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ANNEX I

of the Commission Implementing Decision on the financing of the multi-annual action plan in favour of Guatemala for 2021-2022 – part I

Action Document for Effective domestic revenue mobilisation for inclusive growth

ANNUAL PLAN
This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and action plans/measures in the sense of Article 23 of NDICI-Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

1. Title **CRIS/OPSYS business reference** **Basic Act**	Effective domestic revenue mobilisation for inclusive growth CRIS number: NDICI LA/2021/043-168 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)/ Overseas Association Decision/European Instrument for International Nuclear Safety Cooperation Regulation
2. Team Europe Initiative	Yes “Alliance for Sustainable Growth and Jobs” Team Europe Initiative in Guatemala
3. Zone benefiting from the action	The action shall be carried out in Guatemala
4. Programming document	Multi-annual Indicative Programme for Guatemala 2021-2027
5. Link with relevant MIP objectives/expected results	The proposed action will contribute to reaching Specific Objective 1 under Priority Area 3 of the MIP: Strong, accountable and transparent national, regional and local administrations are able to efficiently design and implement sustainability-oriented national policies and mobilise sufficient national resources to finance them. Regarding expected results per specific objective, it will contribute to achieving Result 1.2: Public and private resources mobilisation for sustainable development is increased in the context of sounder and greener economic, fiscal and public financial management policies
PRIORITY AREAS AND SECTOR INFORMATION	
6. Priority Area(s), sectors	The proposed action intends to contribute to Priority Area 3) Good Governance and Human Development of the MIP 2021-2027. In particular, to the Government and Civil Society-General sector (DAC Code 151)
7. Sustainable Development Goals (SDGs)	Main SDG (1 only): SDG 17 “Partnerships for the goals” (especially target 17.1 Strengthen domestic resource mobilisation, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection); Other significant SDGs (up to 9) and where appropriate, targets: SDG 1 “End Poverty”; SDG 8 “Decent Work and Economic Growth”; SDG 5 “Gender Equality”, SDG 2 “Zero Hunger” and SDG 10 “Reduced inequalities”.
8 a) DAC code(s)	15114 – Domestic Revenue mobilisation – 100%

8 b) Main Delivery Channel @	World Bank – 44001 (IBRD – International Bank for Reconstruction and Development)			
9. Target	☐ Migration ☐ Climate ☒ Social inclusion and Human Development ☒ Gender ☐ Biodiversity ☐ Education[1] ☒ Human Rights, Democracy and Governance			
10. Markers (from DAC form)	**General policy objective @**	**Not targeted**	**Significant objective**	**Principal objective**
	Participation development/good governance	☐	☐	☒
	Aid to environment @	☒	☐	☐
	Gender equality and women's and girl's empowerment	☐	☒	☐
	Trade development	☒	☐	☐
	Reproductive, maternal, new-born and child health	☒	☐	☐
	Disaster Risk Reduction @	☒	☐	☐
	Inclusion of persons with Disabilities @	☐	☒	☐
	Nutrition @	☒	☐	☐
	RIO Convention markers	**Not targeted**	**Significant objective**	**Principal objective**
	Biological diversity @	☒	☐	☐
	Combat desertification @	☒	☐	☐
	Climate change mitigation @	☐	☒	☐
	Climate change adaptation @	☒	☐	☐
11. Internal markers and Tags:	**Policy objectives**	**Not targeted**	**Significant objective**	**Principal objective**
	Digitalisation @	☐	☒	☐
	Tags: digital connectivity		☐	☐
	digital governance		☒	☐
	digital entrepreneurship		☐	☐
	job creation		☐	☐
	digital skills/literacy		☐	☐
	digital services		☐	☐
	Connectivity @	☒	☐	☐
	Tags: transport		☐	☐

[1] This target is specific to INTPA. If the action is marked as contributing to the Education target, please make sure the target on "Social inclusion and Human Development" is also marked.

	people2people energy digital connectivity		☐ ☐ ☐	☐ ☐ ☐
	Migration @ (methodology for tagging under development)	☒	☐	☐
	Reduction of Inequalities (methodology for marker and tagging under development)	☐	☒	☐
	Covid-19	☒	☐	☐
BUDGET INFORMATION				
12. Amounts concerned	Budget line(s) (article, item): BGUE-B2021-14.020140-C1-INTPA EUR 10 million Total estimated cost: EUR 11.1 million Total amount of EU budget contribution EUR 10 million. This action is co-financed in joint co-financing by: - The World Bank for an amount of EUR 1.1 million; The proposed action contributes to the Team Europe Initiative (TEI) "Alliance for Sustainable Growth and Jobs". This TEI seeks to support Guatemala in its efforts to establish a new sustainable and inclusive economic model that guarantees the protection of workers and mobilises sufficient domestic revenues to finance the country's necessary social investments. This action advances to this purpose by pursuing to increase domestic revenue mobilisation in Guatemala by addressing critical issues, such as tax avoidance/evasion, risk-based tax enforcement, improvement of taxpayer services, and tax institutional governance to improve and increase tax compliance as a means to tackle economic inequality. The implementation of this TEI will be coordinated with Member States, notably Germany, which also supports strengthening Guatemala's tax administration. The commitment of the EU's contribution to the Team Europe Initiatives foreseen under this annual action plan will be complemented by other contributions from Team Europe partners. 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 the TEI framework.			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing[2]	**Indirect management** with the World Bank			

1.2. Summary of the Action

Guatemala has a medium level of human development, a high level of poverty (59% and 23% of the population live in poverty and extreme poverty respectively) and faces enormous social challenges, such as a 46.5% of child stunting[3]. The situation is more acute among the indigenous population (79% live in poverty) who predominantly lives in rural areas and women who are significantly at higher risk of suffering inequalities and particularly women who face intersectional discrimination such as women and girls with disabilities[4]. Furthermore, at the outset of the COVID-19 pandemic in 2020, Guatemala faced complex challenges related to the sanitary crisis, which had a

[2] Art. 27 NDICI

[3] Stunting is the impaired growth and development that children experience from poor nutrition, repeated infection, and inadequate psychosocial stimulation.

[4] Girls with disabilities have less access to education than girls without disabilities or boys with or without disabilities, only 28% of women with disabilities were working according to the 2016 II *Informe de la Encuesta Nacional de la discapacidad en Guatemala* https://www.unicef.org/guatemala/media/461/file/ENDIS%202016.pdf

negative impact on the living conditions of most citizens, particularly those living in vulnerable situations. This was aggravated late in the year by natural climatic events (i.e., tropical storms ETA and IOTA), which heavily affected rural communities in some of the poorest areas of the country. Despite these challenges and the international context of high uncertainty, Guatemala's macroeconomic fundamentals remain stable. Nevertheless, structural weaknesses like low levels of tax collection persist. Actually, Guatemala has one of the lowest levels of tax collection in the Latin America and Caribbean (LAC) region and the world. The tax-to-GDP ratio has stagnated around 10.4 percent since the end of 2015, well below the 13 percent target foreseen in the tax reform of 2012 and significantly below the LAC average of 16.9 percent. This situation hinders the Government's capacity to increase necessary investment in social programmes and improve the delivery of public services. For instance, government spending on health and education was 5.3% in 2019.

Institutional weakness is certainly a key factor behind the main challenges affecting the country and its population. Years of underinvestment in public services and social and economic infrastructure have led to increased inequalities and gaps in access to public services. The country faces significant challenges to deliver on most of the SDGs. Moreover, poverty and other root causes of high rates of malnutrition in the country need to be addressed. This will come at a significant cost, which will require Guatemala to obtain additional resources and prioritise public investment in these areas. In addition, corruption is another challenge, with Guatemala ranking 149 out of 180 countries in the Corruption Perception Index in 2020.[5] Along this line, the "collect more, spend better" statement in the Consensus sets the path towards strengthening public financial management (PFM) and tax administrations in middle-income countries (MICs) such as Guatemala. The increase of domestic revenue mobilisation (DRM) directly contributes to support macroeconomic and fiscal stability frameworks addressing most of the 5 P's of the Consensus, specifically by providing enough resources for inclusive growth.

In order to achieve this purpose, it is important to tackle the main weaknesses that explain low revenue collection levels. The first one is the low tax compliance culture. For instance, Value Added Tax (VAT) and the Personal Income Tax (PIT) compliance is estimated at only 74 and 20 percent, respectively (in 2019). The second one is the inadequate tax policy framework that has been designed not just to render a low tax burden, but also to steadily reduce the tax burden over time through sunset provisions for specific taxes and excises rates. The regressive nature of the tax system in Guatemala, has also caused a slight increase of poverty (IMF, 2018).

The EU can support Guatemala's efforts to obtain additional revenues to increase public investments in key social areas. It proposes to do so through this action, which lies under Priority Area 3) Good Governance and Human Development of the Multiannual Indicative Programme (MIP) 2021 – 2027. In fact, the proposed action "Effective domestic revenue mobilisation for inclusive growth" aims to increase domestic revenue mobilisation in Guatemala, in order to expand available resources to finance critically needed social investments. Particularly, to help those living in vulnerable situations (i.e., indigenous people, women, the young and persons with disabilities) to overcome social, economic, ethnic and gender inequalities; and to improve public service delivery for the benefit of all Guatemalans.

This overall objective will be achieved by addressing the main weaknesses that cause low revenue collection levels previously described, through three expected outcomes (1) improved voluntary compliance; (2) strengthened governance and transparency of tax administration; and (3) strengthened institutional capacity for revenue mobilisation oversight. Furthermore, the action is framed within the Tax Administration Authority's (SAT) medium-term strategy, which is aligned with the National Development Plan, the Peace Agreements and follows recommendations based upon the Tax Administration Diagnostic Assessment Tool (TADAT). It is also aligned with the United Nations 2030 Agenda for Sustainable Development, directly contributing to achieving SDG 17 "Partnerships for the goals" (especially goal 17.1 Strengthen domestic resource mobilisation, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection). As well as to SDG 1 "End Poverty", SDG 8 "Decent Work and Economic Growth", SDG 5 "Gender Equality", SDG 2 "Zero Hunger" and SDG 10 "Reduced inequalities".

The transformational impact of this action for Guatemala is that enhancing DRM, by promoting a tax compliance culture and improving the efficiency of the tax collection system, will increase fiscal margins to finance public policies in order to address structural social challenges particularly widespread poverty, food insecurity, chronic malnutrition and limited access to health and education, especially for people in vulnerable situations. Moreover,

[5] https://www.transparency.org/en/countries/guatemala

it contributes to the Team Europe Initiative (TEI) "Alliance for Sustainable Growth and Jobs" by addressing critical issues, such as tax avoidance/evasion, risk-based tax enforcement, improvement of taxpayer services, and tax institutional governance as a means to underpin economic equality. The implementation of this TEI will be coordinated with Member States, notably Germany. Transparency and accountability will be promoted to improve the collection of taxes and tax policies, while building trust in the fairness of the tax system.

The main stakeholders in the proposed action are the SAT, particularly for outcomes 1 and 2, and the Ministry of Finance (MINFIN) for outcome 3. The main direct beneficiaries of the proposed action are Guatemalan citizens. Fundamentally, this includes all citizens who benefit from better and more accessible public services that otherwise would have not occurred. It also includes Guatemalan taxpayers (including businesses and the private sector), who will benefit directly from lower compliance costs, improved assistance to taxpayers and increased transparency of the SAT.

The participation of independent oversight bodies, including the Human Rights Ombudsman Office and civil society will be central for maximising the impact of this action. In fact, civil society organisations will be invited to participate in the programme's steering committee.

Gender equality is a significant objective of this action and it will contribute to the Gender Action Plan (GAP) III[6] objectives and it will be implemented following the human rights-based approach (HRBA)[7]. The action follows the project modality and its proposed implementation modality is indirect management with the World Bank.

2. RATIONALE

2.1 Context

At the outset of the COVID-19 pandemic in 2020, Guatemala faced complex challenges related to the sanitary crisis, which had a negative impact on the living conditions of most citizens, particularly the most vulnerable, such as the indigenous population, women and children with disabilities and older persons. This was aggravated late in the year by natural climatic events (i.e., tropical storms ETA and IOTA), which heavily affected rural communities in some of the poorest areas of the country. The government has had difficulties delivering an effective response to the manifold problems. Consequently, public disappointment has been growing, public protests have erupted and discrepancies among government members have been revealed. Furthermore, concerns over the independence of the Judiciary, highlighted by a controversial selection of new magistrates to the Constitutional Court, have added complexity to the current political situation.

Nevertheless, in an international context of high uncertainty, Guatemala's macroeconomic fundamentals remain stable. The economy's 2% contraction in 2020 fares well in global and regional comparison. Resilient remittances and unprecedented policy support have mitigated the negative impact of the COVID-19 pandemic. Moreover, a 4% rebound in economic growth is projected for 2021. Inflation is under control and public debt remains sustainable at 32.5% of GDP. The fiscal deficit increased in 2020 to 6.1%, but is foreseen to come down to a more manageable 3.1% in 2021 and to decrease further in the medium-term. Regarding tax collection, Guatemala's tax revenues to GDP ratio declined to 9.8% in 2020. However, for 2021 tax revenues are expected to increase to 10.3% of GDP, which remains extremely low considering Guatemala's deep social and economic inequalities reflected in high poverty levels (59% and 23% of the population live in poverty and extreme poverty respectively), food insecurity and chronic malnutrition (46.5% of child stunting). The situation is more acute among the indigenous population (79% live in poverty) and women are significantly at higher risk of suffering these inequalities, as shown by only 28% of women with disabilities being active in the labour market. Low domestic resource revenue has a direct impact on available spending, which is already low for social spending. For example, government spending on health and education was 5.3% in 2019. As a result, the country faces significant challenges to deliver on most of the SDGs. Consequently, increasing tax revenues is one of the main pathways to respond to the country's recovery needs. Indeed, over the years the International Monetary Fund (IMF) has highlighted the need for additional revenues to finance critical social investments in pursuit of the Sustainable Development Goals

[6] https://ec.europa.eu/international-partnerships/system/files/join-2020-17-final_en.pdf
[7] https://ec.europa.eu/international-partnerships/system/files/swd-2021-human-right-based-approach_en.pdf

(SDG). Accordingly, in its last virtual mission (November 2020), the IMF's staff called for consistent efforts in revenue mobilisation over the medium term to maintain fiscal sustainability.

Regarding Human Rights, there has been a negative trend in the last year, as the institutional framework has weakened. In fact, the Government of Guatemala closed three key entities related to human rights: 1) the Presidential Commission on Human Rights (COPREDEH); 2) the Secretariat of Peace (SEPAZ); and 3) the Secretariat of Agrarian Affairs (SAA). All of which, were merged into a new Presidential Commission for Peace and Human Rights (COPADEH), whose scope, responsibilities, functioning and budget have not yet been defined. Corruption is also an important challenge, with Guatemala ranking 149 out of 180 countries in the Corruption Perception Index in 2020,

The EU proposes three priority areas for Guatemala to be supported financially by the proposed Multiannual Indicative Programme (MIP) 2021 - 2027: 1) Green Deal; 2) Sustainable and inclusive growth; 3) Good Governance and Human Development. This proposal is fully consistent with the European Commission's five strategic priorities on International Partnerships and specifically seeks the involvement of Guatemala in global challenges that require international collaboration such as the fight against climate change, environmental protection, inclusive and sustainable social and economic development and strengthening of public institutions. Furthermore, the EU considers that digitalisation, science, technology and innovation (fourth strategic priority) are essential instruments to achieve the objectives and results of the MIP. They are also fundamental for Guatemala to respond to the challenges it faces in meeting the goals set in its National Development Plan, the K'atun 2032, which together with the current Government's General Policy 2020-2024 constitute the national long-term development policy. Moreover, the achievement of the objectives set in the MIP is expected to have a positive impact on the EU's fifth strategic priority on migration, by addressing some of its root causes.

Institutional weakness is a key factor behind the main challenges affecting the country and its population. Any credible process towards structural reforms needs strong institutions, effective regulations and procedures and an efficient civil service. Years of underinvestment in public services and social and economic infrastructure have led to increased inequalities and gaps in access to public services. Moreover, poverty and other root causes of high rates of malnutrition in the country need to be addressed, especially for people living in vulnerable situations. This will come at a significant cost, which will require Guatemala to obtain additional resources and prioritise public investment in these areas. In fact, increasing domestic revenue mobilisation (DRM) is necessary to close the funding gap between the Government of Guatemala's own national development goals, which aim to enhance equitable and sustainable improvements in social and economic development, as well as achieving SDG targets.

Along this line, the "collect more, spend better" statement in the Consensus sets the path towards strengthening public financial management (PFM) and tax administrations in middle-income countries (MICs) such as Guatemala. The increase of DRM directly contributes to support macroeconomic and fiscal stability frameworks addressing most of the 5 P's of the Consensus, specifically by providing enough resources for inclusive growth (People and Prosperity).

Since 2016, the Government of Guatemala with support from international financial institutions, namely the IMF, the Inter-American Development Bank (IADB) and the World Bank (WB), has invested in improving the professional competence of the Tax Policy Directorate in the Ministry of Finance (MINFIN) and the Tax Administration Authority (SAT). Authorities started the gradual implementation of revenue mobilisation measures, such as the establishment of an internal affairs/investigation unit within the SAT, gradual implementation of the e-invoice, definition of a compliance framework, and strengthening customs controls, among others. SAT has also received support in the last few years from other donors, notably the IMF's regional centre for technical assistance to Central America, Panama and the Dominican Republic, which is co-financed by the EU (CAPTAC-DR), USAID, the U.S. Department of the Treasury's Office of Technical Assistance (OTA) and more recently, GIZ. Currently, the EU along with the IMF, WB, IADB, USAID, OTA and the UN system participates in the Fiscal working group (*Mesa Fiscal*), which coordinates cooperation programmes related to the fiscal agenda of the main donors with MINFIN.

2.2. Problem Analysis

Short problem analysis:

Guatemala is characterized by a small public sector with limited resource mobilisation. Consequently, public spending on its own, has been an ineffective policy tool to tackle development challenges. Through improvements to revenue mobilisation from the 1990s onwards, the government's intake increased from 7 to 12 percent of GDP. However, revenue mobilisation has trended downwards in recent years. Tax revenues dropped to 10 percent in 2013 and stayed around those levels through 2020. This level of revenue collection is significantly below the Latin America and Caribbean (LAC) average of 16.9 percent. Low levels of tax revenues have significantly constrained social and infrastructure spending, which is already low compared to international standards. In fact, low DRM is one of the key factors affecting the country's credit rating despite its traditionally prudent macroeconomic stance. Moreover, corruption perception deteriorates the confidence of citizens towards government.

Two main weaknesses explain low revenue collection levels. First, compliance levels for most taxes are low. For instance, Value Added Tax (VAT) and the Personal Income Tax (PIT) compliance is estimated at only 74 and 20 percent, respectively (in 2019). The second weaknesses is the inadequate tax policy framework that has been designed not just to render a low tax burden, but also to steadily reduce the tax burden over time through sunset provisions for specific taxes and excises rates.

In addition, the regressive nature of the tax system in Guatemala, has caused a slight increase of poverty (IMF, 2018). In Guatemala, the first decile, in rural areas, has an 86.7% reduction of income after taxes, compared to the richest 10%; in urban areas, this value reaches 79% (Commitment to Equity Institute, 2017). Fiscal policy has a slight impact on reducing inequality through efficient public spending, expenditures on education and health, as well as transfers have the highest impact on reducing inequality (Commitment to Equity Institute, 2017).

The EU can support Guatemala's efforts to obtain additional resources to finance critically needed social investments. It proposes to do so under the MIP 2021 – 2027. Specifically, in the Annual Action Plan (AAP) 2021, this action has been included to enhance DRM by strengthening and modernizing the SAT. It contributes to Priority Area 3) Good Governance and Human Development of the MIP. In particular, to the Government and Civil Society-General sector (DAC code 151), which among others seeks to help improve PFM and DRM. As well as to strengthen the application of fiscal legislation and improve the efficiency of the tax collection system, aiming to move toward a simpler and more equitable model. Specifically, the proposed action will contribute to reaching Specific Objective 1 under Priority Area 3 of the MIP 2021-2027: Strong, accountable and transparent national, regional and local administrations are able to efficiently design and implement sustainability-oriented national policies and mobilise sufficient national resources to finance them. Regarding expected results per specific objective, it will contribute to achieving Result 1.2: Public and private resources mobilisation for sustainable development is increased in the context of sounder and greener economic, fiscal and PFM policies.

Furthermore, the action is framed within the SAT's medium-term strategy, which is aligned with the National Development Plan, the Peace Agreements and the Government's General Policy 2020 – 2024 and follows recommendations from the IMF and the Tax Administration Diagnostic Assessment Tool (TADAT). It directly contributes to: SDG 17 "Partnerships for the goals" (especially goal 17.1 Strengthen domestic resource mobilisation, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection). As well as to SDG 1 "End Poverty", SDG 8 "Decent Work and Economic Growth", SDG 5 "Gender Equality", SDG 2 "Zero Hunger" and SDG 10 "Reduced inequalities".

The transformational impact of this action for Guatemala is that enhancing DRM by promoting a tax compliance culture and improving the efficiency of the tax collection system will increase fiscal margins to finance public policies in order to address structural social challenges particularly widespread poverty, food insecurity, chronic malnutrition and limited access to health and inclusive education, especially for women and children, including those living with disabilities, older persons and others living in vulnerable situations. Moreover, it contributes to the Team Europe Initiative (TEI) "Alliance for Sustainable Growth and Jobs". This TEI seeks to support Guatemala in its efforts to establish a new sustainable and inclusive economic model that guarantees the protection of workers and mobilises sufficient domestic revenues to finance the country's social development. This action advances to this purpose by addressing critical issues, such as tax avoidance/evasion, risk-based tax enforcement, improvement of taxpayer services, and tax institutional governance promoting transparency and accountability as a means to underpin economic equality. The implementation of this TEI will be coordinated with Member States, notably Germany, which also supports strengthening Guatemala's tax administration.

The political environment in Guatemala is currently not well suited for a comprehensive fiscal reform due to the negative economic impact of the COVID-19 crisis and low political leverage of the Executive in the National Congress. However, the proposed programme is aligned with the SAT's medium-term strategy, which seeks to increase the tax to GDP ratio by 2 points. This will be achieved by providing technical assistance to the SAT to renew outdated tax administration practices in order to make these more cost-effective and efficient. The proposed action also includes the production of strategic studies that will provide policy and operational recommendations to improve DRM and support administrative and fiscal reforms.

The programme therefore acknowledges the political context but proposes to lay the technical groundwork, including policy recommendations to trigger a comprehensive fiscal reform in the future. By implementing the proposed action, the EU will lead the technical assistance, which specifically targets the strategic activities to improve DRM, thereby positioning itself as a key player in the field. The technical groundwork has to be considered in conjunction with the weight of EU political dialogue along with other major donors around the fiscal working group, as well as the rising civic pressure in Guatemala and in the region for increased social spending to address the post-covid recovery needs.

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

The additional fiscal revenues this action will produce aim to support the most vulnerable (i.e., indigenous people, women, persons with disabilities and the young) to overcome social, economic, ethnic and gender inequalities. As well as to improve public service delivery and accessibility for the benefit of all Guatemalans.

The main stakeholders in this action are:

- The Tax Administration Authority (SAT): is a decentralized and autonomous agency, exclusively responsible for implementing and enforcing tax administration. This encompasses tax collection, enforcement of tax legislation, control and enforcement of tax compliance and planning and the implementation of reforms related to tax administration as laid out in its Medium-Term Strategic Plan 2018-2023.

- The Ministry of Finance (MINFIN): oversees the economic policy of the country, the management of fiscal resources and the design and implementation of the fiscal and tax policy. The latter includes the supervision and monitoring of tax collection and the operations of the SAT.

- The main direct beneficiaries of the proposed action are Guatemalan citizens. Fundamentally, this includes all citizens who benefit from better public services that otherwise would have not occurred. It also includes Guatemalan taxpayers (including businesses and the private sector), who will benefit directly from lower compliance costs, improved assistance to taxpayers and increased transparency of the SAT. In fact, a more reliable institutional framework, including streamlined processes, standardized procedures and appropriate human resource management policies, will enable the SAT to have a more effective decision-making process and improve productivity, administrative efficiency and transparency and accountability. Certain reforms will help reduce discretional practices of tax officials, mitigating the risk of corruption through more efficient and streamlined processes.

  The participation of independent oversight bodies, including the Human Rights Ombudsman Office and civil society will be central for maximising the impact of this action. The objective is to keep civil society integrally involved and informed to provide impulse to the adoption of fiscal reform policies. Civil Society organisations will also be invited to participate in the programme's steering committee.

3. DESCRIPTION OF THE ACTION

3.1. Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to increase domestic revenue mobilisation in Guatemala.

The Specific(s) Objective(s) (Outcomes) of this action are to

1. Improve voluntary tax compliance.
2. Strengthen governance and transparency of Tax Administration.
3. Strengthen institutional capacity for revenue mobilisation oversight.

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

1.1 Contributing to Outcome 1 (or Specific Objective 1: Design risk-based tax enforcement framework.
1.2 Expand the e-invoice and the use of third-party information.
1.3 Design the e-invoice Statistical Module for Reference Price System.
1.4 Strengthen Tax Intelligence and Tax Audit tools.
1.5 Improve tax payer services.
1.6 Implement framework for taxation of digital economy
1.7 Design new audit information system
1.8 Strengthen legal services and tax appeals procedures.

2.1 Contributing to Outcome 2 (or Specific Objective 2): Strengthen data governance.
2.2 Streamline processes.
2.3 Improve institutional transparency and integrity framework.
2.4 Design SAT's institutional diversity[8] policy.
2.5 Design career management framework within SAT.
2.6 Improve SAT's tax administration and management capacity.

3.1 Contributing to Outcome 3 (or Specific Objective 3): Enhance monitoring and evaluation methodologies and tools.
3.2 Produce and publish strategic tax studies.
3.3 Improve statistical information production for data-driven decision-making.
3.4 Assign a Tax Ombudsman function and improve dialogue consultations with key stakeholders.

3.2. Indicative Activities

Activities related to Outputs of Outcome 1: Improved voluntary tax compliance
This is expected to enhance taxpayer compliance, taxpayer satisfaction through strengthening SAT's capacities to identify, prevent and deter tax non-compliance, tackling areas such as tax avoidance, tax evasion, illicit financial flows and Base Erosion and Profit Shifting (BEPS), following the key elements from the "Collect More, Spend Better" initiative. The following indicative activities will be addressed to achieve this outcome:

Activities related to Output 1.1: Design of a risk-based tax enforcement framework. This will comprise methodologies, tools and processes for applying analytics, business intelligence, machine learning and artificial intelligence both for internal revenue and customs system. It will be a cross-cutting intervention that will support the tax compliance model, audit planning and execution and the design of a data governance model. TA will be provided for the adoption of the designed risk-based tax enforcement framework.

1.2 Expansion of the e-invoice system and the use of third-party information. This will support the SAT with the design and implementation of big data prototypes, information cross-checking methodologies to improve the use of the e-invoice, tax registry and third-party information. It will also support designing of tools and methodologies to improve administrative collection and recovery of tax arrears.

[8] To address gender, disability and other inequalities.

1.3 Design of the e-invoice Statistical Module for Reference Price System. This will provide technical assistance to the SAT and the National Statistics Institute (INE) for designing the e-invoice Statistical Module to allow cross-checking information with the Reference Price system. It will improve economic indicators and indexes and inform tax compliance risk models and audit programs. The design will include developing a prototype. TA will be provided to foster the implementation of the designed Statistical Module.

1.4 Strengthening of tax intelligence and tax audit tools. This will include the design and implementation of a comprehensive auditing strategy and related tools based on taxpayer segmentation and risk profiling for both internal revenue collection and foreign trade areas. As well as BEPS, transfer pricing strategies and automatic exchange of information following the recommendations of the OECD Global Forum.

1.5 Improvements in tax payer services. This includes a comprehensive strategy to improve taxpayer services and simplify the tax system, expand electronic services, improve face-to-face services, implement a taxpayer satisfaction survey and conduct a study to determine tax compliance costs including both a gender perspective and an orientation to vulnerable groups (including indigenous population, persons with disabilities, older persons, among others). The proposed initiatives should be in line with social norms as valuable mechanisms to increase tax compliance.

1.6 Definition of a digital economy taxation framework. This includes research and proposals to improve controls on the growing digital economy in Guatemala (including regulations on working arrangements for digital workers), in particular the activity will analyse best practices from OECD and developed countries.

1.7 Design of the conceptual model of a new audit information system. This will include high level design of the software architecture, processes, and capacity building on the new audit system. TA will be provided to make operational the designed conceptual model of a new audit information system.

1.8 Strengthening of legal services and tax appeals procedures. This includes design of a strategy and analytical tools to support tax litigation, capacity building activities for the SAT's Legal Department and the reform of regulations that hinder the SAT's ability to collect tax debts.

Activities related to Outputs of Outcome 2: Strengthened governance and transparency of Tax Administration
This is expected to improve the SAT's internal capacity to perform its tax collection functions in an effective and transparent manner by strengthening internal governance, streamlining processes and implementing international best practices on integrity and transparency. The following indicative activities will be supported:

Activities related to Output 2.1: Strengthening of data governance. This will provide technical assistance, capacity building, and design instruments to strengthen the governance of data needed to ensure efficiency and efficacy of the SAT's functions. This activity will also support outcome 1.

2.2 Streamlining of Processes. This will include the analysis of current business processes, identification of gaps, design of a reengineering strategy and a business continuity strategy to face disaster risk management. This will set the foundation of a Digital Transformation Strategy for the SAT.

2.3 Improvements in institutional transparency and integrity framework. This will include the design of a transparency and institutional integrity strategy, the strengthening of the internal affairs and internal audit functions, methodologies for preparation, publication and dissemination of credible tax compliance and tax expenditure statements.

2.4 Design of the SAT's institutional diversity policy. This will include the identification and design of an institutional policy to address gender, disability and ethnicity inequalities within the SAT's civil service.

2.5 Design of a career management framework within SAT. Technical assistance will be provided to support SAT in establishing a career management framework. This will include revision of profiles, talent management policies, salary and administrative structure of SAT and accessibility and reasonable accommodation policies for staff with disabilities.

2.6 Capacity building on tax administration and management. This will be comprised of a series of national and international certification/diploma programmes, which will involve indicatively EU and World Bank experts on tax administration, information technology and management areas. This capacity building program could be linked to the career management framework. The topics will include *inter alia* tools for strategic planning, project management, monitoring and evaluation, tax compliance and risk management.

Activities related to Outputs of Outcome 3. Strengthened institutional capacity for revenue mobilisation oversight This is expected to strengthen the capacity of the MINFIN to perform its functions of designing tax policy and overseeing tax administration, using an evidence-based approach to ensure fiscal sustainability and inclusive growth. The following indicative activities will be covered:

Activities related to Output 3.1: Enhancements in monitoring and evaluation methodologies and tools. This will strengthen the MINFIN's capacity to produce strategic tax policy and administration analysis using an evidence-based approach, analytics and artificial intelligence tools. It will also include the design of strategic dashboards and monitoring tools.

3.2 Production and publication of strategic tax studies. This will provide policy and operational recommendations to improve DRM, reduce income inequalities and regressivity of the tax system. Also, it will provide recommendations for supporting administrative and fiscal reforms, considering groups living in vulnerable situations, disability equality, gender, social and economic inequalities across different marginalised groups and climate change perspectives. Studies will be advised by international and national experts.

3.3 Improving statistical information production for data-driven decision-making, including data disaggregated by sex, age, disability, ethnicity (indigenous background), among others. This will provide technical assistance on methodologies and tools to design an Economic Census. Under this activity, technical assistance will be provided to the INE to conduct feasibility studies, design the methodology for the Economic Census, and pilot the Economic Census.

3.4 Assigning a Tax Ombudsman function and improving dialogue consultations with key stakeholders. This will prepare a feasibility study for the creation of a Tax Ombudsman, as an independent redress channel for taxpayers who have exhausted the normal mechanisms to resolve service, procedural or administrative complaints. Moreover, it will monitor and follow up continuous dialogue and consultations with key stakeholders, in particular with private sector and civil society organisations in the framework of the action's steering committee, to which representatives of these organisations will be invited to join.

3.3. Mainstreaming

Mainstreaming in AAP is very general and provided possibly before the mandatory analysis at action level are realised. This sections is based on the mainstreaming annex. We suggest to keep it.

Environmental Protection & Climate Change

Outcomes of the SEA screening (relevant for budget support and strategic-level interventions)
The Strategic Environmental Assessment (SEA) screening concluded that no further action was required.

Outcomes of the EIA (Environmental Impact Assessment) screening (relevant for projects and/or specific interventions within a project)
The EIA (Environment Impact Assessment) screening classified the action as Category C (no need for further assessment).

Outcome of the CRA (Climate Risk Assessment) screening (relevant for projects and/or specific interventions within a project)
The Climate Risk Assessment (CRA) screening concluded that this action is no or low risk (no need for further assessment).
Guatemala is extremely vulnerable to natural disasters, including earthquakes, volcanic activity and hurricanes and is one of the most vulnerable countries to climate change in the world. In this regard, activity 3.2 within Output 3 will provide policy and technical recommendations for pricing and taxing carbon and domestic energy

consumption. As well as for environmental taxes/green taxation, which also have the potential to tackle income inequalities through their fiscal function. These types of analyses can show that in addition to taking environmental benefits into account, emissions pricing can represent another way for the Government of Guatemala (GoG) to raise new revenues. Analyzing the new data and drawing on international implementation experience, this activity will provide policy recommendations aimed at achieving the triple goal of reducing carbon emissions, raise revenue and promote economic growth.
Technical assistance will also focus on whether carbon tax revenue can compensate certain stakeholders and whether impact can be maximised by investing revenue in emissions reduction activities and complementary tax incentives for low-emissions technologies. In addition, activity 2.2 within Outcome 2, will design a business continuity strategy for disaster risk management.

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that gender equality is a significant objective of the proposed action.

The transformational impact of this action is that by increasing domestic revenue mobilisation, through the promotion of a tax compliance culture and improving the efficiency of the tax collection system, fiscal margins will be enhanced. Additional revenues will enable financing public policies to address structural social challenges, particularly widespread poverty, food insecurity, chronic malnutrition and limited access to health and education, as well as gender equality.

Furthermore, this programme will generate a gender and social inclusion strategy, identifying and measuring the cost of tax compliance for women and communities including women with disabilities living in vulnerable situations. In fact, incorporating a gender dimension in the analysis of the overall intervention will facilitate mainstreaming of gender equality and guide the design of a gender and social inclusion strategy. More gender responsive tax policies will contribute to SDG 5 on gender equality and the empowerment of all women and girls and help promote gender responsive budgeting. The Programme is fully aligned with the EU action plan on Women, Peace and Security (2019-2024) and EU Gender Action Plan III (2021-25).

One of many powerful tools to affect gender equality through taxation are tax policies related to small and medium-sized enterprises (SMEs), since in most developing countries women are overrepresented as employees in small and medium-sized enterprises and at the lowest wage levels. In Guatemala, women are more likely than men to be employed in the informal sector (72.8 percent vs 68.8 percent). This gap is further illustrated by the difference in income tax payments, as only 27.6 percent of taxpayers are female (and are further concentrated in the lower income deciles, compared to men). This has direct implications for a gender gap in accessing social security services such as pensions and health services. To address this problem, the Programme includes Activity 3.2 within the outcome 3, which will develop tax policy studies to identify factors and policies that impact gender inequalities within fiscal policy. In addition, Activity 1.5 within the outcome 1, will design and implement a taxpayer satisfaction survey and a study to determine tax compliance cost including a gender perspective.

The SAT identified a series of gender gaps in its workplace and the absence of a gender perspective in its internal human resource management policies. In fact, despite having higher levels of education, on average, women in the SAT are underrepresented in professional positions and also suffer from a gender pay gap. To address this issue, activity 2.4 within the output 2, will design an institutional policy to address gender inequalities within SAT’s civil service.

Human Rights

The proposed Programme will be implemented following the human rights-based approach, encompassing all human rights, with due regard to the working principles of applying all rights, participation and access to the decision making process, non-discrimination and equal access, accountability and access to the rule of law, and transparency and access to information[9]. The proposed action will develop the capacities of ‘rights-holders’ to claim their rights and ‘duty-bearers’ to meet their obligations. In line with the human rights-based approach methodology, the proposed action will abide by the 'do no harm principle' to avoid unintended negative impact in terms of human rights.

[9] https://ec.europa.eu/international-partnerships/system/files/swd-2021-human-right-based-approach_en.pdf

In fact, safeguarding the human rights of all, especially those living in vulnerable situations (such as indigenous people, women, and the young) who, for example, currently do not receive social spending support, is a core function of the State. By increasing the State's capacity (mainly via Outcome 2 and 3), this action will not only help the Government of Guatemala to collect more, but to spend it better.

Disability
As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. This action is not targeting persons with disabilities specifically. However, they are included in the action and as part of its target groups. Accessibility to activities, services and information of persons with disabilities will be promoted throughout the programme.

Democracy
Taxation and spending are inexorably linked to a representative, accountable, and well-functioning democracy. The action has specific activities that directly contribute to strengthen this social contract between citizens and the State, namely the implementation of a Tax Ombudsman (activity 3.4 in Outcome 3) and improving institutional transparency and an integrity framework (activity 2.3 in Outcome 2). The former has proven to be an effective way of addressing and speeding up the resolution of issues between tax departments and taxpayers, with successes in diverse contexts and countries such as Pakistan, Indonesia, South Africa and Canada, among others. The latter, an integral part of an Open Government approach, is a necessary condition for an accountable administration and an engaged citizenry, fundamental pillars of a liberal democracy. In addition, building on the action's outcome of fighting tax avoidance and tax evasion, policy recommendations will be provided on enhancing the progressivity of the tax system, increasing taxes for richest percentiles of the income distribution and bigger companies. Increasing DRM, through progressive taxation, will translate into higher capacities for public investments and public services, hence it will be an incentive to formalise and pay taxes.

Conflict sensitivity, peace and resilience
The objective of the action is to increase DRM as a means to increase tax revenue. Thus, it will contribute to improving the economic resilience of Guatemala, which ranks among the lowest in the world[10,11]

Disaster Risk Reduction
Guatemala is one of the most vulnerable countries to natural disasters, including earthquakes, volcanic activity, and hurricanes, and is one of the most overall vulnerable to climate change (World Risk Report 2020). When impacted by natural disasters, the already weak fiscal position of the country further shrinks, precluding an effective and efficient disaster response. The Programme will contribute to addressing this risk by increasing tax revenue. Indeed, the action aims to improve the fiscal position of the Government of Guatemala, which will increase available resources for a potential disaster management response; and through the design of a business continuity strategy for tax services to address disaster risk management, as outlined in activity 2.2 within Outcome 2.

Other considerations if relevant
Improving domestic revenue mobilisation in an equitable and sustainable way can significantly underpin social and economic development, by improving fiscal space for social spending. In addition, building on the action's outcome of fighting tax avoidance and tax evasion, policy recommendations will be provided on enhancing the progressivity of the tax system, increasing taxes for the richest percentiles of the income distribution and bigger companies. Increasing DRM, through progressive taxation, will translate into higher capacities for public investments and public services, hence it will be an incentive to formalise the economy and pay taxes.

3.4. Risks and Lessons Learnt

10 Hallegate, Vogt-Schilb, Bangalore y Rozenberg. 2017. Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters. Climate Change and Development Series. Washington, DC: World Bank.

11 World Bank (2017). Resiliencia de las finanzas públicas ante el riesgo de desastres: El Salvador, Guatemala.

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
External environment	Highly polarized political climate could undermine the authorities' ability to pursue these reforms	M	H	Continued dialogue with key stakeholders of the private sector, academia and civil society to promote increased appropriation of the process. Invite representatives of relevant independent oversight bodies, private sector, academia and civil society organisations to participate in the programme's steering committee and promote gender balance.
Legal and regularity aspects	Changes in the regulatory framework could lead to changes in the structure of the Programme and the scope of recommendations	M	H	Considering national circumstances when designing and sequencing activities and preparing recommendations.
Legal and regularity aspects	Instability in the management of economic policy (fiscal and monetary policies)	M	H	Considering national circumstances when designing and sequencing activities and preparing recommendations. Some degree of flexibility in the design of the recommendations to adapt to changing circumstances on the ground.
People and the organization	Limited capacity and potential resistance to change in middle management or operative staff at SAT may complicate implementation	M	H	Provide technical assistance and training to ensure smooth implementation of new processes and use of systems. Design streamlined processes and procedures that support smooth and agile project implementation. Ensure the proper sequencing of activities to facilitate achievement of the desired outcomes.
People and the organization	Frequent changes in ministerial and technical staff and lack of trust and transparency	M	M	Define clear roles and responsibilities to ensure a sustainable reform. Strengthen key internal controls and transparency mechanisms. Design activities to restore the SAT's credibility and transparency.
People and the organization	Corruption perception	M	H	Advance digital transformation to improve effectiveness and efficiency of the SAT and enhance transparency, accountability, accessibility and citizen participation.
People and the organization	Difficulties in inter-institutional cooperation and coordination	M	M	Continued political dialogue with Government authorities to improve Guatemala's tax governance and revenue mobilization.

	between the SAT, which is in charge of tax administration; and the MINFIN, which is in charge of defining tax policy; and the INE, which is in charge of producing national statistics			Set-up of a steering committee and other coordination measures to ensure involvement of key stakeholders.
People and the organization	Existing information gaps and difficulties in data use and administration	M	L	Design a new data governance model that fosters the use of information from existing systems. Provide technical assistance and training to ensure data analysis and administration.
External environment	Lack of political will to implement recommendations	L	H	Design implementation arrangements to secure consistent commitment and management attention from the highest levels of Government and establish mutual accountability for progress. Political dialogue with the Government of Guatemala in line with the other main donors (i.e., IMF, WB, IADB, USAID, OTA and the UN system) that support Guatemala's fiscal agenda and participate in the Fiscal roundtable (*Mesa Fiscal*), which coordinates cooperation programmes related to this agenda with the Ministry of Finance.

Lessons Learnt:

The Tax Administration Diagnostic Assessment Tool (TADAT) applied to SAT in 2017 and the Guatemala Public Expenditure and Financial Accountability (PEFA) assessment published in 2018, were used to identify revenue management weaknesses to be tackled by the action. Both assessments were financed by the EU (co-financed in the case of TADAT). Moreover, the WB's documents "Transparency and Efficiency in Tax Administration Project" and the "Crisis response and recovery in Guatemala" identify lessons learnt from previous projects which have been considered in the action's design:

- In a complex political environment like Guatemala, technical assistance can be a conduit to ensure solid policy dialogue;
- Mitigation measures should be considered in the project's design to prevent institutional factors that can hinder the sustainability of tax administration reforms;
- Integrity of the SAT's personnel is a fundamental cornerstone in the development of sound tax administration;
- While technology can be both a facilitator and a driver of change, it is not a substitute for the development of sound institutional, organisational and operational systems.

Furthermore, experience gained in the programme "*Censo de trabajadores del Gobierno de Guatemala* (LA/2016/39417)", which is being implemented with the WB, confirms the importance that technical assistance programmes consider beneficiaries' institutional plans when designed. This facilitates implementation and appropriation of results.

The WB engaged with the SAT and the MINFIN during the last four years, when the SAT received technical assistance from other international partners as well. The role of the SAT's Programme Management Office (PMO) was key to ensuring coordination and demonstrated the SAT's capacity to liaise with donors on its modernisation agenda, avoiding overlaps.

3.5. The Intervention Logic

The underlying intervention logic for this action is that the Overall Objective (Impact) of this action is to increase domestic revenue mobilisation in Guatemala. The Specific(s) Objective(s) (Outcomes) of this action are: (1) Improved voluntary tax compliance; (2) Strengthened governance and transparency of Tax Administration; and (3) Strengthened institutional capacity for revenue mobilisation oversight. The following outputs are foreseen:

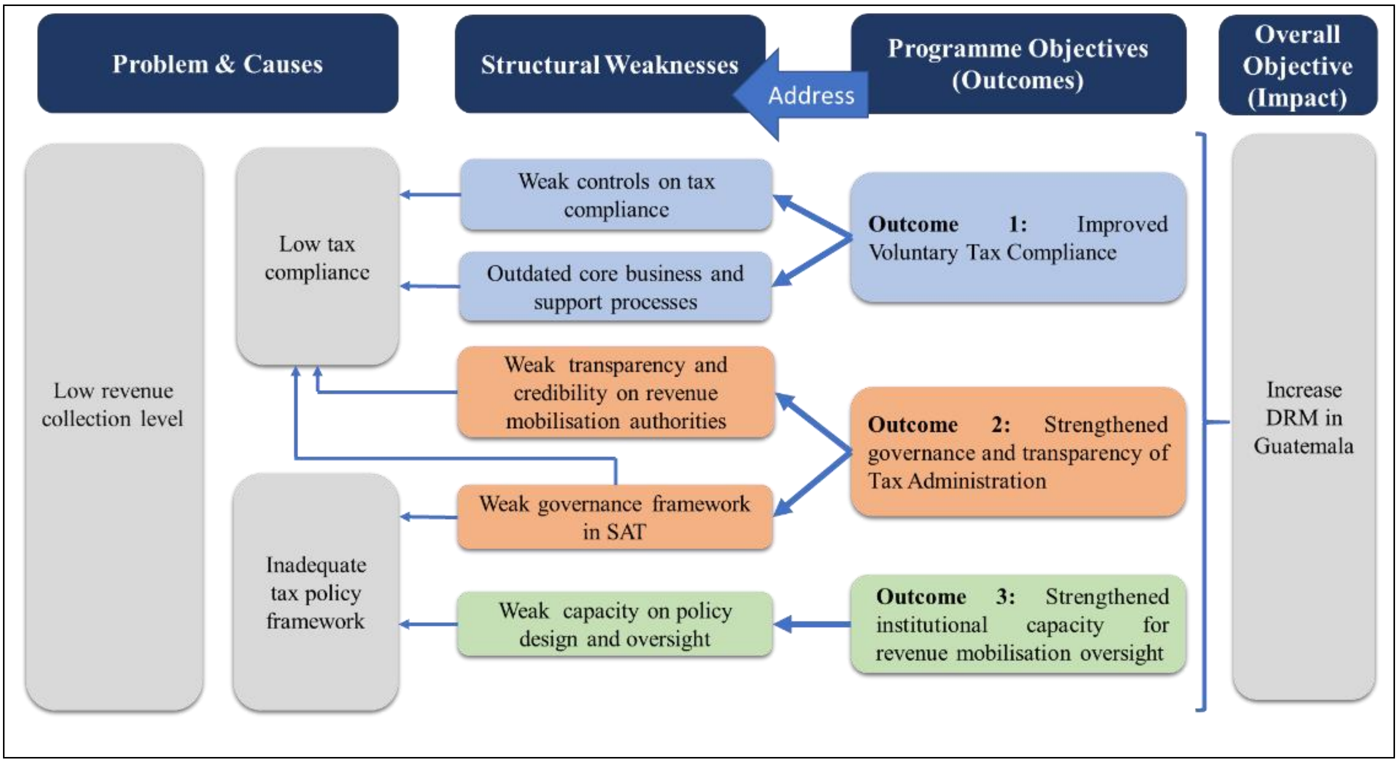
1.1 Designed risk-based tax enforcement framework.
1.2 Expanded the e-invoice and the use of third-party information.
1.3 Designed the e-invoice Statistical Module for Reference Price System.
1.4 Strengthened Tax Intelligence and Tax Audit tools.
1.5 Improved taxpayer services.
1.6 Definition for digital economy taxation framework
1.7 Designed new audit information system
1.8 Strengthened legal services and tax appeals procedures.

2.1 Strengthened data governance.
2.2 Streamlined processes.
2.3 Improved institutional transparency and integrity framework.
2.4 Designed SAT’s institutional diversity policy.
2.5 Designed a career management framework within SAT.
2.6 Improved SAT’s tax administration and management capacity

3.1 Enhanced monitoring and evaluation methodologies and tools.
3.2 Produced and published (publicly available) strategic tax studies.
3.3 Improved statistical information production for data-driven decision-making.
3.4 Assigned the Tax Ombudsman function and improved dialogue consultations with key stakeholders.

If these outputs are delivered, the specific objectives (outcomes) will be accomplished and in the long-term, domestic revenue mobilisation in Guatemala will increase.

The figure below summarizes the intervention logic:



3.6. Logical Framework Matrix

At action level, the indicative logframe should have a maximum of 10 expected results (Impact/Outcome(s)/Output(s)).
It 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.

PROJECT MODALITY (3 levels of results / indicators / Source of Data / Assumptions - no activities)

esults	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
Impact	To increase domestic revenue mobilisation in Guatemala[12].	1 Tax revenues % of GDP	1 10.1% (2020)	1 12% (2027)	1 SAT (preliminary figures)	*Not applicable*
Outcome 1	1 Improved voluntary tax compliance	1.1 Percentage of VAT gross compliance gap 1.2 Percentage of Income Tax gross compliance gap	1.1 74% (2018) 1.2 20% (2018)	1.1 77.5% (2027) 1.2 30% (2027)	1.1 SAT report 1.2 SAT reports	Capital investments described in SAT's plan have been done
Outcome 2	2 Strengthened governance and transparency of Tax Administration.	2.1 Number of tax compliance and tax expenditure statements published and disseminated.	2.1 2 (2020, yearly tax expenditure: VAT)	2.1 4 statements publicly available (2027, yearly tax expenditure, VAT, income tax, others)	2.1 SAT website	
Outcome 3	3 Strengthened institutional capacity for revenue mobilisation oversight.	3.1 Number of new policies implemented to increase institutional capacity (including on gender and disability)	3.1 0 (2020)	3.1 3 (2027)	3.1 SAT report	
Output 1 related to Outcome 1	1.1 Designed risk-based tax enforcement framework.	1.1.1 Risk-based tax enforcement framework designed and implemented	1.1.1 No	1.1.1 Reports on the application of the risk-based tax enforcement framework available	1.1.1 SAT report	
Output 2 related to Outcome 1	1.2 Expanded the e-invoice and the use of third-party information	1.2.1 Share of sales reported through e-invoice	1.2.1 85% (June 2021)	1.2.1 95% (2027)	1.2.1 SAT report	
Output 3 related to Outcome 1	1.3 Designed the e-invoice Statistical Module for Reference Price System	1.3.1 E-invoice Statistical Module designed	1.3.1 No (2020)	1.3.1 Yes (2027)	1.3.1 SAT report	

[12] Increasing revenue mobilisation as a share of GDP depends on external macroeconomic variables and additional capital investments from the government and other donors. These investments are already defined in the SAT's plan and the government is committed to it.

Output 4 related to Outcome 1	1.4 Strengthened Tax Intelligence and Tax Audit tools	1.4.1 Share of audits with fiscal interest over total audits	1.4.1 TBD	1.4.1 TBD	1.4.1 SAT report	
Output 5 related to Outcome 1	1.5 Improved taxpayer services	1.5.1 Tax compliance cost measured per year (in hours), disaggregated by sex, age, disability and ethnicity	1.5.1 No (2020)	1.5.1 Yes (2027)	1.5.1 SAT report 1.5.2 SAT report	
Output 6 related to Outcome 1	1.6 Definition for digital economy taxation framework	1.6.1 Taxation of digital economy framework designed	1.6.1 No (2020)	1.6.1 Yes (2027)	1.6.1 SAT report	
Output 7 related to Outcome 1	1.7 Designed new audit information system	1.7.1 Audit information system designed	1.7.1 No (2020)	1.7.1 Yes (2027)	1.7.1 SAT report	
Output 8 related to Outcome 1	1.8 Strengthened legal services and tax appeals procedures	1.8.1 Number of processes reengineered in SAT's Legal Department	1.8.1 TBD	1.8.1 TBD	1.8.1 SAT	
Output 1 related to Outcome 2	2.1 Strengthened data governance	2.1.1 Data governance framework implemented	2.1.1 No (2020)	2.1.1 Yes (2027)	2.1.1 World Bank/SAT	
Output 2 related to Outcome 2	2.2 Streamlined business processes (tax collection, audit, taxpayer services, administrative)	2.2.1 Percentage of processes reengineered	2.2.1 TBD	2.2.1 TBD	2.2.1 SAT report	
Output 3 related to Outcome 2	2.3 Improved institutional transparency and integrity framework	2.3.1 Institutional integrity strategy implemented	2.3.1 No (2020)	2.3.1 Yes (2027)	2.3.1 World Bank/SAT	
Output 4 related to Outcome 2	2.4 Designed SAT's institutional diversity policy	2.4.1 Number of policies designed based on evidence, to address gender, disability and other inequalities, including reasonable accommodation 2.4.2 Percentage of SAT's civil servants satisfied with gender and disability equality at the workplace, disaggregated by sex, age and disability	2.4.1 0 (2020) 2.4.2 TBD	2.4.1 1 (2027) 2.4.2 TBD	2.4.1 SAT Human Resources reports 2.4.2 SAT Human Resources reports	

Output 5 related to Outcome 2	2.5 Designed a career management framework within SAT.	2.5.1 Career management framework within SAT established, ensuring gender equity	2.5.1 No (2020)	2.5.1 Yes (2027)	2.5.1 SAT Human Resources reports	
Output 6 related to Outcome 2	2.6 Improved SAT's tax administration and management capacity	2.6.2 Number of certified capacity building programs, ensuring gender equity	2.6.1 0 (2020)	2.6.1 5 (2027)	2.6.1 SAT Human Resources reports	
Output 1 related to Outcome 3	3.1 Enhanced monitoring and evaluation methodologies and tools	3.1.1 Number of data sets implemented to monitor DRM performance 3.1.2 Number of new monitoring tools implemented.	3.1.1 TBD 3.1.2 TBD	3.1.1 TBD 3.1.2 TBD	3.1.1 MINFIN Official Dashboard 3.1.2 MINFIN report	
Output 2 related to Outcome 3	3.2 Produced and published (publicly available)strategic tax studies	3.2.1 Number of strategic tax studies published and disseminated 3.2.2 Number of people trained in methodologies and tools to produce statistical information following international standards, disaggregated by sex	3.2.1 TBD 3.2.2 TBD	3.2.1 TBD 3.2.2 TBD	3.2.1 MINFIN report 3.2.2 MINFIN Human Resources reports	
Output 3 related to Outcome 3	3.3 Improved statistical information production for data-driven decision-making	3.3.1 Economic Census methodology and Pilot Plan designed	3.3.1 0 (2020)	3.3.1 1 (2027)	3.3.1 TBD	
Output 4 related to Outcome 3	3.4 Assigned the Tax Ombudsman function and improved dialogue consultations with key stakeholders	3.4.1 Percentage of Taxpayer satisfaction with the Ombudsman, disaggregated by sex 3.4.2 Number of consultations with private sector and civil society on tax matters	3.4.1 0 (2020) 3.4.2 TBD	3.4.1 65% (2027) 3.4.2 TBD	3.4.1 SAT report 3.4.2 Steering committee's reports	

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 /territory.

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 66 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 by amending this Financing Decision and the relevant contracts and agreements.

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[13].

4.3.1. Indirect Management with a pillar assessed entity'

This action may be implemented in indirect management with the World Bank. This implementation entails the design, execution, coordination, control, monitoring and communication of all activities foreseen to achieve the expected objectives and results of the action described in section 3. The envisaged entity has been selected using the following criteria: level of specialized technical expertise on the subject. In fact, the WB has served as a catalyser of technical assistance on tax administration and has supported successful tax modernisation projects. Therefore, it will add value bringing its international experience on similar reforms in the region and globally. Actually, among its operations in Guatemala, the WB has a track record of supporting the SAT contributing to strengthening its institutional capacity for DRM. This engagement over the past two decades[14] has made the Bank a trusted adviser to the country's government on the fiscal agenda and other State building fields. This programme will build on the results of previous interventions focusing specifically on institutional strengthening and enhancing the SAT's capacities to achieve a sustainable increase of the tax/GDP ratio by 2 percentage points, in line with the SAT's medium-term strategy.

4.4. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

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13 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.

14 The WB budgetary support operation with Guatemala (2016-2017) supported policies to strengthen the Tax Administration's (SAT) governance and elimination of bank secrecy. Both policies were adopted and have been the key steps to improving SAT's capacity. The SAT's capacity is stronger and is well positioned to start implementation of new tax administration reforms.
Previously, in 1998, the WB implemented an investment project that directly targeted improving tax administration. It generated significant improvements in the tax revenues to GDP ratio, which increased from 9.1% in 1998 to 12.3% in 2007, the highest in the past 30 years.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.5. Indicative Budget

Indicative Budget components[15]	EU contribution (amount in EUR)	Third-party contribution, in currency identified
Implementation modalities – cf. section 4.3		
Specific objectives (outcomes) 1. Improve voluntary tax compliance; 2. Strengthen governance and transparency of Tax Administration, and 3. Strengthen institutional capacity for revenue mobilisation oversight composed of		
Indirect management with the World Bank- cf. section 4.3.1	10,000,000.00	1,100,000.00[16] EUR
Evaluation – cf. section 5.2 **Audit** – cf. section 5.3	will be covered by another Decision[17]	N.A.
Totals	10,000,000.00	1,100,000.00

4.6. Organisational Set-up and Responsibilities

The World Bank is responsible for the full implementation of the action. A steering committee will be established with representatives of key stakeholders in order to provide general guidance and oversee the action's implementation. The steering committee will be made up indicatively by representatives of the following organisations: the World Bank (who will preside over the committee), the SAT, the Ministry of Finance, the EU Delegation to Guatemala (as an observer), the private sector and civil society. Regarding the latter, in particular think tanks specialised on economic and (or) fiscal issues.

Due to the highly specialized technical nature of the action, a WB's permanent resident advisor to coordinate its implementation is foreseen.

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

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports

[15] 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.

[16] Technical assistance, evaluation and audit and any other activity as per the Administration Agreement to be signed under the Framework Agreement between the EU and the WB Group – April 15 2016.

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

(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 (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

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

Roles and responsibilities for data collection, analysis and monitoring:

Progress monitoring will follow EU guidelines and standards and will be based on the logical framework and the established indicators. Some of these indicators require a baseline survey and a final data collection survey. The implementing partner (i.e., the World Bank) will be responsible for implementing these surveys (including their funding) in a timely manner (at the beginning of the action in the case of baseline surveys and at the end of it for final data collection surveys).

All monitoring and reporting shall assess how the action is taking into account the human rights based approach and gender equality.

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 European Union 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(n) final evaluation(s) will be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that knowledge shall be gained on best practices and lessons learnt, especially considering that it will be the first bilateral EU action on DRM in the country. .

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

All evaluations shall assess to what extent the action is taking into account the human rights-based approach as well as how it contributes to gender equality and women's empowerment.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination[18]. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

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

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.

[18] See best practice of evaluation dissemination

6. COMMUNICATION AND PUBLIC DIPLOMACY

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

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

However, action documents for specific sector programmes are 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[19] (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.

Primary Interventions are identified during the design of each action by the responsible service (Delegation or Headquarters operational Unit).
The level of the Primary Intervention is defined in the related Action Document and it is revisable; it can be a(n) (group of) action(s) or a (group of) contract(s).

Tick in the left side column one of the three possible options for the level of definition of the Primary Intervention(s) identified in this action.
In the case of 'Group of actions' level, add references to the present action and other action concerning the same Primary Intervention.
In the case of 'Contract level', add the reference to the corresponding budgetary items in point 4.6, Indicative Budget.

Option 1: Action level		
☒	Single action	Present action: all contracts in the present action
Option 2: Group of actions level		
☐	Group of actions	Actions reference (CRIS#/OPSYS#):
Option 3: Contract level		
☐	Single Contract 1	
☐	Single Contract 2	
☐	Single Contract 3	
	(…)	
☐	Group of contracts 1	

19 ARES (2021)4204912 - For the purpose of consistency between terms in OPSYS, DG INTPA, DG NEAR and FPI have harmonised 5 key terms, including 'action' and 'Intervention' where an 'action' is the content (or part of the content) of a Commission Financing Decision and 'Intervention' is a coherent set of activities and results which constitutes an effective level for the operational follow-up by the EC of its operations on the ground. See more on the concept of intervention.