DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REGIONAL

DIGITAL TRANSFORMATION OF TAX ADMINISTRATIONS IN CENTRAL AMERICA

(RG-T4958)

PROJECT DOCUMENT

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REGIONAL DIGITAL TRANSFORMATION OF TAX ADMINISTRATIONS IN CENTRAL AMERICA RG-T4958		
PROJECT SUMMARY		
Operation Type:	Technical Cooperation	
Sector:	REFORM / MODERNIZATION OF THE STATE	
Subsector:	FISCAL POLICY FOR SUSTAINABILITY AND GROWTH	
TC Taxonomy:	Client Support	
Project Number under the Operational Support Taxonomy:	N/A	
Technical Responsible Unit:	IFD/FMM-Fiscal Management Division	
Unit with Disbursement Responsibility (UDR):	IFD/FMM-Fiscal Management Division	
Executing Agency:	Inter-American Development Bank	
PROJECT OBJECTIVE		
The objective of this Technical Cooperation (TC) is to support Central America tax administrations in accelerating their digital transformation to improve efficiency, transparency, and compliance, while safeguarding taxpayer information through strong cybersecurity foundations. Building on the growing momentum toward digitalization of the region, the TC responds to persistent gaps in interoperability, data governance, analytical capabilities, institutional readiness, and cyber resilience that limit the effectiveness and sustainability of ongoing modernization efforts. The TC will meet this objective through a coordinated regional approach that enables participating countries to move beyond fragmented, stand-alone solutions toward a secure and integrated digital ecosystem.		
FINANCIAL INFORMATION		
Financing Type	**Fund**	**Amount in US$**
TCN - Nonreimbursable	P1A - OC SDP Pillar 1 - Strategic Priorities - Regional Programs & Initiatives	300,000
	Total IDB Financing	**300,000**
	Counterpart Financing	**0**
	Total Project Budget	**300,000**
Donors:	N/A	
Disbursement Period:	36 months	
Execution Period:	36 months	
ADDITIONAL FINANCIAL INFORMATION		
N/A		

I. JUSTIFICATION AND OBJECTIVE

1.1 **Diagnostic.** The digital economy is reshaping economic activity and public sector functions, creating both opportunities and challenges for tax administration. The increasing use of digital technologies, data flows, and electronic transactions has transformed how businesses operate, requiring governments to adapt their institutional frameworks and policy tools to effectively monitor compliance and safeguard revenue collection. In Central America, developments in digitalization of core tax administration processes remain uneven and largely fragmented. Significant gaps persist among Central American countries in interoperability, data integration, analytical capacity, and cybersecurity, limiting the ability of tax administrations to move from basic digitalization toward fully integrated and data-driven systems. These challenges are compounded by structural constraints such as fragmented information systems, limited technical and human capacity, and weak data governance frameworks

1.2 As a result, tax administrations in the region face significant difficulties in effectively identifying compliance risks, improving service delivery, and reducing high levels of tax evasion and informality. These limitations are reflected in relatively low and heterogeneous levels of revenue mobilization. The highest tax-to-GDP ratios in Central America in 2023 were recorded in Nicaragua (27.5%) and Costa Rica (24.9%), while the lowest—well below the regional average of 21.3%—were observed in the Dominican Republic (14.3%) and Guatemala (14%). Across the region, all countries remained below the OECD average of 33.9% for the same year, highlighting persistent gaps in fiscal capacity and the effectiveness of tax administration.[1] These disparities reflect differences in the level of digital maturity, institutional capacity, and the degree of integration of tax administration systems across countries, which affect their ability to effectively enforce compliance and mobilize revenues.

1.3 In this context, there is a clear need for targeted technical support to strengthen digital transformation in tax administration. This TC will support the development of interoperable digital systems and shared standards at national and regional levels, enhance data integration and analytics, strengthen cybersecurity and institutional frameworks, and promote regional coordination and knowledge exchange. By fostering a more integrated digital ecosystem, the TC will help reduce fragmentation, improve tax administration efficiency, and enable countries to better manage compliance risks and mobilize revenues in an increasingly digital environment.

1.4 **Request.** The TC responds to requests from the beneficiary tax administrations of the America en el Centro regional program, specifically Costa Rica, Dominican Republic, El Salvador, and Honduras, as reflected in Annex I.

1.5 **Objective.** The objective of this Technical Cooperation (TC) is to support Central America tax administrations in accelerating their digital transformation to improve

1 OECD, CIAT, ECLAC, and Inter-American Development Bank (2025), Revenue Statistics in Latin America and the Caribbean 2025, Paris: OECD Publishing, p. 12.

efficiency, transparency, and compliance, while safeguarding taxpayer information through strong cybersecurity foundations. Building on the growing momentum toward digitalization of the region, the TC responds to persistent gaps in interoperability, data governance, analytical capabilities, institutional readiness, and cyber resilience that limit the effectiveness and sustainability of ongoing modernization efforts. The TC will meet this objective through a coordinated regional approach that enables participating countries to move beyond fragmented, stand-alone solutions toward a secure and integrated digital ecosystem.

1.6 Specifically, this TC will (i) strengthen core digital processes and data integration frameworks within tax administrations; (ii) promote the adoption and use of advanced analytics to improve compliance risk management and service delivery; (iii) reinforce cybersecurity governance, standards, and operational capacities to protect sensitive taxpayer data and ensure digital trust, and (iv) foster regional cooperation through shared standards, interoperable solutions, and structured knowledge exchange. By combining country-level technical support with regional coordination, the TC will generate strong value for money by reducing duplication efforts, lowering implementation costs, and mitigating risks associated with isolated digital investments. Shared standards, interoperable frameworks, will allow participating countries to leverage common solutions while strengthening institutional capacity and supporting domestic revenue mobilization. This, TC will contribute directly to policy dialogue and will allow the tax administrations an opportunity to strengthen capacity building in digitalization and cybersecurity matters. Diagnostics, action plans, and regional standards developed under the TC will provide upstream analytical inputs to inform investment loans and policy-based operations, support the sequencing of reforms, and strengthen the design of digital transformation components in country programs.

1.7 **Complementarity.** This TC complements IDB's ongoing efforts to support the digital transformation of tax administrations in Latin America and the Caribbean by building on the knowledge, methodologies, and regional dialogue generated through previous operations. It builds on other regional efforts such as the RG-T3198, RG-T3456 and RG-T3259, which contributed to key diagnostic and digital maturity methodologies, and strengthened the conceptual and institutional foundations for modernization of tax administrations; and RG-T4124, which developed actionable recommendations and toolkits, while fostering regional knowledge exchange and identifying emerging priorities such as cyber security, data governance, and institutional transformation. By leveraging these existing analytical and operational foundations, the proposed TC moves toward a more implementation-oriented phase, supporting Central American countries in addressing persistent gaps in interoperability, data integration, cybersecurity, and institutional capacity.

1.8 The TC not only consolidates and scales up prior knowledge products and methodologies but also adds value in enabling more effective and coordinated digital transformation processes. By promoting regional collaboration, shared standards, and scalable digital solutions, the TC will generate economies of scale, reduce duplication of efforts, and strengthen the sustainability and impact of modernization reforms across participating countries, further reinforcing the continuity of the Bank's support in digital transformation.

1.9 **Strategic Alignment** This TC is consistent with the IDB Group's Institutional Strategy: Transformation for Greater Scale and Impact (GN-3159-12) and aligns with the objective of reducing poverty and inequality through strengthening domestic revenue mobilization and improving the efficiency, transparency, and accessibility of public services through digital transformation of tax administrations. It also aligns with the operational focus area of institutional capacity, rule of law, and citizen security by enhancing the institutional capabilities of tax administrations, strengthening data governance and cybersecurity frameworks, and promoting more transparent, secure, and reliable digital systems for tax compliance and administration. The TC also aligns with the Ordinary Capital Strategic Development Program (GN-2819-25) under Pillar 1, Strategic Priorities, within the Regional Program '*América en el Centro*', specifically to its cross-cutting pillar of institutional strengthening and capacity building, supporting in the digital transformation and cybersecurity of tax administrations through the promotion of interoperable digital systems, improved data integration and analytical capacities, and the development of modern governance frameworks that support evidence-based decision-making and streamline administrative processes. Additionally, the TC is aligned with the Sectoral Framework for Fiscal Policy and Management (GN-2831-13), which highlights the importance of promoting actions to strengthen fiscal sustainability in the medium term by improving tax administration performance, enhancing compliance through advanced analytics, and leveraging digital tools to increase revenue collection efficiency and reduce informality.

1.10 TC is aligned with the Country Strategy of El Salvador (GN-3299-3), specifically with Pillar I on supporting fiscal sustainability and modernization of the public sector. Digital transformation is a strategic pillar with which the TC will take a specific focus on strengthening digitalization, institutional interoperability, citizen engagement, and the regulatory framework. It is also aligned with the Country Strategy of Honduras (GN-2944), specially in its support to strategic actions aimed at expanding sustainable productive opportunities, addressing the country's low level of digital adoption that continues to limit financial innovation and the development of technological solutions. It is aligned with Country Strategy of Costa Rica (GN-3250), consistent with the emphasis on innovation and digital transformation as key enablers for advancing its core development pillars and fostering synergies across sectors, and with Country Strategy of the Dominican Republic (GN-3294), specially with Pillar III on increasing public sector efficiency and resilience, reinforcing ongoing efforts to modernize the tax system, improve the quality of public expenditure, and strengthen institutional capacities for digital transformation.

II. COMPONENTS

2.1 **Component 1. Institutional capacity building ($200,000).** The objective of this component is to assess in four (4) Central American countries the current state of tax administration digitalization, including interoperability, data governance, analytics capabilities, institutional readiness, and cybersecurity posture. With resources from this component, this TC will retain consultancy services to carry out diagnostics that will benchmark countries against regional peers and international best practices and will serve as the analytical basis for country-specific and regional best practices. The diagnostic will include an action plan that will help tax administrations in Central America to address common issues and challenges as well as a bridge to strengthen coordination mechanisms to support cross-country data exchange and regional integration. Targeted technical assistance will be provided to selected countries to support the simplification of tax compliance processes and the improvement of taxpayer services through digital solutions, including streamlined procedures, digital interfaces, and user-centered service design. The following activities will be financed:

a. Analytical assessment and diagnostics of selected Central American tax administrations, including best practices and recommendations

b. Action Plan to drive digital tax administration efforts and coordinate mechanism for cross-country interoperability and support, including technical support

2.2 **Component 2. Dissemination of knowledge products and training ($100,000).** The objective of this component is to disseminate the knowledge products financed under component 1, through regional workshops. These workshops, will be targeted to Tax Administration officials in beneficiary's countries with the purpose to disseminate diagnostic findings, share lessons learned, and develop recommendations on digital security standards, cybersecurity governance, and incident response for tax administrations in the region. The following activities will be financed:

a. Dissemination of knowledge and training products generated through activities of this TC.

b. Regional workshops to present results, foster dialogue on cross-country interoperability, and promote regional collaboration.

2.3 **Expected Results**. The TC is expected to deliver measurable improvements in the digital maturity and operational effectiveness of participating tax administrations. Core digital processes will be streamlined and supported by strengthened data integration frameworks, resulting in more consistent and reliable information flows across systems. The use of advanced analytics is expected to enhance compliance risk management, enabling administrations to better detect non-compliance and improve service delivery to taxpayers. Strengthened cybersecurity governance and protocols will contribute to increased protection of sensitive taxpayer data and reinforce trust in digital systems. At the regional level, the adoption of shared standards and interoperable solutions will facilitate greater alignment across countries, reduce duplication of efforts, and support more efficient use of resources. The TC will also generate practical knowledge products—including diagnostics, action plans, and regional guidelines—that will inform future investment operations and policy-based lending, while supporting more coherent sequencing of digital transformation reforms. Overall, these results are expected to strengthen institutional capacities, foster regional collaboration, and contribute to improved domestic revenue mobilization.

2.4 **Beneficiaries.**[2] The beneficiary countries participating in this TC were first identified based on their inclusion as beneficiary countries under the America en el Centro regional program, specifically Costa Rica, Dominican Republic, El Salvador, and Honduras. While all 'America en el Centro' participating countries will benefit from the regional analytical work and knowledge products generated under the TC, the detailed diagnostic assessments will be more focused on the selected countries.

III. BUDGET

3.1 **Budget.** The total cost of the TC is US$300,000 which will be financed entirely by the Bank through the Ordinary Capital Strategic Development Program (OC SDP), P1A - OC SDP Pillar 1 - Strategic Priorities - Regional Programs & Initiatives. No local counterpart contribution is expected. No additional costs are expected to be generated in the transaction budget of the Country Office for supervision.

Budget in US$		
Components	**IDB/P1A**	**Total**
Component 1: Institutional capacity building	$200,000	**$200,000**
Component 2: Dissemination of knowledge products and training	$100,000	**$100,000**
Total	**$300,000**	**$300,000**

IV. EXECUTION STRUCTURE

4.1 **Executing Agency.** In line with the Technical Cooperation Policy (GN-2470-2) and the Procedures for the Processing of Technical Cooperation Operations and Related Matters (OP-619-4), Annex II, literal c: (i) and (iv), the TC will be executed directly by the Bank, through the Fiscal Management Division (IFD/FMM). The beneficiary governments explicitly requested Bank execution in their formal communications, given the regional nature of the operation and the need for specialized technical coordination. Bank execution is justified both by the limited institutional capacity of the participating Ministries of Finance to procure and

2 Prior to the initiation of the activities in the countries, the Bank shall have the VoBo from the country beneficiary (liaison authority with the Bank) where activities will take place.

manage regional consultancies under Bank procedures, and by the cross-country scope of the activities, which require centralized coordination, harmonized methodologies, and technical oversight to ensure consistent implementation across countries.

4.2 **Procurement.** All procurement to be executed under this Technical Cooperation have been included in the Procurement Plan (Annex IV) and will be hired in compliance with the applicable Bank policies and regulations as follows: (a) Hiring of individual consultants, as established in the regulation on Complementary Workforce (AM-650) and (b) Contracting of services provided by consulting firms in accordance with the Corporate procurement Policy (GN-2303-33) and its Guidelines.

4.3 **Execution and Disbursement Period.** This TC will be executed for a period of 36 months, which includes the execution period.

4.4 **Monitoring, Reporting, and Supervision.** The outputs and results achieved through the TC will be communicated and disseminated in a timely manner to all stakeholders. The Disbursement Responsible Unit will be the Fiscal Management Division (IFD/FMM). The project will be monitored and evaluated in accordance with the annual targets and the outcome and output indicators that make up the TC results matrix, in line with the provisions set out in the document The Technical Cooperation Monitoring and Reporting System (OP-1385-4). The Team Leader (IFD/FMM) of the project will be responsible for and will carry out the supervision of the activities implemented under this TC.

V. POTENTIAL RISKS

5.1 The main risk associated with this TC is the potential for delays in implementation arising from technical complexities and varying institutional capacities across participating Central American tax administrations. Differences in digital maturity, data governance frameworks, and human resource capabilities may lead to uneven adoption of proposed solutions, potentially affecting the scope and quality of implementation across countries and causing delays in achieving expected results. In addition, changes in political priorities or leadership transitions within participating countries could impact the continuity and ownership of digital transformation efforts. To mitigate these risks, the TC will prioritize targeted capacity building tailored to country-specific needs and promote the adoption of scalable, modular, and adaptable technological solutions that can accommodate different levels of institutional readiness. A phased and flexible implementation approach will be applied to allow countries to progress according to their capacities while maintaining regional coherence. Continuous engagement, structured coordination mechanisms, and regular communication with national counterparts will support alignment across participating institutions and help identify and address challenges in a timely manner. In addition, the TC will promote the development of common standards and governance frameworks that facilitate interoperability while remaining adaptable to national regulatory contexts, thereby supporting sustained implementation and reducing the risk of fragmentation.

5.2 **Intellectual Property.** The knowledge products generated within the framework of this TC will be the property of the Bank and may be made publicly available under a Creative Commons license, in accordance with the Procedure for the Publication of Knowledge Products (AM-331). Notwithstanding the above, at the request of the beneficiary, the intellectual property of such products may also be licensed in their favor with the advice of the Legal Department.

VI. EXCEPTIONS TO BANK POLICIES

6.1 No exceptions to the Bank's policies are identified.

VII. ENVIRONMENTAL AND SOCIAL ASPECTS

7.1 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).

REQUIRED ANNEXES:

- Annex I: Request from Client
- Annex II: Results Matrix
- Annex III: Terms of Reference
- Annex IV: Procurement Plan