

CANEF: Evaluating and Improving Fiscal Regime Design in the Extractives Sector in Latin America and the Caribbean

I. Basic Information for TC

▪ Country/Region:	Regional
▪ TC Name:	CANEF: Evaluating and Improving Fiscal Regime Design in the Extractives Sector in Latin America and the Caribbean
▪ TC Number:	RG-T2854
▪ Team Leader/Members:	Espinasa, Ramon (INE/ENE), Team Leader; Osmel Manzano (CID/CID), co-team leader; Estefania Marchan; Martin Walter; Carlos Sucre (INE/ENE); Monica Lugo (LEG/SGO); Tomas Serebrisky (INE/INE); Inder Ruprah (CCB/CCB); Marta Ruiz Arranz (CAN/CAN); Alberto Barreix (FMM/CCR)
▪ Indicate if: Operational Support, Client Support, or Research & Dissemination	Research and Dissemination
▪ If Operational Support TC, give number and name of Operation Supported by the TC:	
▪ Date of TC Abstract authorization:	July 11, 2016
▪ Beneficiary (countries or entities which are the recipient of the technical assistance):	Countries in Latin America and the Caribbean that are borrowing members of the IDB
▪ Executing Agency and contact name	Executed by IDB (INE/ENE)
▪ Donors providing funding:	Government of Canada, via the Canadian Facility for the Extractives Sector (CANEF)
▪ IDB Funding Requested:	\$550,000.00
▪ Local counterpart funding, if any:	N/A
▪ Disbursement period (which includes Execution period):	18 months (disbursement)
▪ Required start date:	July 2016
▪ Types of consultants (firm or individual consultants):	Individual consultants and firms
▪ Prepared by Unit:	INE/ENE
▪ Unit of Disbursement Responsibility:	INE/ENE
▪ TC Included in Country Strategy (y/n):	N
▪ TC included in CPD (y/n):	N
▪ GCI-9 Sector Priority:	Institutions for Growth and Social Welfare and Protect the environment, respond to climate change, promote renewable energy, and ensure food security

I. Objectives and Justification of the TC

- 1.1 The goal of the project is to evaluate existing fiscal regimes for mining and oil and gas¹ in selected resource-rich countries in Latin America and the Caribbean (LAC), model the performance of alternative regimes on the sector's activity, and support the preparation of plans to strengthen resource governance. To achieve its objectives, the project will: (i) evaluate existing Extractive Industries (EI) fiscal

¹ The study will make a distinction between fiscal regimes for mining and fiscal regimes for oil and gas

regimes in selected countries in terms of their efficiency, competitiveness, and revenue performance;² (ii) assess the impact of the aforementioned fiscal regimes on the exploration and production of minerals and oil and gas;³ (iii) examine potential options for reform of existing fiscal regimes; (iv) model alternative regimes based on worldwide best practices in fiscal system design for the EIs; and (v) support country and regional-level strategic plans for strengthening the EIs.

- 1.2 The project will encompass the following 15 countries as case studies: Argentina, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Guatemala, Guyana, Mexico, Panama, Peru, Suriname, Trinidad and Tobago, and Venezuela.
- 1.3 Revenues from the Extractive Industries have major implications for many governments in Latin America and the Caribbean.⁴ Dependence on natural resource rents in some countries in the region has increased over time and can account for over half of government revenue in some countries.⁵ This trend seems likely to continue, even as many LAC countries experience economic and social volatility resulting from large swings in commodity prices. Maximizing and protecting the tax base of the extractive industries during upturns and downturns is an important priority for many LAC governments.
- 1.4 Fiscal policy can either help temper the effects of volatile commodity prices on the domestic economy or it can augment them. The recent commodity price upswing and downfall in the last decade has renewed interest in the key question of how best to establish an efficient system for collecting revenues from EIs without distorting investment decisions or jeopardizing short-term growth and long-term sustainable development. Previous efforts to assess the sector have provided limited empirical evidence on the benefits and tradeoffs inherent to different fiscal regimes at the regional level.
- 1.5 The Bank's previous work related to this TC includes efforts of the FMM division, and activities supported by RG-X1129, "Strengthening Governance in the Extractive Industries in Latin American and the Caribbean".
- 1.6 Through the Canadian Facility for the Extractives Sector (CANEF), the IDB can help LAC countries move toward more responsive, flexible, and transparent fiscal regimes in the EIs. CANEF supports the promotion of innovative and sustainable solutions to challenges in the extractives sector in LAC. Approved by the IDB in March 2016, the Facility reflects a prolonged effort by the IDB to better integrate its efforts in the extractives sector (oil, gas and mining sector), and the Bank's successful long-standing partnership with the Government of Canada. CANEF finances non-reimbursable technical cooperation projects aligned with its strategic objectives. CANEF subprojects support the development of a range of knowledge products, including regional and country-specific public goods, such as technical reports, studies and course curricula on issues pertaining to the extractives sector (oil, gas and mining sector) that contribute to foster long-term perspectives for sector

² Following the methodology in Chen, D., & Perry, G. (2015). *Mining Taxation in Colombia*. Calgary: University of Calgary.

³ Following the methodology in Fuentes, R. J., Piedrabuena, B., & Calani, M. (2013). *Efficient Taxation of Non-Renewable Resources: The Case of Copper in Chile*.

⁴ See Walter 2015; Vieyra and Masson (2014)

⁵ See Sinnott, E., Nash, J., & de la Torre, A. (2010). *Natural Resources in Latin America and the Caribbean: Beyond Booms and Busts?*. Washington D.C.: The World Bank.

development and responsible investment and improve stakeholder collaboration and institutional strengthening.

- 1.7 The project will contribute to IDB's GCI-9 priorities on Institutions for growth and social welfare, by supporting activities to strengthen institutions and foster improved social and economic governance and sustainability.

II. Description of components and budget

2.1 The project will support activities organized under the following components:

2.2 Component 1: Analytical Methodologies for a) Mining and b) Oil and Gas⁶ Sectors. This component will finance the development of standardized methodologies for evaluating fiscal regimes in mining and oil and gas. Specifically, the methodologies will enable: (i) regime evaluation in terms of efficiency, competitiveness, and revenue performance; (ii) the modeling of the impact of existing fiscal regimes on mining and oil and gas activity; and (iii) the assessment of reform options and discussion of best practices in EI fiscal design.

2.3 Component 2: Country and Regional Assessments. This component will finance the application of methodologies described in 2.2 for each country's Mining and/or Oil and Gas sector and the production of individual assessment reports for each country. In addition, it will support the generation of a regional report which will provide a comparative analysis of EI fiscal regimes in LAC.

2.4 Component 3: Country and Regional Roadmaps. This component will support the preparation of country and regional activity plans for the implementation of recommendations proposed by the project, as explicitly required by supported countries. It will support stakeholder engagement, dialogue efforts, and other knowledge dissemination activities, including editing, design, translation and publication of knowledge products generated in the context of the project at a regional level, not just limited to the 15 countries in this study.

⁶ Separate but parallel methodologies for both sectors

Indicative Results Matrix

Outcomes	Intermediate Outcomes	Monitored Indicators	Target	Associated Output	Product Target	Means of Verification
Strengthen resource governance through enhanced knowledge of EI fiscal regimes	Increased availability of comparable sector information on EI fiscal systems in LAC	# of downloads of studies	3,000 by 2020	<i>Component 1: Analytical Methodologies for a) Mining and b) Oil and Gas Sectors.</i>	2 methodologies by Q3 2016	IDB Reporting System/Repository
		# data downloads	500 by 2020	<i>Component 2: Country and Regional Assessments</i>	15 country studies by Q3 2017; 1 regional study by Q4 2017	IDB Publications
		# of references to studies (media and/academia)	20 by 2020			
Enhanced stakeholder engagement	Improved ability to determine benefits and drawbacks of various regulatory frameworks governing EI fiscal regimes in LAC	# of requests for support from stakeholders for future policy dialogue or action	3 requests by 2020	<i>Component 3: Country and Regional Roadmaps</i>	3 requests for support by 2020	CANEF Annual Reports

Indicative Budget

Component	Activity	Description	IDB (CANEF) Funding
Component 1. Analytical Methodologies	Methodology Design (Mining)	Design methodology for calculating Marginal Effective Tax Rate, Revenue Performance Measurement, and modeling of alternative regimes	30,000
	Methodology Design (Oil and Gas)	Design methodology for calculating Marginal Effective Tax Rate, Revenue Performance Measurement, and modeling of alternative regimes	30,000
Component 2. Country and Regional Assessments	Individual Country Reports	Application of above methodologies at the country level	200,000
	Regional Report (Mining)	Production of final regional study	30,000
	Regional Report (Oil and Gas)	Production of final regional study	30,000
Component 3. Country and Regional Roadmap	Publication	Editing, design, and printing	50,000
	Country and Regional Roadmap	Implementation of recommendations proposed by the project	150,000
	Incidentals		30,000
Total			550,000

This Technical Cooperation will be financed by and under the CANEF Facility (RG-X1262).

III. Executing agency and execution structure

3.1 The Bank will act as the executing agency due to its ability to leverage its extensive network of internal and external subject-matter experts and well-established relationships with involved stakeholders. The IDB, at its Washington DC headquarters, is responsible for the supervision and implementation of CANEF resources as a Project Specific Grant (PSG) contribution. The Bank will include a progress and final report of the results of the operation in its annual report to the donor.

3.2 The Bank will contract individual consultants, consulting firms and non-consulting services in accordance with Bank's current procurement policies and procedures.⁷

IV. Major issues

4.1 The main risk for the implementation of the TC is that of suboptimal application of the standardized methodologies by the individual country consultants. To mitigate this

⁷ Contractual and staff travel will be allowed for project execution purposes, as per the provisions of the Amended & Restated Cooperation Framework Agreement between the IDB and Canada (§4.1.7.), reinstated in §5 of the Administration Agreement with Canada for the CANEF Facility. These contributions may not supplement the budget of a Bank Department or Division for routine or customary activities.

risk, the project manager will ensure that there is constant communication with individual consultants and quality control checks on consultants' work so that all implementation errors are corrected by the time that individual consultants submit their final country reports (before regional report is underway).

- 4.2 Another risk associated with the implementation of this project is the potential for there to be difficulty in accessing information needed for the development of individual country assessments. To mitigate this risk, the team will develop a methodology that enables to bridge data lacunas (i.e. imputed and estimated data, projections and simulations, etc.).

V. Exceptions to Bank policy

- 5.1 None apply.

VI. Environmental and Social Strategy

- 6.1 Following ESG's project classification process (Safeguard Policy Filter and Safeguard Screening Form) requirements, it has been determined that this project falls under Category C. No environmental assessment studies or consultations are required for Category "C" operations. See [Safeguard Screening Form \(SSF\)](#) and [Safeguard Policy Filter \(SPF\)](#).

Required Annexes:

[Terms of Reference for activities/components to be procured: Communications Contractual Procurement plan](#)

Original Signed

08/04/2016

Ariel Yépez-García
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Date