TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Impact of Fiscal Policy in LAC
▪ TC Number:	RG-T4756
▪ Team Leader/Members:	Lopez Luzuriaga, Andrea Fernanda (IFD/FMM) Team Leader; Radics, Gustavo Axel (IFD/FMM) Alternate Team Leader; Martinez Aguero, Rolando Antonio (IFD/FMM); Yarygina Udovenko, Anastasiya (IFD/FMM); Roman Sanchez, Susana (IFD/FMM); Astudillo, Karen (IFD/FMM); Goncalves Dos Santos Carolina (LEG/SGO); Rivera Urias Maria De Los Angeles (IFD/FMM)FMM)sana (IFD/FMM); Goncalves Dos Santos Carolina (LEG/SGO); Blanco Urbina Luz Inmaculada (IFD/FMM); Rivera Urias Maria De Los Angeles (IFD/FMM)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	N/A.
▪ Date of TC Abstract authorization:	04/15/2025
▪ Beneficiary:	Minister of Finance/Tax authority administrations of the participant countries
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Institutions(W2C)
▪ IDB Funding Requested:	US$575,000.00
▪ Local counterpart funding, if any:	US$0
▪ Disbursement period (which includes Execution period):	36 months that includes the execution period
▪ Required start date:	09/15/2025
▪ Types of consultants:	Individual consultants
▪ 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):	Yes
▪ Alignment with the IDB Group Institutional Strategy: Transforming for Scale and Impact:	Institutional capacity, rule of law, and citizen security; Fiscal policy and management

II. Objectives and Justification of the TC

2.1 This Technical Cooperation aims to strengthen the evidence base on fiscal policy effectiveness across the Latin American region, with an initial emphasis on addressing tax compliance challenges. It will do so through rigorous analytical research and developing innovative analytical frameworks that enable governments to enhance institutional capacity for sustainable fiscal management. We will begin in Colombia, the Dominican Republic, and Peru as pilot countries to test and refine our methodologies. Among the main challenges facing fiscal interventions are (i) insufficient knowledge about the determinants of fiscal intervention effectiveness, (ii) institutional capacity weaknesses to design and implement effective fiscal interventions, and (iii) the lack of tools to promote the effectiveness of fiscal interventions. Fiscal policy is crucial in promoting economic growth, reducing inequality, and ensuring sustainable public finances in Latin America and the

Caribbean (LAC). However, persistent challenges—such as tax evasion, informality, and administrative inefficiencies—continue to limit governments' ability to mobilize resources effectively and enforce compliance. These challenges are particularly acute in the target countries, where informality rates exceed 50%, with Peru reaching 70%—one of the highest in the region (ILO, 2024). While LA countries have implemented digitalization processes in their tax authorities, they still face significant challenges in improving compliance and service delivery (Reyes-Tagle et al., 2023). Within this context, the Fiscal Management Division is actively working to help countries address their fiscal challenges. While progress has been made in recent years, persistent issues such as tax evasion, high informality rates, and administrative inefficiencies continue to undermine governments' capacity for effective resource mobilization and compliance enforcement. These ongoing challenges underscore the importance of expanding the Division's efforts to generate evidence-based insights and support more effective fiscal interventions throughout the region. This performance trajectory, while positive, highlights the need for evidence-based research to understand and enhance the determinants of fiscal intervention effectiveness. We are beginning with Colombia, Peru and Dominican Republic because they represent a suitable sample of different country sizes, complexity, and face more acute fiscal challenges due to higher informality rates, and because the project execution has not been as timely and satisfactory as expected in the selected countries. The pilot implementation in these three countries will generate regionally applicable evidence that can inform fiscal policy reforms across other countries in Latin America and the Caribbean.

2.2 As part of a broader regional effort, this TC will seek to support Colombia, Peru and Dominican Republic in improving the effectiveness of their fiscal interventions within each country's economic, political, and social context. The TC will finance activities for knowledge generation and dissemination, institutional strengthening, and the development of tools to promote the effectiveness of fiscal interventions, both at central and subnational levels. Countries are expected to have applicable knowledge to inform the design of projects that meet development effectiveness objectives. This TC will address these challenges by generating rigorous evidence through comprehensive analytical methodologies, developing institutional capacity for evidence-based fiscal policy design, and creating knowledge products that enable scalable implementation across diverse country contexts in the region.

2.3 **Contribution to the operative Bank's program.** Contribution to the operative Bank's program. By strengthening fiscal policy effectiveness and tax administration capacity, this TC will complement ongoing programs related to fiscal modernization and institutional strengthening currently under execution in the target countries. In Colombia, the TC will support the Program to Support Sustainable and Equitable Fiscal Policies (5766/OC-CO) by This component seeks to enhance the equity and effectiveness of Colombia's tax system by improving administrative capacity to reduce evasion and informality. In Peru, the TC will enhance the Program to Support Peru's Fiscal and Economic Recovery II (5893/OC-PE) by providing rigorous impact evaluations of fiscal interventions and developing tools to optimize policy effectiveness. This new TC complements the existing regional TC Improving the effectiveness of fiscal operations (ATN/FI-20525-RG, ATN/OC-19395-RG) by providing deeper, country-specific analysis and testing of methodologies for evaluating the effectiveness of fiscal interventions. While the original TC focused on knowledge systematization and tool development, this initiative enables intensive, localized implementation to validate and refine those approaches. This TC will not finance any activities or services that are already supported through other Bank operations.

2.4 **Strategic alignment.** The TC is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (GN-3159-12) and directly supports the Bank's strategic objectives through an integrated approach to fiscal policy effectiveness research. The TC contributes to bolstering sustainable regional growth by addressing fundamental barriers to economic development, including the need for sound macroeconomic and fiscal frameworks that are essential for creating a conducive business environment. The research on tax compliance directly supports the commitment to tackle the root causes of informality and strengthen institutional capacity, which are identified as crucial for fostering productivity growth and innovation in the region. The TC also aligns with the institutional commitment to evidence-based policy assistance and the strategic emphasis on research, data, and experimentation. The focus on Colombia, Dominican Republic, and Peru, while generating regionally applicable lessons, reflects the strategy call for strategic selectivity and prioritization in country strategies while leveraging the Bank's comparative advantages in regional knowledge and technical expertise. This regional perspective will allow the TC to generate insights and tools with broader relevance beyond the initial pilot countries.

2.5 **Alignment with Bank's country strategies.** This TC is strategically aligned with the IDB Group Country Strategy with Colombia, 2024–2027 (GN-3238-3), the Strategic Agreement between Dominican Republic and the IDB Group. Country Strategy 2025-2028 (GN-3294), and the IDB Group Country Strategy with Peru, 2022–2026 (GN-3110-1), directly supporting key fiscal management priorities identified in each context. The research emphasis on the rule of law and governance addresses critical issues of tax compliance, enforcement equity, and institutional transparency that are central to these countries' development objectives. By examining how fiscal policies affect taxpayer behavior, this TC will support the development of more effective governance frameworks that enhance public trust in fiscal institutions. Specifically, the TC supports Colombia's focus on improving fiscal execution and public management by generating evidence on intervention effectiveness. In Peru, it contributes to strengthening fiscal management and advancing digital transformation through the evaluation of tax simplification measures and their impact on compliance. In the Dominican Republic, the research will help enhance transparency, efficiency, and institutional capacity in tax administration by analyzing taxpayer behavior and enforcement strategies. While focused on these three countries, the analytical frameworks and methodological innovations developed through this TC will generate lessons with broader applicability across Latin America and the Caribbean. The diverse fiscal contexts represented by Colombia, the Dominican Republic, and Peru provide a rich foundation for understanding how different institutional, economic, and social conditions affect the effectiveness of fiscal interventions. The TC is also aligned with the objectives of the priority area on effective, efficient, and transparent institutions of the Strategic Development Program financed with Ordinary Capital (GN-2819-14).

III. Description of activities/components and budget

3.1 **Component 1: Generate knowledge through impact evaluations and other analytical methodologies (US$225,000).** The objective of this component is to generate robust evidence on the determinants of fiscal intervention effectiveness through rigorous impact evaluations and analytical research, with particular focus on how informality, third-party information quality, and enforcement distribution affect tax compliance and policy outcomes. The knowledge generated will aim to deepen the understanding of the determinants of intervention effectiveness. The activities to be financed include: (i) Analyzing the current state and establishing foundational conditions of fiscal intervention effectiveness across different contexts and institutional frameworks (ii) Evaluating potential solutions through experimental and non-experimental analysis. Interventions may include tax policy or administrative measures to reduce informality or integrate informal actors into the tax base, initiatives to improve risk-based enforcement and sanctioning mechanisms, and strategies to lower compliance transaction costs. The evaluation will prioritize interventions that are critical for the work of the Fiscal Management Division. The knowledge products to be generated may include working papers, technical notes, or policy briefs, depending on the nature of the results.

3.2 **Component 2: Support the analysis of the Bank's interventions to evaluate project effectiveness and efficiency, ensuring alignment with their actual execution and impact (US$150,000).** The objective of this component is to strengthen institutional capacity in beneficiary countries for designing, implementing, and evaluating fiscal interventions through evidence-based analytical frameworks and technical notes that enhance project effectiveness and operational efficiency. The activities to be financed include: (i) Diagnosing the sources of inefficiency in fiscal interventions. (ii) Supporting the design, monitoring, and measurement of results of fiscal interventions.

3.3 **Component 3: Promote the dissemination of knowledge on fiscal policy and operational effectiveness (US$200,000).** The objective of this component is to facilitate the systematic sharing and application of research findings and best practices through targeted knowledge products, fostering dialogue, and capacity-building activities that enable evidence-based fiscal policy reforms across Latin America and the Caribbean using the lessons learned from the diverse fiscal contexts represented by Colombia, Dominican Republic, and Peru. This component will finance the design and implementation of a strategy for disseminating the products and results of this TC. The strategy will include: (i) Systematization of knowledge on best practices and lessons learned in fiscal policy and management. (ii) The development of a workshop for knowledge exchange. (iii) The production of a discussion paper. (iv) Support of high-quality, reader-friendly publications that ensure technical research findings reach and resonate with policymakers, practitioners, and development partners throughout the region. Dissemination activities may highlight cross-country lessons on how administrative practices influence taxpayer behavior or reveal unexpected interactions between compliance measures and institutional constraints. The best practices note, the workshop, and the discussion paper will share the products and lessons learned within the TC framework with various stakeholders in countries across the region. They will address design, supervision, monitoring, and evaluation of fiscal intervention results.

3.4 **Expected Results.** The expected result of this TC is institutional strengthening of beneficiary countries' fiscal institutions to improve the effectiveness of fiscal policy interventions and enhance evidence-based decision-making capabilities. This institutional strengthening is expected to lead to improved outcomes in tax compliance initiatives, more efficient allocation of enforcement resources, and enhanced capacity to design and implement effective fiscal interventions. Additionally, the activities of this TC will advance the knowledge base established by previous effectiveness initiatives by deepening understanding of fiscal intervention determinants in highly complex contexts. Building on existing effectiveness frameworks and tools, this TC will generate specialized knowledge about how high informality rates and complex institutional arrangements affect the quality of third-party information and enforcement and monitoring strategies that modern fiscal institutions rely upon. This context-specific research will fill critical knowledge gaps regarding the effectiveness of interventions in environments where traditional approaches may yield mixed results due to the presence of large informal sectors and diverse firm structures. The enhanced understanding will enable IDB Fiscal Management Division specialists to better anticipate implementation challenges and design more robust interventions for countries with similar characteristics. This specialized knowledge will improve the effectiveness of loans under execution in highly informal economies and inform the design of new operations that account for structural complexities, thus contributing to the Bank's present and future operational program in contexts where traditional fiscal approaches require adaptation to achieve development objectives.

3.5 **Beneficiaries.** The direct beneficiaries of this TC are the Ministries of Finance and tax administration agencies in Colombia, Peru, and the Dominican Republic. These institutions will benefit from enhanced analytical capabilities, evidence-based policy frameworks, and improved technical tools for designing, implementing, and evaluating fiscal interventions. The research findings will strengthen their institutional capacity to address tax compliance challenges, optimize enforcement strategies, and improve the effectiveness of fiscal policies in contexts characterized by informality and institutional constraints. The indirect beneficiaries include other finance ministries and tax administration agencies across Latin America and the Caribbean that will benefit from the knowledge products, methodological frameworks, and analytical tools developed through this TC. The research findings and lessons learned will be made available to the broader regional community through dissemination activities, contributing to the Bank's regional knowledge base on fiscal policy effectiveness.

3.6 **Indicative Budget.** The total cost of the TC is US$575,000, which will be financed entirely by the Bank through the Ordinary Capital Strategic Development Program (OC SDP), Window 2, Priority Area 3: Effective, Efficient and Transparent Institutions (W2C). No local counterpart contribution is expected. This TC will be executed in a period of 36 months, which includes the execution period.

Table 1. Indicative Budget (US$)

Activity/Component	Description	IDB/W2C	Total Funding
Component 1: Generate knowledge through impact evaluations and other analytical methodologies	Generate robust evidence on the determinants of fiscal intervention effectiveness through rigorous impact evaluations and analytical research, with particular focus on how informality, third-party information quality, and enforcement distribution affect tax compliance and policy outcomes	225.000	225.000
Component 2: Support the analysis of the Bank's interventions to evaluate project effectiveness and efficiency, ensuring alignment with their actual execution and impact	Strengthen institutional capacity in beneficiary countries for designing, implementing, and evaluating fiscal interventions through evidence-based analytical frameworks and technical notes that enhance project effectiveness and operational efficiency	150.000	150.000
Component 3: Promote the dissemination of knowledge	Facilitate the systematic sharing and application of research findings and best practices through targeted	200.000	200.000

on fiscal policy and operational effectiveness	knowledge products, fostering dialogue, and capacity-building activities that enable evidence-based fiscal policy reforms across Latin America and the Caribbean using the lesson learned from the diverse fiscal contexts represented by Colombia, Dominican Republic, and Peru.		
	Total	**575.000**	**575.000**

3.7 **Supervision, monitoring, and evaluation.** The project team leader from IFD/FMM will be responsible for the supervision of Technical Cooperation (TC), including monitoring and evaluation of objectives, indicators, and targets, as well as financial execution in accordance with the TC's procurement plan (Anexo IV). IFD/FMM will also serve as the Disbursement Responsible Unit. The project will be monitored and evaluated based on the annual targets and the results matrix, following the guidelines of the Technical Cooperation Monitoring and Reporting System (OP-1385-4). The results and outputs of the TC will be communicated and disseminated in a timely manner to the respective beneficiaries.

IV. Executing agency and execution structure

4.1 **Executing Agency.** The TC will be executed by the IDB, through the Fiscal Management Division (IFD/FMM). In line with the criteria established in Annex II of the Procedures for Processing TC Operations (OP-619-4), execution by the Bank is justified by the regional dimension of the TC. Execution by the Bank will also allow for effective coordination of work with country counterparts. Additionally, the Bank has extensive experience and technical capacity in both fiscal management and policy issues, as well as, in matters related to development effectiveness. The IDB brings unique comparative advantages through its extensive experience in fiscal policy research, deep regional knowledge, and established relationships with finance ministries across LAC. The Bank's Fiscal Management Division possesses specialized technical expertise in tax administration, compliance interventions, and impact evaluation methodologies essential for generating high-quality, policy-relevant research. The Bank's regional scope also enables cross-country learning and analytical frameworks adaptable across diverse contexts. These attributes will ensure that the execution of TC products is carried out in a timely and proper manner. The above is in strict compliance with the provisions established in Annex II of OP-619-4 – Criteria applied to Bank contracting - and the Operational Guidelines for Technical Cooperation Products (GN-2629-1).

4.2 **Execution Structure.** The execution of activities for the different components of the TC will be carried out in close collaboration with country counterparts and an execution period of 36 months is anticipated. The Bank will carry out the execution of activities for the different components of the TC. While implementation will include close technical collaboration and dialogue with country counterparts to ensure alignment of products with countries' needs, the Bank will retain full autonomy to act as the executing agency and carry out all procurement and operational activities. If any activity evolves to require direct implementation, piloting, or fieldwork in a participating country, the Bank will ensure full compliance with institutional procedures, including obtaining the corresponding no-objection letter from the designated entity in each country. The team leaders of this TC will be responsible for supervising the activities to be financed, with the support of project team members. **Procurement.** All procurement activities to be executed under this TC have been included in the Procurement Plan (Annex IV) and will be contracted in compliance with applicable Bank policies and regulations, as follows: (a) Hiring of individual consultants, as established in the regulation on Complementary Workforce (AM-650); and (b) Contracting of services provided by consulting firms in accordance with the Corporate Procurement Policy (GN-2303-33) and its guidelines.

4.3 **Intellectual Property.** The knowledge products generated within the framework of this TC will be the property of the Bank and may be made available to the public under a Creative Commons license, in accordance with the Procedures for the Publication of Knowledge Products (AM-331). However, at the beneficiary's request, the intellectual property of said products may also be licensed to the beneficiary through specific contractual commitments that will be prepared with the advice of the Bank's Legal area.

4.4 If it becomes necessary for the Bank to receive, manage, or use information that may contain personal data or sensitive information due to activities financed by the TC, the Data Privacy team must be consulted to ensure compliance with the Bank’s Personal Data Privacy Policy (GN-3030-1).

V. Major issues

5.1 The Project Team does not anticipate significant risks that could prevent the satisfactory execution of the TC. The main potential risks are:

5.2 **Ownership and Political Risk.** There is a risk that the studies, tools, models, and solutions developed within this TC may achieve limited ownership by countries. Similarly, the TC is susceptible to political risk related to possible changes in Government priorities as a result of future elections. This could affect the ownership of the developed solutions. To mitigate this risk, the team of this TC will validate with counterparts from participating countries the feasibility of each product/activity, both during the conception, preparation, and design phases. Additionally, in cases where products relate to IDB-financed projects, the project leaders of these will be involved to ensure the relevance of products for countries, promoting their ownership.

5.3 **Sustainability.** There is a risk that the applications and solutions developed and implemented within this TC may not be sustainable over time. To mitigate this risk, the FMM Effectiveness Group will promote the use of these applications and solutions in Bank-supported interventions and will seek continuous feedback on them to strengthen and update them, thereby increasing their utility for both regional countries and IDB fiscal specialists. The Effectiveness Group will also permanently document, systematize, and establish mechanisms for socializing lessons learned from TC activities, both with government counterparts and within the Bank.

5.4 **Implementation.** Implementation risks are associated with changes in authorities and/or potential changes in the political and social climate within participating countries. We will mitigate these and other possible implementation challenges by maintaining open and fluid dialogue with our counterparts in each country and with the corresponding Country Offices.

VI. Exceptions to Bank policy

6.1 No exceptions to the Bank's policies are anticipated.

VII. Environmental and Social Aspects

7.1 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).

Required Annexes:

Results Matrix_59104.pdf

Terms of Reference_52174.pdf

Procurement Plan_50799.pdf