

TC Document

I. Basic Information for TC

▪ Country/Region:	BELIZE
▪ TC Name:	Strengthening Fiscal Policy for Climate Change Actions in Belize
▪ TC Number:	BL-T1184
▪ Team Leader/Members:	Chamorro Montes, Jessica Andrea Del Carme (IFD/FMM) Team Leader; Alleng, Gerard P. (CSD/CCS) Alternate Team Leader; Alvarenga Junior Marcio (IFD/FMM); Loo-Kung Agüero, Rudy Joel (IFD/FMM); Builes Giraldo Liza Francina (IFD/FMM); Salazar, Astrid Danielle (CID/CBL); Calijuri, Monica (IFD/FMM); Lugo Moreno, Monica Bibiana (LEG/SGO); Astudillo, Karen (IFD/FMM); Blanco Urbina Luz Inmaculada (IFD/FMM)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	30 Jul 2024.
▪ Beneficiary:	Belize through the Ministry of Finance, Economic Development and Investment
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	Fostering Fiscal Policy for Climate Change in Latin America and the Caribbean(FFP)
▪ IDB Funding Requested:	US\$500,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months. During this period, the operation will be executed.
▪ Required start date:	October 30, 2024
▪ Types of consultants:	Individual and firms
▪ Prepared by Unit:	IFD/FMM-Fiscal Management Division
▪ Unit of Disbursement Responsibility:	CID/CBL-Country Office Belize
▪ TC included in Country Strategy (y/n):	Yes
▪ TC included in CPD (y/n):	Yes
▪ IDB Group Institutional Strategy Transforming to Greater Impact and Scale:	Environmental sustainability; Institutional capacity and rule of law

II. Objectives and Justification

- 2.1 **Objective.** The objective of this Technical Cooperation (TC) is to assist the Ministry of Finance, Economic Development, and Investment (MFEDI) of Belize in integrating climate action into fiscal policy and management. To meet this objective, this TC will finance three types of activities: (i) the development of strategic framework for incorporating climate action into the fiscal policy agenda; (ii) the development and implementation of fiscal methodologies and guidelines to foster climate action; and (iii) the dissemination of knowledge and the sharing of best practices.
- 2.2 **Justification.** The adoption of the 2030 Agenda for Sustainable Development and the Paris Agreement (PA) established an unprecedented commitment to change current economic and social models towards sustainable, resilient, and zero-carbon development. The adoption of the PA states that signatory countries should submit their commitments to limit global temperature rise to below 2°C and continue efforts to

limit that temperature rise to 1.5°C, in accordance with their national circumstances and priorities. These commitments are included in the Nationally Determined Contributions (NDC), which set out adaptation and mitigation actions against climate change.

- 2.3 Belize ratified the PA in 2016, the same year as its first NDC was published. Five years later, the country updated its NDC and published its Long-Term Strategy (LTS). Through these two documents, Belize reinforced its commitment to fight climate change and follow a low-emission development path in line to achieve net-zero global emissions by 2050. Despite being a carbon-negative country, with annual emissions removals exceeding total gross emissions by 7 MtCO₂e, Belize reinforced its commitment to fighting climate change in the latest version of its NDC. In the updated version, the country increased its ambition to reduce GHG emissions, including strengthening carbon reductions in the land use and forestry sector through nature-based solutions. The updated NDC also sets out sectoral targets on adaptation to build resilience to climate change.
- 2.4 Belize is on track toward achieving a low-carbon development path and the country must advance its adaptation agenda. In 2023, the country ranked the 71st most vulnerable to climate events and 137th among the most prepared to cope with them. Belize's low level of preparedness, in a context of increasing frequency and intensity of extreme weather events, places the country among the most exposed ones in the Latin American and the Caribbean (LAC) region to climate change-related natural disasters¹. The increasing frequency and intensity of storms and floods are the main drivers of natural disasters in Belize. Recent evidence suggests that more than 300,000 people have been affected by these events in the last three decades². Increasing problems with coastal erosion are also expected in the country due to rising sea levels.
- 2.5 **Integration of climate action into fiscal policy and management.** The cross-cutting nature of the causes and impacts of climate change, as well as the magnitude of the challenges to address them, demand greater involvement of new actors in this agenda. Climate change challenges are extremely broad, ranging from the need for resource mobilization, capacity building, strengthening inter-institutional governance, and management of climate-related risk to the realignment of investment and incentives with climate goals. The relevance of ministries of finance has been growing as fiscal policy and instruments are being increasingly used to manage climate risks, redirect incentives, and mobilize resources.
- 2.6 In Belize, the use of fiscal instruments is gaining ground. In November 2021, Belize announced a large-scale debt-for-nature swap, an open market operation that will result in funding of US\$180 million for blue economy actions. In its Climate Finance Strategy for 2021-2026, Belize also recognizes the potential of a debt-for-climate swaps program to ramp up its climate action. The country has been advancing in integrating climate change into public financial management, through the elaboration of climate budget tagging framework³.

¹ In LAC, Belize ranks 4th among the most vulnerable countries to weather events and 8th in the list of countries with the lowest readiness to cope with climate change.

² According to the last available data, only in 2020 around 100,000 were affected by storms. This is equivalent to roughly 25% of Belize's population that year.

³ This activity is being developed with the support of the IDB, under the scope of operation BL-L1038.

- 2.7 As can be noticed, climate action is being progressively integrated into the areas of responsibility of the MFEDI. Nevertheless, there are opportunities for further advancement in its integration, especially when it comes to (i) using fiscal tools to mitigate climate-related risks; (ii) improving public investment planning by incorporating criteria to account for physical and transition risks, (iii) evaluating the impacts of the country's public expenditure on climate change adaptation and mitigation; and (iv) delimiting and strengthening the mandates of MFEDI in this agenda, among others.
- 2.8 At the international level, the MFEDI represents the country in the Regional Climate Change Platform of Ministries of Economy and Finance of LAC, where it has participated in discussions supporting the prioritization of relevant issues for the regional climate fiscal agenda, as well as in institutional capacity building activities. The activities funded by this TC aim to continue supporting MFEDI's efforts to integrate fiscal policy for climate action in Belize.
- 2.9 **Contribution to the Bank's operational program.** This TC complements other initiatives aimed at strengthening fiscal management in Belize such as: operation [5353/OC-BL](#) (approved in 2021 for US\$8 million, in execution), designed to modernize various components of Public Financial Management (PFM), including procurement, treasury operations, and accounting. More specifically, this operation supports the country with the elaboration of its budget classifier to track climate-related public spending within the chart of accounts in the financial management system. This topic will be further explored and developed through this TC, by providing training to officials who will work on climate spending markers, as well as by developing methodologies to assess the identified climate expenditures. In addition, investment operation [4839/OC-BL](#) (approved in 2019 for US\$14 million, in execution) seeks to strengthen tax administration to increase tax revenue by improving governance. The TC will relate to this operation by developing methodologies to tag subsidies and tax expenditures based on their impact on emissions and resilience, using as an input the information generated by the new technological systems implemented by the tax administration under the loan. Regarding climate resilience in Belize, this TC complements operations [ATN/OC-20311-BL](#) (approved in 2023 for US\$107,000, in execution), which supports Belize in developing innovative tools to enhance home resilience against hurricane winds, considering the impact of climate change, and investment loan; and investment loan [5769/OC-BL](#) (approved in 2023 for US\$7 million, in execution), focused on promoting sustainable growth in the Blue Economy Program. Based on the results of these operations, the current TC provides additional fiscal tools for disaster management, including: a framework for identifying, quantifying, mitigating, and managing macro-fiscal risks arising from climate change; and governance guidelines to effectively define and strengthen the mandate of MFEDI in climate-fiscal matters. Finally, this TC complements other support provided by the Bank to the region in strengthening fiscal policies related to climate change, including the following TCs: (i) [ATN/FC-19904-RG](#) (approved in 2023 for US\$2.9 million, in execution) Regional Platform on Climate Change of the Ministries of Finance, Economy, and Finance, which provides a support framework for mainstreaming climate change into fiscal policy in the region, including Belize; and (ii) [ATN/FC-19927-RG](#) (approved in 2023 for US\$1.8 million, in execution) Mainstreaming Climate Change into Fiscal Policies and Management, which aims to address existing knowledge gaps, identifies needs, and enhance climate change actions within finance ministries in the region including analyzing international best practices, developing knowledge products, and implementing training initiatives. The

TC will support the implementation of the agreements established by the regional platform in Belize as well as the execution of methodologies, guidelines and knowledge products on these international best practices.

- 2.10 **Strategic alignment.** This TC is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (GN-3159-11) and is aligned with the objective of addressing climate change by enhancing disaster and climate resilience through the design of a long-term climate strategy consistent with Belize's Updated NDC, developing of a climate finance strategy and action plan, and incorporating climate change-related risks in the fiscal management framework to improve the capacity, provide a fiscal response to natural disasters, and address macro-fiscal risk of decarbonization. The TC is aligned with the operational focus areas of: (i) biodiversity, natural capital, and climate action and (ii) institutional capacity, rule of law, and citizen security. The TC also aligns with the Fiscal Management Sector Framework (GN-2831-13), enhancing the contribution of fiscal policy to managing climate change and the energy transition, and the Climate Change Sector Framework (GN-2835-13), by strengthening the incorporation of climate change-related risk to the fiscal management framework and enhancing public investment plans, budget planning, and procurement systems to achieve low carbon public expenditure and investments. The program is also aligned with the regional program One Caribbean, under its climate adaptation, disaster-risk management and resilience pillar. Lastly, this TC is aligned with the three eligible pillars of the Fiscal Policy for Climate Change in Latin America and the Caribbean Fund (FFP): (i) Pillar 1 "Development of fiscal management and financial transparency frameworks for climate change", through the elaboration of a diagnosis of the integration of climate change into PFM, and action plan for addressing the gaps in this integration; a framework for addressing climate related fiscal risks; a diagnosis and proposal of governance guidelines to effectively define and strengthen MFEDI's mandate in climate-fiscal matters; (ii) Pillar 2 "Support the implementation of fiscal management instruments and methodologies and the respective capacity building", through the development of methodologies to evaluate public expenditure on climate, to tag subsidies according to their incidence on climate and to incorporate climate risks into the Medium-Term Fiscal Framework (MTFF); and (iii) Pillar 3 "Establishment of mechanisms to facilitate the exchange of best practices and track regional progress", through the dissemination of knowledge products on fiscal policy and climate change.
- 2.11 **Country strategy.** This TC is aligned with the Country Strategy with Belize 2022-2025 (GN-3086) with the strategic objective of promoting fiscal discipline with strong fiscal institutions by strengthening fiscal policy and management through climate action.

III. Description of activities/components and budget

- 3.1 **Component I: Development of a fiscal planning and risk management framework for climate change (US\$ 100,000.00).** The objective of this component is to contribute to strengthening the green fiscal policy agenda at the MFEDI, providing fundamental inputs to guide decision-making in the ministry. The following activities will be financed with resources from this component through contracting consulting services: (i) prepare a diagnosis of the integration of climate change into Public Financial Management and action plan for the integration of climate change in the areas of responsibility of the MFEDI; (ii) develop a framework for identifying, quantifying, mitigating, and managing macro-fiscal risks arising from climate change; and

(iii) prepare a diagnosis and proposal of governance guidelines to effectively define and strengthen MFEDI's mandate in climate-fiscal matters.

- 3.2 **Component II: Development and implementation of green fiscal management tools/methodologies (US\$320,000.00).** The objective of this component is to assist the MFEDI in implementing new instruments and methodologies for green fiscal management. Resources of this component will finance the following activities through contracting consulting services: (i) design a methodology for evaluating public expenditure on climate action; (ii) guideline for developing an analyst of fiscal risk from the natural / climate disaster integrated in the MTFF; (iii) prepare guidelines to greening public procurement system; (iv) design a methodology to tag subsidies and tax expenditures based on their impact on emissions and resilience, along with a roadmap for phasing out those detrimental to the climate; and (v) prepare guidelines to incorporate climate risk opportunities into the public investment cycle.
- 3.3 **Component III: Enhancing institutional fiscal capacities related for climate resilience (US\$80,000.00).** This component aims to build technical capacities in the government of Belize regarding methodologies and guidelines on fiscal climate action management disseminating the findings of the previous components and drawing lessons learned for the case of Belize by financing the following activities through contracting consulting services: (i) publish and disseminate technical documents; and (ii) support training activities to enhance technical and institutional capabilities.
- 3.4 **Main results.** The project will improve alignment between Belize's fiscal policy, climate change, and sustainable development policies. The main result of the TC is the integration of climate action into the fiscal policy and management of MFEDI.
- 3.5 **Beneficiaries.** Belize, through the MFEDI, is the beneficiary of this TC with improved methodologies and guidelines to integrate climate action into its fiscal policy and management.
- 3.6 **Budget.** The total funding of this TC is US\$500,000.00 financed by the Bank through the Fostering Fiscal Policy for Climate Change in Latin America and the Caribbean (FFP). No local counterpart contribution is contemplated. The budget details are provided below.

Indicative Budget

Activity/Component	IDB/FFP	Total Funding
Component I: Development of a comprehensive strategic framework for fiscal planning and risk management for climate change	US\$ 100,000	US\$100,000
Component II: Development and implementation of green fiscal management tools/methodologies	US\$320,000	US\$320,000
Component III: Dissemination of knowledge and training	US\$80,000	US\$80,000
Total	US\$500,000	US\$500,000

- 3.7 **Supervision, monitoring and evaluation.** The Team Leader (IFD/FMM) of the project will be responsible for and will supervise the activities developed under this TC in close coordination with the Alternate Leader (CSD/CCS). The outputs and results achieved under the TC will be communicated and disseminated in a timely manner to all stakeholders. A project completion report will be prepared specifying the activities carried out and the achievement of expected results.

IV. Executing agency and execution structure

- 4.1 **Executing agency.** At the request of the beneficiary, this TC will be executed by the Bank through the Fiscal Management Division (IFD/FMM), in coordination with the Climate Change Division (CSD/CCS), in accordance with the Bank's Technical Cooperation Policy (GN-2470-2) and the Annex II of the Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4), since the requesting entity does not have the necessary technical, and operational capacity to duly and timely execute the activities provided in this TC and contracting by the Bank would enhance independence due to the Bank's impartiality based on a broad technical knowledge in this field in the region.
- 4.2 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. 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.
- 4.3 **Procurement.** All procurement to be executed under this Technical Cooperation have been included in the Procurement Plan (Annex IV) and will be hired in compliance with the 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.

V. Major issues

- 5.1 A risk associated with limited implementation of the tools and methodologies developed within the CT framework is identified due to the lack of ownership or technical capacity of MFEDI officials and/or other beneficiary institutions. To mitigate this risk, the TC will implement capacity-building programs aimed at enhancing the skills and knowledge of existing staff within beneficiary institutions and highlighting the usefulness of the tools and methodologies developed. Moreover, training modalities will be selected to facilitate the broad participation of relevant staff.

VI. Exceptions to Bank policy

- 6.1 No exceptions to Bank policy are envisioned.

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_76028.pdf](#)

[Terms of Reference_33777.pdf](#)

[Procurement Plan_44847.pdf](#)