



EN

THIS ACTION IS FUNDED BY THE EUROPEAN UNION

ANNEX II

to the Commission Implementing Decision on the financing of the multiannual action plan part III in favour of the Americas and the Caribbean for 2022 and for 2023

Stronger public finance policies and administrations to reduce inequalities in Mexico (EU4Equity)

MULTIANNUAL ACTION PLAN 2022 AND 2023

This document constitutes the multiannual work programme within the meaning of Article 110(2) of the Financial Regulation, within the meaning of Article 23 of the NDICI-Global Europe Regulation.

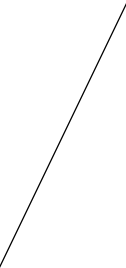
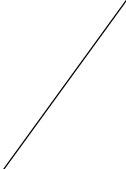
1 SYNOPSIS

1.1 Action Summary Table

1. Title OPSYS business reference Basic Act	Stronger public finance policies and administrations to reduce inequalities in Mexico (EU4Equity) OPSYS reference: ACT 61549 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)/ Overseas Association Decision/European Instrument for International Nuclear Safety Cooperation Regulation
2. Team Europe Initiative	Yes TEI on Social cohesion in Mexico
3. Zone benefiting from the action	The action shall be carried out in Mexico
4. Programming document	Multiannual Indicative Program (MIP) for the Americas and the Caribbean 2021-27 (section 2.3.3 Mexico Chapter) ¹
5. Link with relevant MIP(s) objectives / expected results	The proposed action will contribute to reaching specific objectives of priority area 5 of the Pan-American window : social cohesion and addressing inequalities and priority 3 of the Mexico chapter : Social cohesion and the fight against inequalities. Priority area 5 (Regional MIP): Social cohesion and addressing inequalities Specific Objective 1: Strengthening social contracts, enhancing inclusive participation in public policies; Specific Objective 2: Improving tax governance and domestic revenue mobilisation, including through equitable revenue collection, effective allocation and efficient use of

¹ https://international-partnerships.ec.europa.eu/system/files/2022-01/mip-2021-c2021-9356-americas-caribbean-annex_en.pdf

	<p>public resources to finance key social sectors, reducing inequalities and addressing informality;</p> <p>Specific Objective 3: Strengthening systems to protect people from risks and ensure equal access to education and other public goods and services including decent work (particularly for women and the most vulnerable);</p> <p>The action proposed will specifically contribute to achieving results of SO2:</p> <p>R1: Fair, equitable, efficient and transparent fiscal policies allow for an increased fiscal space to finance social policies, related public policies and reforms;</p> <p>R2: The authorities' capacity to design and monitor results oriented and gender-responsive public policies is strengthened;</p> <p>R3: Public spending focuses increasingly on reducing the gap in access to public services.</p> <p>To a lesser extent, the action will also responds to:</p> <p>Priority area 3 (Regional MIP): Sustainable and inclusive economy</p> <p>Specific Objective 3: Support the inclusiveness of LAC's economic recovery</p> <p>R3: Public policies related to maximising creation of decent jobs in the process of economic recovery and to compliance with International Labour Organisation (ILO) conventions are enhanced.</p>
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area(s), sectors	The proposed action responds to Priority area 3 of Mexico Chapter: Social cohesion and addressing inequalities.
7. Sustainable Development Goals (SDGs)	<p>Main SDG: 10 Reduce inequalities</p> <p>Other significant SDGs:</p> <p>1 End poverty in all its forms everywhere</p> <p>3 Ensure healthy lives and promote well-being for all at all ages</p> <p>4 Quality education</p> <p>5 Achieve gender equality and empower all women and girls</p> <p>16 Promote peaceful and inclusive societies for sustainable development and build effective, accountable and inclusive institutions</p>
8 a) DAC code(s)	<p>15110 Public sector policy and administrative management</p> <p>15111 Public finance management (PFM)</p> <p>15112 Decentralisation and support to subnational government</p> <p>15113 Anti-corruption organisations and institutions</p> <p>15114 Domestic revenue mobilisation</p> <p>15125 Public Procurement</p> <p>16011 Social protection and welfare services policy, planning and administration</p>
8 b) Main Delivery Channel	13000 Third Country Government (Delegated co-operation)

9. Targets	<input type="checkbox"/> Migration <input type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input type="checkbox"/> Education <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
10. Markers (from DAC form)	General policy objective @	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	11. Internal markers and Tags:	Policy objectives	Not targeted	Significant objective
Digitalisation @		<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
digital connectivity digital governance digital entrepreneurship digital skills/literacy digital services		YES <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/>	NO <input checked="" type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	
Connectivity @		<input type="checkbox"/>	<input type="checkbox"/>	
digital connectivity energy transport		YES <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	

	health education and research	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	Migration @ (methodology for tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities @ (methodology for marker and tagging under development)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	COVID-19	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
12. Amounts concerned	Budget line(s) (article, item): BGUE-B2023-14.020140-C1-INTPA Total estimated cost: EUR 5 000 000 Total amount of EU budget contribution EUR 5 000 000 The proposed Action contributes to the Team Europe Initiative (TEI) on Social Cohesion. This action responds to the TEI by promoting the development of fair and inclusive social policies, quality social services and sustainable social protection schemes. Synergies will be developed with the other part of the TEI on social cohesion that focusses on decent work and labour formalisation. The implementation of this Action is coordinated with Member States, in particular based on the experience and with an active engagement of DE, ES, FR and NL. Synergies between EU initiatives contributing to the TEI will be systematically sought. Members States participation in key events will be encouraged to promote the global values championed by the EU in Mexico.			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing²	Indirect management with the entity to be selected in accordance with the criteria set out in section 4.3.			

1.2 Summary of the Action

Despite the fact that Mexico is the world's 15th largest economy, the country is characterised by high inequality levels, with almost half of its population living below the poverty line, and one fourth in extreme poverty. The COVID-19 pandemic added 1.6 million more people to extreme poverty and the sanitary crisis revealed the fragility and fragmentation of the national healthcare sector, the deficiency of protection schemes and the general systemic weaknesses of a country suffering from persistent inequality.

Widespread informality leaving half of the Mexicans behind remains a key structural challenge with important implications in terms of productivity, economic growth, inequality of income, lack of contribution to the fiscal effort and structural poverty. The core of the problem in Mexico lies in the limited fiscal space and in the high level of informality. The very low tax collection capacity is a major issue in Mexico, which compromises the implementation of the National Development Plan (NDP) 2018-2024 and the achievement of the SDGs. The average tax revenue of Mexico amounts only to 17.9% of GDP, the lowest among OECD countries and 5% of Mexican GDP is lost to corruption yearly, according to the Mexican Institute for Competitiveness (2021).

Despite its political narrative in favour of the most vulnerable, the current response of the Government to address inequalities and to mitigate the social and economic effects of the pandemic has been very modest compared to other emerging market economies and social programmes implemented under the NDP are not supported by sustainable outcomes. On the contrary, budget cuts and downsizing of intermediate bodies have been the common

² Art. 27 NDICI

thread over the past four years. The limited fiscal space coupled with the governmental commitment towards austerity limits considerably the scope of public policies and investments necessary for reversing social fragmentation and growing inequalities (SGD 10, priority 5 MIP), and for promoting sustainable growth (SGD 8, priority 3 MIP) and tackling pressing global challenges.

If at federal level, observers note certain non-action, the sub-national level is firmly engaged in the modernisation of public finance and tax administrations with a view of expanding the fiscal space to increase public revenue to invest more and better in the reduction of poverty and the fight against inequalities. The proposed intervention has been elaborated jointly with the State of Guanajuato in coordination with nine States and will contribute to the Team Europe Initiative on Social Cohesion coordinated by EU Member States, with an active engagement of DE, FR, NL and ES and with the technical support of European expertise.

The Action will support the reduction of inequalities and the increase of social cohesion by strengthening state and municipal public finances in Mexico: both from the revenue side, supporting the tax policy and administration, and from the expenditure side, improving the effectiveness, impact and transparency of public spending to promote inclusive and sustainable development. Inclusive and secure digital mechanisms and tools will be developed and State digital agenda will be supported as Ministries of Finance are responsible for digitalisation.

The main stakeholders are the State Ministries of Finance and Tax Administrations from the states of Aguascalientes, Chihuahua, Coahuila, Guanajuato, Jalisco, Michoacán, Morelos, Querétaro, Yucatán, Zacatecas with a possible future involvement of additional States, as the process is definitively open. The population of this ten States that will benefit from better services and more transparency totals around 33 million people. State congress, municipalities, private sector, think-tanks and civil society organisations will be fully associated to the Action.

2 RATIONALE

2.1 Context

Mexico is the second largest economy and most populated country (129 million inhabitants) in Latin America. Mexico's unique place in LAC makes the country a strategic EU partner for advancing EU interests and values in the region. Traditionally a like-minded player in the multilateral arena, with strong political, cooperation, trade and investment links and a G20 country, Mexico is a member of the OECD since 2011 and also one of the "big five", "countries in transition" and global players.

The EU engagement during 2021-2027 in Mexico concentrates on policy first, using international partnerships to leverage the EU action and leave a sustainable EU footprint in the country. It responds to Mexico's main challenges: the overall institutional weakness, increasing insecurity, growing inequalities impacting sustainable and responsible growth and stability and the more recent strong pushback against renewable energies, with an increasing focus on fossil fuels.

The EU response, as elaborated under the Mexico chapter under the Pan-American window of the Regional Multiannual Indicative Programme 2021-2027 for Americas and the Caribbean and in the 2022 AAP fiche adopted in SSC, is built around three priority areas:

- 1/ support to the modernisation and implementation of the EU-Mexico new Global Agreement,
- 2/ address green global challenges, and
- 3/ support social cohesion schemes and the fight against inequalities.

This Action responds to social cohesion challenges (priority 3) by supporting Mexico in investing in efficient, fair and sustainable social and labour policies to reduce inequalities, promote sustainable and inclusive growth and leave no-one behind (SDG 8 and 10). More specifically, it proposes to tackle the lack of resources and investments into inclusive and sustainable social policies by increasing the revenue collection, strengthening public finance policies and administrations, and enhancing fiscal redistribution. The modernisation of finance and tax administrations and the maximisation of public spending are key to reverse social fragmentation and growing

inequalities and promoting sustainable growth. This is also key to integrate in fiscal and finance policies and strategies a series of challenges such as the digitalisation of the economy, environmental protection and climate change mitigation, the effective incorporation of the gender approach into public policies via gender-sensitive budgeting and the incorporation of labour into the formal sector of the economy.

Poverty rates and regional inequalities remain high in Mexico. Informality, financial exclusion and corruption keep hindering inclusive growth and social cohesion. The distribution of wealth in Mexico is also important to note, with increasing distance between high-income individuals and the rest of the population: using current household income, the ratio of decile 10 to decile 1 is 18.3 (INEGI 2019). With a Gini coefficient of around 0.5³, only 3% of those born in the lowest quintile will move up to the top, and only 2% from the top quintile will end up at the bottom. This in turn leads Mexico to suffer from “opportunity hoarding”: those starting from a disadvantaged position will have fewer opportunities to succeed, whereas those born into privilege continue to amass further advantages throughout their lifetime, which they are then able to pass on to their children. According to the Economic Commission for Latin America and the Caribbean – ECLAC (2021), poverty and extreme poverty in Mexico experienced a major setback to its fight against poverty in 2020 due to the pandemic, with 43.9% of the population in Mexico living in poverty, rate above the Latin American average, and 8.5% in extreme poverty. Equally worrisome is the drop in access to health care, with the number of people reporting deficient health care access rising from 16.2% of the population in 2018 to 28.2% in 2020 (ECLAC, 2021). The sanitary crisis revealed the fragility and fragmentation of the national healthcare sector, the deficiency of protection schemes and the general systemic weaknesses of a country suffering from persistent inequalities. It is worth noting that Mexico has the lowest public social spending-to-GDP ratio of the OECD countries. This is a major issue jeopardising the implementation of the National Development Plan. The average tax revenue of Mexico amounts to only 17.9% of the GDP, the lowest rate among OECD countries. Furthermore, 5% of the Mexican GDP per year is lost to corruption according to the Mexican Institute for Competitiveness. These resources are not available for developing quality social services and social protection schemes, discouraging job formalisation.

The proposed Action is fully in line with the overarching objective of the National Development Plan (NDP) 2018-2024, since it aims at guaranteeing universal access to welfare, meaning to set up necessary conditions for people to exercise their rights. To that purpose, the Mexican government has launched a series of social programmes tending to support the most vulnerable and “historically discriminated” households and individuals through cash transfers. While addressing real needs - sometimes qualified as an “historic debt” towards the less favoured populations, the current Government political narrative is not supported by sustainable outcomes. Indeed, the social programmes that are being implemented do not push forward any structural reform of the system but create a dependency to Government subventions – a method that is traditionally used to secure votes to the power in place.

The proposed Action is also an essential contribution to the Team Europe Initiative (TEI) on Social cohesion in Mexico. The intervention offers the opportunity for the EU to position itself in Mexico as the champion for promoting a social and economic model which objective is to leave no one behind - based on governance, rule of law, public administration efficiency and transparency and access to social protection for the less favoured groups. The design and implementation of this TEI is coordinated with Member States, notably France, Germany, Netherlands and Spain and their development agencies.

Actions programmed and/or implemented by Member States will complement the EU engagement. GIZ is currently elaborating the ‘Piso igual project’ on social inclusion for equality and postCOVID-19 recovery with a budget of EUR 3.4 million. The French Development Agency (AFD) is operationally engaged with the Ministry of Finance and Public Credit (SHCP) in the implementation of the EU funded Research Facility on inequalities. The AFD also signed in June a cooperation agreement with SHCP promoting financial inclusion with gender perspective and inclusive economic growth aiming at strengthening people resilience to social and environmental shocks (public policy loan). The Spanish Ministry of Inclusion, Social Security and Migration has a cooperation program with Latin America (annual) for providing technical assistance; and the Spanish Agency for International Development Cooperation (AECID) supports the Institute of Fiscal Studies of Spain (IEF) in its training initiatives, in addition, funds and/or implements other projects related to these issues in Mexico.

³ Coneval 2019b

2.2 Problem Analysis

In Mexico, the COVID-19 pandemic showed how recent increases in poverty, inequalities and gender gaps, exacerbate a long-standing challenge to inclusiveness. The sanitary crisis has revealed the fragility and fragmentation of the national healthcare system, the deficiency of protection schemes and the general systemic weaknesses of a country suffering from persistent inequality. This context is particularly conducive to lower trust in institutions and to democracy weakening and makes urgent to tackle the loose relations between citizens and state, taxes and welfare.

Despite its political narrative, the current governmental response to mitigating the social and economic effects of the pandemic has been very modest compared to other emerging market economies. Mexico's fiscal revenues – 17.9% of the GDP - are the lowest of the OECD countries and the fifth lowest in the region – being thus a significant obstacle for the implementation of the federal Plan for Peace and Development (National Development plan 2018-2024), aiming at creating new infrastructures, pacifying the country and reducing social and economic inequalities. The budget for 2022 designates a total increase in government spending of 8.9%, assumingly covered by increased tax revenues, economic recovery and fight against tax evasion. Official economic growth projections diverge and will be affected by the Ukraine/Russia war: the last 2022 GDP estimate has been reduced to 2.3% annual GDP growth (OECD).

Resulting from a lack of resources invested in protecting more and better the most vulnerable, inequalities and social vulnerabilities have been growing in multiple dimensions: decline in access to healthcare, slight decline in access to quality nutritious food, increase in educational lags, increase in informality and underemployment, as well as decrease in female labour force participation. In addition, important long-standing differences persists between urban and rural, north and south, man and woman, with the pandemic having a higher socio-economic impact on urban areas where most of the poor reside, and with rural areas suffering low productivity, low investments in physical and human capital, and high poverty and extreme poverty rates. These challenges persist across generations: the rate of intergenerational persistence of wealth inequality is high (0.62), meaning that each generation starts with a level of wealth inequality that is at least 62% of that of the previous generation. The outlook for absolute upward social mobility is also bleak: on average, those born in households at the 25th percentile of the national wealth distribution only reach the 35th percentile in adulthood: the poor tend to remain poor and the rich tend to remain rich.

Women and youth are the most impacted by growing inequalities. A large share of Mexico's youth is not in employment, education or training (NEETs): 25 % of the 20-24-year olds and 14 % of 15–19 year olds population are NEETs, with close to 60 percent of them in the bottom 40 percent of the income distribution. The NEETs phenomenon in Mexico is associated with other inequality dimensions, including in gender (the majority of youth NEETs are urban women, and Mexico has the highest adolescent pregnancy rate in the OECD) and security (the young male NEETs homicide rate is significantly higher than the general rate). Inequality and poverty is also high among indigenous population who represent 15%⁴ of the Mexican population, and among persons with disabilities⁵ and migrants.

With a Gini coefficient hovering around 0.5, Mexico remains placed among the high inequality countries. Despite the implementation of targeted social programmes consisting in short-term direct cash transfers to the population most in need, their effect remains limited because of their insufficient coverage and lack of sustainability. Financial resources dedicated to sustainable social policies remain scarce compared to other public policies budgets (such as, for example, security), and hampers their redistributive impact limiting significantly the political ambition of current administration. In that respect, the limited fiscal space and the very low tax collection level make impossible the translation of the political narrative and the National Development Plan (NDP) into tangible results in terms of poverty reduction, fairer income redistribution and social mobility. To reverse social fragmentation and growing inequalities and vulnerabilities (SDG 10) and to foster an inclusive and sustainable recovery (SDG 8), a large consensus (IMF, OECD among others) exists on the dire need to expand Mexico's fiscal space and to lower substantially the level of informality.

⁴ <https://www.iwgia.org/en/mexico/4232-iw-2021-mexico.html>

⁵ According to WHO, an average of 15% of world population has some form of disability. <https://www.who.int/news-room/fact-sheets/detail/disability-and-health>

Based on the above, the proposed Action aims to supporting the modernisation of finance and tax administrations and the strengthening of fiscal policies by boosting tax compliance, transparency and governance. The increased financial resources will be investing in efficient, fair and sustainable social policies, addressing the needs of the most vulnerable populations, giving priority to the bottom 40 percent of the income distribution. This objective will be achieved by positioning social public policies at the centre of the State Ministries of Finance mandate, by starting by strengthening the State tax administrations, with special attention to secure digitalisation (State Ministries of Finance are in charge of the Digital agenda) and by linking domestic revenue mobilisation, public spending, investments and formalisation, as already promoted by the State of Guanajuato with the support of the Eurosocio+ regional programme.

The EU support will concentrate at State level where there is a strong and growing demand, political willingness and commitment for the modernisation of finance and tax administrations to respond better to socio-economic challenges and for the deepening of decentralisation and local democracy. A strengthened collaboration among States on sustainable public finances and improving public-sector efficiency will be catalyst for the modernisation and upscale of public finances and increase of accountability and overall efficiency of the fiscal system. It is worth highlighting that the Action is anchored on a solid and trustful relation between the EU and the State of Guanajuato developed since 2014 through a series of transformational technical supports (Socieux+, Eurosocio+, TALD). Ten Mexican States, representing the whole range of political parties, are formally engaged in this process of modernisation supported by the EU with the active and committed leadership of the State of Guanajuato. It is expected that more States will progressively join this dynamic during the implementation of the project. This process of strengthening public finances at state level will also contribute to feed the necessary dialogue and coordination on fiscal policies at federal level and to pave the way to post-2024 election fiscal adjustments and/or reforms.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

The main stakeholders are the State Ministries of Finance and Tax Administrations from the States of Aguascalientes, Chihuahua, Coahuila, Guanajuato, Jalisco, Yucatán, Michoacán, Morelos, Querétaro, Zacatecas with a possible future involvement of additional States, as the process is definitively open. The population of these ten States that will benefit from better services and more transparency totals around 33 million people.

The State Ministries of Finance are in charge of the public finance management including collecting and managing the fiscal resources and the design and implementation of the fiscal and tax state policy. They are also in charge of the management, monitoring and evaluation of public procurements, investments and debt, the latter includes the municipal level. Besides, they are responsible for designing and implementation the digital agenda.

The State level is a strategic duty-bearer. As the intermediate layer between the federal and municipal levels, its specificities enable concrete and tangible changes. In that respect, the management of the pandemic at the State level has been an outstanding demonstration on how the proximity of the State level vis-a-vis citizens, the problem-solving attitude and pragmatism and the deep knowledge of the territory are determinant in facing challenges and proposing viable solutions.

In the framework of the Action, the State of Guanajuato will be in charge of the general coordination and the promotion of synergies and strategic cooperation among States. Guanajuato will also be responsible for promoting renewed and professionalised relations with the federal and municipal levels. In addition, the more advanced States in specific areas such as digitalisation (Querétaro), green taxes (Zacatecas) and property taxes (Jalisco) will be in charge of thematic coordination.

The State Tax Administration Authority (SAT) will be fully associated as the deconcentrated body with technical autonomy in charge of the tax collection and the relations with the tax-payers. The entity depends from the State Ministry of Finance.

Municipalities will receive State technical supports to upgrade mechanisms and specific tools necessary to collect property taxes.

States Congress will be fully associated on the necessary upgrade of legal frameworks with a view of expanding the fiscal space.

The private sector will be fully associated with regard to the formalisation process (tax and labour compliance).

When relevant, specialised Mexican organisations will be mobilised as for example the Institute for the Technical Development of Tax Administrations (INDETEC), which is a not for profit and autonomous body that is part of the National Fiscal Coordination System. The Institute provides guidance on improving public finances and the generation of efficient and quality services and products, contributing to the achievement of common goods. It also promotes intergovernmental relations and fiscal federalism.

When relevant, the Action will mobilise the academia, as for instance the Tecnológico de Monterrey (Initiatives on Transparency and Anticorruption and on Government and Public Transformation), but also think-tanks, the private sector and civil society organisations. The latter will be involved and informed with a view of increasing and supporting the modernisation of fiscal policies and future fiscal reforms to the benefit of an inclusive and sustainable growth leaving no one behind.

3 DESCRIPTION OF THE ACTION

3.1 Objectives and Expected Outputs

The **Overall Objective** (Impact) of this Action is to contribute to the reduction of inequalities and the increase of social cohesion while promoting inclusive and sustainable development.

The **Specific Objectives (SO)** (Outcomes) of this action are to:

- SO1** Improve effectiveness of State revenue collection, with a focus on digitalisation
- SO2** Improve the efficiency and transparency of expenditure allocation and control of participating Mexican States
- SO3** Strengthen fiscal governance at State and Municipal level and ensure multi-level coordination and cooperation
- SO4** Promote formalisation and accompanying fiscal measures for micro and small businesses as well as their employees.

The **Outputs** to be delivered by this Action contributing to the corresponding Specific Objectives (Outcomes) are

- 1.1 Legislation, fiscal regulations and strategies related to revenue collection developed and/or better implemented taking into consideration digital economy, environmental impact, transparency and gender-related aspects to ensure expanded fiscal space and expenditure sustainability
- 1.2 Enhanced capacity of Tax Administration for implementation of measures for prevention of tax avoidance, evasion and other forms of non-compliance, while applying new technologies and digital solutions
- 1.3 Tax administration of States are modernised with the support of IT tools and systems while favouring voluntary compliance
- 1.4 Public finance are more sustainable with increased links between public revenue and expending policies
- 2.1 Enhanced capacity for investment planning at short, medium and long term that incorporates economic development of the State populations, inclusion and reduction of inequalities, increased collection and sustainability (environment and climate change aspects).
- 2.2. Laws and regulations on public expenditures and resource allocation taking in consideration efficiency principles, transparency, citizens participation, environment and climate change, as well as gender aspects developed/revised and or/better implemented
- 2.3 Improved state legislations and regulations ensure more efficient resource allocation

2.4. Mechanisms and practices for Performance Evaluation System (SED), Results-Based Budget (PbR) and have improved and evaluation has been incorporated into the budget cycle with a gender approach

3.1. Strengthened transparency systems in the states leading to more accountable and responsive public institutions

3.2. Intergovernmental coordination on fiscal governance has improved, collaboration among states promoted and multi-level and multi-stakeholders coordination in favour of the development of the territories strengthened.

3.3. Effective and inclusive communication with civil society on the importance of contributing to public finances, efficient allocation and transparent spending have been ensured

3.4. A model of Territorialisation of Public Policies has been designed to be implemented in some of the participating states, prioritising fiscal public policies and gender equality policies

4.1 Laws and regulations on formalization and tax and social security incentives favouring the formalisation of small and medium-sized companies are better communicated and/or implemented

4.2 Improved capacity of tax and labour authorities for controls of formalization

4.3 The links between social policy and tax control have improved.

3.2 Indicative Activities

The activities and methodology proposed are defined on the basis of the lessons learnt from recent experiences of EU technical supports to Mexican administrations. The Action specific objectives respond to the needs identified jointly with the ten States who already expressed their interest in participating. Exchanges of experiences between European, Latin American and Mexican institutions, specific solutions/results-oriented technical assistance based on European and/or regional best practices will be jointly elaborated and timely implemented in order to respond to the action general and specific objectives. The tools developed will position the reduction of inequalities and poverty at the centre of financial and operational instruments and mechanisms implemented by the Ministries of finance.

The tailor-made technical assistance will be based on the following indicative activities:

A1. Supporting the process of dialogue, technical exchanges, creation of synergies and fiscal coordination among the States and between them and the EU and / or countries with relevant experiences in the region, on the strengthening of state public finances to meet the 2030 Agenda and, more precisely, to achieve SDG 10.

The participation of reference national technical bodies in the definition and monitoring and implementation of the project, such as the Institute for the Technical Development of Public Finances (INDETEC), the National Council for the Evaluation of Social Development Policy (CONEVAL), the National Institute of Statistics and Geography (INEGI), the Academy (Tecnológico de Monterrey), etc., will be encouraged.

A2. Technical support (with European and Latin American expertise) to the Ministries of Finance or counterparts and the tax services according to their needs to modernise their administration (finances, investments) and their tax services. This support will focus on public policies: expanding fiscal space, strengthening public finances and the budget cycle, embodying improvements in the law and regulations, modernising the administration with digital solutions, supporting increased labour and business formality, improving the quality of spending (streamlining allocation), improving fiscal governance and promoting gender-sensitive budgeting. The intervention will also allow to promote the sustainability of public policies, in particular social policies and policies aimed at reducing inequalities, through a stronger link between policy interventions and financing allocation with a long-term view of social investments. Although the environment remains a prerogative of the Federal level, the platform of exchange and dialogue will also help promoting environmental fiscal dialogue on measures to tackle environmental pollution and design at state level green taxes, and mainstreaming climate change challenges into the fiscal strategies of the Mexican states. This could be an important step to add the climate change dimension into fiscal planning and discussions, and foster dialogue at State and federal level on sustainability of resources and fiscal resilience.

The Action will be based on the demands from the participating States. Demands will be received on an established calendar. For each demand, results and indicative activities (according to the tool pack) will be established along the lines of the project objectives and outputs, together with the State Authorities.

The territorial dimension is key to the performance of the project. The transfer of good practices from the European Union and Latin America in the implementation of fiscal strategies and instruments will be mainly done at State level, including collaboration with municipalities when relevant (e.g. on property taxes).

The indicative activities for this Action related to the proposed Outputs of Outcomes 1 to 4 are summarised as follows:

Indicative activities related to outputs of outcome 1:

- 1.1. Assistance to update and develop legislation and fiscal regulations of the states to collect more and better, thus expanding their fiscal space.
- 1.2. Development of strategies for taking advantage of the tax capacities and powers, based on the existing general regulations
- 1.3. Designing and implementing measures to prevent tax avoidance, evasion and other forms of non-compliance, through the introduction of new technologies and digital solutions and relevant training
- 1.4. Assistance to elaborate strategies that contribute, support and favour voluntary compliance with tax obligations for citizens and businesses
- 1.5. Assistance and training to ensure modernisation and technological innovation processes of the Tax Administrations of the States
- 1.6. Technical assistance to address and consider the tax challenges related to the digital economy, pollution, mitigation of environmental impact, water and sanitation, garbage collection and treatment, including climate change aspects.
- 1.7. Assistance to incorporate the gender approach into the tax systems
- 1.8. Support to develop the link between public revenue and expenditure policies, to make public finances more sustainable.
- 1.9 Support to promote digitalisation of systems and processes to expand fiscal space and ensure fiscal sustainability.

Indicative activities related to outputs of outcome 2:

- 2.1. Design and implementation of comprehensive state development plans at short, medium and long term to ensure better diagnosis and planning processes;
- 2.2. Design and formulation of comprehensive investment strategies that contribute to the economic development of the State populations, inclusion and reduction of inequalities, increased collection and sustainability;
- 2.3. Assistance to upscale state legislation and regulations on expenditure to make public expenditure and resource allocation more efficient;
- 2.4. Assistance to improve the Performance Evaluation System (SED) and the Results-Based Budget (RbB);
- 2.5. Assistance to incorporate the gender-sensitive initiatives of the State Budget in all the budget cycle;
- 2.6. Integration of the evaluation throughout the budget cycle, and especially in ex post public spending review exercises, with the incorporation of the gender approach;
- 2.7. Assistance to strengthen the different phases of budget cycle, from formulation, to execution, monitoring and evaluation, with a result oriented approach.
- 2.8. Technical assistance to develop ex-ante distributional impact assessments, to support the vertical dimension with a specific focus on gender and youth.

Indicative activities related to outputs of outcome 3:

- 3.1. Assistance to strengthen the transparency systems in the states, making public institutions more responsive and accountable and increasing citizen voice;
- 3.2. Design and implementation of mechanisms for intergovernmental coordination, exchange of data/good practices and dialogue between states (e.g., to reduce fiscal dumping, promote collaboration, regional development strategies, etc.);
- 3.3. Preparation and implementation of effective communication mechanisms with civil society (citizens, the private sector, academia and the media) on the importance of contributing to public finances, efficient

allocation and transparent spending to ensure inclusive and improved services and develop local communities;

3.4. Support to establish new multi-level and multi-stakeholders coordination mechanisms in favour of the development of the territories;

3.5. Definition and establishment of new mechanisms for policy dialogue between the European Union and the States leading to the implementation of better governance practices;

3.6. Design and implementation of a new model of Territorialisation of Public Policies to be adopted by some of the participating states, with a specific attention for fiscal public policies and gender equality policies.

Indicative activities related to outputs of outcome 4:

4.1. Analysis of the tax, social and labour regulation policies;

4.2. Awareness campaign to Employers and workers on the obligations and benefits of formalisation;

4.3. Design and implementation of Tax and social security incentives for the formalisation of SMEs;

4.4. New dialogue strategies with businesses to incorporate more workers into the formal sector;

4.5. Assistance to develop a proposal to improve social protection regimes and reduce the cost of formality, in complementarity with the initiatives developed in parallel by EU4Decent Work;

4.6. Developing people information systems to improve the links between social policy and tax control;

4.7. Training and technical assistance to strengthen controls by tax and labour authorities.

3.3 Mainstreaming

Environmental Protection & Climate Change

The environmental/climate dimension will be considered, whenever possible, in the design, revision and implementation of fiscal policies and strategies, with a view to integrate the environment and climate change dimensions into the budget cycle, especially those affecting inequalities and increasing vulnerabilities. Some States already committed in the action as for example the State of Zacatecas that has already started to integrate climate change global challenges in its fiscal policies through the mainstreaming of climate change challenges into their fiscal strategies and plans. The States of Guanajuato and Jalisco also showed high interest in mainstreaming climate change challenges into their fiscal strategies by developing ecological/green taxes on certain activities or products that have a negative impact on the environment and specific incentives contributing to the GHG emissions and to SDG13 and SDG 15. The Action will support the relevant States to develop a greener agenda as well as to generate new resources to tackle this global issue in a more comprehensive, autonomous and decentralised way.

In accordance with the environment and climate risk screening, Strategic Environmental Assessment (SEA), Environmental Impact Assessment (EIA) and Climate Risk Assessment (CRA) are not required for this action.

Gender equality and empowerment of women and girls

As per the OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that gender equality is a significant objective of the project. As outlined in the NDICI-GLOBAL EUROPE the action will be guided by the principles of gender equality, women and girls' empowerment and of preventing and combating violence against women and domestic violence, and will seek to protect and promote women's rights in line with the Gender Action Plan.

The proposed Action promotes a gender-sensitive and gender-equality approach, with positive actions in terms of gender-responsive budgeting, aimed at ensuring gender-equitable distribution of resources and by contributing to equal opportunities for all. Gender-responsive budgeting is essential both for gender justice and for fiscal justice. Gender equality will also be mainstreamed in public finance policies carried out by the States.

Human Rights

The Action will adhere in full to the implementation of the rights-based approach to development, encompassing all rights, and particularly participation, non-discrimination, accountability and transparency. Financial and tax administrations will be strengthened for a better exercise of rights, specifically social rights. The proposed Action will also contribute to develop mechanisms facilitating the 'rights-holders' to claim their rights and 'duty-bearers' to meet their obligations.

In line with the human rights-based approach methodology, the Action will be governed by the 'do no harm' principle to avoid unintended negative impacts in terms of human rights.

Disability

As per OECD Disability DAC codes identified in section 1.1, this Action is labelled as D1. This implies that disability is a significant objective and the intervention will support the fulfilment of the rights of the persons with disabilities. It will encourage the States to comply with the minimum standards of protection for people with disabilities, in particular those of the UN Convention on the Rights of Persons with Disabilities (CRPD) ratified by Mexico in 2007 aimed at promoting, protecting and ensuring the full and equal enjoyment of all human rights and fundamental freedoms by all persons with disabilities. For example, accessibility criteria will be systematically integrated and developed in the social infrastructure and public investment projects of the States to reduce physical barriers to public services and improve accessibility. At the same time, social policies and related public finance will be designed in a way to take into account the disability dimension in budget allocation and forecasts. Inclusive social policies will overall have a positive (indirect) impact on older adults and people with disabilities (comprehensive and inclusive public investments, realisation of human rights) as well as on those caring for family members with disabilities.

Democracy

Strengthening public action and democratic governance at State level to address poverty and growing gaps between social groups will have a direct impact on strengthening relations between the state, citizens and tax payers. This will contribute to confidence building and the strengthening of citizens' responsibility.

A modern and professionalised administration enhancing participation, transparency and accountability and proposing better services for all will also contribute to increase the tax compliance, the trust vis-à-vis public institutions and will build a more cohesive society, which is a prerequisite for political democracy and social stability.

In that respect, the action will guarantee the inclusive participation of civil society organisations, think tanks and the private sector in order to contribute to policy building and to create consensus.

Conflict sensitivity, peace and resilience

Broadening, clarifying and strengthening the social contract and more specifically investing more and better on the bottom (poorest) 40% of the Mexican population, will contribute to build more resilient societies and promote social justice, with a positive impact on the achievement of social peace and conflict reduction.

Disaster Risk Reduction

Increasing the capacity of the States to protect and invest more and better in its citizens and basic infrastructure may lead to a more active and broader engagement to global challenges such as climate change mitigation and adaptation. Better planning and spending at state level, should lead to informed decision-making and DRR sensitive budgeting.

3.4 Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
Stakeholders engagement (action)	One risk/challenge lies in the capacity of the action to maintain a high engagement of the States.	M	H	<p>That will be instrumental to:</p> <ul style="list-style-type: none"> - maintain and strengthen the leadership of Guanajuato in the coordination and mobilisation of the States. - boost and expand the focal point States initiatives to strengthen and develop exchanges on specific sector as it is already the case on digitalisation (Querétaro leading State) - guarantee a rapid response to the needs of specific technical supports and tangible and transformational results. Technical supports must be solutions-oriented.
Political risks	Considering the political sensitivity of the sector (fiscal policies and fiscal space), political interference could put the action at risk.	M	H	<p>To mitigate that risk the action will:</p> <ul style="list-style-type: none"> - maintain a technical approach - maintain and expand the political diversity of the States engaged (open process) - take into account the opportunities offered by the electoral calendar of sub-national governments. <p>In addition, and as clearly stated by the States already engaged, the EU presence as such contributes to mitigate political risks by providing neutrality and technical focus on the subject. In that respect, the EU Delegation shall guarantee an active and systematic presence (Head of Cooperation and Head of Delegation) in the high-level and strategic events of the Action.</p>
Stakeholders engagement (poverty and inequalities reduction)	Absence of a concrete, tangible and effective commitment of the States to the social agenda and the reduction of poverty.	M	H	<p>Promoting a constructive debate on inequalities and public policy dialogue will contribute to maintain the social agenda and the achievements of SDGs at the core of the public finance.</p> <p>In that respect, the mobilisation of technical instruments such as the Public Expenditure and Financial Accountability</p>

				(PEFA) assessment framework and/or spending reviews at the level of sub-national governments will provide guidance to better canalise and report on public spending.
Action's performance	The action intervenes in a large number of technical areas, with a limited budget. There is thus a risk of limited impact in some areas.	M	H	<p>When identifying jointly specific TA supports based on clear demands with high political back-up, specific attention will be paid on the impact and its transformational potentialities.</p> <p>Mitigating measures also include close monitoring and rapid response to demands and opportunities that will be facilitated by the proposed implementation modality.</p> <p>As States Finance and Tax administrations are not equally advanced, the Action will also encourage and strengthen exchanges between States based on their specific good practices as it exists for example between Zacatecas and Guanajuato on green taxes.</p> <p>The action will make the best use of complementary actions and supports encouraging exchanges of information, joint initiatives and coordination with parallel and complementary intervention (such as the TALD Facility, the EU-AFD Research Facility on inequalities, the EU action on formalisation –decent work- and the EU supported project implemented by Transparency International and Transparencia Mexicana, “Anticorruption for the many, not for the few” (AC4ALL) Redirecting anticorruption efforts to reduce inequality through fiscal and budgetary reforms and practices in Mexico).</p> <p>This Action will pay specific attention to the opportunities of engagement at federal level and will support positive outcomes and progress.</p>
Sanitary environment	Another latent risk is the resurgence of the COVID-19 pandemic that may compromise the	M	M	Mexico will unlikely promote lock-down as it did not when the pandemic initiated. Added to this, the expansion of vaccinated population limits considerably the risk and allow more flexible and responsible arrangements.

	performance of certain activities.			
--	---------------------------------------	--	--	--

Lessons Learnt:

The design and the methodology of this intervention are based on the lessons learnt from previous and ongoing actions implemented under different aid modalities at State level in Mexico. It also takes into account the status of the country as a Upper Middle-Income Country (UMIC) as well as the need to focus on policy first and the expected transformational impact.

More specifically, the following elements have been considered:

- The provision of reactive and solution-oriented technical assistance support is privileged by Mexican institutions as they are not keen in investing in complex project management process. It also mitigates the risks of the action in terms of continuity (cumbersome transitions between administrations).
- In a complex political environment, technical assistance and EU Delegation close monitoring is the adequate modality to ensure policy dialogue, to support/boost current dynamics at State level,
- Peer-to-peer technical exchanges between public administrations is considered as a proven methodology (as demonstrated by Eurosocal+ regional programme).
- The European expertise on social cohesion and democratic governance (European social model) is considered as a reference in Mexico and the whole region.

3.5 The Intervention Logic

This Action intends to reinforce public finance policies and administrations to promote more inclusive and fair social policies, quality social services and sustainable social protection schemes (overall objective), with a specific view on the most vulnerable groups. More precisely it aims at addressing fiscal modernisation at state and municipal level both on the side of the tax collection than expenditure, paying particular attention to the digitalisation of systems and processes. The proposed intervention intends to streamline gender-responsive budgets and foster financial protection for social policies, while improving improve the efficiency and efficacy of social state interventions.

In complement with the parallel EU initiative on the promotion of decent work and strengthening of social protection and job formalisation (EU4Decent Work), the project will also support the implementation of fiscal and social security strategies for the most vulnerable groups from state governments and promoting the formalisation of SMEs and micro enterprises and reducing the cost of formal integration for employment in companies. It will also help increasing coordination between tax authorities and social security to enhance control on compliance and foster the system efficiency. The specific objectives will address the structural weaknesses of the states both from the revenue side (supporting the tax policy and administration), and from the expenditure side (improving its effectiveness, impact and transparency to promote inclusive and sustainable development). Digital agenda of the States will be strengthened and digital solutions will be promoted to enhance efficiency and effectiveness of fiscal policies and promote in turn social justice.

The main structural weaknesses identified in this regards are:

- Shrunk fiscal space and under-performing tax policy framework (state policies, norms and regulations to be updated)
- Low revenue collection (weak capacity of tax administration)
- Low tax compliance (widespread informality, lack of transparency, corruption, loose social contract)
- Discontinuous and inefficient public spending invested in inclusive policies and programmes
- Lack of guidance and evaluation of public spending and policies

This Action is intended to be in complementarity with the EU4DecenWork intervention, in particular with regards to activities undertaken under Component 1 that concern social protection and job formalization of vulnerable groups.

3.6 Logical Framework Matrix

This indicative logframe constitutes the basis for the monitoring, reporting and evaluation of the intervention.

On the basis of this logframe matrix, a more detailed logframe (or several) may be developed at contracting stage. In case baselines and targets are not available for the action, they should be informed for each indicator at signature of the contract(s) linked to this AD, or in the first progress report at the latest. New columns may be added to set intermediary targets (milestones) for the Output and Outcome indicators whenever it is relevant.

- At inception, the first progress report should include the complete logframe (e.g. including baselines/targets).
- Progress reports should provide an updated logframe with current values for each indicator.
- The final report should enclose the logframe with baseline and final values for each indicator.

The indicative logical framework matrix may evolve during the lifetime of the action depending on the different implementation modalities of this action.

The activities, the expected Outputs and related indicators, targets and baselines included in the logframe matrix may be updated during the implementation of the action, no amendment being required to the Financing Decision.

Results	Results chain (a): Main expected results (maximum 10)	Indicators (a): (at least one indicator per expected result)	Baselines (values and years)	Targets (values and years)	Sources of data	Assumptions
Impact	To contribute to the reduction of inequalities and the increase of social cohesion while promoting inclusive and sustainable development	<p>1 Redistributive impact of fiscal policy is increased (greater difference between pre-fiscal and post-fiscal income inequality is achieved, as measured by the Gini coefficient) (SDG indicator 10.4.2)</p> <p>2 Proportion of total governments spending on essential services:</p> <ul style="list-style-type: none"> - education expenditure as % of GDP - health expenditure as % of GDP - Social protection expenditure as % of GDP <p>3 % of new actions supporting results oriented public finance management reforms that include a gender budgeting component.</p>	To be decided and completed during the contracting and inception phase	To be completed in 2023	<p>Official Federal and State reports and data on social cohesion and social issues</p> <p>Implementing Agency reports</p> <p>UN SDGs Implementation Reports</p> <p>Relevant progress reports of International Organisations and CSOs</p>	<i>Not applicable</i>
Outcome 1	1. Improve the effectiveness of State revenue collection, with a specific focus on digitalisation	<p>1.1 The fiscal space is expanded</p> <p>1.2 Number of reforms made in the legislation and regulations on tax collection</p> <p>1.3 Number of measures deployed through new technologies and digital solutions</p> <p>1.4 Number of new tax regulations that explicitly address the digital and green economies</p>	To be decided and completed during the contracting and inception phase	To be completed in 2023	<p>State revenue reports, with a specific focus on digitalisation and green economies</p> <p>Implementing Partners Reports</p>	Reports and documents are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis

		<p>1.5 Number of new tax regulations that explicitly incorporate a gender approach to tax policies</p> <p>1.6 Extent to which fiscal/debt sustainability is addressed in tax and expenditure policies</p> <p>1.7 Reduction in the percentage of tax avoidance and evasion</p>				
Outcome 2	2. Improve the efficiency and transparency of expenditure allocation and control of the Mexican States	<p>2.1 Tax-to-GDP ratio at state level</p> <p>2.2 Number of impact evaluation undertaken by the states to improve or reorient an intervention or to inform decisions about whether to continue, discontinue, replicate or scale up an intervention</p> <p>2.3 Improvement of the position of the states in the national monitoring and evaluation system</p> <p>2.4 Number budget programs from a gender perspective</p>	To be decided and completed during the contracting and inception phase	To be defined in 2023	<p>Official State Reports and data</p> <p>Implementing Partners reports</p> <p>CSOs official Reports and regular reports on International Organisations</p>	<p>Reports and documents are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis</p>
Outcome 3	3. Strengthen fiscal governance at State and Municipal level and ensure multi-level coordination and cooperation	<p>3.1 The percentage of GDP lost through corruption, tax avoidance and evasion is decreased</p> <p>3.2 % call for tenders published compared with all awarded contracts is increased / % contracts awarded in an open or restricted procedure type over all contract awards is increased</p> <p>3.3 Positions achieved in national transparency indicators.</p> <p>3.4 Number of effective consultation and representation mechanisms that are in place to ensure a participatory</p>	To be decided and completed during the contracting and inception phase	To be defined in 2023	<p>Independent reports of civil society, with a specific focus on transparency, corruption and tax issues</p> <p>Official Government Reports, including regular data from Transparencia</p>	<p>Documents and reports are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform assessment</p>

		design of public policies and foster multi-stakeholder alliances			Presupostaria and other official sources Implementing Agency reports	
Outcome 4	4. Strengthen fiscal accompanying measures for micro and small businesses as well as their employees to promote formalisation s,	4.1 The number of micro and small businesses officially registered is increased 4.2 The percentage of the population having access to social security schemes provided by micro and small businesses is increased disaggregated by sex, disability, location 4.3 The average time and cost for registering a new micro/small business is reduced Fiscal incentives for companies to hire informal workers (and for them to transition to the formal economy) are increased, especially for women and people with disabilities.	To be decided and completed during the contracting and inception phase	To be defined in 2023	Official Government Report, including IMSS Reports Federal and State official administrative Reports Implementing agencies reports	Documents and reports are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis
Output 1 relating to Outcome 1	Legislation, fiscal regulations and strategies related to revenue collection developed and/or better implemented taking into consideration digital economy, pollution, environmental impact, transparency and gender-related aspects to ensure expanded fiscal space and expenditure sustainability	To be defined and completed during the contracting and inception phase	To be decided and completed during the contracting and inception phase	To be defined in 2023	Federal and State official Reports, including Annual overview if financial inclusion (panorama annual de inclusion financiera) Implementing Agencies reports	Documents and reports are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis

Output 2 relating to Outcome 1	Enhanced capacity of Tax Administration for implementation of measures for prevention of tax avoidance, evasion and other forms of non-compliance, while applying new technologies and digital solutions	To be decided and completed during the contracting and inception phase	To be decided and completed during the contracting and inception phase	To be defined in 2023	Official Government and State Report, including annual overview if financial inclusion (panorama annual de inclusion financiera) Implementing Agencies reports Independent reports of CSOs and International Organisations	Documents and reports are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis
Output 3 relating to Outcome 1	Tax administration of States are modernised with the support of IT tools and systems while favouring voluntary compliance	To be defined and completed during the contracting and inception phase	To be decided and completed during the contracting and inception phase	To be defined in 2023	Official State Reports, with a specific focus on digitalisation of tax administrations Implementing Agencies reports	Documents and reports are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis

Output 4 relating to Outcome 1	Public finance are more sustainable with increased links between public revenue and expending policies	To be defined and completed during the contracting and inception phase	To be decided and completed during the contracting and inception phase	To be defined in 2023	Official Reports on public finance sustainability, including formal relevant official data (such as for example Estadísticas oportunas de finanzas públicas de Secretaría de Hacienda y Crédito Público) Implementing Partners Reports Reports of CSOs and International Organisations	Documents and reports are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis
Output 1 relating to Outcome 2	Enhanced capacity for investment planning at short, medium and long term that incorporates economic development of the State populations, inclusion and reduction of inequalities, increased collection and sustainability	To be defined and completed during the contracting phase	To be decided and completed during the contracting and inception phase	To be defined in 2023	Official State Reports and data Implementing Partner Reports	Documents are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis
Output 2 relating to Outcome 2	Laws and regulations on public expenditures and resource allocation taking in consideration efficiency principles, transparency, citizens	To be defined and completed during the contracting phase	To be decided and completed during the	To be defined in 2023	Official sources, including site of the Camerass	Documents and reports are available for

	participation and gender aspect developed/revised and or/better implemented		contracting and inception phase		de Diputados and other institutions Implementing Partners Reports CSOs Reports and reports on International Organisations	analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis
Output 3 relating to Outcome 2	Improved State legislations and regulations ensure more efficient resource allocation	To be defined and completed during the contracting phase	To be decided and completed during the contracting and inception phase	To be defined in 2023	Official State Reports Implementing Agencies reports	Documents and reports are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis
Output 4 relating to Outcome 2	Mechanisms and practices for Performance Evaluation System (SED), Results-Based Budget (PbR) and have improved and evaluation has been incorporated into the budget cycle with a gender approach	To be defined and completed during the contracting phase	To be decided and completed during the contracting and inception phase	To be defined in 2023	Official Federal and State Reports Reports of Implementing Partners International Organisation regular reports	Documents and reports are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis

					CSOs reports	
Output 1 relating to Outcome 3	Strengthened transparency systems in the states leading to more accountable and responsive public institutions	To be defined and completed during the contracting phase	To be decided and completed during the contracting and inception phase	To be defined in 2023	Government and State Reports Reports of Implementing Partners International Organisation and CSOs reports	Documents and reports are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis
Output 2 relating to Outcome 3	Intergovernmental coordination on fiscal governance has improved, collaboration among states promoted and multi-level and multi-stakeholders coordination in favour of the development of the territories strengthened.	To be defined and completed during the contracting and inception phase	To be decided and completed during the contracting and inception phase	To be defined in 2023	Official Government Reports Implementing partners Reports	Documents and reports are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis
Output 3 relating to Outcome 3	Effective and inclusive communication with civil society on the importance of contributing to public finances, efficient allocation and transparent spending have been ensured	To be defined and completed during the contracting phase	To be decided and completed during the contracting and inception phase	To be defined in 2023	CSOs reports Official Government and State Reports Implementing partners Reports	Documents and reports are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis

Output 4 relating to Outcome 3	A model of Territorialisation of Public Policies has been designed to be implemented in some of the participating states, prioritising fiscal public policies and gender equality policies	To be defined and completed during the contracting phase	To be decided and completed during the contracting and inception phase	To be defined in 2023	Official Government and State Reports Implementing partners Reports	Documents and reports are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis
Output 1 relating to Outcome 4	Laws and regulations on formalisation and tax and social security incentives favouring the formalisation of small and medium-sized companies are better communicated and/or implemented	To be defined and completed during the contracting phase	To be decided and completed during the contracting and inception phase	To be defined in 2023	Official Federal and State Reports and Communication websites on relevant Institutions Implementing partners Reports	Documents and reports are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis
Output 2 relating to Outcome 4	Improved capacity of tax and labour authorities for controls of formalization	To be defined and completed during the contracting phase	To be decided and completed during the contracting and inception phase	To be defined in 2023	Official Federal and State Reports Implementing partners Reports	Documents and reports are available for analysis, statistics and administrative data are available, updated, and

						disaggregated to inform analysis
Output 3 relating to Outcome 4	The links between social policy and tax control have improved	To be defined and completed during the contracting phase	To be decided and completed during the contracting and inception phase	To be defined in 2023	Official Federal and State Reports Implementing partners Reports, and ad hoc reports from CSOs and International Organisations	Documents and reports are available for analysis, statistics and administrative data are available, updated, and disaggregated to inform analysis

4 IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is not envisaged to conclude a financing agreement with the partner country.

4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of the signature of the contribution agreement by both parts.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3 Implementation Modalities

4.3.1 Indirect Management with a pillar assessed entity

A part of this Action may be implemented in indirect management with FIIAPP (International and Ibero-American Foundation for Administration and Public Policies). This implementation entails a delegated cooperation with European expertise to strengthen the public finance at State level, based on the previous experience of FIIAPP in Mexico in this sector. This modality is fully relevant as the action will substantially contribute to the Team Europe Initiative on Social cohesion through the provision of specialised technical assistance supports.

The envisaged entity has been selected using the following criteria:

The implementing partner will have a proven specific experience and competences in administration reforms and particularly on public finance and democratic governance in Mexico. It will also be able to put at the service of the action its specific competences and capacity for elaborating policy dialogue with high level public servants at state and federal levels and to promote transparency and access to public information. It may involve in the implementation of the actions other EU cooperation agencies such as Expertise France.

A. FIAPP has been supporting the Ministry of Finance, administration and investment of Guanajuato State since 2019 with successful outcomes (EUROsociAL, Democratic Governance pillar) on which are built this action in coordination with Mexican stakeholders. FIAPP FIAPP has had a determinant role in supporting the first bi-annual meeting on Sub-national Public finance organized by the State of Guanajuato and the Delegation of the European Union through the EUROsociAL+ programme in which ten State Ministries of finance participated and validated the need of this type of forum. FIIAPP has also been very active promoting transparency and access to public information, supporting INAI and its strong involvement in the Latin American Network for Transparency and Access to public information.

B. Expertise France (EF), may be associated by FIAPP in the implementation of the action. It will bring complementary competences and solid capacity in mobilising a wide European network of public expertise (23 Member States have provided expertise contributing to the Gender pillar of EurosociAL+, implemented by FIIAPP with EF). As the action is contributing to the TEI on social cohesion, this capacity is considered as an instrumental added-value as it will contribute to operationalise and consolidate the Team Europe approach with an active participation of Member States. Equally important for the TEI approach is the coordination and synergies with the action under implementation in parallel (planned in AAP 2022) on decent work and labour formalisation in Mexico and implemented by the Agence Française de Développement Group which EF is part of. Their specific expertise on inequalities (income and gender) will also be instrumental to ensure that the inclusiveness of public spending and policies and in particular the link between public finance and social protection.

In case the envisaged entity would need to be replaced, the Commission's services may select a replacement entity using the same criteria. If the entity is replaced, the decision to replace it needs to be justified.

4.4. Indicative Budget

Indicative Budget components⁶	EU contribution (amount in EUR)
Implementation modalities – cf. section 4.3	
Stronger public finance policies and administrations to reduce inequalities in Mexico	
Indirect management with MS organisation FIIAPP	5 000 000
Evaluation – cf. section 5.2 Audit – cf. section 5.3	May be covered by another Decision ⁷
Contingencies	N.A.
Totals	5 000 000

4.5 Organisational Set-up and Responsibilities

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the Action.

FIIAPP will be responsible for the implementation of the project in coordination with EF. It entails the design, execution, coordination, control, monitoring and visibility of all activities contributing to achieve the expected objectives and results as described in section 3.

A Steering Committee will be established with representatives of key stakeholders in order to provide strategic guidance, coordinate and monitor the action's implementation. The steering committee will indicatively be composed of representatives of the following institutions: the Ministry of Finance, Administration and Investments of the State of Guanajuato, responsible for the coordination with the States involved, the EU Delegation to Mexico, the EU Member States, the private sector and representative and/or specialised civil society organisations. The Steering Committee could include relevant stakeholders in strengthening public finance for social policies such as ILO, UNICEF and GCSPF. The assessment of the major counterpart will be conducted in the inception phase.

A co-chair mechanism could be envisaged.

5 PERFORMANCE MEASUREMENT

5.1 Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this Action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of

⁶ N.B: The final text on audit/verification depends on the outcome of ongoing discussions on pooling of funding in (one or a limited number of) Decision(s) and the subsequent financial management, i.e. for the conclusion of audit contracts and payments.

⁷ Where the action is not covered by a financing agreement (see section 4.1), but 'will be covered by another Decision' as it is unlikely that evaluation and audit contracts on this action would be concluded within N+1. These contracts have to be authorised by another Financing Decision.

achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the log frame matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Compliance with monitoring and evaluation requirements will be ensured in line with FIAPP procedures (pillar-assessed institution).

5.2 Evaluation

Having regard to the importance of the action, a final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

The Commission shall inform the implementing partner at least one month in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

All evaluations shall assess to what extent the action is taking into account the human rights-based approach as well as how it contributes to the fight against inequalities and poverty reduction and its contribution to the TEI.

The financing of the evaluation shall be covered by another measure constituting a Financing Decision.

The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination⁸. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments.

5.3 Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6 STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

⁸ See best [practice of evaluation dissemination](#)