

**INTEGRATED SAFEGUARDS DATA SHEET
APPRAISAL STAGE**

Report No.: ISDSA20128

Date ISDS Prepared/Updated: 15-Nov-2016

Date ISDS Approved/Disclosed: 23-Nov-2016

I. BASIC INFORMATION

1. Basic Project Data

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|--|---|------------------------------|------------------------------|
| Country: | Guatemala | Project ID: | P153366 |
| Project Name: | Transparency and Efficiency in Tax Administration (P153366) | | |
| Task Team Leader(s): | Alberto Leyton, David Santos Ruano | | |
| Estimated Appraisal Date: | 07-Nov-2016 | Estimated Board Date: | 17-Jan-2017 |
| Managing Unit: | GGO16 | Lending Instrument: | Investment Project Financing |
| Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)? | | | No |
| Financing (In USD Million) | | | |
| Total Project Cost: | 55.00 | Total Bank Financing: | 55.00 |
| Financing Gap: | 0.00 | | |
| Financing Source | | | Amount |
| International Bank for Reconstruction and Development | | | 55.00 |
| Total | | | 55.00 |
| Environmental Category: | C - Not Required | | |
| Is this a Repeater project? | No | | |

2. Project Development Objective(s)

The project development objective is to increase levels of compliance with tax and customs obligations.

3. Project Description

The Project has been designed to help address structural weaknesses and targets areas for improvement that are linked to the main causes of existing weak management of the tax administration and the low tax culture in the country. Aspects related to the weak internal governance framework in SAT, the outdated core business and support processes, the weak controls on tax compliance and customs, and the lack of transparency in SAT, are being specifically targeted as

areas of intervention for this operation. The operation comprises three components designed to cover vertical and transversal interventions to strengthen the overall SAT governance framework and to increase its effectiveness. Each of the three components is designed to tackle structural weaknesses in the Guatemala's tax system that contribute to low tax compliance and therefore low revenue collection. While component 2 is designed to support vertical interventions to strengthen internal revenues and customs functions, components 1 and 3 are seen as crosscutting interventions aiming at strengthening the overall governance framework in SAT as well as the development of integrated tax intelligence and tax enforcement procedures to enhance SAT's effectiveness.

Component 1. Transparency, Integrity and Institutional Development in SAT

The objective of this component is to support implementation of the new SAT's governance model by supporting the implementation of the recently approved amendments to the Organic Law of SAT and by strengthening its internal capacities in areas related to strategic planning, human resource management, institutional integrity, information governance, and information and communication technology (ICT) services. It will also support implementation of a change management strategy and communications initiatives to ensure successful implementation of the proposed reforms. Activities to be supported by this component will be organized under the following sub-components:

Management of the SAT Reform. This sub-component will focus on the development and implementation of a reform strategy in SAT by: (i) designing and institutionalizing strategic planning and Monitoring & Evaluation (M&E) tools; (ii) designing and implementing an ICT Governance model; and (iii) designing and implementing a change management strategy (including a communications campaign program) to support the reform process. This sub-component will also support Project administration activities under the Project Management Office (PMO).

Strengthening Human Resource Management and Institutional Integrity. This sub-component will support: (i) the development and implementation of an integrated human resource management strategy in SAT including updating of the staffing plan for both internal revenues and customs services, establishing a performance management framework, developing and implementing a more rigorous screening process for staff recruitment, and designing and implementing an internal capacity development and knowledge management program for staff; and (ii) the development and implementation of a transparency and institutional integrity strategy including the establishment and implementation of the new Internal Investigation Unit, the strengthening of the internal audit functions, and design and implementation of an industrial security plan for staff at all levels including physical and legal protection based on the nature of their functions and the associated risks following international experiences.

25. **Upgrading and Integration of the Information Technology Platform.** This sub-component will finance the required investment for the updating and upgrading of the ICT platform aligned with the SAT reform strategy. It will include the following activities: (i) designing of a new organizational model for the ICT department; (ii) improving ICT planning and Project management capacities; (iii) designing of a new and comprehensive software architecture ensuring integration all SAT functions; (iv) upgrading the ICT infrastructure to support the reform process including improving information security and establishing a data recovery center.

Component 2. Strengthening of Tax Collection Functions in Internal Revenues and Customs

The purpose objective of this component is to strengthen the core processes of the primary tax collection and controls functions in both Internal Revenues and Customs with a view to enhancing taxpayer voluntary compliance, taxpayer satisfaction and SAT's efficiency. This component will support: (i) review and redefinition of core processes and management instruments for revenue collection; (ii) the upgrade, replacement and development of information systems; and (iii) the implementation of electronic services for taxpayers. While the component does not envision a comprehensive overhaul of the internal revenues management system, it would support the replacement or upgrading of selected modules. Two sub-components are envisioned under this component:

Strengthening of Internal Revenue Collection Processes. This subcomponent will focus on the redesign and implementation of an integrated tax compliance model by: (i) redesigning and improving the taxpayer registration system (Registro Tributario Unico); (ii) redefining and implementing a new model for the Taxpayer Current Account (TCA) with the 360° approach ; (iii) strengthening and expanding the e-invoice initiative and the use of other third-party sources of information for effective collection control; (iv) implementing tools and methodologies to improve effectiveness of administrative collection and tax arrears recovery including initiatives and programs to foster compliance and deter omission practices using behavioral economic approaches; and (v) the development and implementation of a comprehensive strategy for improving taxpayer services including improvements in the existing face-to-face services provided in regional offices, the expansion of electronic services, and the implementation of a taxpayer satisfaction survey model.

Strengthening of Customs Services. This subcomponent will support the following activities: (i) implementation of a risk-based management model for merchandise controls, including ex-post document controls and the Trusted Operator Program ; (ii) development and implementation of streamlined and automated customs procedures and mechanisms, including a joint administrative inspection model with all the various border control agencies; (iii) implementation of non-intrusive technologies and electronic tracking devices for merchandise control at the customs entrances, exits and transits; (iv) strengthening controls over special customs regimes (free zones and others); (v) facilitating information exchange with other national and international agencies by applying international conventions and developing regional and bilateral agreements with neighboring countries; and (vi) increasing transparency and predictability in Customs services by improving and implementing modern valuation methodologies and tool, implementing standardized application of norms and procedures at customs offices, improving availability and quality of customs information to staff, trade operators and other users, creating consultation and feedback mechanisms between traders and customs, and improving transparency on the VAT devolution process for exports.

Component 3. Strengthening of integrated Tax Intelligence and Tax Enforcement capabilities

The objective of this component is to strengthen tax intelligence and tax enforcement capabilities of SAT. The component will promote an efficient use of tax information sources to support the auditing, control and enforcement functions through the adoption of an integrated compliance risk management model, the promotion of a culture of information analysis within SAT, and the strengthening of tax auditing and legal services for a more effective detection of evasion and tax fraud practices and the effective collection of disputed taxes. The proposed model will cover both internal revenues and customs in order to deter existing silo-based practices and to increase effectiveness of the tax intelligence function through the effective access and use of all available information. The component comprises three sub-components:

Strengthening Tax Intelligence and Tax Audit. This sub-component will focus on: (i) the creation and implementation of the new Tax Intelligence Unit; (ii) the design and implementation of an integrated risk-based management model covering both internal revenues and customs; (iii) the construction of a unified data warehouse and business intelligence tools for easier and more effective analysis of existing information, (iv) the definition and implementation of a comprehensive auditing strategy and tools based on taxpayer segmentation and risk analysis for both internal revenue collection and foreign trade areas; and (v) building capacities of auditors including on transfer price processes.

Strengthening Legal Services and Tax Appeals Procedures in SAT. This sub-component will focus on the following activities: (i) creation of a strategy and development of analytical tools to support tax litigation processes and strengthening capacity of the SAT's Legal Department; (ii) identifying areas of opportunity to improve existing regulations that hinder SAT's ability to collect tax debts; and (iii) support implementation of the new tax appeals framework and the new administrative tax tribunal known as TRIBUTA, through the development of organizational manuals and procedures, analysis of staffing capacity requirements and training, development of supporting tools to record and monitor appeal cases, and dissemination and communication activities to inform taxpayers on new tax appeals procedures and protocols.

4. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Project will be located in the Capital City of Guatemala at Superintendencia de Administracion Tributaria. the Address is 7-a Av. 3-73, Zona 9, Edificio Torre SAT. Other locations (at Custom Border Crossing Points) will be identified during implementation stage

5. Environmental and Social Safeguards Specialists

Mariela Mena (GWADR)

| 6. Safeguard Policies | Triggered? | Explanation (Optional) |
|--|-------------------|--|
| Environmental Assessment OP/BP 4.01 | No | This policy is not triggered given that the proposed Project seeks to support the strategy of the Government for a comprehensive modernization of the tax and custom administration system, no physical works are expected and there are no foreseeable environmental adverse impacts. |
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| Natural Habitats OP/BP 4.04 | No | This policy is not triggered since none of the Project activities are expected to affect natural habitats. |
| Forests OP/BP 4.36 | No | This policy is not triggered because the Project does not consider any changes to forest management or any works in forest areas. |
| | | |
| Pest Management OP 4.09 | No | This policy is not triggered because no pesticides will be used or procured in any of the Project activities. |
| Physical Cultural Resources OP/BP 4.11 | No | This policy is not triggered since none of the Project activities include soil removal that may affect any physical cultural resources. |
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| Indigenous Peoples OP/ BP 4.10 | No | This policy is not triggered given that project activities are not expected to cause any impact on indigenous peoples |

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| Involuntary Resettlement OP/BP 4.12 | No | This policy is not triggered given that the Project will not require any land acquisition or restriction of access to natural resources. |
| Safety of Dams OP/BP 4.37 | No | This policy is not triggered given that the Project will not support the construction or rehabilitation of dams nor will support other investments, which rely on the services of existing dams. |
| Projects on International Waterways OP/BP 7.50 | No | This policy is not triggered because the Project will not affect international waterways as defined under the policy. |
| Projects in Disputed Areas OP/BP 7.60 | No | This policy is not triggered because the proposed Project will not affect disputed areas as defined under the policy. |

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

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| <p>1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:</p> <p>The Transparency and Efficiency in Tax Administration project is assigned an EA category of >(C>(as this activity poses low or no safeguards risk and specific Safeguards will not be triggered.</p> <p>Related to Policy OP/BP 4.12 Involuntary Resettlement: The Project will not require any land acquisition or restriction of access to natural resources.</p> <p>Related to OP 4.10 policy: Actions and project intervention area do not require the activation of the policy. Retrenchment of staff has been made already within SAT, and is not expected to take place during Project implementation.</p> |
| <p>2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:</p> |
| <p>3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.</p> |
| <p>4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.</p> |
| <p>5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.</p> |

B. Disclosure Requirements

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| <p>If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.</p> |
| <p>If in-country disclosure of any of the above documents is not expected, please explain why:</p> |

C. Compliance Monitoring Indicators at the Corporate Level

| The World Bank Policy on Disclosure of Information | |
|--|---|
| Have relevant safeguard policies documents been sent to the World Bank's Infoshop? | Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>] |
| Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs? | Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>] |
| All Safeguard Policies | |
| Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies? | Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>] |
| Have costs related to safeguard policy measures been included in the project cost? | Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>] |
| Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies? | Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>] |
| Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents? | Yes [<input type="checkbox"/>] No [<input type="checkbox"/>] NA [<input checked="" type="checkbox"/>] |

III. APPROVALS

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|-------------------------------|--|-------------------|
| Task Team Leader(s): | Name: Alberto Leyton, David Santos Ruano | |
| <i>Approved By</i> | | |
| Practice Manager/ Manager: | Name: Arturo Herrera Gutierrez (PMGR) | Date: 23-Nov-2016 |