALIA (IFD/FMM); DELGADO, C. RAUL (CSD/CCS); ALMEIDA, JULIANA SALLES (CSD/CCS); LOPES PEREIRA DE MELO, ALOISIO (CSD/CCS); GOMEZ REINO, JUAN LUIS (IFD/FMM); MARIA CRISTINA MAC DOWELL (IFD/FMM); REYES-TAGLE, GERARDO (IFD/FMM); LORA ROCHA, OSCAR (IFD/FMM); ARDANAZ, MARTIN JORGE (IFD/FMM); RASTELETTI, ALEJANDRO GABRIEL (IFD/FMM); ALEJOS MARROQUIN, LUIS ALEJANDRO (IFD/FMM); BONILLA-ROTH, MARCIA E. (SRE/PFA); HARPER, LESLIE ELIZABETH (IFD/FMM); CABRERA BOTERO, MARIA MARGARITA (CSD/CCS); NEGRET GARRIDO, CESAR ANDRES (LEG/SGO); ASTUDILLO, KAREN (IFD/FMM); MURGUIA BAYSSE, JUAN MANUEL (CSD/RND); KEVISH, MARIA LORENA (IFD/FMM); FERNANDEZ PAINO, IDA MARIA DEL PILAR (IFD/FMM); SCHINELLER, SARAH (IFD/IFD); GUY EDWARDS (IFD/FMM)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	14 Apr 2020
▪ Beneficiary:	LAC
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	US$0.00
▪ 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 - 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; Climate change; Environmental sustainability

II. Objective and Justification

2.1 Contribute to a better articulation between fiscal policy and climate change through: (i) development of standardized methodologies and instruments; (ii) mainstreaming adaptation and mitigation actions within fiscal policies and management systems; and (iii) strengthening the institutional capacity of the region's governments in the aforementioned topics.

2.2 The adoption of the Agenda 2030 for Sustainable Development and the Paris Agreement established an unprecedented commitment to change our current economic and social models towards sustainable, resilient, and zero-carbon development. These commitments are included in what are known as "nationally determined contributions" (NDCs), which in most Latin American and Caribbean (LAC)

countries also include actions to address climate change challenges. In this context, the IDB seeks to support LAC countries in building up their institutional capacities to incorporate climate action into fiscal policies and management processes. The Ministries of Finance play a key role in these tasks, as they could systematically support climate change actions in national budgets, public investment systems, procurement regulations, tax policies, amongst others, aimed to maximize the efficiency and effectiveness of public resources.

2.3 Several countries in the region need technical assistance to support the Ministries of Finance with new methodologies and tools to implement climate change actions towards reaching their national commitments of carbon emissions reduction. At the same time, the IDB is committed to increasing its climate finance in its operations with beneficiary countries in areas such as fiscal risks, budget management, public investment, taxation, and public procurement. Specifically, there is a need to support the development of new methodologies for:

2.4 1. Assessing climate-related risks (natural disasters) and quantify the associated contingent fiscal liabilities for strengthening countries' medium/long term fiscal sustainability.
2. Adopting standardized approaches to identify climate change budget expenditures, track their execution, and assess their effectiveness in terms of mitigation and adaptation.
3. Planning of public investment needs to incorporate norms and guidelines to foster resiliency of infrastructure and incorporate climate change consideration within the ex-ante evaluation and selection processes.
4. Implementing taxes and subsidies reforms to avoid unnecessary fiscal expenses and set up incentives to reduce carbon emissions, avert negative externalities, and implement more equitable and sustainable fiscal policies.
5. Incorporating climate change criteria in public procurement policies and systems, in accordance with international best practices.

III. Description of Activities and Outputs

3.1 **Component I: Component I - Standardized methodologies and instruments .** (i) Guidelines to measure the impact of extreme natural events on fiscal sustainability (ii)Operational guidelines to identify/tag and evaluate public expenditures on climate change; (iii) Guidelines to support ex-ante evaluation and improve the selection process of resilient public investments and services; (iv) Guidelines for the design and implementation of environmental taxes in the region; and (v) An action plan to foster green procurement and acquisition policies.

3.2 **Component II: Component II - Operational support.** Will finance technical advice to the Ministries of Finance aimed at: (i)screening opportunities to include climate change actions within fiscal policies and management systems; and (ii)design and implement specific climate change activities financed through IDB's operations using the previously developed instruments and methodologies described in Component 1. As a result, the Ministries of Finance will be able to implement specific climate change actions within policies and management systems

3.3 **Component III: Component III - Strengthening institutional capacity .** Dissemination of the instruments and methodologies developed in Component 1 through: (i) Two practical workshops; and (ii) Publication of two technical notes. Additionally, the component will finance the implementation of three academic forums to present new research papers in the area of fiscal policy and climate change. As a result of these activities, the beneficiary countries will increase their technical capacities in terms of climate change and fiscal policies.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Component I - Standardized methodologies and instruments	US$330,000.00	US$0.00	US$330,000.00
Component II - Operational support	US$170,000.00	US$0.00	US$170,000.00
Component III - Strengthening institutional capacity	US$120,000.00	US$0.00	US$120,000.00
Total	**US$620,000.00**	**US$0.00**	**US$620,000.00**

V. Executing Agency and Execution Structure

5.1 Given the regional dimension of this TC and the lack of a regional entity with capacity to execute it, the Bank will be the executing agency through the Fiscal Management Division (IFD/FMM) in coordination with the Climate Change Division (CSD/CCS). The substantial experience of the Bank developing new operational products will ensure the sustainability of this TC implementation.

5.2 For the contracting of individual consultants, the Bank project team will observe Human Resource selection procedures (AM-650); as well as in the case of non-consulting services contracts, the Corporate Procurement Policy and Procedures (GN-2303-20).

5.3 The execution by the Bank is justified by the regional nature of this program, which will allow an effective coordination of the work to be carried out with the Ministries of Finance. Additionally, the Bank's execution is justified by the fact that this program entails different studies to be financed for a better integration between fiscal management and climate change.

VI. Project Risks and Issues

6.1 The main risk associated to this TC is the lack of institutional capacities related to climate change issues in the participating countries. To mitigate this risk, the TC incorporates Component III (Strengthening the institutional capacity) for capacity building of institutional counterparts in fiscal policy and climate change affairs. The innovative nature of this TC could also be a risk. To mitigate this risk, the TC will support pilots for the application of the methodologies and /or guidelines developed to ensure these meet their purposes and can be successfully operated

VII. Environmental and Social Classification

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