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**THIS ACTION IS FUNDED BY THE EUROPEAN UNION**

**ANNEX**

to the Commission Implementing Decision on the financing of the annual action plan in favour of Guatemala for 2023

**Action Document for Supporting Inclusive Economic Development in Guatemala**

**ANNUAL ACTION PLAN**

This document constitutes the annual 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

<b>1. Title CRIS/OPSYS business reference Basic Act</b>	OPSYS number: ACT-61639 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
<b>2. Team Europe Initiative</b>	Yes. Alliance for Sustainable Growth and Jobs Team Europe Initiative for Guatemala
<b>3. Zone benefiting from the action</b>	The action shall be carried out in Guatemala
<b>4. Programming document</b>	Multiannual Indicative Programme for Guatemala 2021-2027
<b>5. Link with relevant MIP(s) objectives / expected results</b>	The proposed intervention will contribute to reaching specific objectives and expected results under priority area 2: Investing in the Future: Creating Decent Jobs Through Innovation and Digitalisation.

**PRIORITY AREAS AND SECTOR INFORMATION**

<b>6. Priority Area(s), sectors</b>	The proposed action intends to contribute to priority area 2 Investing in the Future, proposing an “Alliance for Sustainable Growth and Jobs”, in this priority area sectors: Business & Other Services (DAC code 250) and Industry (DAC code 321).
<b>7. Sustainable Development Goals (SDGs)</b>	Main SDG: SDG 8 “Decent Work and Economic Growth” Other significant SDGs: SDG 1 “No Poverty”, SDG 5 “Achieve gender equality and empower all women and girls”, SDG 9: “Industry, Innovation and Infrastructure”, SDG 10 “Reduced inequalities”, SDG 12 “Responsible Consumption and production”, SDG 13 ‘climate action’, SDG 15 ‘Life of Land’, SDG 16 ‘Peace, Justice and Strong Institutions’ and SDG 17 “Strengthen the means of implementation and revitalize the global partnership for sustainable development”
<b>8 a) DAC code(s)</b>	15110 - Public sector policy and administrative management 24040 - Informal/semi-formal financial intermediaries

	25010 - Business policy and administration 25040 - Responsible business conduct 31162 - Industrial crops/export crops 31194 - Agricultural co-operatives 32130 - Small and medium-sized enterprises (SME) development 32163 - Textiles, leather and substitutes 33110 - Trade policy and administrative management 33120 - Trade facilitation 33130 - Regional trade agreements (RTAs) 41010 - Environmental policy and administrative management			
<b>8 b) Main Delivery Channel</b>	International Trade Center ITC (UN) - 45001			
<b>9. Targets</b>	<input type="checkbox"/> Migration <input checked="" 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			
<b>10. Markers</b> <b>(from DAC form)</b>	<b>General policy objective @</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" 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"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Biological diversity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<b>11. Internal markers and Tags:</b>	<b>Policy objectives</b>	<b>Not targeted</b>	<b>Significant objective</b>
Digitalisation @		<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
digital connectivity digital governance		YES <input type="checkbox"/> <input checked="" type="checkbox"/>	NO <input checked="" type="checkbox"/> <input type="checkbox"/>	

	digital entrepreneurship digital skills/literacy digital services	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	
	Connectivity @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	digital connectivity energy transport health education and research	YES <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	
	Migration @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Covid-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>BUDGET INFORMATION</b>				
<b>12. Amounts concerned</b>	<p>Budget line(s) (article, item): BGUE-B2023-14.020140-C1-INTPA</p> <p>Total estimated cost: EUR 76 260 000 to be confirmed</p> <p><b>Total amount of EU budget contribution EUR 34 410 000</b></p> <p>This action would be co-financed by:</p> <ul style="list-style-type: none"> <li>- Spain, for an amount of EUR 40 000 000;</li> <li>- Germany, for an amount to be confirmed;</li> <li>- Sweden, for an indicative amount of EUR 1 000 000;</li> <li>- The International Trade Centre (ITC) for an amount of EUR 500 000;</li> <li>- OHCHR, ILO and OECD for an amount of EUR 350 000.</li> </ul> <p>Component 3 of the action will be implemented as a TEI. The indicative Member States (MS) contributions to the TEI will be:</p> <ul style="list-style-type: none"> <li>- Spain, for an indicative amount of EUR 40 000 000;</li> <li>- Germany, for an amount to be confirmed;</li> <li>- Sweden, for an indicative amount of EUR 1 000 000;</li> </ul>			
<b>MANAGEMENT AND IMPLEMENTATION</b>				
<b>13. Type of financing</b>	<b>Indirect management</b> with the entities to be selected in accordance with the criteria set out in section 4.3.1			

## 1.2 Summary of the Action

The proposed intervention aims at supporting inclusive economic development in Guatemala and contributes to creating decent jobs through innovation and digitalisation. Component 3 of the action will be implemented as a Team Europe Initiative to improve the competitiveness of micro, small and medium-sized enterprises (MSMEs) and cooperatives through better access to innovation and digital tools, as well as finance. It will support start-ups, new economic models based on circularity and the greening of key value chains with the potential to create green

and decent jobs, and will facilitate the access to the labour market for young people, women, returned migrants, the disabled and indigenous peoples. It will also support the design of institutional frameworks that enable investments and business environment.

Moreover, the action will favour entrepreneurship in rural areas, promoting sustainable economic development beyond the capital or urban areas and greater equity in the distribution of economic growth in Guatemala.

Inclusive economic development will be achieved through three main components:

1. **Support to enhance the readiness of key value chains to comply with European Union sustainable trade regulations in the framework of the European Green Deal.** This component will focus on five representative value chains (coffee, cocoa, palm oil, sugar, wood and wood products) to demonstrate the principles of trade and sustainable development, and in particular the application of the EU standards on deforestation, which also include specific requirements on human rights and indigenous peoples' rights<sup>1</sup>.
2. **Strengthen Guatemalan institutional capacities and digitalise services of the Ministry of Economy (MINECO), and other public institutions (i.e. INACOP-National Institute for Cooperatives) aiming at improving the policy framework for a more conducive investment and business environment for MSMEs and cooperatives.** This will be achieved by focusing on the macro level, providing institutional support and capacity building to MINECO and other relevant public institutions in their process of digitalisation of services provided to MSMEs.
3. **Improve the competitiveness of MSMEs and cooperatives through better access to finance, digitalisation, innovation and new economic models based on circularity and greening by supporting key value chains representing different sectors of the Guatemalan economy** such as agri-food systems, agro-business, manufacturing sector (i.e. textile, pharmaceutical), ICT and digital services with a focus on formalisation and diversification of the economy.

The support planned to the process of deep integration between El Salvador, Guatemala and Honduras, through a multi-country action yet to be formulated, would come as a complement to these components and contribute to the achievement of the overall objective of this action, by ensuring Guatemala makes full use of the opportunities offered by the EU-Central America Association Agreement (EU-CA AA), both in terms of increasing trade relations with Europe and attracting more investments from EU companies.

The Overall Objective (Impact) of this action is to support inclusive economic development in Guatemala.

The Specific Objectives of this action are to:

1. Increase readiness for compliance of MSMEs in Guatemala with EU sustainable trade regulations in the framework of the European Green Deal;
2. Improve digitalisation of services provided to MSMEs and cooperatives;
3. Increase the competitiveness of MSMEs and cooperatives, in particular in the green and circular economies, for the generation of decent and green employment opportunities.

The action is fully in line with Global Gateway<sup>2</sup> and the Team Europe approach. It will become part of the EU-Latin America and the Caribbean (LAC) Digital Alliance for Guatemala, as a means of promoting internationalisation, innovation and digitalisation of local MSMEs and the public services offered to them. Strengthening the capacities of partner institutions, in this case in the digital field, is a building block of the Global Gateway Investment Agenda (GGIA). More specifically, the action is part of the GGIA presented at the EU-CELAC<sup>3</sup> Summit of July 20203 and has the potential to become a flagship initiative of the Global Gateway strategy. The action will directly support the implementation of three of the priority sectors of the GGIA through the different interventions proposed namely:

<sup>1</sup> Right to Free, Prior and Informed Consent <https://data.consilium.europa.eu/doc/document/ST-10284-2022-INIT/en/pdf>

<sup>2</sup> [Global Gateway: up to €300 billion for the European Union's strategy to boost sustainable links around the world \(europa.eu\)](#)

<sup>3</sup> Community of Latin American and Caribbean States.

1. Digital technology: digitalisation of services provided to MSMEs by MINECO and other public institutions ; building digital skills for MSMEs and vulnerable population; development of digital tools for traceability in selected agricultural value chains. Specific support to the digital sector value chain which is one of the priority sectors of the Guatemalan strategy for creating decent jobs.
2. Climate and energy: implementation of the new Green Deal legislation, including support to the implementation of the Regulation on deforestation-free products; and support to the circularity and greening of selected value chains (textile, pharmaceutical) where there are already European investments and which can lead to job creation and attract new European companies to invest.
3. Healthcare (security of pharmaceutical supply chains and development of local production capacities) through specific support to enhanced sustainability, circularity and greening of the pharmaceutical value chain in Guatemala in order to seize new trade and investment opportunities. This action will support Guatemala's strategy of strengthening sustainable production and becoming a regional hub.

Through all the interventions, capacity-building will be provided in key areas such as digital, financial, entrepreneurial skills, creating opportunities for the most vulnerable population to access decent jobs.

Under this action, OECD (upon request of the Guatemalan Government) will carry out an Investment Policy Review (IPR) of all investment and business climate policies in Guatemala containing a dedicated chapter to Responsible Business Conduct (RBC). This review may include investment policy, investment promotion and facilitation, competition, trade, taxation, corporate governance, finance, infrastructure, human resources, policies to promote responsible business conduct, investment in support of green growth, and broader issues of public governance. The reviews take a comprehensive approach to assess the climate for domestic and foreign investment at sub-national, national or regional levels. They then propose actions for improving the framework conditions for investment and discuss challenges and opportunities for further reforms. This review will facilitate public-private dialogue, and inform policy reforms aimed at attracting foreign investment in strategic sectors. The IPR recommendations will thus promote investments and facilitate the implementation of the GGIA in Guatemala.

Moreover, the action will support access to finance as it plans to mobilise 40 million euros through a European financial institution and a blending contribution from the EU to promote private investments in Guatemala through selected local partners, another of the axes on which the Global Gateway is based, and which responds to the difficulties for MSMEs of the country to access financing. Through a blending operation, the action will provide technical assistance to incentivise the public-private dialogue in Guatemala, and create a more conducive investment and business environment which will attract European investment in key priority sectors. This blending operation will support the GGIA by focusing on digital transformation, green finance (promoting climate smart agriculture practices), and strengthening the MSMEs ecosystem through capacity building. All this will lead to an improvement of the MSMEs competitiveness and business and investment environment that will attract more European investments into the country. As such, it is a perfect example of the Global Gateway spirit, at the meeting point of the partner country's priorities and EU interest and added value, combined with a tangible capacity to deliver through a combination of public and private investments.

Finally, this action is consistent with the five strategic priorities of the European Commission on international partnerships and aims to enhance Guatemala's participation in tackling global challenges, such as the fight against climate change, environmental protection, social development and inclusive and sustainable economic development and the strengthening of public institutions, which require international collaboration.

## 2 RATIONALE

### 2.1 Context

Guatemala has a multi-party political system with important weaknesses. As a result, many political parties are built upon personalised interests and therefore, have short life spans. Political actors have increasingly gained control and influence over the judicial organs and the Constitutional Court after the closure of the International Commission against Impunity in Guatemala (CICIG) in 2019, and political and legal targeting of members of the judiciary linked to the CICIG work has continued. This has had a negative impact on the separation and balance of powers, and further undermined the democratic checks and balances. Guatemala held general elections this year for its president, vice president, congressional seats, and other governmental positions, including all 340 mayors. The first round of voting took place on 25 June 2023, and the second round of voting for the presidential and vice-presidential races is scheduled for 20 August 2023. These elections are crucial for Guatemala's fragile democracy and will take place in a context of deteriorating rule of law, where the institutions charged with overseeing the elections have little independence or credibility.

As regards human rights, the institutional framework has been weakened as the Government of Guatemala merged three key entities into a new Presidential Commission for Peace and Human Rights (COPADEH). Guatemala faces acute challenges upholding fundamental labour rights, notably freedom of association and the effective recognition of the right to collective bargaining (ILO Conventions 87 and 98) and the complete eradication of child labour. Social dialogue is carried out mainly through the National Tripartite Committee on Labour Relations and Freedom of Association. It has enhanced communication and exchanges between social actors; however, limited progress has been achieved on key issues, such as clearing up long-standing murder cases and other acts of anti-union violence and preventing such acts. As well as the adoption of legislative reforms, among other actions, the Government of Guatemala committed to a roadmap to complying with the aforementioned ILO Convention. Adverse impacts related to labour issues, such as working conditions, freedom of association, forced and child labour, attacks against human rights defenders, including trade unionists and deforestation, negatively affect the levels of trust among actors in the country, which leads to higher polarisation and an increase in conflicts. Therefore, continuing to promote social dialogue and building bridges between actors to foster trust is vital to improve the human rights situation in the country, including on RBC and social-environmental due diligence.

The fight against corruption has deteriorated, the continued delay in the election of Supreme Court and Appeal Court's Magistrates has persisted and the criminalisation of judges, prosecutors, analysts and human rights defenders who demand justice and transparency has increased. Within the overall deterioration of human rights in the country, women and girls are particularly at risk. LGBTI rights are not recognised with even new legal initiatives detrimental to the cause. Indigenous groups constituting about half of the population continue to be subject to structural discrimination. Despite various recommendations made by the United Nations Convention-control organs as well as the Inter-American Human Rights system, Guatemala lacks effective legal mechanisms to comply with international standards and guarantee the right of indigenous peoples to be consulted on matters that affect them. The efforts of the Ministry of Energy and Mines to conduct "reparation consultations" seem not to adequately guarantee free, prior and informed consent. This is reflected in social interaction, and indirectly by government decisions to focus on providing social investments and key services in urban rather than rural areas, where the majority of the indigenous people live.

According to the Staff Report for the 2023 Article IV consultation of the International Monetary Fund (IMF), the country should continue to build on the achievements made in economic policy. The Guatemalan economy continued to show resilience in 2022, with growth exceeding its potential. Macroeconomic and financial stability was preserved despite an unfavourable global context. Large remittance inflows and vibrant bank credit to the private sector have played an important role in sustaining solid private consumption. Besides, large levels of international reserves persist. Stability was also the result of prudent monetary and fiscal policies. Inflationary pressures in Guatemala continued, hence the need to further strengthen the operationalisation of the inflation targeting framework and ensure swift action to accelerate the implementation of the pro-growth structural agenda. Addressing gaps in infrastructure,



education, and health, improving governance, and the fight against corruption remain of the first order. Reforms are not only needed to attract foreign direct investment, but to secure sustainable and inclusive growth.

***Support to enhance the readiness of key value chains to comply with European Union sustainable trade regulations in the framework of the European Green Deal.***

This support will strengthen the private sector's contribution to the implementation of the European Green Deal and achievement of the Sustainable Development Goals (SDGs). The work carried out by key value chains of the agricultural sector in Guatemala to demonstrate the principles of trade and sustainable development, and in particular to comply with the application of the new EU standards on deforestation, which also include specific requirements on the rights of indigenous peoples<sup>4</sup>, will inform and inspire the discussions of the Trade and Sustainable Development Committee, the Advisory Groups and the Civil Society forum of the EU-CA AA.

This component will directly contribute to climate change mitigation by supporting deforestation-free products and sustainable forestry that contribute to the protection of forest and plant cover and against soil degradation; and the targeted agri-food systems transitioning towards climate-smart and regenerative agriculture.

This support links with the GGIA for Guatemala as it underpins the implementation of the Green Deal Pact and the adoption of climate smart practices that can attract European investments in the agricultural sector

***Institutional capacities and digitalisation of public services for a more conducive investment and business environment for MSMEs and Cooperatives.***

In line with 'National Digital Plan 2021-2026', the Government of Guatemala has introduced several Single Windows for processing trade and investment services. The existence of different platforms calls for interoperability among them to allow the business community to save time and cost for submissions and for government agencies to bring better risk management, security, data exchange and increased revenue through enhanced trader/investor compliance. Besides, border regulatory agencies that have not digitalised their processes yet by initiating the process and joining the existing Single Windows will create a more conducive business and investment environment.

This component links with the GGIA for Guatemala as it will enhance access to digital tools for MSMEs and cooperatives and build digital skills among all stakeholders, creating a more conducive investment and business environment that can facilitate the attraction of European private sector investments.

***Competitiveness of MSMEs and cooperatives through a better access to finance, innovation and digital tools and new economic models based on circularity.***

The Government has been working on actions based on key policies such as: Productive Innovation Policy for Competitiveness, based on the National Plan for Innovation and Development (PLANID); Sectoral Innovation Policy; Entrepreneurship Policy; Policy for the Development of MSMEs; National Competitiveness Policy; Plan for MSMEs Digitisation, and others to improve the business climate and the competitiveness of the productive sectors, with emphasis on MSMEs and cooperatives, which constitute the most companies in the country. According to FEPYME, the Federation of Guatemalan MSMEs, 375 000 MSMEs (90% of the total) contribute to 40% of GDP, represent 44.65% of total exports and employ 80% of the economically active population. There is a registry of around 1900 cooperatives nationwide, of which it is estimated that 800 are active. For the inclusive economic development of the country, it is important to increase the long-term competitiveness of these companies through access to innovation, digitalisation, affordable finance and transitioning towards circular business models.

The support to new economic models based on circularity and the greening of the key value chains selected is justified as half of total greenhouse gas emissions and more than 90% of biodiversity loss and water stress come from the extraction, processing, and manufacturing and consumption of materials/natural resources. The EU works for a climate-neutral, resource-efficient and competitive economy. Besides measures to phase out fossil fuels and decarbonise the economy, scaling up the circular economy and reducing material consumption in middle and high

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<sup>4</sup> <https://data.consilium.europa.eu/doc/document/ST-10284-2022-INIT/en/pdf>

income countries will make a decisive contribution to delivering on global climate (both mitigation and adaptation) and biodiversity commitments and decoupling economic growth from resource use, while leaving no one behind. As such, the transition to a circular economy contributes to Climate Change mitigation through the reduction of GHG emissions related to the extraction, processing, and consumption of materials, while circular economy strategies can slow down nature degradation by reducing the demand for virgin materials, decreasing pressure on ecosystems, land and water (especially within food systems), thereby contributing to reduce biodiversity loss and to enhance climate resilience. Circular economy strategies help build resilience to climate and other shocks, for example by promoting regenerative agriculture that improves soil health and food production (smart climate agriculture), by reducing water use and waste rendering some areas less prone to flooding, or by improving access to goods and services when needed, through local material use and sharing, reuse, repair and refurbishment practices. This intervention will promote circular economy in selected value chains in Guatemala; contribute to the achievement of the SDGs; and to the implementation of the National Plan to Combat Climate Change.

In terms of female access to entrepreneurship and decent jobs, women tend to work in occupations that are low-paying and that are viewed as typically female. Few managers and employers in the workforce are women, as these positions are traditionally filled by men. The majority of urban Guatemalan women (63%) hold jobs in the informal sector where they work in small trading, domestic service, among others. However, shifts in the structure of urban production toward more manufacturing and industry means that employment opportunities in the formal sector such as textile, are increasingly becoming available to women. Formal sector employment pays three times more than the average informal sector job and often provides additional benefits, although working conditions may be harsh and the hours excessively long.

MSMEs are one of the main drivers of economic growth and the main source of employment in Guatemala<sup>5</sup>, operating in all sectors of the economy. In addition, Guatemala is the fourth country in Latin America with the highest percentage of women entrepreneurs (Global Entrepreneurship Monitor). A large part of the Guatemalan business structure is integrated into the cooperative sector. In that sense, the intervention will aim at supporting: MSMEs and cooperatives integrated and led by women (in particular indigenous women and most vulnerable women located in rural areas); youth entrepreneurship in particular in rural areas; indigenous peoples by working with organisations gathering indigenous-led entrepreneurs such as the *Red Global de Empresarios Indígenas de Guatemala* (REI) and supporting its Mayan Business School; returned migrants and Internally Displaced People; people with disabilities by providing them with business and entrepreneurship possibilities; and the bottom (poorest) 40% or socioeconomically disadvantaged individuals, households or groups.

The different actions under this component are all directly linked to the GGIA for Guatemala as specific support will be provided to three priorities of the GGIA such as the digital sector/transformation; implementation of the new Green Deal Pact by supporting circular based business models and greening of selected value chains: textile, pharmaceutical, digital (where there are already European investments). It should lead to decent job creation and attraction of new European investments. In particular, through specific support to enhanced sustainability, circularity and greening of the pharmaceutical value chain in Guatemala, the country will seize new European investment opportunities. This action will support Guatemala's strategy of strengthening sustainable production and also becoming a regional hub.

Through a blending operation, access to finance, along with technical assistance, will incentivise public-private dialogue, enhanced competitiveness of MSMEs, and a more conducive investment and business environment in Guatemala which will attract European investment in key EU and Guatemalan priority sectors. This blending operation will support the GGIA by focusing on digital transformation, green finance (promoting climate smart agriculture practices), and strengthening the MSMEs ecosystem through capacity building.

#### ***Deep Integration Process and Association Agreement between the EU and Central America (EU-CA AA).***

Guatemala accounts for almost 39% of the regional GDP and plays an important role in the promotion of regional integration and the development of relations between the EU and Central America within the framework of the Association Agreement. Guatemala is also the main Central American exporter to the EU, with 1.2 billion euros in

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<sup>5</sup> According to MINECO, it is estimated that around 40% of GDP and 85% of jobs are generated by MSMEs (2017).



2021 and an estimated value of 1.74 billion euros for 2022<sup>6</sup>, an increase of 38.5% mainly based on agricultural products (79% of exports to the EU). In 2015, Guatemala, together with Honduras, signed the "Enabling Protocol for the Process of Deep Integration towards the Free Transit of Goods and Natural Persons between the Republics of Guatemala and Honduras"<sup>7</sup> which has led to the release of 75% of the commercial exchange between both countries, representing 50% of the Central American population and close to 52% of intraregional trade. These results have motivated the incorporation of El Salvador into the deep integration process.

The EU is Guatemala's third largest trading partner, accounting for 8% of total Guatemalan trade representing a significant potential for formal employment creation in the framework of the trade chapter of the EU-CA AA. Continued EU support in this area can build on several successful initiatives, which have helped Guatemala adopt more effective legislation on technical trade and labour standards. Although there are many factors that influence the creation of formal employment, increased demand for goods and services produced by Guatemalan enterprises is key for this purpose. The trade pillar of the EU-CA AA has resulted in increased trade flows between these regions since its signature 11 years ago. It is expected that the Agreement's positive effect on trade and consequently on employment will continue, as long as Guatemalan enterprises prepare themselves to compete in ever tougher market conditions and successfully tap into such demand. The Central American Integration System (SICA) was partially designed "to set up a new model of regional integration that based on the reasonable balance of forces, the strengthening of civilian authority, the overcoming of extreme poverty, the promotion of sustainable development, the protection of the environment, and the eradication of violence, corruption, terrorism, and drug and arms trafficking. By economically developing rural, isolated and vulnerable communities through regional integration and trade, illegal economic activities can be fought.

## 2.2 Problem Analysis

Guatemala has continued to face systemic and structural challenges, including in relation to inequality and discrimination. The country faces significant challenges to achieve more inclusive growth and is characterised by a fragmented social contract and a weak institutional set up that has not been able to provide the necessary levels and quality of public services, or to create equal opportunities for individuals and companies.

High levels of poverty go hand in hand with high levels of inequality. The ranking of Guatemala on the 2020 Human Development Index is 0.663 (127th out of 189 countries), and its Gender Inequality Index ranking is 0.479, indicating some of the highest inequalities in LAC. According to official records, 64.7% of the population lives in multidimensional poverty. However, for indigenous peoples (41% of the population) the figure rises to 80%.<sup>8</sup> This context includes discrimination, difficult working conditions, limited freedom of association, forced and child labour and adverse impacts on the environment such as deforestation, lack of respect for the rights of indigenous peoples.

The Global Competitiveness Index ranks Guatemala in 96th place out of a total of 140 economies. Its biggest competitive strengths are macroeconomic stability and health, but it has the lowest performance in Innovation, ICT adoption and institutions. In this regard, the business sector in Guatemala, together with the Government, designed the 'Guatemala moving forward' agenda, which is defined as a "transformational" plan that promotes the generation of 2.5 million jobs by 2030, of which 1.5 million are linked to exports and one million to investment in infrastructure.

According to the World Bank's Jobs Diagnostics for Guatemala carried out in 2021, the main labour market challenges are:

- *Limited growth and structural change.* Per capita income growth has been slow, averaging 1.7% per year since 2004, with declining labour productivity since 2014. Most Guatemalans are stuck with agriculture and low-quality, low-productivity services sector jobs, while good jobs in larger and better-capitalised businesses remain scarce.

<sup>6</sup> <https://trade.ec.europa.eu/access-to-markets/en/statistics>

<sup>7</sup> Enabling Protocol for the Deep Integration Process towards the Free Transit of Goods and Natural Persons between the Republics of Guatemala and Honduras (2015).

<sup>8</sup> Country programme document for Guatemala (2022–2025). United Nations Development Programme. June 2021.

- *High levels of informality, and almost no net formal job creation.* Three-quarters of Guatemala's workers have jobs in the informal sector, either as informal wage employees, self-employed, or unpaid family workers. According to the ILO<sup>9</sup>, indigenous peoples have a share of informal employment of 82.6%; women of 68% and youth of 66%.
- *Low quality of education, particularly in rural areas and in the north of the country.* The labour market discriminates against school graduates who completed their education in the departments in the north of the country.
- *A lack of dynamism in the formal sector.* Guatemala has one of the world's oldest firm-age structures in the formal sector, with firms significantly less likely to grow their workforce when they experience a positive sales shock than similar firms in other countries of the LAC region.
- *A large share of population with insufficient labour earnings to make a decent living.* In 2018, labour incomes of over 40% of households were lower than required to meet the World Bank's international poverty line for lower-middle-income countries. Many households therefore rely on other sources of income, such as remittances, to prop up their incomes.
- *Falling average labour earnings that have brought declining returns to education.* Declines were generalised across all sectors but were stronger for workers with higher levels of education (secondary and above), thus reducing the education premium. The overall decline in earnings results from a deficit in labour demand in Guatemala that contrasts with a growing workforce. Falling education premiums across all levels of education could also suggest deterioration in education quality and misalignment with labour market needs.
- *Low levels of female labour force participation.* Faced with a lack of opportunities, Guatemalan households' supply of labour is constrained, disproportionately affecting the supply of work by female members. Female labour force participation of 43% is significantly lower than what would be expected at Guatemala's level of income (52 %).
- *Rising levels of international outmigration but low internal labour mobility* despite marked regional disparities in income. With few opportunities for a growing number of increasingly better-educated young people, international migrant outflows are rising. Yet, internal migration between poor and rich municipalities is surprisingly low. Municipalities that exhibit lower rates of domestic outmigration tend to have higher rates of international outmigration. This suggests that the opportunities for internal migration are not equally distributed across regions or departments.

Addressing the systemic and structural challenges requires a comprehensive multi-sector and multi-level intervention, led by strengthened public institutions. Consequently, the proposed action will contribute to the 2021-2027 Multiannual Indicative Programme priority area 2, 'Investing in the Future: Creating decent jobs through innovation and digitalisation', through three components that address the main challenges encountered:

### **Component 1: Support to enhance the readiness of key value chains to comply with European Union sustainable trade regulations in the framework of the European Green Deal.**

The Guatemalan government, agro-businesses and other stakeholders have a low level of understanding of the EU sustainable trade regulations in the framework of the European Green Deal and lack capacity to comply with their requirements. Guatemala currently does not have a National Action Plan on Business and Human Rights (NAP) that would present an important opportunity to create an enabling environment to drive responsible business practices in the country through an overarching and cross-cutting state policy.

Guatemala has a poor environmental performance, ranking 149th in the Environmental Performance Index and is the worst-performing country in Latin America. Deforestation remains a major challenge, with an annual net loss of 50 000 to 70 000 hectares of forest. With high deforestation levels, much of the carbon stored by trees is released back into the atmosphere as carbon dioxide, which contributes to climate change. The most important driver of this deforestation is the global demand for agricultural commodities: agribusinesses clear huge tracts of forest and use the land to plant high-value cash crops like palm oil, and for cattle ranching. Land use change, principally deforestation, contributes 12–20% of greenhouse gas emissions. Forest degradation (changes that negatively affect a forest's structure or function but that do not decrease its area), and the destruction of tropical peatlands, also

<sup>9</sup> [https://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/---sro-san\\_jose/documents/publication/wcms\\_831273.pdf](https://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/---sro-san_jose/documents/publication/wcms_831273.pdf)

contribute to these emissions and loss of fertile soil. As a result of deforestation and degradation, some tropical forests now emit more carbon than they capture, turning them from a carbon ‘sink’ into a carbon source.

In this context, it is crucial to highlight the precarious situation of environmental human rights defenders, who are mainly indigenous. According to OHCHR, they are subjected to high levels of criminalisation in the context of their claims for ancestral land ownership and the defense of the environment<sup>10</sup>. Women are often at the forefront of environmental movements and face gender-based attacks.

In addition, the Regulation on deforestation-free products<sup>11</sup> provides that the import and marketing in the EU of six types of agricultural products be prohibited if they are not deforestation-free (coffee, palm oil, cocoa, wood products, soy and beef). The analytical assessment "Cartography of the value chains of coffee, cocoa, palm oil, sugar and wood products and their adaptation to the EU requirements in terms of environmental and social due diligence" was carried out by the Trade, Private Sector Development, and Engagement (TPSDE) Facility in September 2022, assessing the level of readiness of the chains for coffee, cocoa, wood, palm oil, and sugar chains. The assessment showed that palm oil and coffee are the most sensitive products to regulatory changes in the European market. In the case of cocoa, coffee and wood chains, the participation of small and micro producers is very high and due to their geographical distribution, these chains play a very important role in the structuring of the economy of territories particularly vulnerable from a social and environmental point of view<sup>12</sup>.

## **Component 2: Support the digitalisation of services provided to MSMEs and cooperatives.**

The weak institutional framework and governance in Guatemala does not provide the legal framework and services required to strengthen the business climate and social inclusion by adequately supporting MSMEs, cooperatives, and the business sector in innovation and digitalisation processes. There is a weak economic policy framework and insufficient institutional capacities that limit the competitive development of the country, especially for MSMEs and cooperatives, and in its transition process towards a society and economy anchored in a circular and green economy that supports the global transition towards a low carbon economy with ‘green jobs’, accelerating digitalisation and innovation and opening new opportunities for economic inclusion with decent employment.

The limitations in institutional capacity in Guatemala are reflected in the last ranking of competitiveness of 2019, with a position of 121 compared to 141 countries evaluated worldwide, the public sector performance has a value of 41.1/100. This context gave rise to decree 5-2021 for the Law on the Simplification of Procedures, through the simplification, streamlining and digitisation of administrative procedures, using information and communication technologies to facilitate interaction between individual or legal persons and government agencies.

Within the framework of these processes, the Government of Guatemala has introduced several platforms for exports, imports, investments, creation of new companies, etc., that require interoperability among them to allow an efficient use by the private sector and leading to a better investment and business environment.

## **Component 3: Improve the competitiveness of MSMEs and cooperatives through better access to finance, innovation and digital tools.**

MSMEs and cooperatives present different challenges in financial, human and technical capacities, and to achieve the development of sustainable social and environmental solutions with digital tools and new production models based on circularity and the bioeconomy. The innovation ecosystem is incipient and the institutional support tools are limited, which does not favour economic inclusion, especially for young people, women, returned migrants, the disabled and indigenous people, i.e. support will be granted to the REI (Network of Indigenous Entrepreneurs) and its Mayan Business School among others.

Despite their economic and social importance, MSMEs continue to present a series of critical factors that limit their growth and contribution to the sustainable and inclusive development of the country, such as: 1) low levels of productivity; 2) limited access to credit services and financial inclusion; 3) low level of competitiveness; 4) low levels of innovation and digitalisation; 5) high administrative costs to comply with national and international

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<sup>10</sup> See A/HRC/46/74 para. 86-87

<sup>11</sup> COM/706) related to the marketing on the Union market and the export from the Union of certain raw materials and derived products associated with deforestation and forest degradation and repealing the Regulation (UE) n.o 995/2010 EUR-Lex - 52021PC0706 - EN - EUR-Lex (europa.eu) <https://data.consilium.europa.eu/doc/document/PE-82-2022-INIT/enpdf>

<sup>12</sup> [VF Executive Summary Mapping and Impact Analysis- Ed Final14.11.22\\_ENGLISH.pdf \(europa.eu\)](#)

standards and procedures; 6) high transportation and logistics costs; 7) limited business skills, especially technical-administrative management; etc. Evidence suggests that a high percentage of women operate micro and small enterprises in the informal economy. Women constitute up to 60% of non-agricultural employment in the informal economy. This high percentage of women's participation in the informal economy means that they remain marginalised and invisible in the framework of public policies<sup>13</sup>. Self-employment accounts for about 36% of women's employment<sup>14</sup>. They are often owners or employers in micro, small or medium-sized enterprises and rarely in large enterprises<sup>15</sup>.

Although the pandemic accelerated the use of digital tools to help MSMEs survive, most MSMEs do not have a digital strategy. The lack of knowledge and high costs linked to mistrust and poor connectivity have been identified as the main factors that prevent digitalisation. 6 out of 10 SMEs obtain 50% of their income from digital sales but 46% have no option for their customers to make direct payments digitally. Around 10.7% of MSMEs do not have a budget earmarked for innovation, while 35.2% report that they allocate 1 to 5% for that purpose.

As such, a new economic model based on circular business models and greening of key value chains with the potential of creating decent jobs will be key to fostering inclusive growth, in particular in the agricultural value chains selected i.e. coffee and cacao where a high number of micro and small scale producers will be supported. The first findings reveal that the participation of women in the total number of coffee farmers in Guatemala varies between 19 and 22%<sup>16</sup>. The intervention will contribute to a more environmentally friendly and circular approach of the selected industries in Guatemala, working at enterprise, policy, and academic level to introduce environmental and circularity solutions for each sector. This includes improving resource and energy efficiency, introducing clean and renewable sources of energy, managing waste, and treating wastewater that will benefit disadvantaged population and will create new opportunities for them to access to formal employment. Besides measures to phase out fossil fuels and decarbonise the economy, scaling up the circular economy and reducing material consumption in high income countries will make a decisive contribution to delivering on global climate (both mitigation and adaptation) and biodiversity commitments and decoupling economic growth from resource use, while leaving no one behind. Among the national policies that will be supported by the intervention are: National Policy for Comprehensive Rural Development, National Policy on Disability, Public Policy for Coexistence and the Elimination of Racism and Racial Discrimination, National Youth Policy and National Policy for the Promotion and Comprehensive Development of Women.

It has been identified that the agricultural, pharmaceutical, textile and clothing, and Information and Communication Technology (ICT) sectors require support to digitalise and innovate processes, and reduce their environmental footprint through improvements in resource efficiency and waste management, to increase their efficiency and to benefit from new and sustainable trade opportunities that in return will create job opportunities for vulnerable populations (women, indigenous communities, youth, internally displaced people (IDPs), returned migrants, disabled people) through enhanced digitalisation, inclusiveness and corporate sustainability due diligence. The work on these value chains is key to reducing inequalities. The beneficiaries will be defined by the agricultural area of production of the agricultural value chains, prioritising small and medium producers and the involvement of women and indigenous communities. In this context, the gender approach is fundamental, since it is common for women to have the least qualified jobs, of lower social and economic value in addition to suffering greater job insecurity<sup>17</sup>.

For the other value chains, a number of MSMEs will be targeted with a focus on increasing the number of jobs offered to vulnerable population, women and youth. For example, in the case of the apparel and textile sector, which is the major exporting sector in Guatemala (14% of total exports), constituting 8.9% of the GDP. The sector generates 180 000 direct and indirect jobs, 45% of which are performed by women who can have access to a formal employment.

Moreover, it is crucial to provide producers and companies with cutting-edge technologies to improve competitiveness and productivity, and help them meet the increasing international demands for compliance with environmental and human rights standards. The EU sustainable trade regulations in the framework of the European Green Deal pose a significant challenge for Guatemalan agricultural producers, particularly in terms of understanding

<sup>13</sup> Programa “Mujer, economía local y territorio”. Diagnóstico de situación de los CAM y ADEL del territorio del Trifinio. J.C. Arita. RIMISP.

<sup>14</sup> Vínculos entre comercio y género: Un análisis de Centroamérica. Manual didáctico. UNCTAD.

<sup>15</sup> La vinculación del comercio y el género con miras al desarrollo sostenible. Un marco de análisis. UN. 2023. [https://unctad.org/system/files/official-document/ditc2022d1\\_es.pdf](https://unctad.org/system/files/official-document/ditc2022d1_es.pdf)

<sup>16</sup> Vínculos entre comercio y género: Un análisis de Centroamérica. : Un análisis de Centroamérica. Manual didáctico. UNCTAD.

<sup>17</sup> El empoderamiento de las mujeres en las cadenas de valor. CATIE. Real Embajada Noruega. 2012.

their application and determining the necessary steps to ensure compliance. Therefore, digital traceability, in particular of the production process, will support the Guatemalan agricultural sector in meeting the challenges it is facing along its key value chains, and thus comply with requirements of international certifications. Digital traceability allows the digital storage and management of data from the entire supply chain, from production to processing, transportation and prices paid, also making all the information available to the final consumer, favouring transparency, accountability and compliance with the new EU legislation.

Access to finance is another key challenge for the most vulnerable population due to the scarcity of financing instruments, particularly loans, suitable for SMEs and micro-entrepreneurs which constrains investment and growth. In 2022, only around 37% of the adults in Guatemala had an account at a bank or regulated institution such as a credit cooperative, microfinance institution, or a mobile money service provider (43% in average for Central America and Dominican Republic)<sup>18</sup>. This financing gap is even higher for rural populations, the poorest households<sup>19</sup> and for women (female account ownership of 34% vs. 40% for male). The gender financing gap has even broadened in 2017-2022 from 4% to 6%.

Digital finance emerges as a catalyst for narrowing the gender gap. For women and girls, the digital revolution represents one of the biggest opportunities to gender equality, but it is not exempt from threats. Women continue to be significantly underrepresented in both finance and technology in Guatemala. But women cannot be economically active in an increasingly digital world if they cannot transact digitally. Digital financial inclusion is a necessary condition for women to be digitally included and economically empowered and this is the reason why financial inclusion will be one of the key components of the intervention.

Improving financial inclusion in Guatemala is a cornerstone to boosting inclusive medium-term growth and build resilience against climate change. Many micro enterprises in Guatemala struggle to access affordable financing in the formal financial sector, and use credit cooperatives and non-bank financial institutions. The country's MSMEs finance gap is estimated at 22% of GDP<sup>20</sup>.

The National Financial Inclusion Strategy for Guatemala 2019- 2023 (ENIF) aims at expanding and improving access and use of financial products and services to different segments of the population according to their needs, especially unbanked population, many of these efforts are oriented to market outreach of existing partial credit guarantee funds (e.g., MSMEs Guarantee Fund). Therefore, there is a significant potential for the expansion of inclusive finance in Guatemala. The portfolio of the Guatemalan microfinance sector in 2022 amounted to 584.3 million dollars (500 092 loans) and grew at 28.2% annually.

The proposed intervention on financial inclusion will be implemented through a blending operation (following the structure of TIF I) - **Triple Inclusive Finance (TIF)<sup>21</sup> for Guatemala (TIF4G)** - that will offer Technical Assistance along with a Debt Facility that will be channeled through local partners, complementing the debt facility established by the development finance institution. The TIF4G expects to reach at least 40 000 beneficiaries of which around 65% women. Indirect beneficiaries can be estimated of up to 250 000 (household members of direct beneficiaries). The intervention proposed by SIDA will target at least two credit and savings cooperatives that serve the most vulnerable population.

Finally, this action is foreseen to be complemented by a multi-country initiative in support of the deep integration process between El Salvador, Guatemala and Honduras. Guatemala, and Central America in general, continue with challenges in their economic integration process and the maximum use of the opportunities offered by the EU-CA AA for trade development and foreign direct investment attraction. In this sense, the Guatemala-Honduras Deep Integration process, although successful and relevant in the regional framework as an engine of economic growth and investment attraction, still presents challenges at the level of implementation and expansion with the inclusion of El Salvador. The process requires expanding investment in infrastructure, equipment, electronic signature and

<sup>18</sup> Global Findex data base. Out of the Central American countries and Dominican Republic, only Nicaragua (26%) and El Salvador (37%) is behind Guatemala in account ownership (according to figures in 2021). According to the Superintendencia de Bancos (SIB) (Boletín Trimestral de Indicadores de Inclusión Financiera, dic. 2022) in Guatemala there were 3,478.1 accounts through mobile money providers per 10,000 adults (35%) and only 12.6% of adults had at least a banking loan in 2022.

<sup>19</sup> In 2022, among adults in the richest 60 % of households, 39% have an account, while only 34% of the poorest 40% of households. This gap has narrowed consistently in 2017-2022 from 23 to 5 percentage points.

<sup>20</sup> Guatemala SCD Update Building a Stronger Social Contract through Productive, Inclusive and Sustainable Growth. World Bank .March 2022

<sup>21</sup> <https://www.programatif.com/>

digitization of services; systematic support for the conclusion of open processes in the harmonisation of measures between the three countries, as well as the strengthening of the digitalisation of the process and of the services offered to MSMEs, that becomes a priority, along with decision-making measures to make the process sustainable. In 2017, Guatemala endorsed the Buenos Aires Declaration on Trade and Women's Economic Empowerment with the aim of increasing the participation of women in trade and removing barriers faced by women<sup>22</sup>.

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

**Public sector partners:** Government institutions are direct beneficiaries of the action, and have a key role in generating a political framework for a more conducive business and investment environment, and support for prioritised value chains. The Secretariat of Planning and Programming of the Presidency (SEGEPLAN) is a key actor, as the state planning entity which advises and technically assists public institutions, to link public policy processes, planning and programming with the National Development Plan and Policy.

The main partner for the implementation of the action will be the Ministry of Economy (MINECO) including its Invest in Guatemala office, National Competitiveness Programme (PRONACOM), and the National Institute for Cooperatives (INACOP). One of the key challenges for the operationalisation of a public policy is its implementation and coverage at local level. In order to carry out an inclusive implementation process both at national and local level, MINECO will use the Competitiveness Round Tables Platform (Plataforma de Mesas de Competitividad) under the administration of PRONACOM. Additionally, it will be taken into account the Competitiveness Agenda linked to the system of intermediate cities, as places conducive for inclusive development. MINECO will be also coordinating with different institutions such as the Ministry of Agriculture (MAGA), Ministry of Environment and Natural Resources (MARN), Ministry of Health, National Secretary of Science and Technology (SENACYT), Ministry of Labour, (including Labour Inspectorate), National Commission for the prevention of child labour Justice System, Human Rights Ombudsman, among others.

The intervention will support and work with other institutions such as the Presidential Commission for Peace and Human Rights (COPADEH)<sup>23</sup> on the National Action Plan on Business and Human Rights, and the Presidential Secretariat for Women (SEPREM), among others. SEPREM is the advisory entity and coordinator of public policies to promote the comprehensive development of Guatemalan women and the promotion of a democratic culture. SEPREM is aimed at promoting technical and methodological support to public institutions, both centralised, decentralised, autonomous, semi-autonomous, and local governments, for the management of public policy instruments linked to equity between men and women, with the integral development of women and with the fulfilment of their human rights.

**Private Sector.** It ranges from chambers of commerce, business associations, to cooperatives and MSMEs that will benefit directly from the implementation of the action and in some cases will also be implementing partners. This raises a broad articulation of efforts, among business organizations for competitive and export development, include the Guatemalan Association of Exporters (AGEXPORT), Guatemalan Chamber of Finance (CFG), Guatemalan Chamber of Industry (CIG), Chamber of Agriculture of Guatemala (CAMAGRO) and its 13 sectoral chambers, Federation of Small and Medium Enterprises (FEPYME), Chamber of Commerce of Guatemala (CCG), Chamber of Commerce and Services (CECOMS), EU Chambers of Commerce in Guatemala, Private Competitiveness Council (CPC), CENTRARSE, National Export Promotion Council (CONAPEX), and the Coordinating Committee of Agricultural, Commercial, Industrial and Financial Associations (CACIF) that brings together the main business associations among other partners.

Another important partner will be REI (Red de Empresarios y Empresarias Indígenas) and its Mayan Business School.

**Civil society organisations.** As a whole, civil society is an actor and final beneficiary of the process. Inclusive economic development requires an active role of rights holders, including worker's organizations, human rights defenders, and Indigenous peoples' organisations. Among others, this will be some of the key organisations that will be involved in the

<sup>22</sup> WTO. Buenos Aires Declaration on Trade and Women's Economic Empowerment. [https://www.wto.org/english/tratop\\_e/womenandtrade\\_e/buenos\\_aires\\_declaration\\_e.htm](https://www.wto.org/english/tratop_e/womenandtrade_e/buenos_aires_declaration_e.htm)

<sup>23</sup> COPADEH is the designated institution in charge of the design and implementation of the National Action Plan on Business and Human Rights-NAP. The action will contribute to ensuring the continuity of the development of the NAP through the technical assistance provided by UN agencies.



intervention either as beneficiaries or implementing partners: trade unions, workers' organisations; human rights defenders (HRDs) with a special focus on environment human rights defenders, and women environment human rights defenders; indigenous peoples' organisations and ancestral authorities; organizations working with youth, and migrants; women and LGBTI organisations; persons with disabilities' organisations; academia and European consumers' associations. Other relevant organisations will be those providing support to returned migrants such as *Consejo Nacional de Retornados de Guatemala* or *Consejo Nacional de Atención al Migrante*.

The intervention will support the bottom (poorest) 40%, socio-economically disadvantaged individuals, households or groups to maximise its transformative impact (i.e. access to finance, digital skills, etc). Main stakeholders of the intervention are: small scale producers in the agricultural value chains selected, women (in particular rural and indigenous women), the youth, indigenous peoples, returned migrants, IDPs, and people with disabilities.

## 3 DESCRIPTION OF THE ACTION

### 3.1 Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to **support inclusive economic development in Guatemala**.

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

1. Increase readiness for compliance of MSMEs in Guatemala with EU sustainable trade regulations in the framework of the European Green Deal, in particular for young people, women, returning migrants, Internally Displaced Persons (IDPs), persons with disabilities and the indigenous population.
2. Improve digitalisation of services provided to MSMEs and cooperatives, in particular for young people, women, returning migrants, IDPs, persons with disabilities and the indigenous population.
3. Increase the competitiveness of MSMEs and cooperatives, in particular in the green and circular economies, for the generation of decent and green employment opportunities, in particular for young people, women, returning migrants, IDPs, persons with disabilities and the indigenous population.

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

- 1.1 Strengthened capacities of MSMEs in five key agricultural value chains to comply with EU requirements on due diligence and deforestation-free products.
- 2.1. Improved capacity of the government for the digitalisation of services provided to MSMEs and cooperatives.
- 3.1. Improved financial inclusion through capacity of Financial Support Providers (FSPs) for a gender-sensitive and digitalised financial services for MSMEs for green and circular entrepreneurship and use of resource-efficient and climate smart technologies.
- 3.2. Increased capacity of MSMEs and cooperatives in the agricultural, pharmaceutical, textiles and clothing and ICT sectors for enhanced digitalisation, digital traceability, innovation and circularity.

### 3.2 Indicative Activities

Activities relating to Output 1.1:

- 1.1.1 Capacity building for MSMEs in Guatemala (including cooperatives and trade associations) to implement due diligence and no-deforestation processes in five key agricultural value chains in line with international standards.

- 1.1.2 Capacity building for public institutions to develop and implement national policies, regulations and legislative frameworks aligned with Responsible Business Conduct (RBC) and due diligence instruments in the target sectors.
- 1.1.3 Development of a National Action Plan (NAP) on Business and Human Rights and RBC, including on the national investment policy environment, are established and or strengthened through multi-stakeholder coordination and consultation.
- 1.1.4 Promotion of national measures on due diligence, including ensuring access to effective remedy for individuals and groups (including women, human rights defenders and indigenous peoples) affected by business-related adverse impacts in the target sectors.
- 1.1.5 Awareness raising and capacity building of relevant stakeholders, notably workers' organizations, other rightsholders and CSOs (particularly women and indigenous organizations) to engage meaningfully in due diligence and remediation processes, as well as in national policy processes.
- 1.1.6 Facilitating multistakeholder dialogue and sharing of experiences between stakeholders (particularly women and indigenous organisations) on responsible business conduct and due diligence at national and regional level.

Activities relating to Output 2.1:

- 2.1.1 Development of frameworks for e-government services to be provided to MSMEs and cooperatives.
- 2.1.2 Public private dialogues among border regulatory agencies, investment authorities and business community to increase awareness on the need to align their objectives and coordinate their actions.
- 2.1.3 Development and full operationalisation of the Trade and Investment Single Window.

Activities relating to Output 3.1 (may be implemented by a European financial institution and SIDA):

- 3.1.1 Implementation of a Debt Facility (DF) for Guatemala, to be established by the development financial institution, that will operate under rigorous social and financial investment criteria and procedures based on best practices in the microfinance sector. The portfolio of the DF investments may include a variety of legal entities, including banks, NGOs, finance companies and other private types of institutions. These institutions should be oriented towards providing enterprise financing. One of the DFs main specific objectives is to enable Financial Support Services (FSPs) to expand their credit programme for women microentrepreneurs and green finance.
- 3.1.2 Technical assistance on deepening inclusive financial; green finance and green product development for FSPs.
- 3.1.3 Capacity building aiming at strengthening staff working in FSPs on the following topics: responsible and inclusive finance; improvement of financial management skills; governance and management (strategic planning); support MSMEs to run their businesses more profitably; institutional capacity building will include customised support to mitigate risk (risk systems, governance, operations).
- 3.1.4 Design and implementation of a challenge fund system as a financing mechanism for MSMEs and cooperatives that supports innovative solutions, while mobilising private resources by attracting new actors to address solutions to the identified challenges, in particular for young people, women, returning migrants, IDPs, persons with disabilities and the indigenous population.
- 3.1.5 Technical Assistance to credit cooperatives for provision of guarantees, in particular for young people, women, returning migrants, persons with disabilities and the indigenous population.

Activities relating to Output 3.2 (Activities 3.2.5 to 3.2.7 may be implemented by GIZ):

- 3.2.1 Capacity building of enterprises of the selected sectors on: environmental footprint through improvements in resource efficiency and waste management; increasing efficiency through digitalisation, inclusiveness and corporate sustainability due diligence; seizing new and sustainable trade opportunities.
- 3.2.2 Enhancing capacity of the business support organisations, industry sector organisations and related academia to address sustainability, circularity and inclusiveness in the sectors selected.

- 3.2.3 Strengthening a set of trade and industrial policies to support the fair and inclusive green transition of supported sectors.
- 3.2.4 Creation of a digital repository of training programmes, tools and service providers to support the transition to inclusive and green trade in selected sectors developed.
- 3.2.5 Raising awareness campaigns and training about traceability, digitalisation and new EU regulations on deforestation-free products and corporate sustainability due diligence in the cacao, coffee, sugar cane and palm oil value chains in Guatemala.
- 3.2.6 Adaptation of the software for traceability (INATrace) to the coffee, cacao and sugar cane value chains in Guatemala<sup>24</sup>.
- 3.2.7 Stakeholders involved in the coffee, cacao and sugar cane value chains in Guatemala use INATrace as a digital traceability tool in order to comply with the new EU regulations.

The commitment of the EU's contribution to the Team Europe Initiatives foreseen under this action plan will be complemented by other contributions from the partners applying a Team Europe approach. It is subject to the formal confirmation of each respective partners' meaningful contribution as early as possible. In the event that the TEIs and/or these contributions do not materialise the EU action may continue outside a TEI framework.

## **Mainstreaming Environmental Protection & Climate Change**

The intervention is fully consistent with the European Green Deal initiative, which proposes transformation of economies and societies to meet climate ambitions. The promotion of green and circular economies, and the compliance with the EU sustainable trade regulations in the framework of the European Green Deal will be instrumental for the implementation of the proposed action. The intervention supports the identification, mitigation and address potential environmental impacts on selected supply chains of the target sectors, strengthening Guatemala's transformation towards a society and economy anchored in a circular and green economy that underpins the global transition towards a low carbon economy that leads to the creation of green jobs. Parties to the UNFCCC have recognised the importance of involving women and men equally in the implementation of national climate policies that are gender responsive. The relationship between climate change and gender inequality has been well established since the Paris Agreement. Women can contribute to the management, sustainable use and conservation of soils, water, forests and oceans significantly<sup>25</sup>.

In this regard, component 1 and 3 of the action focus on building capacities for compliance with EU sustainable trade regulations in the framework of the European Green Deal in agricultural supply chains (coffee, cocoa, palm oil, sugar cane<sup>26</sup> and wood), with emphasis on MSMEs and cooperatives, as a way of achieving sustainability and impacting on the creation and/or sustaining of green and decent jobs. For this objective, the action supports the strengthening of an enabling policy environment for responsible and deforestation-free agricultural supply chains through the development and implementation of national policy and regulatory frameworks promoting sustainable trade. It will also allow to raise awareness and increase national capacity on EU regulatory developments on Deforestation Free-Products of relevant stakeholders. Digital traceability tools will be developed to support compliance of key agricultural value chains in Guatemala with the EU sustainable trade regulations in the framework of the European Green Deal. Compliance with the EU requirements to fight global deforestation and forest degradation driven by EU production and consumption will ensure that a set of key goods placed on the EU market will no longer contribute to deforestation and forest degradation in the EU and elsewhere in the world. Since the EU is a major economy and consumer of these commodities, this step will help stop a significant share of global deforestation and forest

<sup>24</sup> Producers offer information to the final consumer through the QR code and carry out georeferencing through the mobile application to verify that their production practices are deforestation-free and in line with due diligence requirements.

<sup>25</sup> ¿Porqué considerar el género al hablar de adaptación al cambio climático? CMNUCC. Gobierno Guatemala. <https://www.undp.org/es/guatemala/publicaciones/por-que-considerar-el-genero-al-hablar-de-adaptacion-al-cambio-climatico>

<sup>26</sup> Sugar cane is included, in spite of the fact that this value chain does not fall within the scope of the EU regulation on the marketing of deforestation-free products and is therefore not subject to the duty of strict traceability from the production unit. Its inclusion is due to the fact that this sector is associated with very intensive deforestation processes and that the European Commission has indicated its intention to progressively expand the list of products subject to the Regulation on deforestation-free products.

degradation, in turn reducing greenhouse gas emissions and biodiversity loss that in turn will help building resilience to climate change.

Environmental sustainability will be a key area of work particularly under component 3 that seeks to prepare the selected sectors to embrace the transformation towards environmental sustainability and circularity driven by the EU New Circular Economy action plan and the industry related plans. To contribute to a more environmentally friendly and circular approach of the selected industries in Guatemala (i.e. textile, pharmaceutical and ICT), the programme will work at enterprise, policy, and academic level to introduce environmental and circularity solutions for each sector. This includes improving resource and energy efficiency, introducing clean and renewable sources of energy, managing waste, and treating wastewater. Reusing and recycling products would slow down the use of natural resources, reduce landscape and habitat disruption and help to limit biodiversity loss. Another benefit from the circular economy is a reduction in total annual greenhouse gas emissions. Creating more efficient and sustainable products from the start would help to reduce energy and resource consumption, as it is estimated that more than 80% of a product's environmental impact is determined during the design phase.

At policy level the Action will support policy makers to adapt/develop environmentally friendly trade and/or industrial policies that embrace circularity. That will help the country to match the expected EU regulations on industries circularity. The “EU market surveillance legislation provides rules to ensure that national competent authorities can enforce EU legislation for products placed on the EU market irrespective of their origin”. Guatemala therefore needs to adjust its own regulations and legislations to allow its industries to remain competitive.

Guatemalan enterprises will also be supported to improve their environmental footprint and start acting more circular regarding the products and services they offer and the process they apply. Since circularity starts at the design phase of a product/service, the action foresees working with Academia that could bring technological solutions to enterprises to improve their environmental related process, resource consumption and waste management.

### ***Outcomes of the EIA (Environmental Impact Assessment) screening***

The EIA screening classified the action as Category C (no need for further assessment).

### ***Outcome of the CRA (Climate Risk Assessment) screening***

The Climate Risk Assessment (CRA) screening concluded that this action is no or low risk (no need for further assessment).

### **Gender equality and empowerment of women and girls**

As per the Organization for Economic Co-operation and Development (OECD) Gender Development Assistance Codes (DAC) identified in section 1.1, this action is labelled as G1. The action will ensure gender mainstreaming throughout its main components.

The proposed interventions will contribute to the new EU Gender Action Plan for Guatemala 2021-2025 particularly to the pillar of Women Economic Empowerment that foresees supporting the integration of women in the economy by taking advantage of the new opportunities generated by the green economy and the digitalisation.

According to the Jobs Diagnostic-Guatemala carried out by the World Bank in 2021, Guatemala's labour market exhibits one of the largest gaps between male and female labour market participation in the region. On the one hand, this gap could suggest that the shortage of opportunities is particularly detrimental to the participation of women in the labour market. On the other hand, it may reflect the persistence of strong cultural norms that discourage women for working outside the household. Among the drivers of women's participation it is noted that participation of women in the labour market is more strongly driven by marital status than by motherhood. The relevance of marital status as a driver of low female labour force participation confirms that legal barriers and gender norms have a strong grip on women's ability to participate fully in economic life. Educational attainment is positively correlated with female participation, but the correlation is weak at low levels of education and suggests a discontinuous jump in the probability of participation for women with advanced secondary and tertiary degrees. Finally, Guatemala's low rate of female labour force participation appears to be partly driven by the inadequate availability of formal wage employment opportunities for women in the economy.

This action will conduct specific gender analyses to ensure mainstreaming across all components, the following measures will be implemented (among others):

- Development of training packages that consider the perspective of women and indigenous women. In this aspect, didactic materials designed for women's learning, especially those who live in rural areas and have low levels of schooling, will be used. For this purpose, the following attributes will be defined: use of easy-to-understand images, use of indigenous languages, use of inclusive language, highlighting the role of women in the development of productive and reproductive activities.
- Training programmes at times accessible to rural women, and particularly indigenous women (in indigenous languages). The program design should consider the days and times when women, and particularly women from indigenous communities can attend the training.
- Working with organisations gathering indigenous women-led entrepreneurs such as the Red Global de Empresarias Indígenas de Guatemala (REI), among others.
- Recruitment of women as process facilitators, to the extent possible, technical assistance services will be contracted through women, and whenever possible women from indigenous communities. This would allow for greater empathy with the group of beneficiaries and at the same time generate trust among them to ensure equitable access to project resources.
- Identification and systematisation of positive examples/best practices of women's participation in agricultural value chains in Guatemala to highlight these examples and motivate similar initiatives. Strengthening capacities of sectoral organizations for the development and implementation of gender policies Implementation.
- Working with associations of women entrepreneurs that have members in the export sectors on which the project will focus to reach a larger number of women-led companies that could benefit from the action.
- Awareness actions that help companies understand the positive impact that an equitable involvement of women and men brings to all company levels in the growth of their businesses. For this, the United Nations manual on emerging practices and principles for the economic empowerment of women developed within the framework of the WEP (the Power of Working Together) initiative will be used to provide guidance to enterprises on how to promote gender equality at the workplace.
- Improve access to financial services by women microentrepreneurs in Guatemala. The intervention will help to strengthen the capacity of the financial service providers to grant credit services for women and training for its clients in digital skills. The intervention will facilitate access to financial services for female microentrepreneurs, thus strengthening their economic activities, improving their incomes, and increasing their digital knowledge and practices. It is expected that more than 26 000 women will benefit.
- As the financial services will be distributed through digital means, support to awareness and the acquisition of digital skills by the women benefitting from the intervention will be provided throughout different actions.

## **Human Rights**

As part of the EU-Central America Association Agreement, Guatemala has reaffirmed its commitment to respect and promote fundamental labour rights. In this context, the EU follows closely and supports Guatemala's efforts in this regard. Notably, those concerning the full implementation of the roadmap on freedom of association and collective bargaining (ILO Conventions 87 and 98).

Also, the action will contribute to support the Guatemalan State in order to fulfil its commitments stated in international treaties: Convention on the Elimination of All Forms of Discrimination against Women-CEDAW (articles 11, 14 and 15), International Covenant on Economic, Social and Cultural Rights (articles 3 and 11), Convention on the Rights of the Child (article 24), Additional Protocol to the American Convention of Human Rights in the Area of Economic, Social and Cultural Rights (articles 11, 14 and 19), among others. Guatemala has also ratified the ILO Convention 169, on the rights of Indigenous Peoples as part of the commitments contained in the peace agreements.

Component 1 specifically incorporates compliance for prioritized value chains with due diligence requirements regarding human rights, labour rights and the environment, as a way of achieving the creation and/or sustaining of green and decent jobs in compliance with human rights standards. This includes a diagnosis on the state of the art of compliance due diligence as well as capacity building of government services in terms of due diligence and technical assistance to cooperatives, associations, and trade associations for the incorporation of the human rights-based approach in their policies. An important aspect is to provide technical assistance for the elimination of child labour.

This component aims to enable companies to better measure and mitigate environmental risks by strengthening regulatory frameworks and the way environmental impact assessments are carried out. This is based on the understanding that due diligence involves being able to produce differently and in harmony with nature to combat climate change. This is particularly relevant in the national context given the special significance and relationship of indigenous peoples with natural resources. Therefore, this will have a positive catalytic effect on communities.

Respect for the rights of indigenous peoples and compliance with ILO Convention 169 (The Indigenous and Tribal Peoples Convention) and their right to decision will be promoted as part of due diligence and a favourable environment for the defence of human rights (SDG 16) will be created. Additionally, by accompanying the due diligence of companies with harmonised legal frameworks and public policies aligned with international human rights standards, the action promotes that companies avoid generating human rights violations and instead play an active role as actors of change that work for achieving sustainable and inclusive development while promoting the respect of human rights.

The intervention will guarantee the equal participation of men and women, as well as youth, indigenous communities by supporting the application of the Principle of Free, Prior and Informed Consent (FPIC protocols), disabled and vulnerable groups (e.g. IDPs, migrants and returnees) in the different actions promoted; ensure and guarantee the non-employment of children; ensure and guarantee that the actions to be developed do not promote human trafficking; support access to decent jobs in the different links of the value chain; and report before the relevant authorities, any indication of violation of human rights that is discovered through the implementation of the project.

### **Disability**

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. This implies that the intervention contributes to promote, protect and ensure the full and equal enjoyment of all human rights and fundamental freedoms by all persons with disabilities, and promote respect for their inherent dignity in line with Art. 1 of the Convention on the Rights of Persons with Disabilities. That means that, throughout the implementation of the action, due attention can and will be given to opportunities for involving persons with disabilities. Where only possible, it is important to ensure opportunities for persons with disabilities to be economic participants across the AD prioritized sectors, including the value chains in the sectors selected, through direct employment or by affording them business opportunities. Training programs will consider, when relevance, the inclusion of persons with disabilities.

### **Reduction of inequalities**

Based on the assessment of the nature of the intervention, it should be marked as I-1. Since Inequality reduction is a significant objective and the criteria defined are met:

- Detailed analysis is provided on determinants of inequality in Guatemala and the areas of intervention to identify the socio-economically disadvantaged beneficiaries to define the intervention objectives and activities. The design of the action takes into account different levels of inequality, including socioeconomic inequality considering distributive variables by young people, women, IDPs, returned migrants, the disabled and indigenous people. Guatemala has experienced continued economic stability, but this has not translated into growth acceleration to close the income gap. Poverty and inequality in the country are persistently high, with indigenous peoples continuing to be particularly disadvantaged. Guatemala's poverty and inequality rates are among the highest in the LAC region, driven by the existence of a large and underserved population, mostly rural and indigenous and employed in the informal sector. Poverty is expected to decrease to 55.2% in 2023 and 54.2% in 2024, while inequality to remain high. Guatemala's data on the degree of inequality in



income distribution based on the Gini coefficient reached 48.3 between 2010 and 2021 being one of the most unequal countries in LAC.

- The intervention will further promote pro-equality dynamics in income generation, based on the adoption of measures that facilitate a more widespread participation of the poorest groups in income, favoring greater inclusion not only in the labor market but also in the capital market. Likewise, the importance of strengthening the approach at the ethnic level in the development of differentiated territorial policies for the reduction of monetary poverty that can be adapted to the particularities of the characteristics of households according to the profile of its members stands out (Social inequality in Guatemala Evolution and institutional response, ECLAC 2022).
- The general objective and the specific objectives of the intervention are aimed at reducing inequalities in the country and in specific sectors. The overall objective of the intervention focuses on reducing inequalities in Guatemala through inclusive economic development and contributing to creating decent jobs through innovation and digitalisation, and accordingly the specific objectives address "Boosting the Guatemala's economic structure as open, inclusive.." and "Increase and the competitiveness of MSMEs and cooperatives...for the generation of decent employment opportunities". It is expected to achieve inequality reduction through the generation of decent jobs in the formal economy that target young people, women, indigenous people, IDPs, returned migrants, the disabled and most vulnerable populations targeting the bottom (poorest) 40% or socioeconomically disadvantaged individuals, households or groups.
- Inequality indicators are included with targets set for measuring indirectly the effect of the intervention. The indicator at the general objective level measures changes in the reduction of social and economic inequality, and additionally Output 2.1 has as indicator "Number of people directly benefiting from EU- supported interventions that aim to reduce social and economic inequality" which is a GERF (Global Europe Results Framework) indicator and is binding to Sustainable Development Goal indicators 10. Inequality reduction targets will be evaluated.

## **Democracy**

The intervention will tackle challenges related to economic, environmental and political fragility. Political factors can impact the intervention, especially on issues of human rights and the environment. Additionally, the intervention seeks to influence the macro (political), meso (business support institutions) and micro (directly supporting the business sector, MSMEs and Cooperatives) level. Democracy is associated with higher human capital accumulation, lower inflation, lower political instability, and higher economic freedom. Democracy is closely tied with economic sources of sustainable growth. The intervention will have an impact on sustainable development and growth and on transparency of public institutions operations through the digitalisation of the services provided by the public sector.

## **Conflict sensitivity, peace and resilience**

The intervention aims to minimise unintended negative social or environmental impacts ("do-no-harm"), and is meant to be inclusive for marginalised and vulnerable groups and will defend the right of free, prior and informed consent of indigenous communities. In particular, component 1 will enhance the capacity of rights holders, workers' organizations, particularly women and indigenous' organizations and stakeholders to engage and dialogue to drive uptake of CRS including due diligence in Guatemala. Risks related to this engagement and risks linked to increased visibility of human rights and environmental defenders should be monitored and possible backlash mitigated with appropriate protection measures. In fact, the action will seek to promote dialogue between indigenous authorities, indigenous organizations, the private sector, and other relevant stakeholders, although currently the situation is quite polarised.

### 3.3 Risks and Lessons Learnt

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
Political Risk <sup>27</sup>	Presidential electoral cycle of June 2023, which implies political stagnation until January 2024, which could generate changes in national policies and priorities and a greater lack of coordination within public institutions and with the private sector.	High	Medium	<ul style="list-style-type: none"> <li>- The EU engages with key technical partners to continue the work and preparations for the start of the intervention and the different actions that comprise it;</li> <li>- Early contact with new authorities elected and explanation of the transcendental of the actions and the importance for the sustainable and inclusive development of Guatemala;</li> <li>- Key stakeholders in alert and enabled to take an active role in preventing political stagnation and instability.</li> </ul>
Political risk	Lack of political will of authorities to update some key regulatory frameworks.	High	High	<ul style="list-style-type: none"> <li>- Promote dialogue and awareness on identifying regulatory risks, conducting gap analysis to inform possible revisions of the frameworks.</li> <li>- Carry out peer to peer experiences and trainings to benchmark frameworks with best international practices.</li> </ul>
Institutional Risk	Lack of governance and weak institutional capacities at different levels of the public administration, in particular related to timely decision-making, and the continuity of public civil servants and technical staff of the public institutions.	High	Medium	<ul style="list-style-type: none"> <li>- Continued political and policy dialogue with the authorities at all levels political and technical;</li> <li>- Building-up of capacities of public institutions to deliver public services to MSMEs and cooperatives;</li> <li>- Support to data collection and analysis for well-researched and informed policy making.</li> </ul>
Institutional Risk	Lack of structured public-private dialogue.	Medium	Medium	<ul style="list-style-type: none"> <li>- Engage in joint public-private actions to re-build trust and promote structured dialogue.</li> <li>- Dissemination of good practices on public-private dialogue in the areas covered by the 3 components of the intervention.</li> </ul>
Programme & operational risk	<p>Reluctance from part of the business sector to comply with the EU sustainable trade regulations in the framework of the European Green Deal.</p> <p>Lack of knowledge of what deforestation</p>	High	Medium	<ul style="list-style-type: none"> <li>- Support public and private institutions with technical assistance and information to strengthen multi-stakeholder dialogue, supporting national sectoral roadmaps to comply with European regulations;</li> <li>- Intensify raising awareness campaigns with public sector social sectors, taking it as a window of opportunity since it would put them at the forefront of compliance with this new EU regulations.</li> <li>- Protection measures for CSOs</li> </ul>

<sup>27</sup> Category 2 Risk – Political, Planning, Process and Systems

	means; risks for civil society in participating in dialogues on CRS; lack of application of FPIC protocols			<ul style="list-style-type: none"> <li>- Promotion of FPIC protocols and approaches</li> <li>- Promotion of social dialogue on formal employment creation</li> </ul>
Programme & operational Risk	Lack of coordination between the various components, implementing partners and activities that make up the actions, having an impact on the synergies derived from the TEI.	<b>Medium</b>	<b>High</b>	<ul style="list-style-type: none"> <li>- Create a formal coordination set up for the TEI at the political and technical level including main actors and stakeholders that allows for an efficient implementation maximising resources.</li> <li>- Joint intervention logic and monitoring system in place.</li> </ul>

#### **Assumptions:**

Guatemala's macroeconomic situation remains stable, with no unforeseeable phenomena arising from the worsening of the global economic crisis resulting from the invasion of Ukraine, or from the worsening of another global pandemic such as covid-19. Elections take place in a peaceful and orderly manner so new government elected can take functions in January 2024.

The new authorities continue with the implementation of key national political and policy priorities regarding trade, regional integration and MSMEs competitiveness through innovation and digitalisation, as well as with the commitment to the goals of the K'atun 2032 national plan and key national sectoral policies.

#### **Lessons Learnt:**

##### **Component 1: Support to enhance the readiness of key value chains to comply with European Union sustainable trade regulations in the framework of the European Green Deal.**

The articulated work between civil society, the private sector, and public institutions to strengthen the gender and human rights approach allows progress in the peaceful solution of conflicts of the population in a situation of vulnerability and exclusion. The organizations of civil society, women, and indigenous peoples carry out important advocacy work and social auditing to achieve the implementation of institutional changes (legislative and public policies); and thus, achieve the reduction of gender violence. It is key to support structured and inclusive dialogue between all parties including strengthening the Tripartite social Dialogue.

At the regional level, the experience of interventions such as "Responsible Business Conduct In Latin America and The Caribbean" implemented by the ILO, OECD and OHCHR highlight that the development of National Action Plans involves complex and long-term processes. These processes require the ongoing support and commitment of multiple stakeholders, including government, employers' organizations, workers' organizations, business and civil society, and that the success of these interventions depends on the ability to provide targeted technical assistance to interested parties.

Based on the TPSDE Facility report 'Cartography of the coffee, cocoa, palm oil, sugar and Wood products value chains and their adaptation to the EU environmental and social due diligence requirements'<sup>28</sup>:

There is very limited knowledge about the scope and specific requirements of the new regulations, especially in the weakest value chains. Workshops should be held in order to inform people about the requirements in both regulations and favourably raise awareness among the actors involved about the objectives pursued. E.g. via sectoral dialogue processes and configuration of comprehensive structures and road maps with shared objectives by sector.

<sup>28</sup> [VF Executive Summary Mapping and Impact Analysis - Ed Final14.11.22\\_ENGLISH.pdf \(europa.eu\)](#)

There are good practices in the country with regard to georeferenced traceability, such as the tools developed by GREPALMA for palm oil and by ANACAFE and AGEXPORT, respectively, for coffee. Also, there are good community practices in forest and wood management, as well as the involvement of and participation by women in coffee-producing cooperatives. These can be strengthened with technical assistance and the possibility of replicating them in other value chains should be analysed.

Small and micro producers will need training in order to comply with the new requirements. This is not only about traceability, but also about compliance with administrative or documentation tasks that may be necessary for performing due diligence. Similarly, training can be provided to producers on sustainable practices and “zero-deforestation”. It is suggested that work be performed at the organised group level (cooperatives, associations, federations, etc.).

The weakest chains have limitations because of plot size, a lack of legally defined boundaries and legal uncertainty related to land ownership on the part of many small and micro producers. Various technical assistance projects have been carried out in Guatemala aimed at the development of a Registry of Cadastral Information (RCI). An analysis of the scope of the RCI’s Geoportal could be performed, as well as an analysis of the possibilities of strengthening it as a contribution to resolving the above limitations and facilitating the traceability required by the Regulation on deforestation-free products.

Not all value chains contribute equally to deforestation, so that the use of aggregate deforestation criteria to calculate the risk for a country like Guatemala may penalize value chains which, generally speaking, use forests in a sustainable way, as well as operators who have made highly significant investments in sustainability.

## **Component 2: Support the digitalisation of services provided to MSMEs and Cooperatives**

For processes of e-government and digitalisation of services to MSMEs and Cooperatives, a broad base of consensus must be worked on with an agreed governance, holding public private dialogues sessions among regulatory agencies, investment authorities and business community to increase awareness on the need to align their objectives and coordinate their actions. This includes reviewing and upgrading regulatory frameworks proposing regulatory and legal convergence mechanisms for a unified approach.

## **Component 3: Improve the competitiveness of MSMEs and cooperatives through better access to finance, innovation and digital tools.**

The strengthening of the ecosystem of MSMEs and cooperatives is an effective option to increase their development and competitiveness. It includes the provision of decentralised public services (sector institutions and local governments), digital business platforms and networking, thus integrating physical and social capital in the territories. In this sense, combined support to the public and private sectors is an appropriate strategy in support programs for MSMEs and cooperatives, but adequate communication and coordination between the components must be ensured, as well as a demand-based approach.

Another lesson learnt, from the previous EU programme ‘Improvement of the competitiveness and commercial capacity of MSMEs and cooperatives’ is that interventions are more effective if they are designed from the value chains perspective. MINECO and exporting companies have pointed out that the articulation of the support must be done from the value chain perspective rather than geographic perspective. The justification for this approach is based on the fact that the development of capacities in the local areas supported by our interventions must be done with a global vision of the market, including compliance with international standards, this is the case of the agro-industrial sectors supported such as cocoa, coffee, among others.

In the case of the digital traceability for selected value chains, main lessons learnt from other projects implemented in the region are that initiatives related to traceability, georeferencing and digitalisation that are already being developed in Guatemala should be mapped and analysed with regards to possible contributions to the work that will be carried out within this project; involving vital stakeholders (producer associations, national institutes) from the onset is key to ensure scalability and validation of the process; the digital literacy gap can hamper the involvement of certain target groups, especially vulnerable populations. It is therefore recommended to take enough time to develop digital skills, specifically amongst producers, as well as to carry out a mapping of connectivity to evaluate

the necessary investments (internet, computers, tablets, smartphones) in rural areas. Moreover, it is crucial to develop mechanisms to raise awareness among producers, the private sector, processing companies and organisations of the focal sectors (coffee, cacao, sugar cane, palm oil) on the new EU regulations on corporate sustainability due diligence and the regulation on deforestation-free products, as well as its implications for these groups.

Lessons learnt from the Phase I of the TIF programme implemented by the Spanish Financial Cooperation (COFIDES), through the FONPRODE<sup>29</sup> indicate that in 2021 the situation of Financial Service Providers (FSPs) has turned out to be even worse than in 2020. Once the relief measures (local and international) were lifted, the true effects of the economic crisis after the outbreak have emerged, impacting the portfolio quality of intermediaries. This brings to a further need of support in capacity building of FSPs to improve risk management.

An increasing demand to foster digital transformation has also been identified. For most FSPs, the initial digital response coming from clients during the pandemic has been globally positive. Digital literacy of poorer segments should not be underestimated. There is an important potential for development in this area. Digital Finance emerges as a catalyst for narrowing the gender gap. Building resilience to Climate Change on vulnerable segments is seen as a general concern and cross-cutting issue.

Therefore, it is important to take advantage of the existing potential and to implement ecosystem and customer-focused approaches to answer specific needs for particular segments and develop not only new financial products but, more crucially, new delivery channels, as a better response to the most vulnerable population needs. Thus, the importance of innovation becomes clear.

### 3.4 The Intervention Logic

The underlying intervention logic for the proposed action is that it should be possible to reduce inequalities through inclusive and sustainable economic growth based on access to finance, innovation and digitalisation and new economic models that are respectful of the environment that lead to the creation of decent jobs for the the most vulnerable groups and bottom 40% income of the population, leading to the formalisation of the economy.

By applying the TEI approach for the implementation of part of Outcome 4 (Outputs 4.1 and 4.2), we are seeking to maximise resources from the EU and EU Member States, namely Germany, Spain and Sweden. The approach will aim at increasing the competitiveness of MSMEs and cooperatives in key value chains of the agricultural sector through enhanced digitalisation/digital traceability, innovation and circularity at the same time improving access to finance for MSMEs and cooperatives and most vulnerable segments of the population. The main market failures identified are: the gap between the financial needs and the supply of financial services in Guatemala, which is significant for MSMEs, especially women-headed MSMEs, indigenous entrepreneurs, and smallholder farmers, also the hardest hit by climate change and informality; and the digital gap between rural/urban population, women, indigenous communities, etc. The logic was developed around a common strategy and priorities identified with EU Member States, namely financial inclusion and access to finance and the use of innovation and digitalisation to make key value chains selected more competitive, leading to the creation of decent jobs and reduction of the inequalities. The agricultural value chains selected concentrate on workers coming from the most vulnerable groups and bottom 40% income of the population.

By applying the Triple Bottom Line (TBL) approach to access to finance we aim to:

1. Deepen financial access for the bottom of the pyramid, mostly through digital transformation with a gender focus;
2. Manage environmental risks and foster green products through Green Finance;
3. Strengthen the business and MSMEs' ecosystem through capacity building and debt financing.

This TBL approach will entail:

- an increased emphasis on gender by leveraging digital finance for gender equality and women's empowerment;

<sup>29</sup> FONPRODE, managed by AECID, is the main financial instrument of the Spanish Cooperation to support the private sector in developing countries through Official Development Assistance operations. Together with its predecessor, FCM (Microcredit Fund), the Spanish financial cooperation has gained 20 years of experience in supporting inclusive finance, among other sectors, with an aggregate of 131 loan operations for more than 629 million EUR invested in 96 FSPs (from which, 71% 1stTier FSPs and 29% 2ndTier; and 81 FSPs in LAC) of 29 developing economies (14 in LAC). FONPRODE has proven its performance. Aggregated estimates amount to more than 2 million micro and small entrepreneurs being directly or indirectly supported.

- a more ecosystem-based approach, i.e., strengthening the ecosystem that supports the Guatemalan MSMEs through a combination of funders, instruments, types of direct counterparts and key stakeholders.

A transversal and flexible intervention is therefore proposed through this action, integrating a diversity of measures, supported by different funders and instruments (mainly debt and grants for technical assistance), to be implemented by different financial operators (financial cooperatives, microfinance NGOs, MSME banks, second-tier financial institutions and investment funds) and non-financial operators (NGOs, networks, S.A., business incubators), under a multidimensional approach. This will support the development of a range of products and services larger in scale, more diverse and of better quality for Guatemalan MSMEs, through a diversity of distribution channels with digitalisation as a driver for transformation using a value chain approach, under the umbrella of the country's development priorities (e.g. Guate in 5.0, *Guatemala no se detiene*).

Therefore, a combined approach will be defined and will seek:

- Better outreach in scale and depth of financial institutions in Guatemala serving MSMEs, especially women headed MSMEs, and,
- Improved quality of services from a climate change perspective, which means not only measuring and mitigating social and environmental risks, but also promoting climate-smart financial services through financial intermediaries, as well as Climate Smart Agriculture (CSA) practices through non-financial intermediaries.

By promoting digitalisation of government services to MSMEs and the digitalisation of MSMEs and cooperatives along with building digital skills for the underserved segments of the population, there will be improved access, transparency and on-line delivery of administrative, trade and investment services for Guatemalan MSMEs; and their competitiveness will be increased.

By supporting compliance of key and prioritized value chains with the EU sustainable trade regulations, exports to the EU will be maintained and even increased at the same time as guaranteeing the continuation of livelihoods in particular for small scale producers.

The intervention will carry out actions in 3 prioritised areas that will be addressed simultaneously, but that will allow the creation of joint synergies by complementing each other. In coordination with EU Member States (ES, SE and DE) and all the implementing actors involved, the EU will support targeted actions which will empower rights-holders to claim their rights. All the multiple activities foreseen (inputs) aim at obtaining specific short-term results (outputs), which will make it possible to achieve the four identified outcomes: 1. Increase compliance of MSMEs in Guatemala with EU sustainable trade regulations in the framework of the European Green Deal, in particular for young people, women, returning migrants, Internally Displaced Persons (IDPs), persons with disabilities and the indigenous population; 2. Improve digitalisation of services provided to MSMEs and cooperatives, in particular for young people, women, returning migrants, IDPs, persons with disabilities and the indigenous population; 3. Increase the competitiveness of MSMEs and cooperatives, in particular in the green, and circular economies for the generation of decent employment opportunities in particular, young people, women, returning migrants, IDPs, persons with disabilities and the indigenous population.

All of the above will lead to achieving the overall impact: support inclusive economic development in Guatemala,

For the proposed action to bear fruit, a number of assumptions must hold true i.e. Guatemala's macroeconomic situation remains stable; the new government appointed in 2024 continues implementing the key policies, priorities and programmes on trade and competitiveness; Guatemalan key stakeholders are fully committed to the implementation of the intervention; and a structured public-private dialogue is maintained to work jointly for an inclusive development that reduces inequalities.

Gender equality, in particular women's economic empowerment, reduction of inequalities, environmental protection and climate change adaptation will be mainstreamed along all main activities of the intervention.

The below logframe captures this intervention logic at Impact, Outcome and Output level.



### 3.5 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 (@): Main expected results (maximum 10)	Indicators (@): (at least one indicator per expected result)	Baselines (values and years)	Targets (values and years)	Sources of data	Assumptions
<b>Impact</b>	Support inclusive economic development in Guatemala	1. GERF 1.13 World Bank Doing Business distance to the frontier score 2. GERF 1.5 SDG 12.2.1 Material footprint per capita 3. GERF 1.6 SDG 12.2.2 Domestic material consumption per capita 4. GERF 1.11 SDG 8.5.2 Unemployment rate, by sex, age and persons with disabilities 5. GERF 1.23 SDG 1.1.1 Proportion of population below the international poverty line	1. 62.6 (2019) 2. 1.15 t. (2021) 3. \$ 3,832 (2021) 4. 2.6% (2022) 5. 55.2% (2023)	1. % increase by 2028 2. % decrease by 2028 3. % increase by 2028 4. % decrease by 2028 5. % decrease by 2028	1. World Bank data 2. World Bank data 3. World Bank data 4. International Labour Organisation (ILO) data 5. World Bank data	Not applicable
<b>Outcome 1</b>	Increased compliance of MSMEs in Guatemala with EU sustainable trade	1.1. Number of Guatemalan MSMEs complying with EU due diligence regulations 1.2. Number of Guatemalan MSMEs complying with EU Deforestation free standards	1.1 2024 baseline 1.2 2024 baseline	1.1 TBD at project start 1.2 TBD at project start	1.1 OHCR/OECD/ILO reports and statistics	MSMEs enjoy support by the government, FSPs and Business Support Organisations for continuously improving the compliance

	regulations in the framework of the European Green Deal	1.3 Number of processes related to partner country practices on trade, investment and business, or promoting the external dimension of EU internal policies or EU interest, which have been influenced (GERF 2.15)	1.3 2024 baseline	1.3 TBD at project start	1.2 OHCR/OECD/ILO reports and statistics  1.3 MINECO reports	
<b>Outcome 2</b>	Improved digitalisation of services provided to MSMEs and Cooperatives	2.1. Number of people supported by the EU with enhanced access to digital government services (GERF 2.12)  2.2 Number of trade, investment and business creation processes digitalised  2.3 Number of government institutions having improved accessibility, transparency and delivery of government services for trade and investment  2.4 Number of MSMEs, cooperatives and entrepreneurs (disaggregated by gender, age, ethnic origin, migrant status, IDPs, and socio-economic background) reporting improved accessibility, transparency and delivery performance of government services for trade and investment	2.1 0 (2024)  2.2 2024 baseline  2.3 2024 baseline  2.4 2024 baseline	2.1 TBD at project start  2.2 Number of processes digitalised part of the T&I Single Window  2.3 70% of Government Agencies in the T&I single window improved accessibility, transparency and delivery of governmental services for trade and investment.  2.4 70% of the users of the T&I Single Window reported improved accessibility, transparency & delivery performance of gov. services for trade & investment	2.1 Project progress report and statistics  2.2 ITC technical reports and statistics  2.3 MINECO and other line ministries reports. MINECO and INACOP reports and statistics  2.4 ITC progress report. MINECO and INACOP statistics and surveys carried out among final users.	The government continues implementation of an Action Plan for digitalisation of public services to MSMEs
<b>Outcome 3</b>	Increased competitiveness of MSMEs and	3.1. Number of MSMEs reporting increased turnover	3.1 0 (2024)	3.1 TBD at project start	3.1 FSPs' reports	MSMEs and cooperatives actively participate in the

	cooperatives, in particular in the green, and circular economies for the generation of decent employment opportunities	<p>3.2. Number of women in all their diversity with improved access to entrepreneurship opportunities, including social entrepreneurship, alternative livelihoods and strengthened participation in the green and circular economy with EU support*</p> <p>3.3. Number of Micro, Small and Medium Enterprises applying Sustainable Consumption and Production practices with EU support (GERF 2.6)</p> <p>3.4. Number of MSMEs applying efficient, clean and circular economy methods per sector</p> <p>3.5. Number of MSMEs having transacted international business as a result of the action support</p> <p>3.6. Increase in export value by supported MSMEs</p> <p>3.7. Number of green/decent jobs created or sustained by beneficiary MSMEs</p>	<p>3.2 0 (2024)</p> <p>3.3 0 (2024)</p> <p>3.4 0 (2024)</p> <p>3.5 0 (2024)</p> <p>3.6 0 (2024)</p> <p>3.7 0 (2024)</p>	<p>3.2 At least 50% of all beneficiaries</p> <p>3.3 TBD at project start</p> <p>3.4 TBD at project start</p> <p>3.5 TBD at project start</p> <p>3.6 TBD at project start</p> <p>3.7 TBD at project start</p>	<p>3.2 Projects reports. MINECO and INE reports</p> <p>3.3 Projects reports</p> <p>3.4 Projects reports</p> <p>3.5 Projects reports and MSMEs data and statistics</p> <p>3.6 Projects reports and MSMEs data and statistics</p> <p>3.7 Projects reports and MSMEs data and statistics</p>	<p>transition to a new economy</p> <p>MSMEs enjoy conducive state policies aimed at strengthening FSPs and Business Support Organizations</p> <p>The government through the Tri-partite dialogue follows-up on the decent jobs policies</p> <p>Women have spaces for their participation in the green and circular economy</p>
<b>Output 1.1. relating to Outcome 1</b>	1.1. Strengthened capacities of MSMEs of 5 key agricultural value chains to comply with EU due diligence and Deforestation-Free Products requirements	1.1.1 Number of MSMEs supported to comply with EU sustainable trade regulations in the framework of the European Green Deal in line with international standards (disaggregated by gender, age, ethnic origin, migrant status, IDPs and socio-economic background)	1.1.1 0 (2024)	1.1.1 TBD at project start	1.1.1 OHCHR/OECD/ILO reports and statistics	The supported MSMEs continue the positive trend and changes in their management, procedures and technologies
		1.2.1. Status of the draft National Action Plan (NAP) on Business and Human Rights and RBC	1.2.1 0 (2024)	1.2.1 NAP finalised by 2028	1.2.1 Guatemala National Action Plan on Business and Human Rights and RBC	The NAP is endorsed and funded by the government (and/or government sources funds for its implementation with development partners)

<b>Output 2.1</b>  <b>relating to Outcome 2</b>	2.1. Improved capacity of the government for the digitalisation of services provided to MSMEs and cooperatives	2.1.1. Status of the Action Plan for digitalisation of relevant public services to MSMEs and Cooperatives, including the draft investments and budget plan  2.1.2. Status of the Action Plan for development and operationalisation of the Trade and Investment Single Window  2.1.3. Number of officials trained on the digitalisation	2.1.1. None by 2023  2.1.2 2024 baseline  2.1.3 0 (2024)	2.1.1. Drafted and discussed with the stakeholders  2.1.2 Action Plan drafted and adopted  2.1.3 TBD at project start	2.1.1. The draft Action Plan with investments and budget plan, and minutes of discussion  2.1.2 Guatemalan Trade and Investment Single window operational  2.1.3 Training reports, project progress reports and line ministries reports and statistics	Government undertakes to endorse and fund the Action Plan for digitalisation
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<b>Output 3.1.</b>  <b>relating to Outcome 3</b>	3.1. Improved capacity of FSPs for a gender-sensitive and digitalised financial services to MSMEs for green and sustainable entrepreneurship and use of resource-efficient and climate smart technologies	3.1.1. Volume of new loans made available to partner financial intermediaries, disaggregated by type of intermediary, by product/service, by target group, by served area/ sector	3.1.1 0 by 2023	3.1.1 TBD at project start	3.1.1. Credit portfolio/agreements with local financial institutions and credit cooperatives reports and statistics	There is a learning effect on how to expand the portfolios of FSPs, and how to handle more risky projects for larger financial inclusion
		3.1.2. Number of FSPs' end clients, disaggregated by gender, age, ethnic origin, migrant status, IDPS, and socio-economic background	3.1.2 0 (2024)	3.1.2 40,000, 65% women)	3.1.2 Financial institutions beneficiaries registries and statistics	
		3.1.3 Ratio between the amount of reimbursable finance (by IFIs or other financiers) against EU contribution	3.1.3 0 (2024)	3.1.3 TBD at project start	3.1.3 Financial institutions progress reports	
		3.1.4 Number of government programmes implemented to improve women's ability to benefit from employment and entrepreneurship opportunities, including social entrepreneurship, offered by the digital transformation (GAP III indicator)	3.1.4 2024 baseline	3.1.4 TBD at project start	3.1.4 Government reports	
<b>Output 3.2.</b>  <b>relating to Outcome 3</b>	3.2 Increased capacity of MSMEs in the agricultural pharmaceutical, textiles and clothing and ICT sectors for enhanced digitalisation	3.2.1. Number of MSMEs trained by the action acquiring skills in environmental footprint, digitalization, inclusiveness (disaggregated by gender, age, ethnic origin, migrant status, IDPs, and socio-economic background)	3.2.1 0 by 2024	3.2.1 TBD in inception phase	3.2.1 Pre- and post-training tests	The MSMEs and BSOs use the knowledge and skills continuously  BSOs are supported by public and donor funds to support the MSMEs short of funds to invest into development consulting
		3.2.2. Number of Business Support Organisations trained by the action acquiring skills on supporting	3.2.2 0 by 2024	3.2.2 TBD in inception phase	3.2.2 Pre- and post-training tests	

	and sustainability leading to create green jobs and inclusivity	<p>MSMEs for sustainability, circularity and inclusiveness in the sectors selected</p> <p>3.2.3. Status of digital repository of training programmes, tools and service providers</p> <p>3.2.4. Status of adaptation of INATrace software</p>	<p>3.2.3 0 by 2024</p> <p>3.2.4 0 by 2024</p>	<p>3.2.3 Established and operational</p> <p>3.2.4 INATrace tool operational</p>	<p>3.2.3 Handover document to &lt;institution&gt;</p> <p>3.2.4 Tool tests along the value chains</p>	
		<p>3.2.5 Number of MSMES using INATRACE the digital traceability system to report on compliance with deforestation free and due diligence requirements</p> <p>3.2.6 Number of stakeholders from key agricultural value chains (coffee, cacao, sugar cane, palm oil) who are trained on the application of the EU sustainable trade regulations in the framework of the European Green Deal and digital traceability systems disaggregated by institution, organisation, sector, gender, age, ethnic origin, migrant status, IDPs, and socio-economic background.</p>	<p>3.2.5 0 (2024)</p> <p>3.2.6 0 (2024)</p>	<p>3.2.5 TBD at project start</p> <p>3.2.6 TBD at project start</p>	<p>3.2.5 GIZ reports</p> <p>3.2.6 MINECO, Chambers of Commerce and Sector chambers reports and statistics</p>	<p>MSMEs are interested in implementing a traceability system that supports their access to markets</p>



## 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 72 months from the date of adoption by the Commission of this Financing Decision.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer in duly justified cases.

### 4.3 Implementation Modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures<sup>30</sup>.

#### 4.3.1 Indirect Management with entrusted entities

Output 1.1 of the this action may be implemented in indirect management through a contribution agreement jointly by International Labour Organization (ILO), Organisation for Economic Co-operation and Development (OECD), and the United Nations Office of the High Commissioner for Human Rights (OHCHR). The envisaged entities have been selected using the following criteria: (i) The OECD, ILO, and OHCHR have a proven track record of expertise and complementary technical capacity in the relevant fields of human rights, labour rights, socio-economic rights, and environmental rights. By collaborating and leveraging their respective areas of expertise, the envisaged entities can address the multifaceted aspects of Responsible Business Conduct-RBC and due diligence in a comprehensive manner. Their expertise enables them to provide comprehensive guidance and support to stakeholders in Guatemala, ensuring that the promotion of RBC is based on sound international standards and best practices; (ii) have direct and close experience in the region and in-country on the subject of due diligence. The envisaged entities have engaged directly in various regional and local initiatives, research, and projects related to RBC and due diligence, including notably the Project Responsible Business Conduct in Latin America and the Caribbean (RBC-LAC). In addition, their direct experience of collaboration with key local stakeholders allows them to understand the unique challenges, context, and dynamics of Guatemala's business landscape and the intersection with the regional context; (iii) be widely recognized international organizations with technical legitimacy and with presence at national level.. They have established credibility and trust through their extensive work in promoting RBC practices globally. Furthermore, their established networks and partnerships allow for meaningful cooperation with national entities and stakeholders, ensuring that their initiatives are well-integrated into the national context.

Notably, the envisaged entities have been closely involved in the development of EU due diligence practices. Their expertise and contributions have played a significant role in shaping the regulatory frameworks and standards that guide RBC within the EU and beyond.; (iv) demonstrated operational capacity to deliver projects in alignment with national and EU priorities. The envisaged entities have a strong track record of successfully implementing initiatives, programs, and large-scale projects related to RBC and due diligence in various contexts.. (v). one of the key strengths of the selected entities is their demonstrated ability to lead policy dialogues with national counterparts, but also in a coherent way with the international dynamics. These international organisations have extensive experience in engaging with governments, policymakers, and regulatory authorities to shape policy frameworks and guidelines related to RBC and due diligence..

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<sup>30</sup> [www.sanctionsmap.eu](http://www.sanctionsmap.eu). Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

This component will continue work already carried out at bilateral level with ILO-OHCHR and will complement other EU regional development cooperation initiatives implemented by ILO-OECD-OHCHR, particularly the regional programme for Responsible Business Conduct in Latin America and the Caribbean.

If negotiations with any of the above-mentioned entities fail, the concerned part of the action may be implemented in indirect management with an international organisation. The Commission's services may select another replacement entity using the same criteria. If the entity is replaced, the decision to replace it needs to be justified.

Output 2.1 of this action may be implemented in indirect management through a contribution agreement with the International Trade Centre (ITC). The envisaged entity has been selected using the following criteria: (i) financial and operational capacity; (ii) demonstrated technical capacity and experience in the relevant fields concerned. ITC is the only international development agency fully dedicated to supporting MSMEs in developing countries to enable them to benefit from trade. By working with partners to strengthen MSME competitiveness, ITC helps to build entrepreneurial and employment opportunities, particularly for women, youth, and people in vulnerable situations.; (iii) demonstrated operational capacity to deliver projects in alignment with national and EU priorities. ITC has implemented programmes in Guatemala and in the Central American region and have unique expertise in the development of trade and investment related digital platforms and tools, and Single Trade and Investment Windows under EU funded programmes worldwide i.e. the Secretariat for the Economic Integration of Central America (SIECA).; (iv) demonstrated ability to lead policy dialogue with national counterparts in the relevant fields concerned. The ITC has been regularly working and cooperating with the Government of Guatemala, and has proven experienced in leading policy dialogue on trade related issues; (v) ITC is a neutral and inclusive organisation, with values on: Universal membership and neutrality (all UN and WTO members are stakeholders of ITC); ITC objectively and impartially carries out trade-related technical assistance as a member of the UN development system; integrity, it recognizes that inclusion starts from within through our diversity and inclusion initiatives, and its commitment to empowering employees and promoting an enabling work environment.

If negotiations with any of the above-mentioned entities fail, the concerned part of the action may be implemented in indirect management with an international organisation. The Commission's services may select another replacement entity using the same criteria. If the entity is replaced, the decision to replace it needs to be justified.

Part of Output 3.1 (Activities 3.1.1 to 3.1.3) may be implemented in indirect management with a European International Financial Institution. This implementation entails the execution of the EU funds under the blending component, through delegated cooperation. This blending operation will be subject to approval in the usual steps that a Country Team Meeting, followed by a Technical Assessment Meeting (TAM) and the EFSD+ Board approval.

Part of Output 3.1 (Activities 3.1.4 to 3.1.5) may be implemented in indirect management with the Sweden's government agency for development cooperation (SIDA). The envisaged entity has been selected using the following criteria: (i) financial and operational capacity; (ii) demonstrated technical capacity and experience in the relevant fields concerned (i.e. inclusive finances, guarantees with credit cooperatives, inequality reduction, women economic empowerment); (iii) demonstrated operational capacity to deliver projects in alignment with national and EU priorities; and (iv) demonstrated ability to implement as part of a TEI (Team Europe Initiative).

If negotiations with any of the above-mentioned entities fail, the concerned part of the action may be implemented in indirect management with an international organisation. The Commission's services may select another replacement entity using the same criteria. If the entity is replaced, the decision to replace it needs to be justified.

Part of Output 3.2 (Activities 3.2.1 to 3.2.4) of this action may be implemented in indirect management through a contribution agreement with an international organisation. The envisaged entity would be selected using the following criteria: (i) financial and operational capacity; (ii) demonstrated technical capacity and experience in the relevant fields concerned (i.e. inclusive and green finances, guarantees with credit cooperatives, inequality reduction, women economic empowerment, digitalisation, Green Deal, circular economy); (iii) demonstrated operational capacity to deliver projects in alignment with national and EU priorities; and (iv) demonstrated ability to implement this kind of programmes in Guatemala and in the Central America region.

Part of Output 3.2 (Activities 3.2.5 to 3.2.7) of this action may be implemented in indirect management via a contribution agreement with the German agency *Gesellschaft für Internationale Zusammenarbeit* (GIZ). The envisaged entity has been selected using the following criteria: (i) financial and operational capacity; (ii)

demonstrated technical capacity and experience in the relevant fields concerned (i.e. digital traceability, sustainability, Green Deal and green transition), in the region and in the country; (iii) direct and close experience of the implementation of a digital solution for traceability, in products such as coffee and cocoa (INATrace digital tool developed by GIZ); (iv) demonstrated operational capacity to deliver projects in alignment with national and EU priorities; v) demonstrated ability to implement as part of a TEI (Team Europe Initiative).

If negotiations with any of the above-mentioned entities fail, the concerned part of the action may be implemented in indirect management with an international organisation. The Commission's services may select another 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 components <sup>31</sup>	EU contribution (amount in EUR)	Third-party contribution (amount in EUR)
<b>Implementation modalities</b> – cf. section 4.3		
<b>Objective 1</b> composed of		
Indirect management with ILO – OECD -OHCHR cf. section 4.3.1	3 000 000	350 000
<b>Objective 2</b> composed of		
Indirect management with ITC cf. section 4.3.1	10 000 000	500 000
<b>Objective 3</b> composed of		
Indirect management with a European financial institutioncf. section 4.3.1	10 000 000	40 000 000
Indirect management with SIDA cf. section 4.3.1	3 000 000	1 000 000
Indirect management with GIZ cf. section 4.3.1	3 410 000	TBD
Indirect management with an International Organization cf. section 4.3.1	5 000 000	TBD
<b>Totals</b>	34 410 000	41 850 000

## 4.5 Organisational Set-up and Responsibilities

Each of the contracts signed will have its own internal governance structure. All standalone projects will have a regular steering committee, where the projects' implementation, work plan and achieved results will be discussed. Such steering committees will involve representatives of the EU Delegation in Guatemala, implementing partners and other stakeholders as appropriate.

The implementing partner will provide secretariat services to the Steering Committee (SC) and convene meetings at least two times per year, with the possibility to organise additional ad-hoc SC meetings whenever there is a need or a request. Periodic reports on implementation and joint supervision missions will be the key mechanisms of the monitoring process. In the context of strengthening the sector dialogue, regular technical meetings and an annual joint review will provide for monitoring arrangements.

Another Steering Committee will oversee the implementation of the component implemented in a Team Europe approach between the EU, the European financial institution, GIZ and SIDA. The Steering Committee may discuss, review and endorse the work plans of the different components implemented by the EU development cooperation agencies. The Steering Committee will be presided by the relevant Guatemalan line ministries i.e. MINECO, Guatemalan key stakeholders concerned by the implementation of the action, the European Union and co-financing/implementing partners.

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

<sup>31</sup> 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.

## **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 partners' responsibilities. To this aim, the implementing partners 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 achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logframe matrix.

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).

The baseline and target data will be refined at the beginning of the implementation of this action. The Steering Committees will establish the appropriate monitoring and reporting arrangements among implementers regarding responsibilities, timing, and source of funding.

Progress monitoring will follow EU guidelines and standards and will be based on the logical framework and the established indicators. Several indicators require a baseline survey and a final data collection survey. The implementing partners will be responsible for making sure that these surveys are carried out by contractors in a timely manner (at the beginning of activities in the case of baseline surveys and at the end of them for final data collection surveys).

All monitoring and reporting shall assess how the action is taking into account the human rights based approach gender equality, and inequality-reduction markers based on the logical framework matrix indicators. Indicators shall be disaggregated at least by sex and age, and disability if possible. Reports shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action's implementation.

The action will be overseen by the EU Delegation to Guatemala through day to day programme monitoring activities, visits, and its participation in the Steering Committee and in the events related to planned activities.

### **5.2 Evaluation**

Having regard to the importance of the action, a mid-term review and final evaluation will be carried out for this action (financed by a different decision) or its components through joint missions to provide an overview of the action within the larger impact of the TEI.

The mid-term evaluation will be carried out for problem solving and learning purposes, in particular with respect to the TEI approach.

The final evaluation will be carried out for accountability and learning purposes at various levels, taking into account in particular the fact that a part of the intervention will be implemented through a TEI logic.

The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination.

In addition, 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 gender equality and women's empowerment and disability inclusion. Expertise on human rights, disability and gender equality will be ensured in the evaluation teams.

### **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 (financed by a different decision).

## **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.

In line with the 2022 “[Communicating and Raising EU Visibility: Guidance for External Actions](#)”, 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.

## Appendix 1 - REPORTING IN OPSYS

An Intervention (also generally called project/programme) is the operational entity associated to a coherent set of activities and results structured in a logical framework aiming at delivering development change or progress. Interventions are the most effective (hence optimal) entities for the operational follow-up by the Commission of its external development operations. As such, Interventions constitute the base unit for managing operational implementations, assessing performance, monitoring, evaluation, internal and external communication, reporting and aggregation.

Primary Interventions are those contracts or groups of contracts bearing reportable results and respecting the following business rule: 'a given contract can only contribute to one primary intervention and not more than one'. An individual contract that does not produce direct reportable results and cannot be logically grouped with other result reportable contracts is considered a 'support entities'. The addition of all primary interventions and support entities is equivalent to the full development portfolio of the Institution.

The intervention level for the present action identifies as:

<b>Action level (i.e. Budget Support, blending)</b>		
<input type="checkbox"/>	Single action	Present action: all contracts in the present action
<b>Group of actions level (i.e. top-up cases, different phases of a single programme)</b>		
<input type="checkbox"/>	Group of actions	Actions reference (CRIS#/OPSY#):
<b>Contract level</b>		
<input checked="" type="checkbox"/>	Single Contract 1	Indirect management with ILO - OECD - OHCHR
<input checked="" type="checkbox"/>	Single Contract 2	Indirect management with ITC
<input checked="" type="checkbox"/>	Single Contract 3	Indirect management with a European financial institution
<input checked="" type="checkbox"/>	Single Contract 4	Indirect management with SIDA
<input checked="" type="checkbox"/>	Single Contract 5	Indirect management with GIZ
<input checked="" type="checkbox"/>	Single Contract 6	Indirect management with an International Organisation
<b>Group of contracts level (i.e. series of programme estimates, cases in which an Action includes for example four contracts and two of them, a technical assistance contract and a contribution agreement, aim at the same objectives and complement each other)</b>		
<input type="checkbox"/>	Group of contracts 1	