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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

GUATEMALA

PROJECT PAPER

FISCAL ADMINISTRATION

AID/LAC/P-475

Project Number: 520-0371

UNCLASSIFIED

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

DOCUMENT CODE

3

2. COUNTRY/ENTITY

3. PROJECT NUMBER

520-0371

4. BUREAU/OFFICE

5. PROJECT TITLE (maximum 40 characters)

LAC

05

FISCAL ADMINISTRATION

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

7. ESTIMATED DATE OF OBLIGATION
 (Under 'B' below, enter 1, 2, 3, or 4)

MM DD YY
 1 2 3 1 9 2

A. Initial FY 8 9

B. Quarter 4

C. Final FY 9 1

8. COSTS (\$000 OR EQUIVALENT \$1 = 2.70)

| A. FUNDING SOURCE | FIRST FY 89 | | | LIFE OF PROJECT | | |
|------------------------|-------------|--------|----------|-----------------|--------|----------|
| | B. FX | C. L/C | D. Total | E. FX | F. L/C | G. Total |
| AID Appropriated Total | 1,400 | | 1,400 | 9,000 | | 9,000 |
| (Grant) | (1,400) | () | (1,400) | (9,000) | () | (9,000) |
| (Loan) | () | () | () | () | () | () |
| Other U.S. | | | | | | |
| 1. | | | | | | |
| 2. | | | | | | |
| Host Country | | 282 | 282 | | 3,145 | 3,145 |
| Other Donor(s) | | | | | | |
| TOTALS | 1,400 | 282 | 1,682 | 9,000 | 3,145 | 12,145 |

9. SCHEDULE OF AID FUNDING (\$000)

| A. APPROPRIATION | B. PRIMARY PURPOSE CODE | C. PRIMARY TECH. CODE | | D. OBLIGATIONS TO DATE | | E. AMOUNT APPROVED THIS ACTION | | F. LIFE OF PROJECT | |
|------------------|-------------------------|-----------------------|---------|------------------------|---------|--------------------------------|---------|--------------------|---------|
| | | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan |
| (1) PSEE | 659 | 720 | | | | 1,000 | | 6,200 | |
| (2) EHR | 659 | 720 | | | | 400 | | 2,800 | |
| (3) | | | | | | | | | |
| (4) | | | | | | | | | |
| TOTALS | | | | | | 1,400 | | 9,000 | |

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

760 819 930

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code BR BU EQTY
 B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To assist the Government of Guatemala in a comprehensive modernization of its system of fiscal administration.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
 0 8 9 1 0 8 9 1

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

I certify that the methods of payment and audit plans are in compliance with payment verification policy.-

Joe O. Hill, Jr.
 Joe O. Hill, Jr.
 Controller

17. APPROVED BY

Signature *Anthony J. Gaeterucci*
 Title Anthony J. Gaeterucci
 Mission Director

Date Signed MM DD YY
 1 2 1 9 1

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

PROJECT AUTHORIZATION

Name of Country: Guatemala
Name of Project: Fiscal Administration
Number of Project: 520-0371

1. Pursuant to Sections 105 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Fiscal Administration Project for Guatemala, involving planned obligations of not to exceed \$9,000,000 in grant funds over a forty-two (42) month period from date of authorization subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is forty-two (42) months from the date of initial obligation.
2. The project will assist the Government of Guatemala in a comprehensive modernization of its system of fiscal administration. The specific improvements to be implemented will reorient Guatemala's budgetary and tax system toward greater equity and better allocation of public sector resources to Guatemala's priority development needs.
3. The Project Agreement which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the project shall have their source and origin in the United States (A.I.D. Geographic Code 000), the cooperating country, or other countries included in the Central American Common Market, except as A.I.D. may otherwise agree in writing.

Except for ocean shipping, the suppliers of commodities or services shall have the United States, in the cooperating country, or other countries included in the Central American Common Market as their place of nationality, except as A.I.D. may otherwise agree in writing.

Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

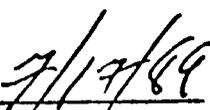
b. Conditions Precedent to Initial Disbursement

Prior to the first disbursement under the Project, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D. the following:

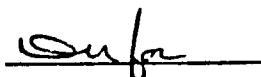
- (i) An opinion of the Ministerio Público or other counsel acceptable to AID that the Project Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a legally binding obligation of the Grantee in accordance with all of its terms;
- (ii) A statement of the name of the person holding or acting in the office of the Grantee and of any additional representatives, together with a specimen signature of each person specified in such statement;



 Anthony J. Cauterucci
 Director, USAID/Guatemala

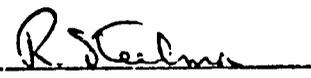


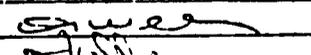
 Date

Drafter: OEPA: Mott 

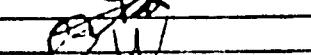
Date 7-12-89

Clearance:

PDSO: RSteelman 

OEPA: DHoelscher 

PRM: TKellermann 

CONT: JOhill 

DDIR: PEWhite 

Date 7-12-89

Date 7-12-89

Date 7-12-89

Date 7/17/89

Date 7/17/89

FISCAL ADMINISTRATION PROJECT (520-0371)

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| Annex F | <u>PID Review Memorandum</u> |
| Annex G | <u>Letter Requesting Project from the Minister of Finance</u> |
| Annex H | <u>Illustrative List of Technical Assistance to be Provided under the Project</u> |

Bulk Annex Reports:

| <u>TITLE</u> | <u>AUTHOR (S)</u> |
|--|--|
| Ministry of Finance Proposal for Fiscal Administration Project | |
| Customs and Export Incentive Administration Reform | Kenneth Stacey |
| Taxation of Business, Commercial Policy, and Industrial Policy | Charles McLure |
| Tax Administration | Oakley Austin |
| Public Enterprise Sector | Melissa Birch |
| Local Government Finance and Property Taxation | David Greytak |
| Internal Indirect Taxation | John Due |
| Income and Payroll Taxes | Jorge Martínez |
| Tax and Fiscal Analysis and Modelling Capabilities | Thomás Vásquez Sergio Madrigal Francis Greaney |
| Analysis of the Budgeting System | Darwin Johnson |

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USAID/Guatemala
FISCAL ADMINISTRATION PROJECT
(PROJECT 520-0371)

I. PROJECT SUMMARY AND RECOMMENDATIONS

A. Recommendation:

The Project Committee recommends that the USAID/Guatemala Mission Director approve the 42-month Fiscal Administration Project and authorize grant funding in the amount of \$9,000,000. The Grantee will be the Government of Guatemala, as represented by the Ministry of Finance.

B. Project Summary Description and Budget:

The Fiscal Administration Project will support the Government of Guatemala's efforts to stimulate robust economic growth, with greater participation in its benefits, by providing technical assistance to the Ministry of Finance to

(1) develop the analytic infrastructure necessary for the Guatemalan public sector to analyze the national tax and expenditure structure and determine the economic impact of any proposed changes and simplifications in fiscal policy.

(2) substantially simplify and improve tax administration, particularly of the income and value-added taxes, and in customs.

(3) strengthen the national budgetary process by reorienting budget preparation from the current numerical exercise to one which is based on program analysis, prioritization and monitoring.

(4) institutionalize the capability for systematic analysis of budgetary and tax issues through the establishment of an Institute for Fiscal Analysis within the Ministry of Finance.

achieve: The Project has four specific objectives to

1. Improvement in the Allocation of Resources will be accomplished in three ways: (1) by helping to find underlying structural problems in the fiscal system that are not in step with the economic programs of the country, and that distort economic choices in ways that cause losses to society; (2) by modernizing, simplifying and improving the administration of the fiscal system, and eliminating the resource costs that operational inefficiencies impose on society; and (3) by providing better information to assist government officials in making fiscal decisions.

2. Greater Fairness in the Distribution of Tax Burdens and Expenditure Benefits that result from the administration of the fiscal system implies the development of a more horizontally equitable system whereby like taxpayers will be treated the same way.

3. Mobilization of Resources to Cover the Cost of Public Services through improved administration of the tax system and the system for delivering public services.

4. Improved Government Ability to Plan and Monitor its Fiscal Decisions will be accomplished by creating institutions capable of continuing this work, because comprehensive fiscal reform is an ongoing process. The Project will include a substantial training and data computerization program, as well as the development of analytic models. The purpose of these components is to put permanently in place within the Ministry the capability to evaluate the implications for future revenue and expenditure, and for income distribution and growth, of changes in public policy or external economic conditions. These will enhance the Ministry's ability to monitor the efficiency of its operation, and to plan its programs rationally.

The summary project budget appears on the following page as Table I-1. The Project Committee has reviewed the technical, economic, financial, institutional, and social aspects of the project. Based on this review, the Committee recommends the authorization of the project for \$9,000,000 in grant funds.

The project meets all applicable statutory criteria. The project will not have a detrimental impact on the environment, and a categorical exclusion was granted for the IEE.

C. Resolution of PID Issues:

The following information responds to the design issues raised at the Mission review of the Fiscal Administration Project Identification Document (PID), held on February 22, 1988.

The specific issues raised were:

1. Potential Negative Perception of USAID Activities: The Mission Review Committee members agreed that it would be necessary to develop the project in a way that minimizes divisive aspects and that maximizes opportunities to forge a more collaborative approach between public and private sectors in fiscal matters. The project has also been designed in a way that has given a broad-based sense of ownership within the highest levels of the Guatemalan government. Sections III and V.B elaborate on this theme. In addition, the project paper annexes include a letter of request from the Ministry of Finance.
2. Funding: The Mission Review Committee members considered the question of loan versus grant funding. This discussion has been overtaken by the AID/W decision that DA-funded activities will no longer be financed with loans.
3. Review of Previous Experience with Similar Projects: The Mission Review Committee recommended that the design team review the successes and problems associated with previous similar projects in Guatemala and elsewhere. This information was provided to USAID by CDIE, and was used by the design team in developing the project.

TABLE I-1
PROJECT SUMMARY AND FINANCIAL PLAN BY PROJECT (US\$)

| | USAID FX | GOB LC | TOTAL (US\$) |
|---|-------------|-----------|-----------------|
| I. Development of Analytical Infrastructure | | | |
| Comprehensive Fiscal Reform Concept Paper | 226,126 | 33,525 | 259,650 |
| Infrastructure Building | | | |
| Development of Simulation Capacity | | | |
| * Business Tax/IVA | 302,526 | 118,813 | 421,339 |
| * Individual Income Tax | 291,736 | 118,813 | 410,552 |
| * Commodity-Based Consumption Taxes | 119,498 | 55,980 | 175,478 |
| * Public Sector Revenues | 143,437 | 55,302 | 198,739 |
| Creation of a Taxpayer Identification System | 39,039 | 50,224 | 89,263 |
| Calculation of Marginal Effective Tax Rates | 31,821 | 54,424 | 86,245 |
| Calculation of Rates of Effective Protection | 31,821 | 33,557 | 65,378 |
| Development of a Computable General Equilibrium Model | 263,522 | 100,656 | 364,178 |
| Specific Analysis | | | |
| Analysis of Tax Burdens and Tax Fairness | 110,362 | 62,070 | 172,432 |
| Development of a Database on Public Enterprises | 36,617 | 29,090 | 65,707 |
| Development of a Workplan for Fiscal Decentralization | 92,636 | 75,051 | 167,687 |
| Diagnostic of Business Taxation and Fiscal Incentives | 108,772 | 31,765 | 140,537 |
| Diagnostic of the Personal Income Tax | 52,837 | 55,750 | 108,587 |
| Diagnostic of Indirect Taxes | 74,078 | 55,750 | 129,828 |
| Diagnostic of the Property Tax | 60,688 | 14,585 | 75,273 |
| Subtotal | 1,985,534 | 945,358 | 2,930,892 |
| II. Operations | | | |
| Income Tax Administration | 959,709 | 441,543 | 1,401,252 |
| Administration of Domestic Indirect Taxes | 407,500 | 346,604 | 754,104 |
| Customs Administration | 786,385 | 395,649 | 1,182,034 |
| Budgeting and Expenditure Management | 1,436,910 | 475,970 | 1,912,879 |
| Subtotal | 3,590,505 | 1,659,764 | 5,250,269 |
| III. Guatemala Office | 678,801 | 350,552 | 1,029,353 |
| IV. Home Office incl. Contract Fee | 1,348,977 | 161,721 | 1,510,698 |
| V. Comodities | 118,500 | 27,296 | 145,796 |
| VI. Audits and Evaluations | 190,000 | | 190,000 |
| VII. Contingency/Inflation | 1,087,683 | | 1,087,683 |
| TOTAL PROJECT | 9,000,000 | 3,144,691 | 12,144,691 |

4. Project Scope and Magnitude: The Mission Review Committee correctly pointed out the difficulty in analyzing and designing a comprehensive fiscal administration project within the time frame required for an FY 1988 start. Subsequently, the Mission decided to postpone the project until FY 1989, in order to accommodate a more comprehensive design process.

5. Social Implications: The Mission Review Committee considered the question of whether attitude surveys of willingness to pay higher taxes should be conducted as part of the project design. Because the project as designed does not have increased taxation levels as an objective, such surveys are not relevant. The social soundness implications of the project are covered in Section VII.D. of the project paper.

6. Venue of Project Paper Review: Subsequent to the Mission review, the Mission, in consultation with the LAC Bureau, decided that the project paper would be reviewed and approved in the field. A representative of LAC/DP will attend the Mission Project Paper review meeting.

D. Project Committee:

The USAID/Guatemala Project Design Committee for the Fiscal Administration Project had the following membership:

Samuel L. Skogstad, Chair and Chief of the Office of Economic Policy Analysis
Ana Vilma Pocasangre, Project Officer, Office of Economic Policy Analysis
Joseph Lombardo, Office of Project Development and Support
Michael Alban, Controller's Office
Thomas Kellerman, A/Program Officer

The principal consultants participating in project design were:

Dr. Roy Bahl, Georgia State University
Dr. Jorge Martinez, Georgia State University
Mr. Kenneth Stacey, private consultant
Dr. Charles McLure, Stanford University
Mr. Oakley Austin, private consultant

Dr. Melissa Birch, University of Virginia
Dr. David Greytak, Syracuse University
Dr. John Due, emeritus, University of Illinois
Dr. Thomas Vasquez, Peat Marwick
Dr. Sergio Madrigal, Peat Marwick
Mr. Francis Greaney, Peat Marwick
Dr. Darwin Johnson, Peat Marwick

The members of the USAID Executive Project Review
Committee were:

Anthony J. Cauterucci, Mission Director and Chair
Paul E. White, Deputy Mission Director
Thomas Kellermann, Deputy Program Officer
Christina H. Schoux, Chief, Project Development and
Support
Mary C. Ott, Deputy Chief, Office of Economic Policy
Analysis
Joe O. Hill, Jr., Controller
Gordon Straub, Chief, Rural Development
Liliana Ayalde, Chief, Human Resources Development
Linda Whitlock, Acting Executive Officer
Michael Williams, Regional Legal Advisor
John McAvoy, Regional Contracts Officer
James Fox, LAC/DP

II. PROJECT BACKGROUND AND RATIONALE:

A. Introduction:

1. Project Setting:

Recent improvements in the standards of living of low-income Guatemalans, particularly residents of the rural western Highlands, have been hard won. In Guatemala, the allocation of scarce development resources among competing potential uses involves tremendously difficult decisions, owing to the enormous number of valid but unmet demands. Once budgetary decisions are made, inefficiencies in the way public expenditures are managed reduce the effectiveness of the programs funded. As a result, Guatemala lags behind its regional neighbors in nearly all socioeconomic indicators, from health status to educational attainment to level of infrastructural development. These indicators directly reflect past low levels and limited effectiveness of public expenditures.

USAID/Guatemala, like other international agencies, manages a project portfolio directed at development areas which both we and the Guatemalan government consider to be of greatest need and highest potential impact. These activities include road building, bilingual education, agricultural diversification, health, and nutrition. One of the principal objectives of all foreign assistance activities is to provide access to fundamental services to all segments of the population, including in particular those who traditionally have been left behind. However, to make these improvements a permanent feature of the Guatemalan public sector, fiscal management will first have to undergo dramatic improvements in efficiency and fairness. That is the principal reason for the proposed project.

How public sector revenues are generated is as important as the level of funds collected. A bad tax system can distort incentives to produce and actually lower GDP relative to its potential. In Guatemala, the level of tax effort (tax revenues as a percent of GDP) is one of the lowest in the world, around 8 percent in 1988. While it is difficult to argue that the private sector suffers from an onerous aggregate tax burden, the tax base suffers so seriously from lack of enrollment that the few who do pay taxes can suffer under a heavy and unfair burden. Moreover, the tax structure

appears out of sync with national development objectives. Excessive dependence on revenues from the external sector, for example, thwarts Guatemala's recent adoption of an export-led development strategy. The high costs of compliance with certain taxes on business operations cause investors to base decisions in part on tax administration concerns, rather than on pre-tax rates of return.

At this point, we can only say that the Guatemalan tax system seems out of step with national objectives. In fact, the Ministry of Finance does not at present possess even rudimentary capability to assess the impact of the tax and expenditure structure on the national economy. Because of this deficiency, Guatemalan national debate on tax and expenditure issues rests first on polemics, assertions, and political expediencies; second on theory, and barely at all on hard empirical evidence. This is particularly costly to national policymaking, as taxation and expenditure issues are unusually sensitive in Guatemala.

This document presents a proposal for a USAID/Guatemala Fiscal Administration Project directed at making substantial and rapid progress in improving the efficiency of the national expenditure and tax system. The three areas of budgetary management, tax structure analysis, and tax administration will be the focus of the project. It is important to note from the outset that the project proposed here is fundamentally different from other DA-funded efforts we manage.

While USAID/Guatemala can contract to build a bridge or a road, or train teachers, only Guatemalans can analyze, decide on, and effect improvements in the national budgetary and revenue process. What USAID/Guatemala can provide are the tools. The project we propose will finance the technical assistance necessary to bring about a rapid improvement in the Ministry of Finance's capacity to plan, execute, track and finance public sector expenditures. The Ministry of Finance, through the Minister and all three Vice Ministers, has committed itself to the project. The Ministry staff have demonstrated the readiness to begin the hard work and concerted effort that, together with the technical assistance we provide, will result in much improved public sector resource collection and allocation. An important feature of the project design is that most of the GOG counterparts will be pre-selected to participate in a project

process that will provide them with training and experience to qualify them for fast track career development in the Ministry of Finance.

This project is an essential component of our overall program because we believe USAID's mission in Guatemala to be not merely one of supplementing present day public expenditures, but rather assisting the country to meet its objectives with such efficiency that it will deserve and win public confidence in its ability to deliver.

2. Macroeconomic Setting:

The year 1986 marked the beginning of Guatemala's return to democracy. In the same year, the debilitating recession of seven years' duration ended, not coincidentally, due to the serious economic policies adopted by the Cerezo government. The economic program included both short-term stabilization policies and measures to effect longer-run sustained growth, export promotion and improvement in the real income position of the poor. By 1987, the Guatemalan economy was growing at a real rate of 3.1 percent. Agricultural production, total employment and private sector investment were all up significantly in 1987. In 1988, real GDP growth is estimated to have reached 3.5 percent.

Signs of economic recovery hide several persistent areas of weakness. On the external side, the current account deficit is still large, and the country remains dependent on significant levels of balance-of-payments assistance. This is due to robust increases in import demand that have accompanied growth, and poor performance in the traditional export sector. The short-term external debt drain on Guatemalan resources is significant (about one-third of export earnings), but not large by comparison with other Latin American countries. The Cerezo government has restrained monetary expansion and imposed two devaluations to bring the external imbalance under control. Additional corrective measures will be necessary in the near term to close the external gap.

Fiscal performance is also weak, but not in the usual sense. The fiscal deficit in Guatemala has been maintained in recent years at about 2.5 percent of GDP or lower, small by world standards. In Guatemala, however, it masks what is generally considered to be an inadequate level of

public services. Government expenditures in Guatemala are low by comparison with almost any country --less than 12 percent of GDP in the general government sector. The nonfinancial public enterprise sector is also relatively small --less than two percent of GDP.

Revenues to the public sector are also minuscule by world standards. The ratio of taxes to GDP is less than 10 percent, and the surplus of nonfinancial public enterprises is estimated to be less than one percent of GDP. The tax system is levied on a narrow base, revenues have not grown adequately in recent years, and a heavy revenue dependence on international trade taxes makes the budget inordinately sensitive to external events. The 1987 decline in coffee prices compromised that year's budget, for example, forcing a 3.3 percent reduction in current expenditures and offsetting some of the revenue gains that were attributable to inflation, administrative improvements and the expansion in the economy.

The public sector is also hampered by an inefficient administration which makes the actual tax yield far less than the potential yield. Some of these problems are due to deficiencies in the tax structure, which makes taxes difficult to assess and collect, some owing to inefficient procedures, and others to inadequate staff. Tax administration problems are one reason why the Cerezo government is having trouble moving toward its taxation target of 10 percent of GDP by 1990.

There are important administrative problems on the expenditure side of the budget as well. The budgeting process appears to be in disarray and there is little by way of analysis of the costs and benefits of alternative investments. There are also implementation problems. It is reported, for example, that less than half of the investment budget was actually executed in 1987. Guatemala's "success" in controlling the public deficit has serious negative implications for economic growth in the future, which will depend in part on the level of public investment made now.

Fiscal policy problems could grow more severe in the near term. There is persistent public pressure to increase levels of publicly provided services, as consolidation of the democratic process unleashes pent-up social demand.

Dissatisfaction with implementation of the tax system and the expenditure budget is widespread, vocal and growing. A tax reform attempted by the Cerezo government in 1987 could have been a significant step in the right direction. Because of political and administrative difficulties, however, the reform did not fully accomplish the objectives of increased revenue and reduced distortion to the economy it was intended to promote.

The Guatemalan Government is now confronted with an urgent need to prepare for another round of tax reform, and to make improvements in the budgetary system to carry out its development programs and provide the safety net it desires for low-income citizens. The proposed Fiscal Administration Project will assist the Government to undertake improvements to its budgetary and revenue system in a way which is supportive of the country's broader development objectives.

B. Project Rationale:

1. Relationship to Mission Strategy:

Guatemala is unique among Central American nations, in that its public sector is too small to deliver what is widely recognized as a minimal acceptable level of public services. The Fiscal Administration Project will pave the way for a rational and limited expansion. Its role in this respect will be discussed below. First, however, it must be recognized that the public sector can only set the foundation --basic supporting infrastructure-- for sustainable real growth. The private sector will have to take the lead in saving, investing, producing and providing the jobs. This will only happen if it has confidence that the public fisc will be managed in such a manner that the Government is the private sector's ally in the pursuit of growth, and not a foe that squanders resources through inefficiency and partisan political posturing. The Government has made a start in this direction, but recognizes that it still has serious skepticism to overcome. By undertaking an internal, visible and participatory effort in improving fiscal administration, the Government hopes to make a fast and dramatic advance toward winning the confidence of the private sector.

The Mission's Country Development Strategy emphasized the need to increase Guatemala's performance in

construction of basic rural infrastructure, availability of rural research and extension; and provision of education, nutrition and health services.

Progress toward these objectives, both in the immediate period and in the longer term, demands that Guatemala be able to adequately plan, carry out and finance the required investments. In addition, improved development infrastructure carries a burden of increased future recurrent costs for which Guatemala must budget. Ability to capture funds to finance investment and recurrent costs, in turn, depends on an adequate administrative capability. A Fiscal Administration Project to strengthen public finance in Guatemala is essential for the country to meet the objectives espoused in its development strategy.

The proposed project is also a cornerstone of Mission strategy, as outlined in the FY 1990-91 Action Plan. The CDSS notes Guatemalan commitment to "maintain the political will to accelerate development investments as a natural consequence of the democratic expression of popular demand." The document describes the willingness of the U.S. and other donors to assist planned Guatemalan interventions which include:

- * -- credible administration of fiscal affairs;
- systematizing the national budget process so that investments are consistently focused each year on the highest priority socioeconomic needs, and are successfully expended;"

The words of the original FY 1986 CDSS document continue true today, namely that "Guatemala lacks the modern redistributive mechanisms of industrialized nations to spread broadly the benefits of growth." The CDSS points out the inadequacy of simple income redistribution as a means of improving national living standards. The document and its update supplement both note the lack of public investment in key areas such as education, rural infrastructure and health services. The documents conclude that one of the ways to have more broadly based growth in Guatemala is through improved administrative capacity in the public sector to give available resources their greatest impact in priority development areas. At the same time, the CDSS documents call for improvement of the tax structure and administration to provide more reliable

flows of revenues, without unduly distorting or discouraging private production.

The Mission sees the national budget and revenue process as the missing link between macroeconomic policy change, as supported by the Mission ESF program, and sector-specific assistance to the line ministries through DA projects. The former addresses the size of the fiscal deficit, and through the Core Development Budget, the composition of public expenditure. However, to go beyond the broad aggregates and link ESF to the details of fiscal management, the Government's institutional capacity to enact such improvements must first be strengthened.

DA support to line ministry activities finances specific investments. The Mission routinely raises the issue of management of ministry resources, but cannot effectively use DA grants to individual ministries to address the question of how resources are allocated among ministries and sectors. The proposed project bridges this gap by directing resources to improve the Ministry of Finance budgetary process and the mechanisms to raise necessary revenues.

2. Relationship to Other Donor Assistance:

During the early eighties, very little donor assistance was offered to Guatemala in the area of public administration and finance, due to a lack of political will to make needed improvements. When the Cerezo government took office in 1986, the Ministry of Finance embarked on a program of reorganization, technical improvement, and managerial reform. As part of this effort, the Ministry sought external assistance across a wide range of areas in tax administration and budgeting. At present, there are six main technical assistance projects underway in the broad field of fiscal administration. They are:

- o RTU/CC/Interamerican Development Bank (IDB)/Interamerican Center for Tax Administration (CIAT): A project team has been working for 5 to 6 years in developing the current account for tax collections.
- o GTZ, Government of West Germany: A three-member German team providing tax and budget administration technical assistance.

- o G-5, United Nations Development Program (UNDP): A three member team of Guatemalans providing the coordination of Ministry of Finance efforts to restructure, debureaucratize, and modernize.
- o Cadaster, Government of France: A French contractor managing the Cadaster project.
- o Customs: Several small-scale activities - training by Governments of Mexico and Spain and computerization funded by UN and USAID.
- o Other: One technician from CIAT is providing general advice on taxation and one technician from the International Monetary Fund (IMF) is examining the payroll system.

Annex A and the technical reports contained in the Project Paper Bulk Annex examine each technical assistance activity in turn.

There were serious problems evident in the Ministry's past approach to coordinating technical assistance, problems that will be corrected as part of the implementation of the proposed project. Tax administration and budgeting require cooperation among many offices of the Ministry, all of which are interrelated in sharing information, computer linkages, and policy deliberations. On the taxation side, there is a further concern. A Guatemalan may be legally liable for income tax, vehicle tax, value-added tax, property tax, corporate taxes and import duties. For this reason, efficient management and supervision of the overall system of taxation require that information on each tax be linked for each taxpayer. Within this context, the past policy of the Ministry of managing each item of technical assistance as a separate unit, and in some cases impeding communication among donors, has engendered many of the problems described in Annex A.

The Minister of Finance has made a firm commitment and has taken steps to improve coordination of donor activities. The Fiscal Administration Project will be an essential input into the project in forming an "umbrella" of coordination into which all donor activities will be drawn. The Minister of Finance will serve as coordinator of the "umbrella" group, with the project technical assistance team

advising him. Through the "umbrella" mechanism, the Minister will coordinate and supervise all externally-funded technical assistance, in contrast to the decentralized supervision by each Ministry Office that occurred in the past.

The Fiscal Administration Project will provide a focal point for the integration of other donor activities into a coherent policy framework (see Comprehensive Fiscal Reform: Fiscal Analysis Integration, Section III.B.1.a below.) This approach will avoid duplication of efforts, ensure that the individual elements work more effectively together and assist the Minister to fill in areas of needed technical assistance which are currently unmet. The general role of the Fiscal Administration Project is further affirmed in the Minister of Finance's request for assistance (Annex G).

The sections of this project paper which describe the specific technical assistance activities elaborate more fully on how other donor projects will be coordinated.

III. PROJECT DESCRIPTION:

A. Objectives and Strategy:

The goal of the Fiscal Administration Project is to support the Government of Guatemala's efforts to stimulate robust economic growth, with a structure reflecting broad participation and optimal utilization of Guatemala's particular resource endowments, given cost-price relationships in world markets. The Project is designed around the Government's economic and social policies and is cognizant of the constraints imposed by the economic and political setting.

The purpose of the Project is to assist the Government of Guatemala in a comprehensive modernization of its system of fiscal administration. The Project has four specific objectives to achieve:

1. Improvement in the Allocation of Resources will be accomplished in three ways: (1) by helping to find underlying structural problems in the fiscal system that are not in step with the economic programs of the country, and that distort economic choices in ways that cause losses to society; (2) by modernizing, simplifying and improving the administration of the fiscal system, and eliminating the resource costs that operational inefficiencies impose on society; and (3) by providing better information to assist government officials in making fiscal decisions.
2. Greater Fairness in the Distribution of Tax Burdens and Expenditure Benefits that result from the administration of the fiscal system implies the development of a more horizontally equitable system whereby like taxpayers will be treated the same way.
3. Mobilization of Resources to Cover the Cost of Public Services through improved administration of the tax system and the system for delivering public services.
4. Improved Government Ability to Plan and Monitor its Fiscal Decisions will be accomplished by developing the institutional capability to continue this work, because comprehensive fiscal reform is an ongoing process. The Project will include a substantial

training and data computerization program, as well as the development of analytic models. The purpose of these components is to put permanently in place within the Ministry, the capability to evaluate the implications for future revenue and expenditure, and for income distribution and growth, of changes in public policy or external economic conditions. These will enhance the Ministry's ability to monitor the efficiency of its operation, and to plan its programs rationally.

Cutting across all of the objectives is the goal of decentralization. Decentralized participation in government decision making, strengthened capacity of local governments to finance and deliver services, and decentralized central government fiscal administration activities are all encompassed within this goal. Actions in these three areas would, in the eyes of the Government, (1) improve the allocation of resources by reducing the underinvestment outside of Guatemala City, (2) make the system more fair by reducing some of the rural-urban disparity in public services, and (3) improve the Government's ability to choose the best mix of public services by removing what might be an undue Guatemala City bias.

Certain general principles will guide this project and it would be well to state them at the outset. The first is that administration depends on policy. An underlying problem with the revenue system may well be its structure. It may be so complicated as to be beyond the capacity of the Government to properly administer at a reasonable cost. It may be so unfair that payment of taxes will be resisted no matter how much the administration improves. To jump too quickly to administrative reforms would miss these underlying structural problems. To be sure, there are administrative reforms that can and will go forward without policy changes, but it is very important that the public sector understand the extent to which the true underlying causes have to do with structure rather than administration.

The second general principle is that fiscal administration and structural changes should be formulated to be consistent with the Government's broader economic policy package. The present Government's development strategy involves overcoming restraints implicit in small Government, by relying far more than is usual upon the private market mechanism and its price system as the "traffic cops" of resource allocation. Consistent with this is the expectation

that exports of goods with high labor and land content will lead the way. If the tax system implies low rewards for investment in these directions, it simply will not happen.

A central part of the work will be the generation and interpretation of empirical evidence about the operation and impact of the fiscal system. In other words, the project will collect and analyze taxpayer records, budgetary data and other information potentially available from Ministry day-to-day activities, to provide information on questions such as who pays taxes and who benefits from government expenditures. The availability of reliable information will lift the debate on the policy program to a much higher level than has been seen in Guatemala to date, by removing the mythology and hearsay about the impact of proposed changes in the fiscal system.

The third principle makes institution building a primary concern in all activities of the project. It is not enough to assist the Government in a comprehensive one-time reform of the fiscal system. It is also necessary to leave behind a capability to maintain and update these reforms and operational changes in the future. Formal and on-the-job training, computerization of tax administration, data base development, and the development of analytic models will all be an important part of the work.

To put these three principles into practice, the project design includes three types of activities for each component. Each activity will be based on thorough homework to obtain and put on the written record a full understanding of the laws, institutions, and administrative procedures governing each tax or expenditure issue covered under the project. As simple and basic as this sounds, such information in writing does not presently exist.

Second, there will be detailed analytical work to understand the impact of the tax laws and individual provisions of interest on the allocation of resources in Guatemala and the distribution of income. Past analyses of tax and expenditures have been at a level of generality too broad to guide policymakers. Both the Ministry and international agencies have produced, over and over, through the years, studies of fiscal issues that were too superficial to guide sensibly the policymaking process. In part this has been because no one wanted to put the time and expense into serious analysis of

fiscal matters when governments in power had no serious technical interest in fiscal reform. This has now changed, and a more detailed level of analysis is now required by Guatemalan policymakers.

A third activity of each component is to assist the Government in defining alternative approaches to deal with the problems in the system. This may include recommendations about structural or administrative changes, long-term in-country technical assistance, assistance in software development, hardware purchases and training. In this way, the proposed project coordinates the "umbrella" of modernization activities the Ministry of Finance plans to undertake, with its own, other donor and USAID/Guatemala financing.

B. Project Elements:

The following sections describe the set of components which will make up the proposed Fiscal Administration Project. The presentation follows an outline which divides the components into three general areas: (1) background research, information gathering and analysis; (2) operations; and (3) development of an Institute for Fiscal Analysis. The specific components of each area are listed in Table II-1 on page 20.

In the information and analysis activities, fiscal experts will work together with staff of the Ministry of Finance to establish the institutional capability to analyze, at a much greater level of detail, the fiscal questions believed to be most pressing for Guatemala.

In the operations activities, technical assistance will be provided to the Ministry of Finance to improve tax administration, budgeting, and institutional capability in computerization and training.

The creation of an Institute for Fiscal Analysis will provide a unified locus for the new analytical responsibilities the Ministry of Finance will take on during the course of the proposed project.

Of course, the various parts of this work program are interrelated, even though they are presented here as seemingly independent efforts. The activities will be coordinated in two ways. The first is through a central design

and management of the research and technical assistance. The second is the set of analytical exercises that cut across the various issues related to fiscal administration.

1. Development of Analytic Infrastructure:

The analytic tools required to support comprehensive fiscal improvement vary from straightforward to quite complicated. At present, the Ministry of Finance does not have the in-house analytical capacity to perform even very basic analyses of the impact of fiscal policies. A highly detailed assessment of Ministry capabilities and needs in this area is contained in the report titled "Tax and Fiscal Analysis and Modeling Capabilities" that forms part of the bulk annex of this project paper. The following project components are based on the conclusions of this report. The best examples of the problems caused by the institutional weaknesses identified in the analytic area can be found in the experience of the 1987 fiscal reform.

The Information and Analysis components of the proposed project will, with close collaboration by Ministry of Finance staff, develop the analytical and evaluative machinery and leave it permanently in place within a newly created Fiscal Analysis Institute in the Ministry. The following sections briefly present the individual components. As there is a great deal of technical detail in how such work is carried out, the components are described at length in the bulk annexes to the project paper. In the main document, the descriptions will be, by necessity, brief, and will concentrate on justifying the need for each component, and the benefits we expect from its implementation.

Table II-1
COMPONENTS OF THE
USAID/GUATEMALA
FISCAL ADMINISTRATION PROJECT

1. Development of Analytic Infrastructure
 - a. Comprehensive Fiscal Reform: Fiscal Analysis Integration
 - Infrastructure Building
 - b. Development of Simulation Capacity for Guatemala's Most Important Taxes
 - i. Business Tax/IVA
 - ii. Individual Income Tax
 - iii. Commodity-Based Consumption Taxes (e.g. import duties, excise taxes)
 - c. Development of Simulation Capacity for Public Sector Revenues
 - d. Creation of a Taxpayer Identification System
 - e. Calculation of Marginal Effective Tax Rates
 - f. Calculation of Rates of Effective Protection
 - g. Development of a Computable General Equilibrium Model
 - Specific Analysis
 - h. Analysis of Fiscal Policy Influences on Economic Structure
 - i. Analysis of Tax Burdens and Tax Fairness
 - j. Development of a Database on Public Enterprises
 - k. Development of a Workplan for Fiscal Decentralization
 - l. Diagnostic of Business Taxation and Incentives
 - m. Diagnostic of the Personal Income Tax
 - n. Diagnostic of the Property Tax
2. Operations and Administration:
 - a. Income Tax Administration
 - b. Administration of Domestic Indirect Taxes (the major ones are the value-added tax, excise taxes and the stamp tax)
 - c. Customs Administration
 - d. Budgeting and Expenditure Management
3. Development of an Institute for Fiscal Analysis

a. Comprehensive Fiscal Reform: Fiscal Analysis Integration

One of the more important tasks of the Project is to integrate the policy analysis, making all results clear to government officials and working with the Minister and his designates to formulate alternative reform programs. The first step in this process is work with the Office of the Minister to construct a thorough, analytic background paper describing the fiscal system, measuring and evaluating its performance and analyzing the extent to which it fits the government's general economic and social development program. This document will set the context for the work, "fit the pieces together," and will allow the government to begin a discussion of comprehensive fiscal reform. It also provides a framework for discussion of the overall project with a broader circle of government officials and, when the time is right, perhaps with the private sector. It will include a detailed analysis of the recent revenue and expenditure performance of the Guatemalan fiscal system as well as a study of how the Guatemalan system compares with those of other countries.

The concept paper will also deal with the relationship between fiscal and other elements of economic policy, and in particular will address the issue of what kind of tax program is most consistent with the government's current thinking about tariff, trade, and industrial policies and about decentralization. An assessment of the tax administration and financial management systems as they relate to long-term fiscal policy will be included.

This study will form a background for a number of government decisions, and conceivably for a White Paper on fiscal policy and administration. It will help establish priorities for fiscal reform and the proper timing of the implementation of these reforms; it will call attention to the kinds of policy and administrative changes that are reinforcing and the kinds that are contradictory; it will point up those areas where we know too little and must dig more deeply; and it will help formulate a plan for technical assistance coordination in this area. A side benefit is that this paper may assist the government in reviewing its economic policy program in connection with its negotiations with donors and creditors.

A great deal of the work on the concept paper has already been done during the design stage, and is presented in the nine technical memoranda contained in the bulk annex. This work will now be expanded and deepened as the Project goes forward, and it will be continuously revised.

The paper is the tangible output of this activity, and will reflect almost constant discussion with the Minister, other ministry officials and Project staff. Other outputs will be working technical presentations by project staff, supporting memoranda and special simulations. This work will draw heavily on research already completed by the government, analysis completed thus far during the design phase of this project, research and technical assistance carried out by other consultants and advisors, and additional field work, and on guidance from the Minister of Finance.

To accelerate the internal discussion process, the concept paper will be the agenda document for an initial seminar on the project goals and activities, to be held early in the project implementation process. The discussions at this seminar will serve to sharpen the goals of the project and increase enthusiasm for the project components on the part of government officials. This seminar, and others like it, will lead to a continuous revision of the basic concept paper as the work of the project evolves. By the end of the project, the concept paper will have developed into a full-fledged policy paper on comprehensive Fiscal Policy and Administrative Reform in Guatemala, fully vetted within the public sector and discussed with the private sector as well.

Infrastructure Building:

b. Development of Simulation Capacity for Guatemala's Most Important Taxes:

The most important fiscal analysis tool to be developed and applied in the proposed project is a set of microsimulation tax models. These models are essential to the formulation of tax policy, and also will enable the Ministry of Finance, through a new Institute for Fiscal Analysis, to track and forecast public sector revenues. The three microsimulation models believed most urgently needed are:

- o A Business/Value-Added Tax (VAT) Model. This model will integrate two submodels, one for the corporate income tax and the other for the value-added tax. Each submodel will be used to analyze tax liability effects of a broad range of tax policy and operational alternatives. For example, the corporate tax model can provide direct estimates of the consequences of alternative depreciation schedules or analyze the effects of inflation on after-tax rates of return to investment. The value-added tax model will provide information on the impact on tax revenues of changes in exempt activities or tax rates. The integration of the business income tax and VAT models will permit a more general study of the impacts of taxation on business operations, and estimates of sectoral variations in effective tax rates on businesses.
- o An Individual Income Tax Model: This model will be used to analyze the impact of alternative changes in the tax structure on revenues and the distribution of tax burdens. The individual income tax model will also provide the basis for studying the combined effects on households of the income, payroll and consumption taxes.
- o Commodity Based-Consumption Tax Models: This model will focus on import duties, value-added tax levied on imports, and excise taxes. Other commodity-based taxes such as the motor vehicle tax could conceivably be included in the model.

The construction of microsimulation tax models is a complicated business. During the project design process, we determined that the most cost-effective (and quickest) way to create a permanent modelling capability within the Ministry of Finance is to use Ministry staff, working together with expatriate experts, to adapt models already available to the Guatemala-specific data and circumstances.

This approach has numerous advantages. First, it is much faster than building models from scratch. Second, it addresses staffing constraints within the Ministry of Finance. The lack of highly trained fiscal economists in Guatemala and the inability of public sector wage scales to attract and hold such persons (if they existed) both point to

an approach where mid-level technicians already working in the Ministry can be trained to operate and update the models, so that modelling capacity fully exists in the Ministry when the project ends. (This is analogous to the Lotus 1-2-3 program. A person can fully use and understand Lotus without having to know how the program itself is written.) Thus, perhaps counterintuitively, the development of sophisticated, computer-based models does not constitute a problem in a country in which highly trained manpower is in short supply. Rather, it gives explicit recognition to that problem and provides a relatively low cost technological solution.

This component will be implemented by contracting with a U.S. firm that possesses the models just described already developed. Technicians of the U.S. contractor will work with Ministry personnel (the future staff of the Fiscal Analysis Institute) to modify the "turnkey" models for use in Guatemala. To store and run the models, two microcomputers will be purchased under the project. At first, one will be placed with the contractor and one in the Ministry, so that the models under adaptation can be run simultaneously in both places, as they are developed and debugged. At a later stage, the second microcomputer will be moved to the Ministry.

c. Development of Capacity to Simulate and Forecast Public Sector Revenues

The microsimulation models to be developed under the above-described component are geared toward analyzing tax liabilities, that is, the amount that taxpayers ought to pay under a particular tax structure if information and administration were perfect. This is an appropriate approach to analyze the impact of tax structure on the economy. For the Ministry to estimate revenues for budgeting, cash management and other administrative purposes, however, actual cash receipts are more important than computed tax liabilities.

Under the proposed project, technical assistance will be provided to the new Institute for Fiscal Analysis of the Ministry of Finance to build a revenue tracking model. The model will convert the tax liability computations generated by the microsimulation models into cash receipt projections. The conversion will be made via statistical analysis of historical data which capture the form and timing of actual payments. The output of the revenue forecasting model will be a stream of projections of monthly tax receipts for each of the major taxes.

In addition, under this component, technical assistance to the Ministry will be used to construct econometric forecasting models for all major taxes. How do these models differ from those described previously? The econometric models are used to predict changes in tax revenues in future years that occur due to changes in the structure of the economy. For example, changes in the tax yield may result as the economy exports more, as exchange rate changes reduce dependence of the economy on imports, or due to differences in the growth of the various sectors of the economy. The econometric models will be estimated based on time series data on tax revenues, the tax base, and economic determinants of the tax base. Projections from the individual tax econometric forecasting models will be an input into the calibration of the revenue tracking model.

d. Creation of a Taxpayer Identification System:

Efficient fiscal administration and the enforcement of taxes demand a universal taxpayer identification system. The fundamental feature of such a system is a unique identification number for each taxpayer which can be used in all transactions with the tax authorities. Significant benefits can be derived when taxpayer identification numbers are also employed to identify the same individuals in systems apart from taxation. For example, if the social security system uses the same individual and firm identification numbers as the tax authorities, payroll information in the social security system files can be used in the audit of personal and company income taxes. The same principle applies to import and export licensing carried on by the Central Bank, and government contracting.

In Guatemala, no unique numbering system exists. Any individual or company potentially liable to pay any tax is required by law to register with the Ministry of Finance and receive a taxpayer identification number, called the NIT. The registration information is kept in a master computer file of the Department of Internal Revenue called the Registro Tributario Unico (RTU). As the present time, the identification system has been "officially" implemented only for the income tax and the value-added tax.

In practice, the operation of the RTU for income tax and VAT has not achieved its goals. There appear to

be many taxpayers filing taxes who are not listed in the RTU. Other taxes such as the motor vehicle tax or excise and consumption taxes have not been incorporated into the RTU system. The Department of Cadaster and Property Valuation (DICABI) has recently developed a separate identification system for the property tax that is not linked in any way to the RTU. Outside of the Ministry of Finance, the Social Security Institute (IGSS) has implemented an individual and firm identification system that is different from the RTU-NIT. Individuals also have other identification numbers, the most important of which is the "cedula de vecindad" or identity card issued by the municipal government in which the person resides.

Unification of all individual identification systems in Guatemala is a desirable goal, but is beyond the scope of the proposed Fiscal Administration Project. A more feasible goal is to fully implement the RTU system for income tax and VAT, and to require the same numbering system for all taxes. The first step will be, through the "umbrella" donor coordination mechanism, to evaluate the IDB-financed work done by the RTU-NIT group over the last 4-5 years, and then seek a decision at the level of the Minister about the future shape of that project.

e. Calculation of Marginal Effective Tax Rates (METRs)

The nominal tax rates which appear in tax laws do not really tell us at what rate income is taxed. Where some kinds of income are exempt from taxation or are taxed at different rates, it is fairly certain that resource allocation is being distorted. In this case, resources will flow too heavily into lightly-taxed activities, and too little into heavily-taxed ones. For this reason, it is necessary to employ the concept of "marginal effective tax rates (METRs)" to appraise the allocative effects of taxation. The METR is the percentage by which taxation reduces the before-tax rate of return to an investment in a particular area.

The Ministry of Finance wants to learn how the tax system is encouraging or discouraging investments in the different sectors of the economy. One part of the plan of work under the proposed project is to calculate the METRs for a variety of investments in the Guatemalan economy, under both existing law and possible modifications to the law. Such calculations will be done for the corporate income tax

considered by itself and for the combination of all important business and individual taxes. The necessary analytic work will be carried out by two expatriate experts in the field, who will work together with staff of the new Institute for Fiscal Analysis.

f. Calculation of Rates of Effective Protection:

As part of the analytical activities carried out under the project, rates of effective protection to domestic production resulting from commercial policy will be calculated. These calculations will tell the Ministry of Finance the extent to which commercial policy provides an artificial stimulus or disstimulus to the domestic production of certain products. The analysis, to be conducted through technical assistance to the new Institute for Fiscal Analysis of the Ministry of Finance, will build on that already undertaken by the World Bank and SIECA (the economic analysis secretariat of the Central American Common Market).

The treatment of the question of how commercial policy affects domestic allocation of resources will also incorporate the effects of other distortionary taxes (in addition to trade taxes), to gain a more complete picture. This is best done through use of a computable general equilibrium model (CGE), described in the next section.

g. Development of a Computable General Equilibrium (CGE) Model for Guatemala:

Calculation of METRs and effective rates of protection provide only partial pictures of the distorting effects of tax and commercial policies. For the technical assistance team financed under the project to advise the Minister on the overall impact of the distortions present in the tax system on different sectors of the economy, and their costs, it will be necessary to construct a CGE model for the Guatemalan economy.

A CGE model is a computerized multi-equation model of the economy that attempts to capture the interaction among various sectors, markets and taxes. Such a model allows policymakers to see the results of policies that have effects too complex to be determined confidently with more limited-scope models that concentrate on particular sectors. The model to be developed under the project, and permanently

installed within the new Institute for Fiscal Analysis of the Ministry of Finance, will ideally contain sufficiently realistic descriptions of the economy and of actual and potential tax laws to enable the Ministry to carefully analyze the effects of various combinations of actual and potential policies. These would examine, in addition to tax policies, other policy influences (such as exchange rate policy) on relative prices and costs.

Specific Analysis:

h. Analysis of Fiscal Policy Influences on Economic Structure:

The Guatemalan tax code provides incentives for many specific economic activities, from poultry production to industries located outside of Guatemala City. Details about the type of fiscal incentives which exist in Guatemala and their influence on the structure of economic activity are contained in the bulk annex report "Taxation of Business, Commercial Policy, and Industrial Policy" authored by Dr. Charles McLure. This section is based on the conclusions of his report.

A few examples may be given to demonstrate the kinds of influence exerted by fiscal incentives. Customs duty exemptions are commonly abused by diverting exempt goods (generally capital and intermediate goods) to uses for which no exemption is intended or desirable. In the income tax field, transfer prices may be manipulated to overstate exempt income (e.g. income from exports) and understate taxable income (e.g. income from production for domestic markets). The problem is made worse by a general tendency for fiscal authorities to devote few administrative resources to activities known to benefit from exemptions. In both these cases (and in general) the result is an undesirable increase in the fiscal sacrifice resulting from incentives, a reduction in vertical and horizontal equity, and reduced effectiveness of incentives.

There is no quick fix for these problems. In some cases, physical controls can prevent diversion of goods exempt from tariffs, but in others they cannot easily do so. Transfer pricing can be prevented by prohibiting firms benefiting from exemptions from buying and selling in the domestic market, but this might also require strong physical controls. In a country in which administrative resources are

scarce, such as Guatemala, administrative problems must be given careful consideration in the basic question of whether it is desirable to provide fiscal incentives, as well as in the design and implementation of incentives.

The fiscal incentive component of the project will provide technical assistance to the Ministry of Finance to examine four main questions relating to the specific incentives on the books in Guatemala (as well as new incentives under consideration). These questions are:

Fiscal Cost: What are the costs of fiscal incentives to Guatemala in terms of revenue lost?

Effectiveness: Are the incentive regimes effective in achieving their objectives? For example, do export incentives allow Guatemala to compete effectively against other countries that have some combination of low wage rates, subsidized credit, fiscal incentives, and greater public investment in infrastructure and human capital? Are fiscal incentives an important consideration for potential investors in the areas the Government wants to encourage?

Structure: Should exemptions be "all or nothing" as is commonly the case in Guatemala (in other words, producers are either liable for the tax, or are exempt from 100 percent)? There may be a case for having partial tax exemptions.

Foreign Tax Credit Implications of Incentives: Do international firms receiving incentives actually benefit, or do Guatemalan fiscal incentives increase these firms' tax liabilities at home? If so, Guatemala would be granting incentives whose only impact is to increase the revenues of other countries.

i. Analysis of Tax Burdens and Tax Fairness:

The proposed project will provide technical assistance to the Ministry of Finance to evaluate the distribution of tax burdens and expenditure benefits across income brackets. This component responds to the Government's desire to broaden the base of participation in the benefits of growth. It will permit estimates of the impact on various income groups of proposed change in revenue or expenditure policies.

On the revenue side, technical assistance will enable the Ministry of Finance to evaluate the extent to which the tax system is "vertically equitable" (how do effective tax rates vary across income levels?) and whether it is "horizontally equitable" (are equally situated individuals and businesses treated the same under the tax system?).

The project proposes to make estimates of the horizontal and vertical equity of the present tax system, beginning by using the data generated under the income tax activity for the microsimulation model, and then merging this with the available information from commodity taxation and from the consumer expenditure survey. Using this data set, the effects of the present revenue raising system can be simulated.

With these results, the Project technical assistance can aid the Government in answering some important questions. These questions include:

- o Is the overall tax system regressive?
- o Which taxes contribute to the regressivity of the system, and what features of those taxes most violate the equity goals of the Government?
- o What features of the tax system lead to non-neutralities in the taxation of similarly situated individuals and businesses?
- o To what extent is the equity and fairness of the tax system compromised by administrative deficiencies?
- o How might the distribution of tax burdens, and the fairness of the tax system, be changed by administrative and structural reforms?

Analyzing the allocation of expenditure benefits across income classes is a much more subjective exercise. It has been done for many countries, and can provide some rough guidelines as to how changes in the level and distribution of public expenditures might improve the well being of one part of society relative to others. The allocation of expenditure benefits is primarily a computer-assisted exercise. This analysis will be carried out by Ministry of Finance staff under guidance of a public finance analyst contracted under the project.

j. Development of a Database on Public Enterprise:

Under the proposed project, short-term technical assistance will be provided to the Department of Financial Studies of the Ministry of Finance to upgrade its capacity to analyze the operations of Guatemalan nonfinancial public enterprises. Although the public enterprise sector is small in Guatemala (less than 2 percent of GDP), the enterprises are primarily situated in the key sectors of energy, communications and transportation, and are thereby important to the country's growth prospects. In addition, some public enterprises have historically required large transfers from the central government budget, while others must transfer their surpluses to the central government. More in-depth description of Guatemalan parastatals is contained in the bulk annex report titled "Public Enterprise Sector," written by Dr. Melissa Birch.

The proposed project will assist the Ministry of Finance to undertake an analysis of public enterprises with the objective of defining the longer-term contribution of this sector to the delivery and financing of essential services. The questions to be raised are how does this sector fit into the overall public financing picture and what improvements need to be made to better integrate the public enterprises into long-term fiscal planning. The project will focus on three areas.

The first is the collection and standardization of public enterprise data. The absence of a single source of historical and contemporary data on public enterprises prevents the Government, the public, and probably even enterprise managers from understanding the sector, its achievements and its problems. While the various firms should continue to report to the appropriate Ministry, it will be highly useful to have a centralized source of operating and financial information. The Department of Financial Studies at the Finance Ministry collects some materials on the organizational structure of the public enterprises, and the National Planning Council has been organizing financial data. The Controller General Office also receives public enterprise financial data. Under the project, short-term technical assistance will be provided to the Ministry to collect, standardize, and transform these data into useful analytic categories that will facilitate future study of Guatemalan parastatal enterprises.

A second activity under this component will be a review of the adequacy of pricing policies in the public enterprise sector. Some pricing analysis has been carried out for the telephone and electric companies, but the other public enterprises appear to have had no systematic study of their tariffs. Public enterprise prices can be implicit taxes if they are set above cost, and imply subsidies if they are set too low. As part of any comprehensive fiscal analysis, it is essential to review the price structure of the major public companies to determine the tax-subsidy position.

The third general area of study will be coordinated with the component on public sector budgeting, to determine how the parastatal sector can be best integrated into the national budgetary process.

k. Development of a Workplan for Fiscal Decentralization:

The Government's long-term development program calls for both a reduction in the disparity of income and wealth between Guatemala City and the rest of the country, and for bringing Government decision-making closer to the people. The Guatemalan government has settled on these as important objectives, but has not decided on a strategy for their achievement. The project will assist the Ministry of Finance, in coordination with other Ministries, to evaluate alternative approaches to achieving the level of decentralization in governance that it desires. Issues related to decentralization, and strategies for developing a workplan, are discussed in more detail in Dr. David Greytak's paper, "Local Government Finance and Property Taxation," which is contained in the project paper bulk annex.

One of the first questions for the Government to answer, for example, is whether it intends to propose a more formal fiscal decentralization, i.e., giving more discretionary fiscal powers to local governments and generally strengthening their finances. Then there is the question of whether there will be a deconcentration of central government activities and what form this deconcentration will take. There is also the option of some combination of deconcentration and decentralization, but again the issue is how to structure this policy. Some Government programs are already moving in this direction with the establishment of regional government offices of central government agencies, and of urban and regional development councils.

The government's background work cannot be fully completed during the life of project, but a solid start can be made in three areas. The first is whether fiscal administration or central government deconcentration, or some combination, best fits the long-run goals of government policy. Second, what are the costs and benefits of each approach? Third, how does the government go about decentralizing fiscal activities in Guatemala? Here the issues have to do with whether local governments can be given increased budgetary autonomy, more revenue-raising powers, and access to credit from the Central Government.

A full analysis and implementation of a fiscal decentralization program is not included in the proposed project. The project will, as noted below, do the background work necessary to think through a general strategy for determining the right degree of fiscal autonomy for local governments. This will involve technical assistance to prepare, jointly with the Minister's Office, a background paper describing the pros and cons of decentralization and deconcentration, reviewing the experience in other countries, and carrying out a macro-level data analysis of local government finance in Guatemala. This information will be widely vetted within the government, and implementation possibilities will be reviewed. At the end of this activity, the government will have in hand a workplan to complete agreed-upon activities in decentralization and deconcentration.

TA will be provided so that the Ministry of Finance can develop a workplan for the decentralization of Central Government tax administration (income tax and VAT), and will prepare terms of reference for later work in decentralization. With these terms of reference, the GOG can seek domestic or other international agency funding to carry forward decentralization activities.

1. Diagnostic of Business Income Taxation and Incentives:

The business income tax in Guatemala yields about one-fourth of total revenues. The basic corporate income tax law in Guatemala is not markedly different from that in other countries, with a notable exception being the application of a progressive average rate to taxable income. (In other words, instead of taxing each additional increment to income at a higher rate, in Guatemala higher income levels are taxed in their entirety at a higher rate.) For a detailed discussion of

the business income tax in Guatemala, the reader may refer to the following bulk annex reports: "Income and Payroll Taxes" authored by Dr. Jorge Martinez, and "Taxation of Business, Commercial Policy and Industrial Policy" by Dr. Charles McLure.

The problems associated with Guatemala's corporate income tax may be divided into three categories: (1) administrative and operational shortcomings, (2) inadequate fiscal analysis which has led to some perhaps ill-advised structural features of the tax, and (3) an incompatibility between the structure of the tax and the Government's economic policy objectives. These problems are discussed in depth in the Martinez report.

Work on the business income tax will include a careful analysis of the legal underpinnings of the tax. This analysis will be used by the Ministry to correct the very unclear statement of the income tax in the statutes, which has led to confusion, errors in tax calculations, unnecessary costs of compliance and administration, tax evasion, and unintended opportunities for tax avoidance. The law also leaves open the possibility for excessive administrative discretion.

Another activity under this project component will draw on the quantitative analytic models to be developed under the project. Using these tools, the economic impact of the corporate income tax will be estimated, including revenue yield, distributional implications, and efficiency effects, particularly the biases or stimulus which the tax induces for investment, savings, and consumption. The analysis will specifically identify some of the problems in tax structure that compromise effective administration of the tax.

The business tax diagnostic will be carried out jointly with short-term external technical assistance and personnel of the new Institute for Fiscal Analysis of the Ministry of Finance. In this way, the Ministry will be positioned to carry out future analyses of the business income tax with its own, newly trained, personnel.

m. Diagnostic of Personal Income Tax:

The personal income tax in Guatemala yields around one-third of all income tax revenues. These include taxes paid by employees through withholding, and those paid by individual enterprises and professionals. The structure of the

Guatemalan individual income tax is broadly similar to that in other countries, but with several problem areas. These fall in three categories: (1) an extremely narrow tax base generated in part by the granting of numerous exemptions and generous deductions, (2) a very peculiar tax rate schedule based on the application of progressive average rates, and (3) administrative and tax enforcement shortcomings. Detailed discussion of these shortcomings is contained in the bulk annex paper "Income and Payroll Taxes" authored by Dr. Jorge Martinez.

The issues and deficiencies relating to the personal income tax will be the subject of an economic analysis to be prepared under the project, using short-term expatriate expertise to guide analysis by Ministry personnel. The work will draw heavily on the personal income tax microsimulation model to establish the revenues foregone from the present set of exemptions and deductions, and to quantify the distributional implications of the tax. The work will also analyze the distortions which the present tax introduces in individual behavior from the point of view of income sources (work effort, savings and investment) as well from the uses of income perspective (consumption patterns). The computable general equilibrium model will be used to estimate the importance and cost of the distortions caused by the structure of the personal income tax.

Under this component, the same analytic tools will be used to design several integrated options to the present tax structure. These options will be built against the backdrop of what may be an ideal individual income tax. Such a tax would minimize disincentives to work effort, investment, and savings. It would be both horizontally and vertically equitable, and would minimize distortions introduced in private decision making. It would be revenue-elastic (revenues would increase apace with economic growth and inflation), and would minimize arbitrariness and taxpayer compliance cost.

All the above is a tall order. Not all desirable objectives are simultaneously attainable. This is the main reason for designing several alternative tax structures. These alternatives can then be vetted within Guatemala in selection of the most desirable option within the national context.

n. Diagnostic of the Property Tax:

Property tax policy and administration underwent major changes in the 1987 Guatemalan tax reform. The previous two forms of property tax -the National Territorial Tax and the Municipal Tax- were unified in a new single tax with a comprehensive tax base and progressive tax rates. The reform also updated the property roll and assessed values, the latter via a nationwide taxpayer self-assessment (autoavalúo) exercise. The new property tax law earmarks over half of the proceeds for revenue transfers to municipal governments.

The 1987 reform has met with some measure of success, as indicated by the increase in property tax revenue collections. The tax yield went from Q15 million in 1986 to Q38 million in 1988.

Despite this recent progress, the property tax remains a minor and underutilized source of revenue. In 1988, property tax revenues represented only 2.1 percent of all government tax revenues and 1.7 percent of all government current revenues. For an estimated two million properties, 1988 property tax collections represent only about Q19 (\$7) per property.

Optimism about the revenue potential of the Guatemalan property tax is moderated by the reality that, not unlike in other countries, the tax has met with more taxpayer resistance than probably any other. In the case of Guatemala, recent opposition to the property tax is aided by certain problems with its design. The rate schedule makes the property tax both horizontally and vertically inequitable, as does the method used to calculate the base. Both the rate structure and poor administration give abundant opportunity for evasion. These problems are described at length in the bulk annex paper "Local Government Finance and Property Taxation" by Dr. David Greytak.

Under this project component, short-term technical assistance will assist the Ministry of Finance Fiscal Analysis Institute to prepare a technical paper which will analyze possible changes in the structure of the property tax which could increase its fairness and ease its administration and compliance costs. Based on a sample of property tax returns, the paper will quantify the revenue impact, and if possible, changes in the distribution of tax burdens implied by alternative tax structures. The analysis will also consider

the potential impact of alternative tax structures on Guatemalan land use patterns.

The technical paper will recommend the steps which must be taken to prepare an implementation of needed improvements in property tax administration. The areas of concern include perfecting the operation of the property tax roll, training, software and hardware and recordkeeping, both for centralized operations in the Ministry of Finance and for decentralized operations in the municipalities. It will also evaluate alternative improvements to the mass property appraisal to be started in Guatemala City with technical assistance from the World Bank, and from this effort draw lessons and conclusions that may be applicable to property tax appraisal in the rest of the nation.

2. Operations and Administration

A second major focus of the Project is fiscal operations, administration and planning. These activities involve fixing the day-to-day problems with the current system, modernizing operations, training, and planning for the implementation of whatever structural reforms are decided upon by the Government.

a. Income Tax Administration:

Many of the problems with income taxation are purely operational and would exist even if the tax laws were cleaned of ambiguities and the structure simplified. The following is a listing of some of the more important problems and unresolved issues. The problems are elaborated further in the bulk annex report "Tax Administration" by Oakley Austin.

- o The present organizational structure allows for much duplication of work, is not properly coordinated, and is inefficient.
- o The registration process is inordinately complicated and imposes a high compliance cost on potential taxpayers.
- o Income tax and sales tax returns are processed much too slowly, the procedure is far too complex, and there are major problems with accuracy.

- o There is no formal program to identify nonfilers.
- o There is no formal method of audit selection and relatively unsupervised auditors make poor use of their time, with the result that the audit process is ineffective, either as a deterrent to evasion or as a revenue raiser.
- o Something is terribly wrong with the data on the master file. There are no computer programs to identify possible nonfilers and stopfilers or to identify inconsistent entries on the data base.
- o There is no formal program to control tax incentives granted.
- o The collection and appeals process is unduly complicated. The former does not stimulate a high rate of compliance while the latter imposes a high cost on government tax administrators.
- o The training program is termed by some employees to be "worthless," possibly because the faculty are inadequately trained and possibly because the equipment is not modern. Perhaps most important, there is no training plan.

A special problem arises with respect to the IDB/CIAT program of technical assistance for the purpose of developing a computer system for a single taxpayer register (RTU) and an on-line current account file (CC) for all taxes for each taxpayer. The project provides technical assistance in the areas of computer systems analysis and programming and data base management. There are legitimate questions about whether this program is doing the job. After a considerable effort over 4-5 years, there still is not a clean master file with unique numbering, and the present system neither enables the use of third-party information nor gives up data for analytic purposes on a regular basis. A high priority for the USAID project will be to review the progress and evaluation of the CIAT/IDB program and recommend a course of remedial action to the Government.

Under the proposed project, two long-term resident advisors will be provided to the Internal Revenue Department of the Ministry of Finance, in the areas of income

tax audit and collections. This technical assistance would be supplemented by short-term expatriate experts in specialized fields which include audit technical training, appeals processes, returns processing and forms design, training and supervision.

While some of the work to be carried out under the project will be determined by the resident advisors when they are in place, the project design team has made the following initial recommendations for actions to be taken:

1. Reorganize the Internal Revenue Department along more functional lines.
2. Simplify and expedite the process for registering taxpayers.
3. Establish tolerances within which tax delinquencies will not be pursued. It is not cost-effective to try to collect small amounts of tax due.
4. Establish one unit with the responsibility for identifying nonfilers, estimated to be numerous.
5. Establish a Collections Department with responsibility to contact taxpayers with balance due tax accounts.
6. Institutionalize the training function in Internal Revenue with a permanent staff responsible for identifying training needs and developing and presenting training courses. Also, assist the Ministry's Training Center in acquiring needed training materials and equipment.
7. Develop computer programs to aid in the selection of tax returns for audit.
8. Develop a comprehensive auditor training program which will include both classroom and on-the-job training.

9. Make organizational changes within the audit function to improve the utilization of tax auditor time, and develop standards for evaluation of audit reports and work papers.

10. Develop procedures for more accurate tracking of cases in the appeals process.

The technical assistance referenced above will broaden the taxpayer base by improving the government's ability to identify taxpayers that are not at present filing tax returns. By upgrading the level of expertise of the Audit Department employees, better quality audits will result in increased tax revenues. Better utilization of Audit Department employee time will increase the number of audits per employee. Improved methods of selecting tax returns for examination by auditors will assure that tax returns with the most potential to provide additional tax are audited.

b. Administration of Domestic Indirect Taxes:

There are four major internal indirect taxes in Guatemala:

- o The value-added tax
- o Special consumption or excise taxes
- o The fiscal stamp tax.
- o The tax on motor vehicles.

By far the most important of Guatemala's indirect taxes is the value-added tax. For this reason, the focus of this component is almost entirely on the VAT.

The VAT, imposed in 1983, is administered by a separate unit of the Internal Revenue Department of the Ministry of Finance. VAT on imports is collected by customs. The tax takes the credit (or invoice) form, comparable to the value-added taxes of Western Europe and Latin America. It applies to importation and domestic sale of commodities and the provision of a range of services performed by commercial establishments.

The structure of the tax is generally in line with the latest thinking on the subject, but there are some features of the tax which need reconsideration. A more detailed discussion of the Guatemalan VAT is contained in Dr. John Due's report "Internal Indirect Taxation" which can be found in the bulk annex to this document. The main problem with the VAT is that some provisions cause cascading (overtaxing due to tax at one stage being added to the base against which the tax is assessed at another stage). Also, parts of the VAT law lack clarity and the system of penalties for failure to file is overly complicated.

The primary difficulties with the VAT relate to operation rather than structure. The following are the most serious administrative problems:

- o The tax was introduced without adequate planning, staffing, training, and education of the taxpaying public. Since that time, the VAT administration has devoted substantial resources to dealing with emergencies.
- o The VAT data processing system is incapable of operating in an efficient fashion. Numerous errors are made in data entry.
- o There is no adequate enforcement program. Determination of nonfilers is done largely by manual procedures. There are no trained enforcement personnel to contact delinquent taxpayers, and no effective follow-up of firms still not filing after they are notified to do so.
- o There is no effective audit program.
- o Tax return forms are overly complex, and paying procedures are unnecessarily time-consuming.
- o The failure of the Government to pay refunds arising from credits of tax paid on purchases in excess of tax due on sales is a serious handicap to effective operation of the tax and attainment of desired results.

The inadequacies in administration likely result in substantial evasion, but there is no way of quantifying the amounts involved. Undoubtedly firms collect

tax from their customers but fail to remit it to the Government. Merchants frequently will not collect tax, offering a lower price to the customer if he is willing to buy without receiving an invoice. Because there is no effective audit program, many firms are likely taking excessive credits.

The proposed technical assistance to the Ministry of Finance Internal Revenue Department for domestic indirect taxation is in both the structural reform and administration areas. The project will provide short-term technical assistance in structure and a long-term resident advisor in the area of administration.

A short-term expatriate expert in indirect taxation will review the structure of the VAT, drawing on the modeling efforts to reassess the distribution of tax burdens and revenue elasticity this tax implies. At the same time, the short-term advisor will assist the government in coordinating the reforms in the administration area to ensure that these are in step with the objectives the Government holds for the VAT. (The short-term advisor will also alert the Ministry of Finance to the medium to long-term implications of changes in stamp and excise taxes.)

The administrative and operations reforms require a long-term advisor working in the VAT section of the Internal Revenue Department of the Finance Ministry. Using the survey of administrative issues developed as part of the project design, the resident advisor will develop a workplan. For the remainder of his contract, the advisor will be responsible for assisting the Government, on a day-to-day basis, in making improvements in the operation of the system. He will also serve as liaison with the project officers responsible for auditing and upgrading computerization of the tax service, and he will be responsible for leading the in-country training program in value-added taxation.

c. Customs Administration:

Many government study commissions and technical assistance efforts in Guatemala have pointed out that the customs administration is deficient. The survey undertaken as part of the project design (see Kenneth Stacey's report "Customs and Export Incentive Administration Reform" in the bulk annex) confirms that the Government needs to take some dramatic steps to improve the efficiency of customs operations.

Although the legal and regulatory backgrounds to Guatemalan customs functions are satisfactory, and generally conform to the agreements of the Central American Common Market (CACM), the practical organization, administration and morale in the Customs Service are all at a critically low level. It appears that over many years the central government's increasing mistrust of the Customs Department has led to a progressive removal of natural functions of that department and a reluctance to entrust it with new controls which belong there. The result has been a decline in morale and a natural spreading of this mistrust of Customs to the private sector.

However understandable this policy may have been, we now face the situation where Customs is held in scant respect by most of the community. Headquarters offices have fallen into disuse, and discretionary practices have sprung up in outlying administrations and small central units, due to the failure of central control. Many basic regulations are ignored and irregular practices have developed which are denying scrupulous importers a fair treatment. New staff appointments of questionably qualified candidates has reduced career prospects and meritorious advancement for ambitious officers. Budget restrictions have produced very poor working conditions through dilapidation of buildings and shortages of supplies, even in the head offices in Guatemala City.

All is not bleak. There are encouraging signs of a turnaround under the present government. Computerization has made a promising start and new key personnel of obvious ability are now in post. These developments have the potential to exert widespread benefits and restore to Customs some of its natural responsibilities. The Fiscal Administration Project will provide a boost to these ongoing efforts to help Guatemala break the vicious cycle of deterioration and low morale in customs.

Under the proposed project, assistance to customs will be carried out in phases. The first activity will be to complete an in-depth analysis of the present system (building on the work carried out as part of project design), and to finalize a series of recommendations for consideration by the Government. These recommendations will be discussed at a seminar early in the implementation phase, and will form the basis of a workplan for a long-term technical assistance team.

The two long-term technical advisors to be contracted under the project will be a Customs Generalist and a Customs Computer Specialist. A short-term technical advisor in Fiscal Incentives for Export Promotion will also be contracted.

The specific activities for these advisors will be determined as the workplan is prepared. Preliminary recommendations about desirable activities to improve customs operations are contained in the Stacey report cited earlier.

d. Budgeting and Expenditure Management:

Budgeting is, by definition, an exercise grounded in both numbers and policy. It is at issue in Guatemala whether policies underlying the budget are explicit and based on informed analytic judgment. According to much USAID experience with the Guatemalan budget process, that is not yet the case.

The project design team's survey report (see "Analysis of the Budgeting System" by Dr. Darwin Johnson, in the project paper bulk annex) suggests that the budgeting process is primarily focused on the numbers and not on the program implications of those numbers. The recent decentralization initiative, requiring that the nation's budget be disaggregated into eight regional components, has not eased this concern.

Several factors perpetuate the imbalance between analysis and number generation.

- o The budget process is not highly automated. The Technical Budget Office of the Ministry of Finance has only four personal computers and limited access to the mainframe computer, which is also used for accounting, payroll, and tax administration.
- o The staff is not well-trained in problem analysis and the application of analytic techniques.
- o The availability of historical budgetary data on which to conduct analysis is poor.

The appearance of a heavy focus of the budgetary process on numbers rather than programs is reflected in the actual budget presentation itself - nearly 4,000 pages

of highly detailed budgetary data, without any overall presentation on the goals, objectives, and directions of overall governmental policies. One outcome is that budgetary policies in Guatemala nowhere presented in the context of national values and goals. Another outcome is that many budgeted items fall far short of their targets and goals. The shortfall in the execution of investment spending, for example, has been documented in previous studies and reports.

Improvement of the analytic content and substantive underpinnings of the budget can be usefully complemented with improved automation of the Government's accounting and payroll system. While the payroll system was automated in the early 1980s, the extensive amount of time and effort required to meet a monthly payroll appears quite excessive, because of numerous "exceptions" to the routine payroll process which must be handled manually. Also, the payroll and accounting systems are not maintained on a comparable classification basis and are kept in separate computer files, requiring a time-consuming conversion and reconciliation process.

The processing of invoices to the Government would also benefit from increased automation. While some elements of this process are already automated, overall the process is highly paper intensive and time-consuming. Moreover, invoice processing is prone to producing lags in the spending process that prove frustrating to both the spending agencies and to the contractors who have submitted payment claims. Further slowing the process, at its conclusion, checks must be manually signed by the Treasurer or one of a very few designated substitutes. The Treasurer signs between 1,200 and 2,000 checks per day, a role clearly inappropriate for a high government official.

The proposed project will provide technical assistance to the Technical Budget Department of the Ministry of Finance in the areas of increased automation of the budget process, the use of modern analytic and modelling techniques in budgeting, and the training of budget staff. The specific areas of work are described in the Johnson paper in detail, and include:

- o Preparation of a concept paper on budgetary structure
- o Technical assistance in the selection and monitoring of Core Development Budget activities

- o Technical support to the Technical Budget Department in creating a separate Budget Analysis Unit
- o Development within the Technical Budget Department of a multi-year budgeting framework
- o Implementation of a budget tracking system
- o Training to Budget Department personnel in program analysis
- o Development of a requirements analysis for a new payroll and accounting system

To provide the proposed technical assistance, two long-term advisors will be assigned to the Technical Budget Office of the Ministry of Finance. One will advise on budget concepts and presentation, and the development of a multi-year budgeting framework. The other will direct the development of the budget tracking and projection models and will train Guatemalan staff in program analysis.

The long-term advisors will be supported by short-term experts in the areas of budget, payroll and accounting systems.

3. Development of an Institute for Fiscal Analysis:

The title of this component refers to the permanent capacity for serious fiscal analysis that will be installed in the Ministry of Finance by project's end. In that sense, the Fiscal Analysis Institute is not a separate project component at all, but rather reflects one of the most important long-term objectives of all project activities - sustainability. We separate it out here for further discussion.

Permanent capacity for fiscal analysis will be developed within the Ministry of Finance through several actions under the project. These are:

- o Modelling activities discussed in Section III.B.1.
- o Training to be provided under the project to Ministry of Finance personnel

- o Formalization and institutionalization of data collection activities necessary for analysis of the fiscal system
- o Appropriate institutional placement of the fiscal analysis function, to maximize its input into Ministry of Finance (and GOG) decisions on fiscal policy.

These four concerns will be explained in the sections below.

Modelling: Earlier sections of this paper have described in detail how the models to be developed under the project can (and should) be used in the policymaking process. The models can lift the level of the policy debate in the area of taxation and budgeting. For example, the models will be able to demonstrate how tax burdens will shift as a result of proposed changes, and can even be used to suggest the revenue gains to be had from particular kinds of administrative improvements. With such information available, it is very difficult for special interest groups to influence government policy on the basis of spurious arguments or anecdotal evidence.

Training: An important contribution of the project will be to develop Guatemalan fiscal analysts.

As designed, the project requires that Guatemalan counterparts participate closely in the formulation and execution of research undertaken under the project. Ministry of Finance personnel will be exposed to hands-on experience in policy analysis. This will provide to Ministry staff a deeper appreciation of both the objectives of various proposals and the analysis underlying them, than they would have acquired by simply reading reports prepared by outside advisors. In this way, a cadre of knowledgeable Ministry personnel will remain once the expatriate advisors have finished their work.

Experience in other countries has shown that structuring external technical assistance to firmly implant a domestic capability in fiscal analysis is important to the viability of long-range efforts to improve the tax system of a country. The point is well illustrated by the case of Colombia. Dr. Charles McLure has described the evaluation of policymaking over the past 25 years in the following terms:

"Tax policy has generally improved over the past quarter century. ... To a large degree the basic improvement made early in the period reviewed here reflects the recommendations of highly visible foreign tax missions, especially the Musgrave Commission ... Interestingly enough, many of these reforms undid mischief advocated earlier by foreign missions, especially the interventionist incentive policies proposed by ECLA. But as a cadre of local experts trained in policy analysis and experienced in tax administration has emerged, the recommendations of foreigners have been modified and extended in important ways by Colombian nationals, especially in the 1974 reforms. More recently reforms have been essentially 'home grown' - the product of local expertise, with only minimal foreign input; this is especially true of the 1986 reforms." (quoted from bulk annex report "Taxation of Business, Commercial Policy, and Industrial Policy" by Dr. Charles McLure, emphasis added.)

Data Collection: Much better collection and analysis of data will be required for both tax administration and policy analysis activities under the project to become institutionalized. Initially, the Ministry of Finance will need to rely on outside experts for the preparation of improved data; however, local capability in the preparation and use of such data is an important objective of this project. Improved data collection needs in each fiscal area are discussed in the bulk annex technical papers. What follows here provides a general outline of the project goals in this area, focusing on data requirements for policy analysis.

The required improvements in data collection and processing can be broken down into three general (and not necessarily mutually exclusive) categories:

- o The development of a "Statistics of Income Tax" series. This data series would regularly report information from a sample of income tax returns. The statistics would show the distribution of taxpayers, taxable income, and tax liability by type of payer.
- o Comparative data on the financial condition and structure of public enterprises, together with some operating statistics. The collection, standardization and transformation of these data into useful analytic categories will facilitate the study of this sector.

- o Data on revenue and expenditure performance of subnational governments. Many countries produce this in the form of a census of governments, and it can be used to structure intergovernmental grant systems, measure the revenue effort of local governments, and keep track of fiscal disparities.

Development of an adequate data processing capability for policy analysis will involve several steps. First, it will be necessary to determine on the basis of interviews with senior policy makers the types of data collection and analytical capacities they would find most useful. Although such interviews will concentrate on officials of the Finance Ministry, they could probably usefully extend to those in other parts of the government.

Second, the Ministry, together with project technical assistance, will make an inventory of current capabilities for data collection and processing for tax administration and policy analysis. This inventory will cover (1) data (both in computerized form and potentially computerized form); (2) analytic models and related computer software currently being used for data processing and policy analysis; (3) computer hardware; and (4) personnel charged with collection, processing and analyzing data for administrative and policy purposes. The inventory will be concentrated on the Finance Ministry, but will also include outside public sector agencies.

Third, existing capabilities will be compared with needs for data and analysis in order to determine required changes in data collection, analytic models, and computer software, hardware and personnel. The final stage of project activities to improve the data base will involve further technical assistance in implementing these changes so that senior policymakers will have useful data and analysis on a timely basis.

Operational Responsibilities and Organizational Arrangements: Development of models, preparation of trained staff and creation of an adequate data base for serious fiscal analysis would all be in vain if the new fiscal analysis function is not placed within the Ministry at a level where the analyses have direct and strong impact on formulation of fiscal policy. The decision on the organizational placement of a

Fiscal Analysis Institute will be taken by the Minister in conjunction with the development of project activities.

The Minister of Finance will provide guidance on the organization and role of the Institute for Fiscal Analysis to the project team as the project progresses. When the project begins, one of the first activities will be that the Minister, together with the technical assistance team, will identify capable and talented employees of the Ministry with the appropriate background and skills to work with the expatriate advisors in the development of the analytical activities of the project. The selected individuals (approximately 8) are referred to as "Guatemalan Research Associates" (GRA's) in the modelling activity budgets and training plan, and will form the nucleus of the Fiscal Analysis Institute. The GRA's will be counterpart-funded during project implementation and will be given a promotion (and salary increase) into the Unit's newly created positions at the end of the project.

At the appropriate moment, the Minister will appoint a Director for the Institute, and provide guidance to the project technical team about how the Institute should be further developed. The technical team will then prepare a workplan to have the Institute fully up and running by the time the project ends. When this activity is completed the stage will be set for any further hardware requisition or system design the Ministry may wish to undertake.

C. End of Project Status

The specific components that will be developed and implemented during the life of the project are divided into three general areas:

1. Information and Analysis Activities: Fiscal experts will work together with staff from the Ministry of Finance to establish the institutional capability to analyze fiscal issues in detail.

2. Development of an Institute for Fiscal Analysis: This will provide a unified locus for the execution of economic and financial analysis requested by the MOF, as well as a depository for other studies and analysis which are relevant to the GOG.

As described below, the purpose of this project after its termination is to give the Ministry of Finance the capability to develop an analytic infrastructure. This infrastructure is necessary to: (1) Analyze the national tax and expenditure structure; (2) Determine the economic impact of any proposed changes and simplifications in fiscal policy; (3) Simplify and improve tax administration, and (4) Strengthen the national budgetary process.

The expected outputs when all project components are fully implemented, are the following:

FISCAL POLICY:

- o A series of analytical models will have been developed and applied to Guatemala. Ministry of Finance staff will be fully trained to use, adapt and update the models.
- o Specific analyses will have been completed on Guatemala's most important fiscal issues, and will have been vetted widely among the Guatemalan public sector.
- o A Fiscal Reform Concept Paper will have been drafted and widely discussed by diverse elements of the Guatemalan community, including the Government, private sector, unions and other groups.
- o Initial fiscal policy reforms will be implemented or under implementation.

FISCAL OPERATIONS:

- o Administrative improvements will have been implemented in income taxation and the value-added tax. The following indicators will be quantified over the course of the project and compared with baseline data to determine the degree of actual improvement:
 - Auditor productivity and output.
 - Tax collections from delinquent taxpayers.
 - Number of nonfilers and stopfilers.

- o Customs administration will be improved, to be evident through:

- Computerization of customs valuation and other key data.

- Establishment of a formalized customs agent training program and a permanent customs training facility.

- Development and implementation of formal procedures to manage special regimes, particularly export incentives and draw-back.

- o Stronger budgetary planning and expenditure administration systems, to be observable through:

- Development of a new payroll and accounting system.

- Adoption of a multi-year budget format.

- Budget office technicians trained in and carrying out improved program analysis techniques.

- o The new Ministry of Finance Fiscal Analysis Institute will be a formal part of the Ministry organization structure, and a key actor in tax and expenditure policy formalization.

IV. COST ESTIMATE AND FINANCIAL PLAN

A. Project Budget and Financial Plan

The Fiscal Administration Project as described in Section III of this project paper consists primarily of long- and short-term technical assistance, under an institutional contract, to the Guatemalan Ministry of Finance in development of policy analysis infrastructure and in improvement of fiscal operations and administration. The proposed total cost of the Fiscal Administration Project is \$12.1 million. AID's contribution will comprise 74 percent of the total project budget, or \$9.0 million in grant funds. The remaining \$3.1 million (26 percent of the budget) will be contributed by the Government of Guatemala (GOG). The \$9.0 million in AID grant funds will be obligated through a project agreement between USAID/Guatemala and the Ministry of Finance.

Table IV-1 contains the project summary by activity and project year, including GOG counterpart contribution, broken down by dollar and local currency. Table IV-2 shows the summary information by inputs. The summary projection of expenditures by project year for AID grant funds and GOG counterpart is shown in Table IV-3. The contingency factor is 9 percent and inflation is calculated at 5 percent compounded on dollar costs and 15 percent on local currency costs included in the institutional contract. Table IV-4 indicates the methods of implementation and financing for the project.

The detailed budgets for each activity are contained in Annex B, and include the calculations and assumptions on which they are based.

B. GOG Contribution

A major portion of the GOG's contribution to the Fiscal Administration Project budget is the support to the project that will come from the Ministry of Finance's allocation of counterparts and associated staff to carry out and support project activities.

The nature of the project is such that the most significant contribution the GOG can make to it is to provide key personnel as counterparts to the technical assistance team from the Minister, Vice Minister, Director and Sub-Director level downwards. The other major category of personnel

TABLE IV-1

PROJECT SUMMARY AND FINANCIAL PLAN
BY ACTIVITY AND PROJECT YEAR (US\$)

| | YEAR 1 | | YEAR 2 | | YEAR 3 | | YEAR 4 | | TOTAL | | TOTAL |
|---|------------------|------------------|------------------|------------------|------------------|----------------|----------------|---------------|------------------|------------------|-------------------|
| | USAID FX | BOG LC | USAID FX | BOG LC | USAID FX | BOG LC | USAID FX | BOG LC | USAID FX | BOG LC | |
| I. Development of Analytical Infrastructure | | | | | | | | | | | |
| Comprehensive Fiscal Reform Concept Paper | 103,765 | 12,325 | 85,770 | 12,325 | 36,590 | 8,874 | 0 | 0 | 226,126 | 33,525 | 259,650 |
| Infrastructure Building | | | | | | | | | | | |
| Development of Simulation Capacity | | | | | | | | | | | |
| • Business Tax/IVA | 302,526 | 118,813 | 0 | 0 | 0 | 0 | 0 | 0 | 302,526 | 118,813 | 421,339 |
| • Individual Income Tax | 291,736 | 118,816 | 0 | 0 | 0 | 0 | 0 | 0 | 291,736 | 118,816 | 410,552 |
| • Commodity-Based Consumption Taxes | 119,498 | 55,960 | 0 | 0 | 0 | 0 | 0 | 0 | 119,498 | 55,960 | 175,458 |
| • Public Sector Revenues | 143,437 | 55,302 | 0 | 0 | 0 | 0 | 0 | 0 | 143,437 | 55,302 | 198,739 |
| Creation of a Taxpayer Identification System | 39,039 | 50,224 | 0 | 0 | 0 | 0 | 0 | 0 | 39,039 | 50,224 | 89,263 |
| Calculation of Marginal Effective Tax Rates | 31,821 | 54,424 | 0 | 0 | 0 | 0 | 0 | 0 | 31,821 | 54,424 | 86,245 |
| Calculation of Rates of Effective Protection | 31,821 | 33,557 | 0 | 0 | 0 | 0 | 0 | 0 | 31,821 | 33,557 | 65,378 |
| Development of a Computable General Equilibrium Model | 263,522 | 100,656 | 0 | 0 | 0 | 0 | 0 | 0 | 263,522 | 100,656 | 364,178 |
| Specific Analysis | | | | | | | | | | | |
| Analysis of Tax Burdens and Tax Fairness | 54,546 | 32,960 | 55,816 | 29,090 | 0 | 0 | 0 | 0 | 110,362 | 62,050 | 172,412 |
| Development of a Database on Public Enterprises | 36,617 | 29,090 | 0 | 0 | 0 | 0 | 0 | 0 | 36,617 | 29,090 | 65,707 |
| Development of a Workplan for Fiscal Decentralization | 46,318 | 37,525 | 46,318 | 37,525 | 0 | 0 | 0 | 0 | 92,636 | 75,050 | 167,687 |
| Diagnostic of Business Taxation and Fiscal Incentives | 108,772 | 31,765 | 0 | 0 | 0 | 0 | 0 | 0 | 108,772 | 31,765 | 140,537 |
| Diagnostic of the Personal Income Tax | 34,739 | 27,875 | 18,098 | 27,875 | 0 | 0 | 0 | 0 | 52,837 | 55,750 | 108,587 |
| Diagnostic of Indirect Taxes | 38,627 | 27,875 | 35,471 | 27,875 | 0 | 0 | 0 | 0 | 74,098 | 55,750 | 129,848 |
| Diagnostic of the Property Tax | 60,688 | 14,585 | 0 | 0 | 0 | 0 | 0 | 0 | 60,688 | 14,585 | 75,273 |
| Subtotal | 1,707,471 | 801,793 | 241,473 | 134,671 | 36,590 | 8,874 | 0 | 0 | 1,995,524 | 945,355 | 2,940,879 |
| II. Operations | | | | | | | | | | | |
| Income Tax Administration | 187,705 | 62,528 | 424,487 | 203,174 | 347,517 | 175,341 | 0 | 0 | 759,709 | 441,543 | 1,201,252 |
| Administration of Domestic Indirect Taxes | 87,016 | 54,177 | 213,156 | 165,668 | 107,329 | 108,739 | 0 | 0 | 407,500 | 346,644 | 754,144 |
| Customs Administration | 153,425 | 64,655 | 403,886 | 209,101 | 229,075 | 121,652 | 0 | 0 | 786,385 | 395,644 | 1,182,029 |
| Budgeting and Expenditure Management | 458,818 | 62,823 | 698,814 | 220,240 | 287,278 | 192,907 | 0 | 0 | 1,436,910 | 475,970 | 1,912,880 |
| Subtotal | 886,963 | 244,222 | 1,732,343 | 816,203 | 971,199 | 599,339 | 0 | 0 | 3,590,505 | 1,659,764 | 5,250,269 |
| III. Guatemala Office | 86,115 | 41,395 | 234,595 | 123,087 | 234,595 | 123,087 | 123,497 | 62,955 | 678,801 | 350,552 | 1,029,353 |
| IV. Home Office incl. Contract Fee | 487,613 | 27,209 | 460,108 | 52,097 | 294,560 | 52,097 | 106,695 | 30,320 | 1,248,977 | 161,721 | 1,410,698 |
| V. Commodities | 118,500 | 27,296 | 0 | 0 | 0 | 0 | 0 | 0 | 118,500 | 27,296 | 145,796 |
| VI. Audits and Evaluations | 0 | 0 | 95,000 | 0 | 0 | 0 | 95,000 | 0 | 190,000 | 0 | 190,000 |
| VII. Contingency/Inflation | 349,358 | 0 | 436,947 | 0 | 255,522 | 0 | 45,855 | 0 | 1,087,683 | 0 | 1,087,683 |
| TOTAL PROJECT | 3,636,019 | 1,141,914 | 3,200,467 | 1,126,077 | 1,792,466 | 783,396 | 371,048 | 93,204 | 9,000,000 | 3,144,671 | 12,144,671 |

PROJECT SUMMARY AND FINANCIAL PLAN
BY INPUTS AND PROJECT YEAR (US\$)

| | YEAR 1 | | YEAR 2 | | YEAR 3 | | YEAR 4 | | TOTAL | | TOTAL |
|------------------------------|------------------|------------------|------------------|------------------|------------------|----------------|----------------|---------------|------------------|------------------|-------------------|
| | USAID FX | 606 LC | USAID FX | 606 LC | USAID FX | 606 LC | USAID FX | 606 LC | USAID FX | 606 LC | |
| Technical Assistance | 1,249,839 | 0 | 894,503 | 0 | 459,043 | 0 | 49,278 | 0 | 2,651,662 | 0 | 2,651,662 |
| Salaries | 37,067 | 424,058 | 39,922 | 349,873 | 35,934 | 207,592 | 19,533 | 33,202 | 131,456 | 1,014,724 | 1,145,190 |
| Fringe Benefits | 234,786 | 0 | 267,348 | 0 | 147,031 | 0 | 21,570 | 0 | 670,786 | 0 | 670,786 |
| Resident's Allowances | 209,663 | 0 | 200,253 | 0 | 205,141 | 0 | 23,091 | 0 | 647,148 | 0 | 647,149 |
| Indirect Costs | 943,336 | 0 | 875,860 | 0 | 470,174 | 0 | 65,901 | 0 | 2,355,272 | 0 | 2,355,272 |
| Travel and Per Diem | 169,867 | 25,160 | 76,185 | 0 | 31,993 | 0 | 8,340 | 0 | 286,395 | 25,160 | 311,545 |
| Conferences and Publications | 18,750 | 0 | 23,000 | 0 | 5,000 | 0 | 6,000 | 0 | 53,750 | 0 | 53,750 |
| Guatemala Office | | | | | | | | | | | |
| - Local Salaries | 5,589 | 0 | 22,356 | 0 | 22,356 | 0 | 11,178 | 0 | 61,478 | 0 | 61,478 |
| - Other Operating Expenses | 12,250 | 39,512 | 19,500 | 120,204 | 18,500 | 120,204 | 5,375 | 60,102 | 54,625 | 339,022 | 393,647 |
| Contract Fee | 289,015 | 0 | 242,593 | 0 | 139,722 | 0 | 20,927 | 0 | 691,256 | 0 | 691,256 |
| Computer Time | 0 | 116,669 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 116,669 | 116,669 |
| Training | 0 | 510,219 | 0 | 656,000 | 0 | 455,601 | 0 | 0 | 0 | 1,621,820 | 1,621,820 |
| Commodities | 118,500 | 27,296 | 0 | 0 | 0 | 0 | 0 | 0 | 118,500 | 27,296 | 145,796 |
| Audits and Evaluations | 0 | 0 | 95,000 | 0 | 0 | 0 | 95,000 | 0 | 190,000 | 0 | 190,000 |
| Inflation | 0 | 0 | 142,670 | 0 | 86,062 | 0 | 20,535 | 0 | 249,268 | 0 | 249,268 |
| Contingencies | 349,358 | 0 | 294,277 | 0 | 169,440 | 0 | 25,320 | 0 | 838,395 | 0 | 838,395 |
| TOTAL PROJECT | 3,636,019 | 1,141,914 | 3,200,467 | 1,126,077 | 1,792,466 | 783,396 | 371,048 | 93,304 | 9,000,000 | 3,144,691 | 12,144,691 |

TABLE IV 3

SUMMARY EXPENDITURE BY PROJECT YEAR (US\$)

| PROJECT YEAR | USAID | 606 | TOTAL |
|---------------|-----------|-----------|------------|
| 1 | 3,286,661 | 1,141,914 | 4,428,576 |
| 2 | 2,763,520 | 1,126,077 | 3,889,596 |
| 3 | 1,536,943 | 783,396 | 2,320,340 |
| 4 | 325,193 | 93,304 | 418,497 |
| Inflation | 249,288 | | 249,288 |
| Contingencies | 838,395 | | 838,395 |
| Total | 9,000,000 | 3,144,691 | 12,144,691 |

TABLE IV 4

| Methods of Implementation and Financing (US\$) | | |
|--|----------------------|-----------|
| Method of Implementation | Method of Financing | Amount |
| 1. U.S. Institutional Contract | Direct Reimbursement | |
| Technical Assistance | | 2,651,662 |
| Salaries | | 131,456 |
| Fringe Benefits | | 670,786 |
| Resident's Allowances | | 647,148 |
| Indirect Costs | | 2,355,272 |
| Travel and Per Diem | | 286,385 |
| Conferences and Publications | | 53,750 |
| Guatemala Office | | |
| - Local Salaries | | 61,478 |
| - Other Operating Expenses | | 54,625 |
| Contract Fee | | 691,256 |
| Sub-total | | 7,603,817 |
| 2. Commodities - | | |
| Direct Contracts | Direct Payment | 118,500 |
| 3. Audits and Evaluations - | | |
| Direct Contracts | Direct Payment | 190,000 |
| Sub-total | | 7,912,317 |
| Contingencies/Inflation | | 1,087,683 |
| TOTAL | | 9,000,000 |

included is categorized as "trainer/trainee," expressing the full-time equivalents of the on-the-job transfer of the technical assistance to the first-line supervisors, in activities such as the development of simulation capacity and the areas of operations and administration. Training costs also include the provision of training facilities.

Computer time represents the usage of existing facilities in the Ministry of Finance computer center for the adaptation of the fiscal models. Office space and furniture will be provided by the Ministry of Finance for the project, as well as the corresponding utilities, supplies and communications.

C. Audits

Funds have been provided for mid- and end-of-project audits of the technical assistance contract to be performed under the IQC's for non-Federal audits controlled by the Inspector General's Office.

D. Recurrent Costs

The financial replicability of the project depends on the willingness and financial capability of the GOG to continue with its own resources the activities developed initially with financial support from AID. The proposed project has been designed from its inception with the full participation and collaboration of the Minister of Finance. Counterpart funding is not considered a problem since the Ministry of Finance has initial control over budget allocations. The introduction of the Core Development Budget concept using the local currency deposit associated with the USAID balance of payments support programs has greatly strengthened the capability of the GOG to allocate financing to high priority development projects, including the Fiscal Administration Project.

V. IMPLEMENTATION PLAN

A. Detailed Implementation Example: Income Tax Auditing

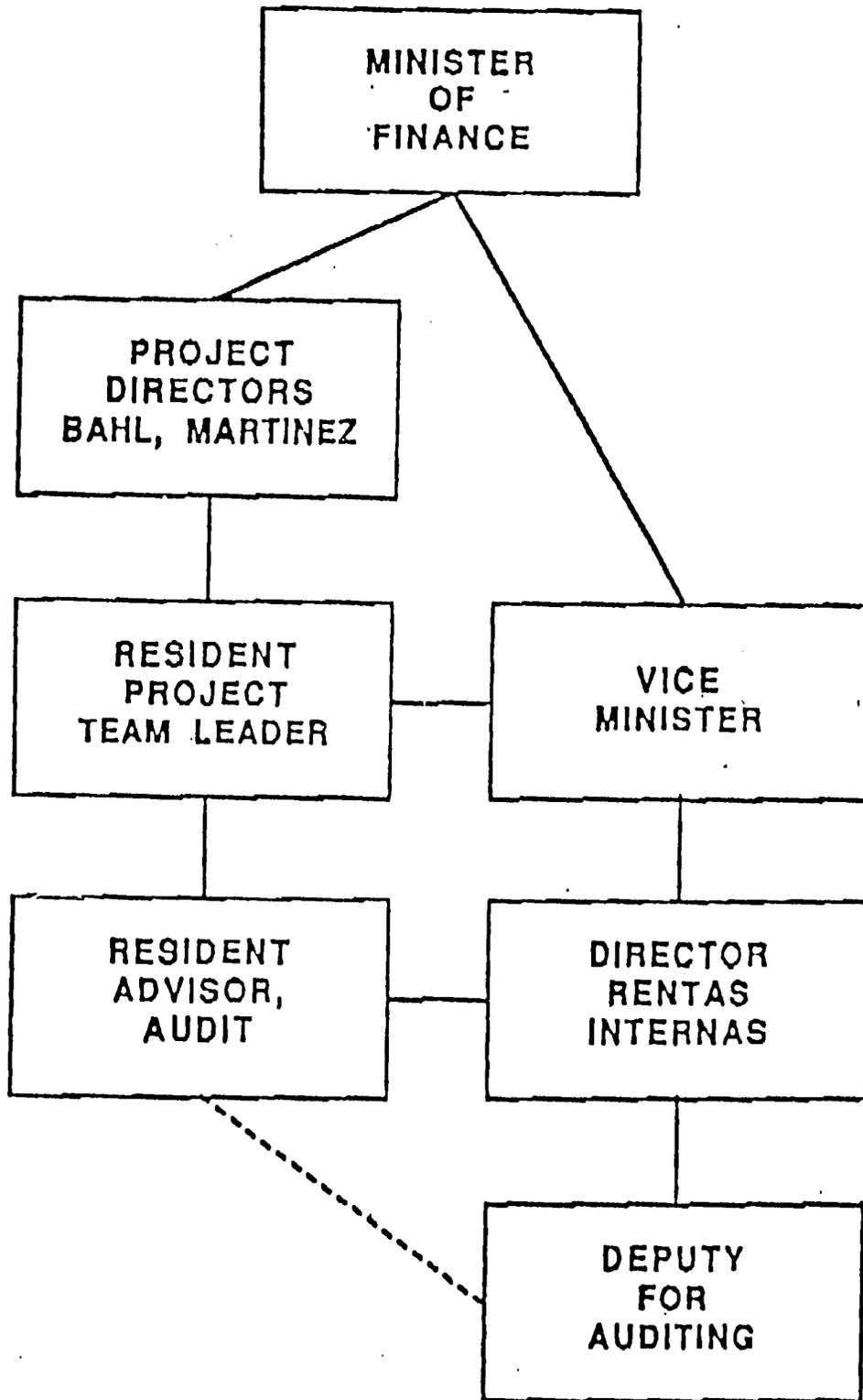
Before discussing the specific implementation arrangements for the Fiscal Administration Project, this section will outline in detail the implementation steps to be followed for one project activity - income tax auditing. The example is presented to give the reader the flavor of how the proposed project will be carried out. To provide this level of detail for all components would bring the project paper to an unacceptable length. Implementation schemes for the other project components, however, can be found in the technical memoranda contained in the bulk annex. Moreover, detailed implementation plans for all project activities will be developed during the pre-implementation phase, as per the contract awarded by AID to Peat Marwick.

This example covers three areas: (1) how the contractors will organize within the Ministry of Finance to carry out their work, (2) the steps they will follow in carrying out the necessary tasks, and (3) the plan for training.

Organizational Arrangement: The organization of this component of the project, and the counterparting proposed, are as follows. (See also Figure V-1.) The resident project team leader will counterpart directly with one of the Vice Ministers. The Resident Advisor for audit will report to the Resident Project Team Leader. Shortly after the audit advisor arrives, a meeting will be called. The Vice Minister will instruct the Director of Internal Revenue to work directly with the team of consultants. It is anticipated that the Director of Internal Revenue will turn responsibilities for the various activities of this component to the Deputy Director who oversees income tax auditing. The resident project advisor working on audit will work directly with the Director of Internal Revenue as well as with the Deputy for auditing and perhaps other Guatemalan officials.

The groundwork for this relationship will be established during the project pre-implementation phase. The draft terms of reference for the audit advisor, which are contained in the technical memorandum annex, will be finalized and discussed with the Vice Minister, the Director of Internal Revenue, and with whomever else with whom they decide to share this material. Moreover, the qualifications of the proposed advisor will be approved by the Ministry counterparts.

FIGURE V-I
ORGANIZATIONAL ARRANGEMENT



Technical Assistance Approach - The first step in the work, as outlined in the Technical Memorandum, will be to continue (complete and deepen) the assessment of the audit practice and the technical assistance needs. With this information, the Project Director and the audit advisor will prepare a workplan, focusing on three areas:

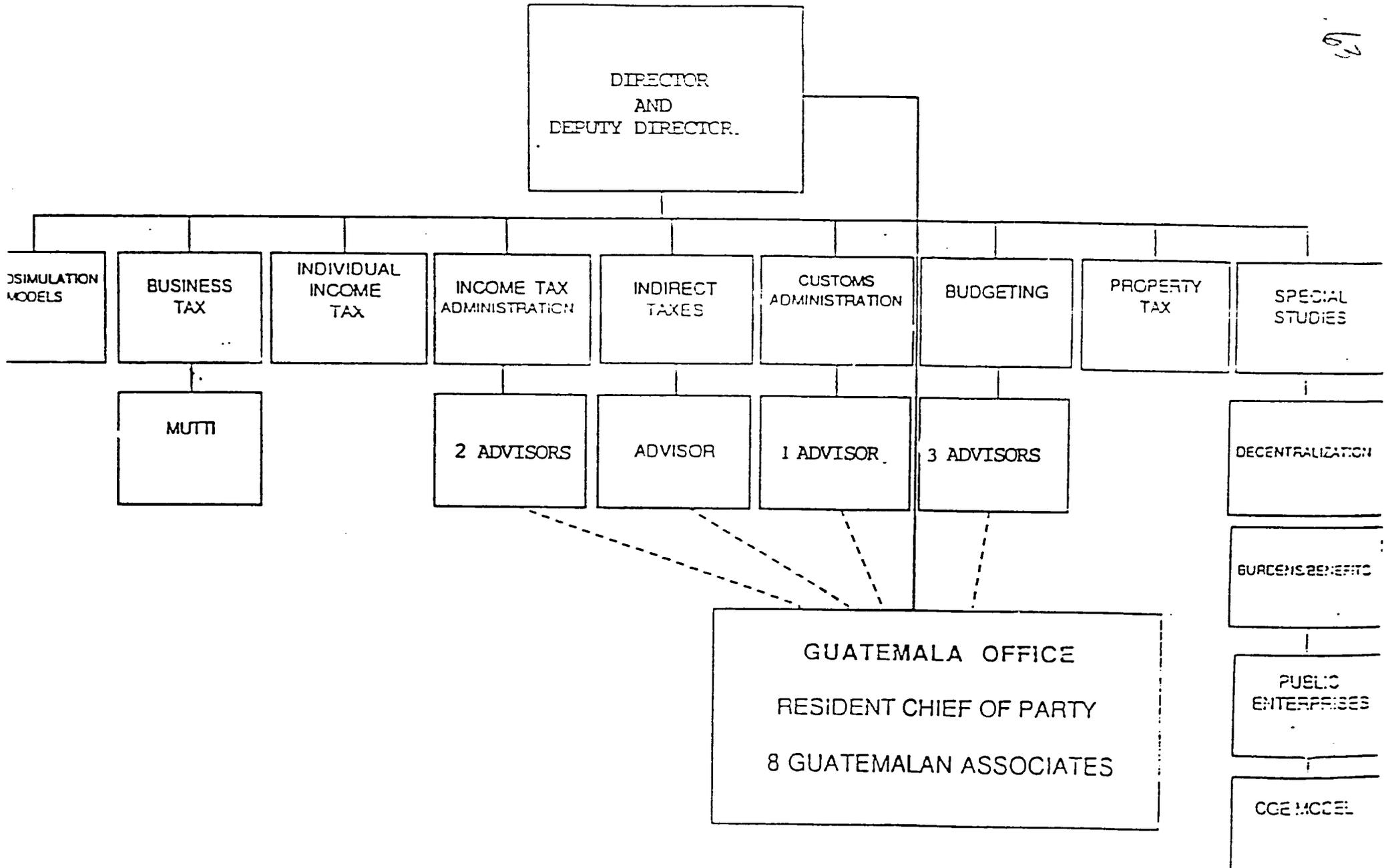
- o Procedural Help involves developing methods for audit selection, developing methods for the use of time by auditors, recommending new office procedures to manage the office staff, helping to lay out a grievance procedure for auditors, recommending a review process to assure optimal use of audit time, and carrying out enough analysis to recommend an improved method for arranging transportation for field auditors.
- o Manual Preparation will be necessary for packaged audit of income tax and VAT. Standardized work papers are needed for field examinations together with instructions for use and filing. Techniques must be developed for evaluating business deductions.
- o Training must be planned, especially establishing the sequencing of courses, arranging for course materials, carrying out instruction and assisting in the selection of audit trainees.

The next step will be to discuss the draft workplan with the Deputy Director of Internal Revenue who is in charge of audit. This discussion will be directed toward making sure the facts are correct.

Step three is to undertake an internal project review of the proposed workplan. This review would involve all resident advisors, the Resident Team Leader, and the Project Directors. One task would be the integration of the audit activities with other recommendations for income taxation. Based on this internal review, a final version of the proposed workplan will go forward.

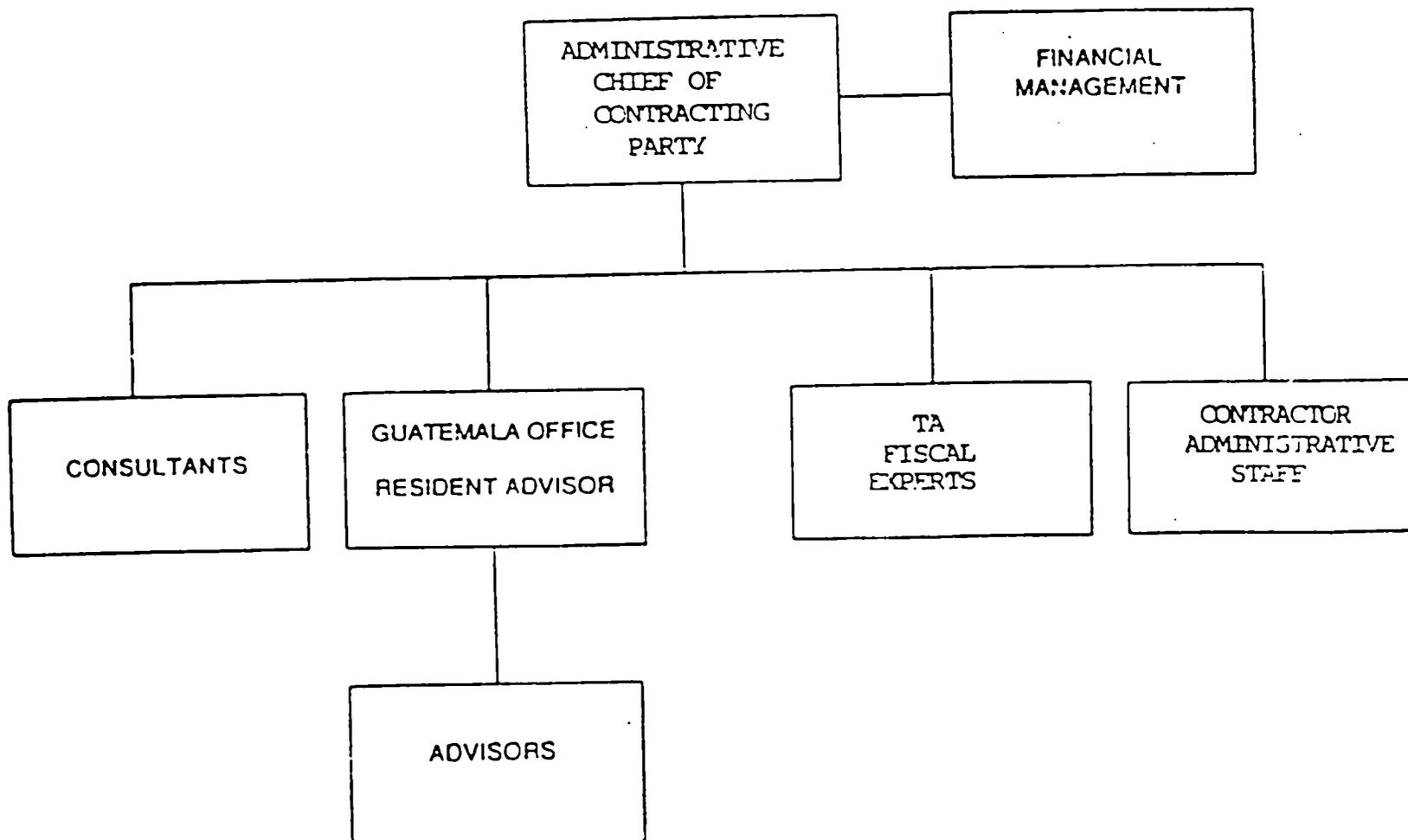
Fourth, the Minister will lead his own review of the integrated proposals for improvement of income taxation, including audit operations. Most likely he would solicit comments from the appropriate Vice Minister and the Director of Internal Revenue.

FIGURE V-2
TECHNICAL ASSISTANCE MANAGEMENT



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FIGURE V-3
PROJECT ADMINISTRATION



As the fifth step, whatever revisions that were suggested by the Minister would be discussed and final decisions would be reached about the workplan. A memo of understanding, or a technical paper (whichever is appropriate) would then be prepared and the work would go forward.

The procedure for implementing changes in audit operations would follow essentially the same steps. The final one would be a technical paper that the Minister would review and discuss with project staff and Ministry counterparts. The Project advisors would prepare technical memoranda that could serve as language for any implementing legislation or regulations. Of course, the Minister would issue those regulations and would call on appropriate members of his staff (with the consultants' technical assistance) to implement the changes. This scheme has worked quite nicely in many countries, and given the positive cooperation seen so far from the Ministry during the design phase, there is no reason why it should not work well in Guatemala.

Training - The Ministry of Finance is organized with a center charged with training Ministry personnel. The physical facilities appear to be adequate, with four classrooms and a larger lecture hall. The shortcomings relate to equipment and the training staff. Most tax office employees who were asked about the training center said that it is worthless. The biggest complaint was that the courses given are not appropriate for the work.

The proposed organization for the Internal Revenue Department does not show a "box" for training. Rather, it mentions training as a function of the Personnel Office. The design team's preliminary thinking is that a separate office responsible for all training should be established within the Internal Revenue Department. This office would design training programs, assist subject matter specialists in developing the courses, and perform other training office functions such as recordkeeping. The Ministry training center would provide the equipment and space support.

During the life of the project, the consultants will develop and advise in the implementation of a program of training in the audit area. In keeping with the spirit of the project, the initial training efforts will be focused on basic principles -- the kinds of training that will be necessary irrespective of any structural reform that might take place.

Later training might be more tailored to the specifics of the structural reform, depending on what changes in the tax law the government chooses to make. The audit advisor will take direct responsibility for proposing a training program.

The Internal Revenue Department is planning to hire more than 100 new employees for the Audit Department in the near future. There seems to be no planning to provide the necessary training for these new hires. It is also evident that training is necessary for the present staff of auditors, coordinators, group supervisors -- as indicated by the current poor utilization of their time and the poor performance of auditors.

The project will take responsibility for designing a training program that will match the background of the new recruits. Training, however, will be carried out by counterpart-financed assistance with the project-funded technical assistance team serving as advisors to Guatemalan trainers. Based on our field work thus far, we have identified several areas where audit training could be useful. The following are summarized from the technical memorandum on auditing:

- o Basic and advanced audit techniques
- o Fraud awareness training or how to recognize potential fraud
- o Auditing standards
- o Indirect methods to determine unreported income, for application to taxpayers that do not keep books and records
- o Balance sheet analysis for auditors, coordinators and group supervisors
- o Supervisory training for group supervisors
- o Cross-training for VAT and income tax auditors

B. Project Management:

The overall supervision of the proposed Fiscal Administration Project will be the responsibility of the

Project Director and Deputy Director. Day-to-day supervision of project activities will be in the hands of the Resident Chief of Party. Each component of the Project will have a lead consultant, as shown in Figures V-2 and V-3. All activity in each component will be coordinated by the lead consultant and the appropriate Resident Advisor. The component Resident Advisors, in turn, will report to the Resident Chief of Party and to the Director and Deputy Director of the technical assistance team.

The Director and Deputy Director of the technical assistance team will:

- o prepare all terms of reference and schedule all trips
- o accompany consultants in the field as necessary
- o review all working papers, see them to appropriate conclusions and take responsibility for their processing
- o review the regular working reports of all technical assistance experts residing in Guatemala, and alter the workplan as necessary
- o maintain liaison with the Minister of Finance and other counterparts, or committees, that he may designate
- o prepare and continuously update the Concept Paper on fiscal administration
- o prepare the Final Report of the Project
- o assist the Minister, as he requests, in drafting a reform program
- o lead other subject matter activities as described above

Because these tasks overlap all of the project activities, the project design has allocated a substantial share of the Director's and Deputy Director's time to the general management of the various activities.

Financial and administrative management of the technical assistance contract will include:

- o preparing all financial reports for the Project

- o maintaining liaison with the USAID Project Committee and preparing regular quarterly activity reports
- o providing all administrative support and backup for the Project home offices, consultants, and resident advisors
- o seeking all necessary travel and payment approval and making all disbursements
- o negotiating the contract and any amendments to the contract

The Resident Chief of Party will report directly to the Director and Deputy Director of the contract team. His or her responsibilities include:

- o management of the Guatemala project office within the Ministry of Finance
- o day-to-day liaison with the Minister of Finance or his designate(s)
- o maintaining liaison with the other technical assistance teams working in the general area of fiscal administration
- o preparation of a monthly activities/progress report for the contractor home office
- o coordination of the work program of the resident advisors
- o other duties as assigned

The Resident Chief of Party's time is not budgeted among activities for the same reason that the Project Director's and Deputy Director's time is not allocated. The division of a portion of his or her time will be worked out upon his arrival, and after a detailed consultation with the Minister about priorities.

C. Timetable:

Prior to the initiation of the Fiscal Administration Project, activities will be carried out under a pre-implementation phase funded within the project design budget. This phase was included so that progress toward

project objectives would not be abruptly suspended during the project approval and start-up process. The design contract provides for the following pre-implementation tasks to be completed by mid-August:

- o Preparation of a step-by-step implementation, commodity procurement, and training plan and schedule for submission by the Ministry of Finance to the Mission for approval. The plan will detail all first year activities and serve as a guide for the latter two years of project implementation.
- o Assistance to the Ministry of Finance to meet all anticipated conditions precedent that result from the project authorization.
- o Establishment of logistical support, including getting people "on the ground", required for effective project implementation. This will include organizing, equipping, and staffing the project office for full implementation.
- o Assistance to the Government of Guatemala to negotiate with the relevant private sector interest groups regarding the institutional form through which the community at large will be integrated into the project activities. This task will require delicate discussions with diverse interests.
- o Development of the terms of reference and schedules for the implementation technical assistance and for the public commission on fiscal reform. This activity will require considerable analysis of the present tax laws, tax rolls and procedures for budget expenditures.

Once the project agreement is signed, the Fiscal Administration Project will have a 42-month life, during the first 27 months of which nearly all of the project activities will be completed. This timing reflects the intense desire of the government to have the project underway promptly, and to see it to completion in the shortest possible time frame. The Mission, the Ministry of Finance and the design consultants are agreed that, barring unforeseen delays, the project will indeed be completed within 27 months from the date of signing.

Despite the best intentions of all concerned parties, unanticipated delays do crop up in most projects. Recognizing this, we have proposed a total project period of 42 months, but have shown no activity beyond the 27th month in the project flow chart. In effect, the project design plans all project activities for full execution in 27 months but, so long as there is no increase in level, the contractor will agree in advance to a no-cost extension of up to 15 months if for whatever reason it becomes impossible to complete the work according to the 27-month activity schedule.

This timetable, beginning with an estimated July, 1989, signing of the Project Agreement, spans the remainder of the Cerezo administration, and part of the new administration which will take office in January of 1991. With the urgency of improvements to fiscal administration to be undertaken under the project, and the opportunities afforded by the democratic transition for public debate and political decision-making on fiscal issues, the proposed timetable is both highly desirable and eminently feasible.

The project will be implemented in three phases, as is described in Figure V-4. Phase I involves the execution of operational improvements in the existing system, and will largely take place during the first 12 months of the project. These changes will be implemented by the resident advisors to be contracted under the project in the forms of rewriting of procedures, on-the-job training, and classroom instruction. The type of changes to fiscal administration and operations to be introduced during Phase I are basic and are necessary to undertake independent of any structural reforms to the fiscal system that may be introduced at a later point.

Phase II incorporates all policy analysis, and will take place during the first 18 months of the project. This phase will culminate with the development of options for a comprehensive fiscal reform program, to be available for national discussion during the second half of calendar year 1990.

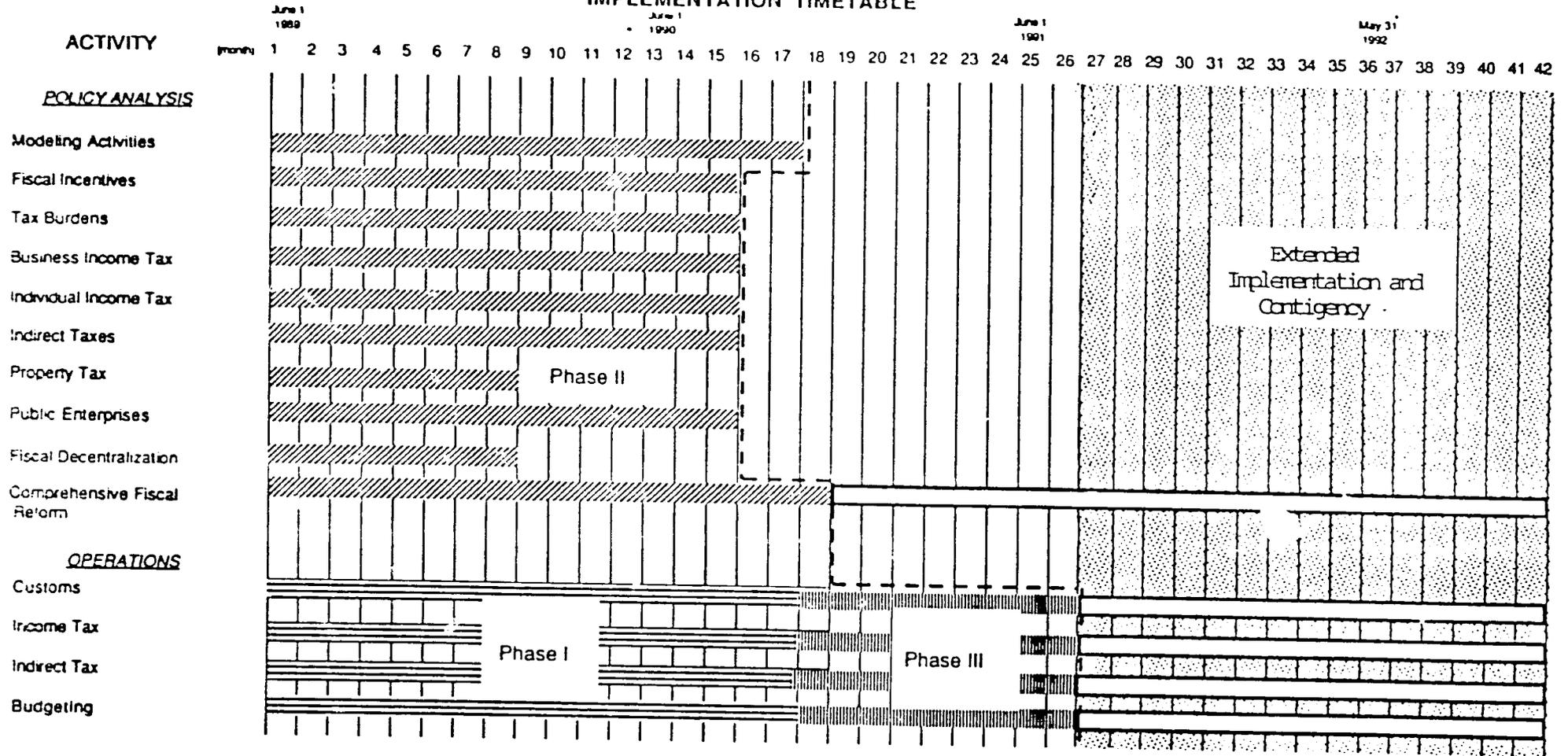
Phase III will consist of the implementation of the reform program chosen and a continuation of the operational and training program begun in the first year of the project. This phase of the project will begin when the reform program is identified and will continue for the duration of the project.

An illustrative implementation schedule follows:

START-UP PHASE:

| | |
|------|---|
| 6/89 | Project Paper Authorized |
| 7/89 | Project Agreement signed with Ministry of Finance |
| 7/89 | Conditions Precedent to Disbursement completed by Ministry of Finance |
| 8/89 | Technical Assistance contract negotiated and signed |
| 8/89 | Procurement of vehicles and equipment initiated by USAID |

FIGURE V-4
IMPLEMENTATION TIMETABLE



PROJECT YEAR ONE:

10/89 Resident technical assistance team leader in place, and Guatemala office established

10/89 Operations components underway

10/89 Development of fiscal models underway

11/89 Quarterly project review held

11/89 First draft of Fiscal Policy Concept Paper submitted to Office of Minister

11/89 First GOG project conference held

12/89 Plan for integration of public-private fiscal policy review commission presented by MOF

2/90 Quarterly project review

5/90 Quarterly project review

8/90 Quarterly project review

PROJECT YEAR TWO:

11/90 Quarterly project review

2/91 Quarterly project review

5/91 Quarterly project review

8/91 Quarterly project review

8/91 Initiation of evaluation

PROJECT YEAR THREE:

11/91 to
1/93 Implementation Contingency Period

1/93 PACD

D. Procurement Plan:

1. Procurement of Technical Assistance Services:

Technical assistance personnel will be contracted for the project under an A.I.D. Direct Contract. The RFP for project design as published in the Commerce Business Daily provided that USAID/Guatemala could choose to award the contract for project implementation to the same firm receiving the design contract without further competition. Accordingly, it is anticipated that the Peat Marwick (contractor) - Georgia State University (subcontractor) group which produced the project design will be contracted to carry out the implementation as well. Because the original contract was fully completed, and clearly stated USAID/Guatemala's intention to award implementation to the contractor selected for design, no waiver of competition is needed in this case.

An illustrative list of short- and long-term technical assistance to be provided under the contract is provided as Annex H.

USAID/Guatemala will directly contract the services necessary to undertake the evaluations provided for in the evaluation plan.

2. Commodity Procurement:

The project as designed requires very limited purchase of commodities. Commodity procurement will amount to only \$118,500. The commodities required to reach project objectives are two minicomputers for development and storage of the microsimulation models, office equipment for the consultants' office in the Ministry of Finance, and vehicles needed by the project staff who will work with the on-site pilot projects and training. Since the minicomputers will cost less than \$100,000, and no other computer procurement is contemplated over the life of project, no SER/IRM clearance will be needed.

Commodities will be procured for the project directly by USAID. During the pre-implementation phase of the project, specifications will be prepared, approvals received and items ordered. In this way, commodities can be delivered on time and without delaying the progress of the activities to be carried out under the project.

E. Training Plan:

Table V-1 provides an illustrative training plan for the proposed Fiscal Administration Project. A comprehensive training plan will be developed in the early stages of the Project. Project training will be carried out by the long-term advisors and they, in consultation with the Minister of Finance and the Project Director, will design the program of classroom and on-the-job training. The plan will focus on income tax, value-added tax, customs, property tax, and budgeting. It will include at least the following:

- o a listing of necessary courses
- o course outlines
- o sequencing of courses
- o methods of selecting officers for training
- o training for trainers
- o listing of equipment needs to be supplied by the Ministry

The project Resident Chief of Party will take responsibility for coordination of the Project training program and for liaison with the Ministry training officer.

There is no formal offshore degree training contemplated under the project. Nonetheless, the project activities will require the services of several research assistants to be employed by Georgia State University to assist with some of the analytical activities. These positions may be filled with staff of the Ministry of Finance, if persons with the necessary credentials and interest can be identified. The assistantships carry with them tuition relief, which would allow any Guatemalans assigned to these positions to pursue formal academic training at Georgia State at the same time, and perhaps even complete a degree program. If Guatemalan candidates cannot be identified for the graduate assistantships, the positions will be opened to the pool of qualified graduate students at Georgia State University.

Table V-1
Fiscal Administration Project
Illustrative Training Plan

| PROJECT COMPONENT | OFFICE | TRAINING CONTENT | MODE OF TRAINING | EST. BIRAINLES | TRAINING DURATION |
|--|---|---|------------------|----------------------|-----------------------|
| DEVELOPMENT OF ANALYTIC INFRASTRUCTURE | | | | | |
| A. Comprehensive Fiscal Reform Concept Paper | Office of the Minister | --- | --- | --- | --- |
| INFRASTRUCTURE BUILDING | | | | | |
| B. Development of Simulation Capacity for Guatemala's Most Important Taxes | Fiscal Policy Analysis Institute | Model Development, Updating and Use | On the Job | 1 GRA 10-12 other | 12 months |
| C. Development of Simulation Capacity for Public Revenues | Fiscal Policy Analysis Institute | Model Development, Updating and Use | On the Job | 2-4 | 12 months |
| D. Creation of a Taxpayer Identification System | Internal Revenue Division, RTU Department | Operation of Taxpayer Numbering System | On the Job | 2-4 | 12 months |
| E. Calculation of Marginal Effective Tax Rates | Fiscal Policy Analysis Institute | Model Development, Updating and Use | On the Job | 1 GRA 2 other | 2 months 12 months |
| F. Calculation of Rates of Effective Protection | Fiscal Policy Analysis Institute | Model Development, Updating and Use | On the Job | 2 | 12 months |
| G. Development of a Computable General Equilibrium Model | Fiscal Policy Analysis Institute | Model Development, Updating and Use | On the Job | 1 GRA 5 other | 2 months 12 months |
| SPECIFIC ANALYSES | | | | | |
| H. Analysis of Fiscal Policy Influences on Economic Structure | Fiscal Policy Analysis Institute | Development of Database and Use of Models to Analyze Fiscal Incentives | On the Job | 1 | 12 months |
| I. Analysis of Tax Burdens and Tax Fairness | Fiscal Policy Analysis Institute | Model Development, Updating and Use | On the Job | 1 GRA | 12 months |
| J. Public Enterprise Database | Department of Financial Studies | Collection, Standardization, and Transformation of Public Enterprise Data | On the Job | 1 GRA 2-4 other | 12 months 4 months |
| K. Fiscal Decentralization Workplan | Office of the Minister | Collection and Analysis of Municipality Financial Data | On the Job | 1 GRA | 12 months |
| L. Diagnostic of Business Taxation | Fiscal Policy Analysis Institute | Estimation of Economic Impact of Corporate Taxation | On the Job | 1 GRA | 12 months |
| M. Diagnostic of Personal Income Tax | Fiscal Policy Analysis Institute | Estimation of Economic Impact of Individual Income Tax | On the Job | 1 GRA | 12 months |
| N. Diagnostic of Property Tax | Fiscal Policy Analysis Institute | Analysis of Possible Changes in Tax Law on Tax Burdens and Land Use | On the Job | 2 | 3 months |

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Table V-1
Continued

| PROJECT COMPONENT | FISCAL ADMINISTRATION PROJECT | | ILLUSTRATIVE TRAINING PLAN | | |
|--|-------------------------------|---|----------------------------|-------------------|-------------------|
| | OFFICE | TRAINING CONTENT | MODE OF TRAINING | EST. TRAINEES | TRAINING DURATION |
| OPERATIONS | | | | | |
| A. Income Tax Administration | Internal Revenue Department | Auditing Methods | Classroom and On the Job | 25-50 | 1 month |
| | | Training of Trainers | Classroom and On the Job | 5-10 | 1 month |
| | | Returns Processing | Classroom and On the Job | 10-15 | 2 weeks |
| | | Audit Supervision | Classroom and On the Job | 10-15 | 3 weeks |
| | | Investigative Techniques in Collections | Classroom and On the Job | 20-25 | 1 month |
| | | Nonfiler and Stopfiler Identification | Classroom and On the Job | 10-15 | 2 months |
| | | Tax Law | Classroom | 5-10 | 2 weeks |
| | Audit Standards | Classroom and On the Job | 50-100 | 1 month | |
| B. Domestic Indirect Tax Administration | Internal Revenue Department | VAT Administration | Classroom and On the Job | 10-20 | 2 months |
| | | VAT Enforcement | Classroom and On the Job | 10-20 | 1 month |
| | | VAT Audit | Classroom and On the Job | 50-100 | 2 months |
| | | VAT Data Processing | On the Job | 2-5 | 12 months |
| C. Customs Administration | Customs Department | Customs Law and Regulation | Classroom | 50-100 | 2 weeks |
| | | Entry and Clearance Documentation | Classroom | 50-100 | 2 weeks |
| | | Tariff Classification | Classroom | 50-100 | 2 weeks |
| | | Cargo Arrival Procedures | Classroom | 50-100 | 1 week |
| | | Export Fiscal Incentives | Classroom | 25-50 | 2 weeks |
| | | Contraband and Customs Fraud | Classroom | 25-50 | 2 weeks |
| | | Staff Management and Inspections | Classroom | 25-50 | 2 weeks |
| | | Exchange Control Policy | Classroom | 25-50 | 1 week |
| | | Procedural Aspects of Computerization | Classroom and On the Job | 10-20 | 2 months |
| | | Manufacturing Warehouse Control | Classroom | 10-20 | 3 weeks |
| | Customs Investigation | Classroom | 10-20 | 3 weeks | |
| D. Budgeting | Technical Budget Department | Program Analysis | Classroom and On the Job | 10-20 | 12 months |
| | | Multiyear Budgeting | On the Job | 1 GRA | 12 months |
| DEVELOPMENT OF AN INSTITUTE FOR FISCAL POLICY ANALYSIS | Office of the Minister | See Sections Above | On the Job | 8 GRAs (see note) | 12 months |

- NOTES:
1. Training times are approximate.
 2. There will be a total of 8 GRAs. Some GRAs will be assigned to more than one analytical activity.
 3. For more information, refer to project technical memoranda.

VI. MONITORING AND EVALUATION PLAN

A. Project Monitoring:

Execution of the Project's substantive activities --improvement of both the income and expenditure sides of the budgeting process-- will be the responsibility of the Minister of Finance and the Project Director and Deputy Director. These persons are, in effect, co-directors of the project activity. All consultants will report to the Directors of the Technical Assistance team, and all GOG counterparts to the consultants report through the Ministry of Finance hierarchy to the Minister of Finance. This organizational scheme was devised to ensure GOG "ownership" of the Project. The scheme continues the working relationship established in the design phase of the Project, during which the Minister of Finance and his Vice Ministers played a central role in selecting the areas of Project concentration, and in the drafting of the Project Paper. In an important sense, the Minister of Finance correctly came to regard the expert consultants as his advisors, who report to him but are paid by USAID/Guatemala.

It will be important during the project implementation period that the Ministry of Finance continue its active role in guiding the work of the consultants. Only in this way will it be assured that the project is genuinely Guatemalan and that the reforms and modifications it introduces are of Guatemalan origin and reflect Guatemalan priorities. Thus the Minister may, during the course of project implementation, wish to change the priorities and workplan. In such a case, the Mission will adjust and/or amend either its contract with the consultants, the Project Agreement with the Government, or both, provided that such changes are consistent with USAID/G's broader objectives and purpose. Nonetheless, there are still three parties to this project - USAID/Guatemala, the Government of Guatemala (through the Ministry of Finance) and the Technical Assistance Team.

USAID/Guatemala will contract with the technical assistance team to serve the Government of Guatemala in the design and implementation of a comprehensive fiscal reform. USAID will also enter into a Project Agreement with the GOG. Thus, an important stewardship responsibility falls on USAID/Guatemala, and includes the necessity of monitoring the Project's execution. The purpose of monitoring will be to assure that the conditions of both the contract with the

consultants and the Project Agreement with the Government are honored in terms of the quality and timeliness of performance and of responsible financial administration. Quarterly implementation will be held between USAID and the MOF to review project progress and implementation issues and to plan any required adjustment to the project.

The organizational structure through which the monitoring will be performed includes the following:

1. The Project Committee. This USAID/Guatemala committee will be chaired by the Chief of the Office of Economic Policy Analysis with the Deputy Office Chief serving as his alternate. The Committee will also include members designated by the Chiefs of the Program and Project Development Offices, the Controller, and the OEPA Project Officer. The Mission Director and Deputy Director will serve as ex-officio members. The project committee will hold quarterly implementation meetings to review progress.
2. The Project Officer. The OEPA Project Officer will have responsibility for day-to-day monitoring of the Project workplan, schedule, and budget. This officer will receive quarterly reports of implementation progress and will maintain running computerized data on the physical and financial implementation of the Project's activities. The Project Officer reports to the Chief of OEPA.
3. Office of Economic Policy Analysis (OEPA). OEPA will serve as a professional liaison group with the consultant economists and other technical assistance providers as well as with professional counterparts of the Ministry of Finance as requested by the Minister. This group possesses broad and deep generalized knowledge of the Guatemalan economy that may enable it to be helpful in planning changes in the fiscal system. To the extent useful to the Minister of Finance and his economic team, they may draw on this resource.

4. The Technical Assistance Consultant Team.

The TA consultants will be formed into a team whose Directors will be approved by the Minister of Finance and USAID/ Guatemala. The Project Directors constitute an "office" whose counterpart will be the Minister of Finance and one or more Vice Ministers. The TA team will receive assignments from the Minister of Finance within the limits described in the Project Paper, and will report to him through personal contact and working papers. However, the Quarterly Activity Reports, put together jointly by the TA team and the Ministry of Finance, will be prepared within an AID framework and will be delivered to the USAID/Guatemala Project Officer.

5. The Office of the Minister of Finance. Owing to the importance of this project to the accomplishment of the GOG's program for achieving broadly shared and sustained economic growth, the Office of the Minister of Finance will serve as the GOG's Project Implementation Unit. While various elements of project activity will take place considerably further down in the MOF structure, the authority of the Office of the Minister will assure entree, access and cooperation at all levels. The key functions of this unit will be to assure that:

- o Changes proposed are compatible with overall economic conditions peculiar to Guatemala;
- o MOF resources are made available as and where needed to assure project success;
- o Guatemala counterparts are full participants in the design and installation of changes adopted in this Fiscal Administration System;
- o Institutional development occurs as required to make improvements in the system permanent and not dependent on foreign advisors. This includes developing the institutional capability to perform ongoing monitoring of the system's consistency with policy directions and general economic circumstances.

B. Reporting:

The proposed project will belong to the Ministry of Finance. All technical working papers will be submitted directly to the Minister, and will be reviewed with him or his designees. All Project team members will be responsible to the Minister and all workplans will be continuously reviewed by him. Should the Minister decide that it is necessary to make any major changes in the direction of the Project work, he will discuss this with USAID. This consultation will determine whether such changes fit within the relevant agreements and contracts.

Technical working papers will be submitted to the Minister as they are completed. The regular activity reports of the long-term advisors will be reviewed and evaluated first by the Resident Chief of Party, then by the Project Director and Deputy Director, and ultimately by the Minister.

Administrative reporting to USAID on the Project's progress will be done quarterly by the contractor. Each quarterly report will summarize the period's major activities. In addition, the quarterly reports will include a summary of expenditures by project component. The reports will also be made available to the MOF.

C. Evaluation Arrangements:

The Fiscal Administration Project incorporates activities and analyses which will establish baseline data for the most important public finance and expenditure indicators, and will track their progress over the life of the project and beyond. These indicators are listed in the "End of Project Status" section of this paper, and in the logframe. The weaknesses in public financial and budgetary information, and a strategy for its upgrading are laid out in the project description (Section III.B.3) and, in more detail, in the technical memoranda of the bulk annex. The improvements in fiscal performance resulting from project-related changes in policy, administration and analytical capability will be quantified on a regular basis as the project is implemented.

One formal evaluation is planned during the life of the Project. The evaluation will take place over several months beginning around August of 1991, based on the current

schedule of project activities. The first phase of the evaluation (August 1991) will focus on achievements to date in fiscal operations and proposed changes resulting from the policy analysis component.

A second phase of the evaluation will focus on the commitment of the new administration to the objectives of the Project. It will also look at the degree to which the Fiscal Analysis Institute has been institutionalized within the Ministry. The results of both phases of the evaluation will assist the Mission to decide on the feasibility of undertaking a project add-on covering additional activities to further monitor, review, revise and institutionalize the changes implanted in the original.

Baseline data on current fiscal policy will be collected in conjunction with the development of the various analytic models discussed in Section III above. Application of these models will provide baseline measures against which the impact of Project activities can be assessed. Since the models will be used to test various proposals for changes in tax and budget policy, the Project will produce periodic assessments of impact. The Mission will contract independently for the evaluation with funds that have been reserved in the budget for this purpose.

D. Conditions and Covenants:

The proposed project has been designed from its inception with the full participation and collaboration of the Ministry of Finance and indeed of the Minister of Finance himself. Because of the day-to-day involvement of the Minister, there are few potential obstacles to the project that remain to be removed. Counterpart financing is not a serious problem since the Ministry of Finance has initial control over budget allocations. Personnel issues have already been dealt with so that able counterparts will be assigned to the project. The three most important issues which were resolved during the project design phase are discussed in the letter of request for the project from the Minister of Finance, and summarized here:

1. Coordination with Other Donors. As noted above, numerous donors have offered to assist the Ministry with fiscal administration improvement. For example, a team of West German fiscal advisors is currently in

Guatemala and is housed in the Ministry of Finance. The World Bank and the International Monetary Fund both have offered advice and assistance in this area as well. Moreover, USAID/Guatemala has assisted various units of the fiscal administration system with previous financing. Since the proposed project is to become a comprehensive fiscal reform, it is essential that the work of the various donors be centrally coordinated by the Minister of Finance and his advisors. The scheme for an "umbrella" of coordination through the office of the Minister is described in his letter, and in Section II.B.2 of this paper.

2. Space. The Minister of Finance wishes to have the technical assistance team housed in the Ministry of Finance Building. Adequate space was provided in the Ministry during the design phase. During project implementation, however, more permanent quarters will be required. The GOG has agreed to make available adequate space, and facilities (telephone lines, office supplies, etc.) during the pre-implementation phase, before actual project execution commences.

3. Blue Ribbon Commission. Fiscal management issues may have incited the most virulent and acrimonious conflicts that have confronted the current Government. These confrontations have been associated with sagging private domestic investment and a resumption of capital flight. At the present time, there is an uneasy calmness in the public-private sector relationship. Given the sensitivity of all tax-related issues, however, both the Ministry and USAID believe it to be essential that the private sector is made aware that USAID's Fiscal Administration Project is soon to begin. It is also essential that a formal mechanism be devised to assure that the private sector and the community at large are involved in deliberations leading to fiscal policy and administrative changes. This mechanism would involve the participation of private sector groups such as (but not necessarily) the bar association, producers' guilds or chambers, labor organizations and consumer advocate groups.

Ultimately, it is of course the Government of Guatemala that will have to decide which formal participatory framework best meets this need. The Project Committee is of

the view that the project is of such vital importance and of such extreme sensitivity that participation should be by way of some form of Blue Ribbon Commission. The Commission would be chaired by a Guatemalan of such stature that he or she enjoys the trust and respect of Guatemalans of all persuasions, incomes and social standings.

The Minister of Finance has made an unambiguous commitment that:

- o the existence of the project will be made public knowledge prior to completion of the pre-implementation phase; and,
- o the organization for public involvement will be put in place and its members identified by year end.

VII. PROJECT TECHNICAL ANALYSES

The design of this project clearly fits the objectives to be achieved, and the approach proposed here is appropriate. Below we consider economic and financial criteria, technical criteria, social soundness, environmental issues, and the administrative capability of the MOF to support the Project.

A. Economic Feasibility:

The Project has the objective of improving the allocation of resources in Guatemala by increasing the level of efficiency with which the government operates, improving the equity and fairness of the fiscal system, helping the fiscal system keep in step with economic policy, and decentralizing government activities within Guatemala.

Policy Analysis. The development of policy analysis infrastructure within the Ministry of Finance is necessary to achieve these goals, for a number of reasons. The first is that the Government may not be aware of the unfairness or the revenue yield implications of some particular feature in the present system, and estimates of this unfairness are important to developing a proper reform program. For example, the microsimulation models proposed above help remove two major obstacles to the direct involvement of policymakers in tax policy design: lack of reliable information about the impact of the current system and uncertainty about the effects policy changes will have. The models to be developed will be able to give answers to specific questions such as how much tax is paid by a particular income group or business sector, what tax rates are needed to reach a particular revenue or equity target and what is the revenue cost of a particular type of exemption. The models can also be used to examine the impact on revenue yield and the distribution of tax burdens of alternative tax rate and base structures.

A second reason for policy analysis is to help the government determine whether its fiscal programs are in step with its economic policies. The study of marginal effective tax rates (METR) proposed above is one example where economic analysis is required to identify inefficiencies in the business tax structure. An underlying premise of the approach to be taken in this Project is the view that markets do reasonably well in determining the allocation of resources, if left relatively free from governmental intervention. A potentially important source of governmental intervention in

Guatemala, as in most other countries, is business tax policy. One objective of the Project is to determine the extent and consequences of such tax-induced interference with free-market allocation. Knowledge of these distortions would provide one basis for evaluating tax policy reforms. This analysis will help identify sources of non-neutrality that deserve attention and perhaps reform. An important element of this component of the workplan is the careful explanation of the meaning of the METR calculations to policymakers and local counterparts so that decisions can be based on an understanding of the economics of the matter.

A third issue has to do with the resource cost of certain public policies. One such area that we propose for policy analysis is fiscal incentives. Government officials and several advisors to the Guatemalan government have proposed various fiscal incentive programs as part of the government's export promotion goals. There is no doubt about the appropriateness of the export promotion goal, and some fiscal incentives are clearly in step with this goal. But fiscal incentives have costs as well as benefits: they may lead to a revenue sacrifice that puts pressure on tax rates elsewhere in the system, they may discourage certain types of domestic production, they may impose a heavy administrative cost, and they may cause an unfair fiscal treatment of producers in different types of activities. Our initial review indicates that the Government knows little about the costs (or benefits) of the fiscal incentive packages in place or being proposed.

Finally, there is the issue of confidence in Government and willingness to pay. An analysis of the budget process, as proposed here, is one way to understand where resource allocation falls short and why there may be some resistance to tax payment. The proposed work in decentralization also promotes this objective. In a more decentralized system, with local participation in government, it is often argued that there is a greater willingness to pay for public services because the benefits are so much more visible. Yet another example is the case of public enterprises, where the absence of information may be the problem. In view of the relatively strong performance of the public enterprise sector, the poor public image and the low morale reported in some enterprises would seem unwarranted. This project includes an analysis of public enterprise activities, and a method of more accurately monitoring and reporting their activities.

Administration and Operations. The work of the Project to improve the administration of the tax system is also necessary to achieve the Project objectives. An inefficient administration leads to horizontal inequities, i.e., unequal tax treatment of individuals with the same income or of "similarly" situated businesses. Fairness in taxation cannot be achieved without an administration competent enough to assess and collect taxes from all individuals.

Tax evasion is encouraged by inefficient administration. Evaders weigh the rewards from escaping tax against the costs: the probability of being detected and the penalty levied if they are detected. Given the poor recordkeeping system and the lack of an effective audit program, there may not be a great deterrent to evasion of the income tax or value-added tax. The Project includes both a program to improve the taxpayer identification system and an upgrading of the audit activities.

Inadequate administration and operational procedure might also compromise the achievement of the government's economic policy objectives. There are a number of examples of such failings in the Guatemalan system. One is the failure of the government in some instances to refund taxes paid on purchases, and therefore to increase the burden on these firms and possibly reduce investment and exports.

B. Financial Feasibility:

Project financial analysis, in a typical infrastructure or production project, assures that the activity produces a stream of income that is sufficient to justify project costs. The project described in this paper does not lend itself to this form of analysis, being one of technical assistance to a public sector institution. Nevertheless, we can consider the question of cost versus benefit in a more qualitative way.

As is the case with any policy and administration reform project, the benefits of the proposed project defy plausible quantification. The object upon which the project activities will be visited is a system that governs the ways in which the public sector collects and spends money. This must be distinguished from the amounts of money collected and spent. It is not the objective of the project to produce more

tax revenue, nor is it to spend more, either in the aggregate nor in particular directions. Rather, the goal is to create a tax system such that, regardless of the absolute amount of revenue it is asked to produce, exerts minimal influence on the structure and level of economic activity that is consistent with the nation's social goals, resource endowments, external economic conditions, and its general economic condition.

On the expenditure side, the project will strive to put in place a permanent, efficient system for planning, programming, executing, and monitoring the Government's expenditure program, regardless of its absolute size. This outcome is indispensable to harmonization of public sector investment programs with the pace and structure of economic activity that overall public policy seeks to support and promote.

There can be no serious question about the positive impact on private investment of an efficient, straightforward, honest and stable public policy environment. These virtues are more often diminished than enhanced under attempts to define and quantify them to objective specifications. Moreover, the positive impact may take the form of an acceleration of decisions on investments that would have occurred in any case. The benefit in such cases would be measured by the increased social yield of investment now relative to investment later. How much later? It is, of course, impossible to know.

The foregoing caveats notwithstanding, we can undertake some informed speculation about the project benefits. If the Fiscal Administration Project can increase total investment by just one-half of one percent of GDP (i.e., \$40 million), it would raise GDP by over \$10 million in that year alone! Any positive outcome at all therefore would imply an extraordinary rate of return on the investment likely to be required for execution of the project.

Obviously, the foregoing is not hard science. Nevertheless, the estimated payoff is modest, and even so, is so great that it could be off by several hundred percent and would still represent a solid gold investment.

On the cost side, the project design phase was dedicated largely to searching for the least-cost solution to the identified problem areas. Throughout the project design

and during the Atlanta Project Paper conference, the opinions of some of the best, and most experienced, fiscal experts were solicited. These experts have guided similar fiscal reform projects in developing countries comparable to Guatemala. Within this group, a consensus was reached on the identity of the most constraining flaws and the least-cost approach to remedying them. For example, the option of offering training through local universities or private training institutions was examined, but discarded due to the lack of expertise in-country in the public sector fiscal management area. Thus, it is the consensus view of the design team and is supported by the Mission's Project Design Committee that the solutions proposed are the least-cost solutions.

C. Feasibility of the Technical Approach:

The technical approach proposed here is a mixture of institutional, legal, empirical, theoretical and purely operational. As described above, this technical approach is necessary to achieve the goals of the Project.

One issue that is clear to anyone beginning work on fiscal policy in Guatemala is the weakness in the data. Policy studies have suffered from the absence of a quality data base and perhaps there have been misconceptions about the impacts of the tax system and the distribution of expenditure benefits. A major element of this Project is the development of an appropriate data base and a procedure for keeping it up to date.

Another integral part of the technical approach proposed here is modelling. The uses of data in a systematic way can raise the level of the discussion of fiscal reform, in both the public and private sectors. Such analysis is always subject to some limitations but it is much superior to anecdotes and conjecture, and can help uncover less obvious impacts of changes in the fiscal system.

Computerization is an important part of the technical approach in the administration and operations component of the Project. A major difficulty is that many of the operational procedures are carried out manually, and with considerable imperfection. Even those activities that are computerized are only partially functioning. The computer is clearly a part of modern tax administration and budgeting, and one object of this Project is to determine how best to fit

computerization into the Guatemalan fiscal system. The Ministry of Finance has invested both its own and donor resources in substantial purchases of hardware and software - the proposed project will assist the Ministry to get the best mileage out of the investment.

D. Social Soundness Analysis

Most developing countries have need for the design of strong fiscal policies that will help them to manage budget deficits without harming longer-term development prospects and that will help them to raise revenues while minimizing the economic costs.

In accordance with that goal, the Cerezo Administration introduced a five year economic policy program in 1987, with the purpose of stabilizing the economy, increasing exports and improving the real income position of the poor. The fiscal component of this program was politically unpopular. Though it did mobilize additional revenue, it fell short of targets and it did not modernize the structure of the tax system. There is still need for a fiscal program that will meet these goals and help the government strengthen its administrative capacity.

The proposed program has as its primary purpose to help the government improve fiscal administration and to improve the fairness in the distribution of tax burdens and expenditure benefits resulting from the administration of the system.

1. Beneficiaries. One of the most important activities of the project will involve detailed analytic work to understand the impact of various provisions of the tax laws on the distribution of income within the country; and a determination of the extent to which various public expenditure patterns will benefit low and middle income Guatemalans.

This work will be done by the application of the microsimulation models described above. The findings of the simulations will provide information from which to predict the impact of possible tax reforms on low income groups. It will also provide some insights on the economic condition of women, their contribution to the tax system and the benefits they might receive from a more rational budget process.

2. Equity. In appraising the equity of the tax system of Guatemala, it will be useful to have an accurate picture of the distribution of the income and how that distribution is affected by the fiscal (tax and spending) policies of the public sector. This information will be provided by the modeling activities of the Project.

3. Attitudes Toward Fiscal Issues. In Guatemala the taxpayer base is extremely narrow, because the tax-free levels of income are so high compared to average incomes. The law establishes a standard tax-free level of income of Q4,500 for all workers. This eliminates approximately 2 million people from paying income tax. Therefore, the tax base is limited to approximately 160,000 people with relatively high incomes. Even this number probably overstates the base due to relatively generous exemptions and loopholes in the income tax code.

The base is also narrowed because of the tendency for all economic groups to underreport income.

This attitude is reinforced by the lack of good auditing and control programs by the tax administration, and by the lack of credibility of the political and economic policies which adds to the natural unwillingness to pay taxes.

The Project will address this problem in several ways: (a) modernizing and improving the administration of the fiscal system, (b) reducing the resource cost that operational inefficiencies impose on society, and (c) providing better information to assist government officials in making fiscal decisions in accordance with the economic and social goals of their policies.

The constraints that may appear in the implementation of the Project could be related to the personnel at the Ministry of Finance, i.e., to a natural reaction towards changes and modernization. The Project will have to be sensitive to this issue, and to attempt to resolve it with a strong training program.

Another possible problem is resistance from private sector interest groups. To some extent this is inevitable. Some countries, however, have taken steps to diffuse these objections by creating bipartisan tax study groups, whose main goal is to get involved in studying the available options to improve the fiscal system. This strategy has been successful before in Guatemala, in the case of the 1985 Grand National Dialogue, within which a multi-sectoral group representing diverse elements of Guatemala society formulated and implemented a tax increase plan; and the current work of the Bar Association with the Ministry of Finance to identify deficiencies in the 1987 amendments in the income tax law.

E. Administrative Feasibility:

The Fiscal Administration Project will be signed with the Guatemalan Ministry of Finance, and will be almost entirely implemented with that institution. To a lesser extent, the project will also provide some assistance to municipalities (in the case of the decentralization component), to the Ministry of Economy (in the case of the Fiscal Incentives Component) and possibly other public sector agencies that deal with the national budget.

USAID/Guatemala has long experience in working with the Ministry of Finance, in the macro area, in project implementation, and in the area of fiscal administration. We know the Ministry of Finance, its strengths and weaknesses, well. Based on this knowledge, the project technical design committee judges the proposed design as feasible, practical, and aimed at achieving the desired objectives during the time frame of the project.

Project activities will be primarily implemented through the Office of the Minister. The largest amounts of technical assistance will be directed toward the Internal Revenue Department, the Technical Budget Department, and to a lesser extent, the other tax-related departments such as property and customs. The current organizational "shape" of each of these offices is discussed at length in the bulk annex technical papers, as well as the recommended approaches to resolve institutional weaknesses.

During the design phase of the project, the Minister and vice ministers were open about the need for assistance to address both the policy and operational problems in the Ministry as outlined in this paper. Indeed, they exhorted their staffs to view the design team as an in-house group working to help them solve their problems, and not as outside reviewers coming in to criticize their operations. No problems or weaknesses were covered up. This positive attitude toward the proposed project on the part of the Ministry senior staff will go a long way to ensuring that the technical assistance is institutionalized and that the necessary resources needed to carry out the project within the Ministry will be provided.

F. Environmental Analysis

The proposed Project will not involve activities that have an effect on the natural and physical environment. The activities which will be carried out qualify for a categorical exclusion according to Section 216.2(c) (2) (xiv) of 22 CFR as "studies, projects or programs intended to develop the capability of recipient countries to engage in development planning".

ANNEX A

SUMMARY OF TECHNICAL ASSISTANCE PROVIDED TO THE
MINISTRY OF FINANCE

I. INTRODUCTION

The Guatemalan Ministry of Finance is responsible for the administration of the public resources and formulation and execution of Government fiscal and financial policy.

Its general objectives are to contribute to the country's development and to sustain economic stability. To achieve these objectives, the Ministry is responsible for administering the tax system budgeting the revenue the Government receives, formulating the Government Budget (Presupuesto General de Ingresos y Egresos del Estado) and its subsequent implementation and liquidation. The Ministry of Finance also administers the customs system and contracts internal and external debt of the Central Government.

In support of the development of its activities, the Ministry has received technical assistance from different international organizations interested in the resolution of problems that the Ministry's dependencies have to face which affect their performance.

In a historical analysis made since 1965, it can be observed that the functions of the Ministry that have received the most attention from international agencies have been fiscal, budgeting and more recently, administrative reorganization.

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II. DONORS AND TECHNICAL ASSISTANCE

Nine bilateral and multilateral international institutions have participated in helping the Ministry to solve existing problems and in the development and implementation of new systems to make the Ministry's performance more efficient: USAID, IDB, the World Bank, IMF, and the Governments of Germany, Mexico, Spain, France and Venezuela.

The purpose of this Annex is to provide a brief summary of technical assistance projects recently completed, currently underway, or soon planned to be undertaken by other donors in the broad area of Fiscal Administration. This section will deal with each group in turn:

A. AID

During its 24 years of providing technical assistance to the Ministry of Finance, USAID has invested approximately US\$5,000,000 (loan and grant), which has been oriented toward the areas of property tax (cadaster & administration), tax administration, creation and strengthening of the Directorate of External Finance, fiscal studies and computerization.

One of the most important USAID contributions occurred in the late 60's. The "Property Tax Development Project" had as its main purpose to improve the system for property tax assessment and collection developed in Guatemala. The project lasted 6 years and the final evaluation showed that the annual property tax revenue had achieved a 98% increase.

In the area of tax administration, USAID lent support with a project to modernize and improve Guatemala's tax administration practices, policies and procedures. Although the Ministry met all its commitments, personnel deficiencies impinged upon effectiveness of project, especially in development of computer personnel.

At present USAID is closing out a small (\$500,000) project signed in 1986, which was oriented to give technical support to the implementation of the economic stabilization policies

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contained in the Guatemalan 1986 stabilization program. Three areas were covered by the project: a) studies and consultancies oriented to customs and property tax; b) provision of equipment for the Directorates of Property Tax, Internal Revenue, Customs and other, and c) training.

USAID also funded a study by Dr. Richard Bird in October 1985 of the Guatemalan tax system. In his report, he evaluated the problems that affected Guatemalan revenue performance at that time. Some of his recommendations are being incorporated into the design of the Fiscal Administration Project.

B. RTU/CC/BID/CIAT

This program directed by CIAT and funded by IDB, began in January 1984 and the technical assistance from CIAT concluded in September 1988. The progress of the project has been reviewed and a second phase of the project is expected to begin in August 1989.

The initial objectives of the project were: to develop a comprehensive master file and current account for all taxes; to reform the structure of Internal Revenue; and to strengthen training in tax administration. However, due to delays on various fronts, the scope was reduced to developing a Master File and Current Account for just the income tax and the VAT. A summary of the programs accomplishments is presented in a CIAT report entitled "Program Regional RUC/CC - BID/CIAT", November 1988.

The effort has encountered several problems causing delays in the project schedule. Initially the project ran into difficulties creating a register of taxpayers with unique Taxpayer Identification Numbers (NITs). These problems were due to the fact that use of the tax number was not institutionalized, at least in the minds of the taxpayers, and no unique register existed before the attempt to computerize. The problems with the NIT resulted in corresponding problems with the accuracy of other data items entered into the Master File. Much time and effort has been devoted to rectifying these problems, although many problems still persist.

The project also faced computer storage constraints that further impeded progress in creating and maintaining a comprehensive and accurate data base. These storage constraints reduce the scope and the speed of tax return data entry. These delays have seriously compromised the usefulness of the current account system. Timely identification and pursuit of delinquent filers is simply not possible given the time lag between the tax filing date and the updating of the current account.

There also appear to be numerous problems with the accuracy of the tax return data entered in the current account file. These problems come from a series of sources:

- data incorrectly entered (due to fraud, neglect or honest mistakes);
- tax return data not thoroughly reviewed or edited to correct obvious mistakes;
- tax return data not correctly entered into the computer and not verified to remove keypunching errors; and
- errors in updating the computer files, caused by errors in the design, operation or development of the computer system.

A comprehensive, accurate and up-to-date current account system is essential for achieving several objectives of this Project. Among these are:

- a program to identify non-registrants;
- a program to identify non-filers and late-filers;
- a program for automated audit selection;
- a program to periodically generate "statistics of income" and "statistics of indirect taxes"; and
- a procedure for periodically updating the databases and models used to analyze tax policy changes,

CPK

forecast tax receipts, and generally monitor the performance of the tax system.

This project is currently led by Jaime Reyes, (the CIAT advisor has left), and has operated for so long that it has virtually become a part of the Ministry even though it is composed entirely of contractor personnel with yearly contracts (6 organization and methods analysts and 8 programmer/analysts).

C. GTZ

The Government of Germany with the Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ) group entered into an agreement with the Government of Guatemala on April 5, 1988 to provide "technical assistance and training in the area of taxation and finance." Klaus Schluter, the head of the project, has been in Guatemala since May 1988. His counterpart is Vice-Minister Rodríguez.

The original agreement outlines a 36-month project with 3 full time experts in training, tax collection, legal foundations of organization and budgeting, as well as a total of 40 man-months of short-term experts in taxation and administration. The anticipated budget at the time of the writing of the Project Document (1987) was 3.5 million German Marks. The scope of work outlined in the agreement covers:

- simplification and reforms of the legal foundation and administration of the tax system;
- modernization of tax collection processes;
- revision of accounting and collection methods;
- organization of a formal training program including on-the-job training; and
- regionalization of budget planning and control.

Some of the more specific activities that are to be part of the GTZ project include:

- implementation of a Master File;
- reorganization of accounting and control of tax payments;
- reorganization and training of the audit department;
- improved training;
- collaborating in a project to revise the laws and regulation from the tax reform;
- analysis of the various laws providing special exemptions;
- accounting and control system for taxable imports;
- regionalization of the budget; and
- advisory services on tax policy;

It is not clear that GTZ has made significant progress in any of these areas, though it is still very early. We are told that there is a planned pilot project dealing with the regionalization of (budget and/or tax) administration in Escuintla. This effort is being coordinated by the G-5 group (UNDP). GTZ also has plans to send some Guatemalan budget offices to Germany for training.

D. UNDP/T.A.

1. UNDP(G-5)

The group known as G-5 is a UNDP sponsored team composed of three Guatemalans whose task it is to support and coordinate the restructuring, debureaucratization, and modernization of the Ministry of Finance. The group is composed of experts in computerization, organization and public administration and macroeconomics and reports directly to Vice-Minister Rodriguez. The work plan indicates that the preparatory phase ended December 30, 1988 and the Master Plan for the restructuring will be completed May 31, 1989. The execution of the plan, however, continues until September 1990.

The project has two main objectives, as stated in the group work program. The first is to "simplify and improve the quality of procedures and methods of executing public investment programs and projects with an emphasis on External Financing". The second is to "develop a master plan to restructure, debureaucratize and modernize the Ministry of Finance", including both short-term and long-term plans.

A discussion with the G-5 group revealed that they see themselves playing mainly a coordinating role within the Ministry and not running any specific technical assistance project per se. Though primarily targeted at the international technical assistance efforts, their coordination role extends to all activities dealing with restructuring within the Ministry.

2. SACE

In the area of customs administration, there is a computerization project underway with joint funding from the U.N. and the Government of Guatemala.

This project began in December 1987 and is still in progress. This project will automate customs clearance and be used to collect and produce foreign trade statistics. The system is to be installed in all customs offices and appropriate equipment and training is to be provided.

E. French Cadastre Group

A French contractor is providing technical services to the Ministry of Finance to conduct a cadastre in one region (three departments). The project is being run by the French using Ministry of Finance equipment (purchased from the French) and Ministry of Finance personnel. Included in the contract are two VAX computers and a software system to support the cadastre. The Government anticipates that at the end of this 30-month effort they will have obtained the necessary experience to undertake a cadastre to include the rest of the country. The cadastre will have many applications, including improvement of the property tax system.

There is, however, an area of concern and this relates to the new DICABI, the DICABI VAX computer equipment and the establishing of a database of taxpayers. Due to delays and problems in the creation of the Master File and Current Account in Rentas Internas, DICABI was unable to use the RTU/CC database to create their list of property owners/taxpayers. Instead, DICABI created its own register using information from old property registers and tax rolls, assigning new taxpayer IDs (NITs) where necessary. This has created the potential that one individual may have more than one NIT -- one from Internal Revenue and one from DICABI. Another related point is that the property tax files will be moved to the new computers being acquired by DICABI. Therefore, the integration of the current accounts from property tax and other taxes may be quite difficult.

F. Other Technical Assistance

1. Government of Venezuela

The Venezuelan have just completed a 3 month program of technical assistance in the area of customs control for manufacturing warehouses.

2. CIAT/Panamá

CIAT provided advice on tax administration and tax policy by Dr. Hermida, who played an important role in the 1987 tax reform.

3. International Monetary Fund

The IMF provided technical assistance in the area of budgeting during half of 1988, but no visible changes in the budgeting system have yet occurred as a result of this effort. The rest of the year the expert examined the payroll system and left a report related to this area.

4. Governments of Mexico and Spain

Two training projects are being offered by Mexico and Spain. The topics covered include valuation, classification, laboraroty analysis and overall administration. Each project offers training to 10 officials, the first for 6 months and the latter for 2 months.

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Guatemala Detailed Component Budgets by FI/LC

LC costs are separated out purely for inflation calculation purposes. All costs are FI for the U.S. Institutional Contract

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ANNEX B

| | LEVEL OF DAILY RATE | EFFORT | Year 1 | | Year 2 | | Year 3 | | Year 4 | | TOTAL |
|--------------------------------------|---------------------|--------|---------|----|--------|--------|--------|--------|--------|----|---------|
| | | | FI | LC | FI | LC | FI | LC | FI | LC | |
| POLICY ANALYSIS COMPONENT | | | | | | | | | | | |
| TECHNICAL ASSISTANCE | | | | | | | | | | | |
| A. COMPREHENSIVE FISCAL REFORM: | | | | | | | | | | | |
| POLICY ANALYSIS INTEGRATION | | | | | | | | | | | |
| GSU PERSONNEL | | | | | | | | | | | |
| Bahl | 525 | 1 | 11,377 | | 1 | 11,377 | 1 | 11,377 | 0 | 0 | 34,130 |
| Martinez | 255 | 4 | 22,103 | | 4 | 22,103 | 1 | 5,526 | 0 | 0 | 49,733 |
| Subtotal | | | 33,480 | | 33,480 | | 16,903 | | 0 | | 83,663 |
| GSU Fringe Benefits, 25.73% | | | 8,614 | | 8,614 | | 4,349 | | 0 | | 21,578 |
| GSU Indirect costs, 45.3% | | | 19,069 | | 19,069 | | 9,627 | | 0 | | 47,765 |
| Policy Conferences | | | | | | | | | | | |
| Washington | Proj./606/AID | | 15,000 | | 0 | | 0 | | 0 | | 15,000 |
| Atlanta | Proj./000/AID | | 0 | | 15,000 | | 0 | | 0 | | 15,000 |
| Policy Modeling Meeting SRTs to DC | | | 5,100 | | 0 | | 0 | | 0 | | 5,100 |
| Travel | | | | | | | | | | | |
| Guatemala | 4/30 | | 6,022 | | 4/30 | 6,022 | 2/10 | 2,516 | | 0 | 14,560 |
| DC/ALL, 2RTs/year | 2/4 | | 1,500 | | 2/4 | 1,500 | 2/4 | 1,500 | | 0 | 4,500 |
| At/DC, 2RTs/year | 2/4 | | 1,500 | | 2/4 | 1,500 | 2/4 | 1,500 | | 0 | 4,500 |
| Travel Subtotal | | | 9,022 | | 9,022 | | 5,516 | | 0 | | 23,560 |
| Insurance, D&A & AID Assist | | | 390 | | 585 | | 195 | | 0 | | 1,170 |
| Special Advisory Panel | | | | | | | | | | | |
| Harberger | 1320 | 7 | 9,240 | | 0 | | 0 | | 0 | | 9,240 |
| Ballis | 550 | 7 | 3,850 | | 0 | | 0 | | 0 | | 3,850 |
| Comprehensive fiscal reform Subtotal | | | 103,765 | | 85,770 | | 36,590 | | 0 | | 226,126 |

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| | LEVEL OF DAILY RATE EFFORT | | Year 1 | | LEVEL OF EFFORT | | Year 2 | | LEVEL OF EFFORT | | Year 3 | | LEVEL OF EFFORT | | Year 4 | | TOTAL | |
|-----------------------------------|----------------------------|-----------|----------------|----|-----------------|----------|--------|----------|-----------------|----|----------|----------|-----------------|----------|----------|----|----------|----------------|
| | FI | LC | FI | LC | FI | LC | FI | LC | FI | LC | FI | LC | FI | LC | FI | LC | | |
| B. MODELING ACTIVITIES | | | | | | | | | | | | | | | | | | |
| 1. Business Model | | | | | | | | | | | | | | | | | | |
| KPS Personnel Salaries | | | | | | | | | | | | | | | | | | |
| Vasquez | 425 | 1 | 9,210 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 9,210 |
| Sr. Analysts | 235 | 11 | 56,017 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 56,017 |
| Jr. Analysts | 130 | 11 | 30,928 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 30,928 |
| KPS Subtotal | | 23 | 96,215 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 96,215 |
| KPS Fringe Benefits | | | 32,193 | | | 0 | | | 0 | | | 0 | | | 0 | | | 32,193 |
| Indirect Costs | | | 159,713 | | | 0 | | | 0 | | | 0 | | | 0 | | | 159,713 |
| Travel | | | | | | | | | | | | | | | | | | |
| Vasquez | 2/10 | | 2,516 | | | 0 | | | 0 | | | 0 | | | 0 | | | 2,516 |
| Sr. Analysts | 4/28 | | 5,524 | | | 0 | | | 0 | | | 0 | | | 0 | | | 5,524 |
| Jr. Analysts | 3/21 | | 4,369 | | | 0 | | | 0 | | | 0 | | | 0 | | | 4,369 |
| Travel Subtotal | | | 12,709 | | | 0 | | | 0 | | | 0 | | | 0 | | | 12,709 |
| Insurance, DBA & AID Assist | | | 1,696 | | | 0 | | | 0 | | | 0 | | | 0 | | | 1,696 |
| Business Model Subtotal | | | 302,526 | | | 0 | | | 0 | | | 0 | | | 0 | | | 302,526 |
| 2. Individual Income Model | | | | | | | | | | | | | | | | | | |
| KPS Personnel Salaries | | | | | | | | | | | | | | | | | | |
| Vasquez | 425 | 1 | 9,210 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 9,210 |
| Sr. Analysts | 235 | 10 | 50,925 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 50,925 |
| Jr. Analysts | 130 | 12 | 33,805 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 33,805 |
| KPS Subtotal | | 23 | 93,939 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 93,939 |
| KPS Fringe Benefits | | | 31,611 | | | 0 | | | 0 | | | 0 | | | 0 | | | 31,611 |
| Indirect Costs | | | 156,698 | | | 0 | | | 0 | | | 0 | | | 0 | | | 156,698 |
| Travel | | | | | | | | | | | | | | | | | | |
| Vasquez | 2/10 | | 2,516 | | | 0 | | | 0 | | | 0 | | | 0 | | | 2,516 |
| Sr. Analysts | 3/15 | | 3,774 | | | 0 | | | 0 | | | 0 | | | 0 | | | 3,774 |
| Jr. Analysts | 2/10 | | 2,516 | | | 0 | | | 0 | | | 0 | | | 0 | | | 2,516 |
| Travel Subtotal | | | 8,956 | | | 0 | | | 0 | | | 0 | | | 0 | | | 8,956 |
| Insurance, DBA & AID Assist | | | 682 | | | 0 | | | 0 | | | 0 | | | 0 | | | 682 |
| Individual Model Subtotal | | | 291,736 | | | 0 | | | 0 | | | 0 | | | 0 | | | 291,736 |

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| | LC | EFFORT | FX | LC | EFFORT | FX | LC | EFFORT | FX | LC | TOTAL |
|--------------------------------------|------|--------|---------------|----------|----------|----------|----------|----------|----------|----|---------------|
| 5. Taxpayer ID | | | | | | | | | | | |
| Consultants | | | | | | | | | | | |
| Austin | 350 | 30 | 10,500 | 0 | 0 | 0 | 0 | 0 | 0 | | 10,500 |
| Computer Advisor, TBA | 350 | 60 | 21,000 | 0 | 0 | 0 | 0 | 0 | 0 | | 21,000 |
| | | | <u>31,500</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | | <u>31,500</u> |
| Travel | | | | | | | | | | | |
| Austin | 2/28 | | 4,298 | 0 | 0 | 0 | 0 | 0 | 0 | | 4,298 |
| Computer Advisor, TBA | 1/14 | | 2,149 | 0 | 0 | 0 | 0 | 0 | 0 | | 2,149 |
| | | | <u>6,447</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | | <u>6,447</u> |
| Insurance, DBA & AID Assist | | | 1,092 | 0 | 0 | 0 | 0 | 0 | 0 | | 1,092 |
| Taxpayer ID Subtotal | | | <u>39,039</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | | <u>39,039</u> |
| 6. RETR | | | | | | | | | | | |
| Consultants | | | | | | | | | | | |
| McLure | 550 | 30 | 16,500 | 0 | 0 | 0 | 0 | 0 | 0 | | 16,500 |
| Zodrow | 400 | 30 | 12,000 | 0 | 0 | 0 | 0 | 0 | 0 | | 12,000 |
| | | | <u>28,500</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | | <u>28,500</u> |
| Travel | | | | | | | | | | | |
| McLure | 1/7 | | 1,456 | 0 | 0 | 0 | 0 | 0 | 0 | | 1,456 |
| Zodrow | 1/7 | | 1,456 | 0 | 0 | 0 | 0 | 0 | 0 | | 1,456 |
| | | | <u>2,912</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | | <u>2,912</u> |
| Insurance, DBA & AID Assist | | | 409 | 0 | 0 | 0 | 0 | 0 | 0 | | 409 |
| RETR Subtotal | | | <u>31,821</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | | <u>31,821</u> |
| 7. Effective Protection | | | | | | | | | | | |
| Consultants | | | | | | | | | | | |
| TBA | 550 | 30 | 16,500 | 0 | 0 | 0 | 0 | 0 | 0 | | 16,500 |
| TBA | 400 | 30 | 12,000 | 0 | 0 | 0 | 0 | 0 | 0 | | 12,000 |
| | | | <u>28,500</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | | <u>28,500</u> |
| Travel | | | | | | | | | | | |
| TBA | 1/7 | | 1,456 | 0 | 0 | 0 | 0 | 0 | 0 | | 1,456 |
| TBA | 1/7 | | 1,456 | 0 | 0 | 0 | 0 | 0 | 0 | | 1,456 |
| | | | <u>2,912</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | | <u>2,912</u> |
| Insurance, DBA & AID Assist | | | 409 | 0 | 0 | 0 | 0 | 0 | 0 | | 409 |
| Effective Protection Subtotal | | | <u>31,821</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | | <u>31,821</u> |

| | LEVEL OF DAILY RATE EFFORT | Year 1 | | LEVEL OF EFFORT | Year 2 | | LEVEL OF EFFORT | Year 3 | | LEVEL OF EFFORT | Year 4 | | TOTAL |
|--|-------------------------------|-----------|----------------|--------------------|----------|----------|--------------------|----------|----------|--------------------|----------|----------|----------------|
| | | FX | LC | | FX | LC | | FX | LC | | FX | LC | |
| B. CGEs | | | | | | | | | | | | | |
| KPHG Personnel Salaries | | | | | | | | | | | | | |
| Vasquez | 425 | 0.5 | 4,605 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4,605 |
| Sr. Analysts | 235 | 4.5 | 22,916 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 22,916 |
| Jr. Analysts | 130 | 16 | 45,074 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 45,074 |
| KPHG Subtotal | | 21 | 72,595 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 72,595 |
| KPHG Fringe Benefits | | | 24,806 | | 0 | | 0 | | 0 | | 0 | | 24,806 |
| Indirect Costs | | | 124,892 | | 0 | | 0 | | 0 | | 0 | | 124,892 |
| Consultants | | | | | | | | | | | | | |
| TBA | 550 | 60 | 33,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 33,000 |
| Travel | | | | | | | | | | | | | |
| Vasquez | 2/10 | | 2,516 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,516 |
| Sr. Analysts | 2/10 | | 2,516 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,516 |
| Jr. Analysts | 2/10 | | 2,516 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,516 |
| Travel Subtotal | | | 7,548 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7,548 |
| Insurance, DBA & AID Assist | | | 682 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 682 |
| CGE Model Subtotal | | | 263,522 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 263,522 |

MODELING ACTIVITIES SUMMARY

| | Year 1 | | Year 2 | | Year 3 | | Year 4 | | TOTAL |
|--------------------------|------------------|----|----------|----|----------|----|----------|----|------------------|
| | FX | LC | FX | LC | FX | LC | FX | LC | |
| 1. Business Income | 302,526 | | 0 | | 0 | | 0 | | 302,526 |
| 2. Individual Income | 291,736 | | 0 | | 0 | | 0 | | 291,736 |
| 3. Commodity Consumption | 119,498 | | 0 | | 0 | | 0 | | 119,498 |
| 4. Revenue Tracking | 143,437 | | 0 | | 0 | | 0 | | 143,437 |
| 5. Taxpayer ID System | 39,039 | | 0 | | 0 | | 0 | | 39,039 |
| 6. RETR | 31,821 | | 0 | | 0 | | 0 | | 31,821 |
| 7. Effective Protection | 31,821 | | 0 | | 0 | | 0 | | 31,821 |
| 8. CGEs | 263,522 | | 0 | | 0 | | 0 | | 263,522 |
| | 1,223,399 | | 0 | | 0 | | 0 | | 1,223,399 |

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| | WALT | RAID | EFFORT | FX | LC | EFFORT | FX | LC | EFFORT | FX | LC | TOTAL |
|-----------------------------------|------|------|---------------|----|------|---------------|----|----------|--------|----------|----|----------------|
| C. TAX BURDENS | | | | | | | | | | | | |
| KP&E Personnel | | | | | | | | | | | | |
| Sr. Analyst | 175 | 3 | 11,377 | | 3 | 11,377 | 0 | 0 | 0 | 0 | | 22,754 |
| KP&E Fringe Benefits | | | 3,982 | | | 3,982 | | 0 | | 0 | | 7,964 |
| Indirect Costs | | | 19,366 | | | 19,180 | | 0 | | 0 | | 38,546 |
| Consultants: Bird | 550 | 30 | 16,500 | | 30 | 16,500 | 0 | 0 | 0 | 0 | | 33,000 |
| Travel | | | | | | | | | | | | |
| Bird | | 1/7 | 1,456 | | 1/7 | 1,456 | | 0 | | 0 | | 2,912 |
| Sr. Analyst | | 1/7 | 1,456 | | 2/14 | 2,912 | | 0 | | 0 | | 4,368 |
| Travel Subtotal | | | 2,912 | | | 4,368 | | 0 | | 0 | | 7,280 |
| Insurance, DBA & AID Assist | | | 409 | | | 409 | | 0 | | 0 | | 818 |
| Tax Burdens Subtotal | | | <u>54,546</u> | | | <u>55,816</u> | | <u>0</u> | | <u>0</u> | | <u>110,362</u> |
| D. PUBLIC ENTERPRISES | | | | | | | | | | | | |
| Consultants | | | | | | | | | | | | |
| Birch | 350 | 90 | 31,500 | | 0 | 0 | 0 | 0 | 0 | 0 | | 31,500 |
| Travel | | | | | | | | | | | | |
| Birch | | 2/28 | 4,298 | | | 0 | | 0 | | 0 | | 4,298 |
| Insurance, DBA & AID Assist | | | 819 | | | 0 | | 0 | | 0 | | 819 |
| Public Enterprises Subtotal | | | <u>36,617</u> | | | <u>0</u> | | <u>0</u> | | <u>0</u> | | <u>36,617</u> |
| E. FISCAL DECENTRALIZATION | | | | | | | | | | | | |
| ESU Personnel | | | | | | | | | | | | |
| Eahl | 525 | 1.5 | 17,065 | | 1.5 | 17,065 | 0 | 0 | 0 | 0 | | 34,130 |
| Martinez | 255 | 1.5 | 8,289 | | 1.5 | 8,289 | | 0 | | 0 | | 16,578 |
| Subtotal | | | 25,354 | | | 25,354 | | 0 | | 0 | | 50,708 |
| ESU Fringe Benefits | | | 6,524 | | | 6,524 | | 0 | | 0 | | 13,047 |
| ESU Indirect Costs | | | 14,440 | | | 14,440 | | 0 | | 0 | | 28,881 |
| Fiscal Decentralization Subtotal | | | <u>46,318</u> | | | <u>46,318</u> | | <u>0</u> | | <u>0</u> | | <u>92,636</u> |

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| | LEVEL OF | | Year 1 | | LEVEL OF | | Year 2 | | LEVEL OF | | Year 3 | | LEVEL OF | | Year 4 | | TOTAL |
|-----------------------------|------------|--------|---------------|----|----------|----------|--------|--------|----------|----|--------|----------|----------|--------|----------|----|---------------|
| | DAILY RATE | EFFORT | FX | LC | EFFORT | FX | LC | EFFORT | FX | LC | EFFORT | FX | LC | EFFORT | FX | LC | |
| I. PROPERTY TAX | | | | | | | | | | | | | | | | | |
| Consultants | | | | | | | | | | | | | | | | | |
| TEA, Policy | 450 | 60 | 27,000 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 27,000 |
| TEA, Admin. Specialist | 400 | 60 | 24,000 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | 24,000 |
| | | | 51,000 | | | 0 | | | 0 | | | 0 | | | 0 | | 51,000 |
| Travel | | | | | | | | | | | | | | | | | |
| TBA | | 4/56 | 8,596 | | | 0 | | | 0 | | | 0 | | | 0 | | 8,596 |
| Insurance, DEA & AID Assist | | | 1,092 | | | 0 | | | 0 | | | 0 | | | 0 | | 1,092 |
| Property Tax Subtotal | | | <u>60,688</u> | | | <u>0</u> | | | <u>0</u> | | | <u>0</u> | | | <u>0</u> | | <u>60,688</u> |

| DAILY RATE | EFFORT | | 1967 | | 1968 | | 1969 | | 1970 | | TOTAL |
|------------|--------|----|--------|----|--------|----|--------|----|--------|----|-------|
| | FX | LC | EFFORT | LC | EFFORT | LC | EFFORT | LC | EFFORT | LC | |

II. OPERATIONS COMPONENT

TECHNICAL ASSISTANCE

A. INCOME TAX ADMINISTRATION

KPNG Personnel Salaries

| | | | | | | | | | | |
|----------------------|-----|---|--------|----|---------|----|---------|---|---|---------|
| Resident Audit | 270 | 3 | 17,553 | 12 | 70,211 | 9 | 52,658 | 0 | 0 | 140,422 |
| Resident Collections | 270 | 3 | 17,553 | 12 | 70,211 | 9 | 52,658 | 0 | 0 | 140,422 |
| KPNG Subtotal | 6 | 6 | 35,105 | 24 | 140,422 | 18 | 105,316 | 0 | 0 | 280,843 |

| | | | | | | | | | | |
|----------------------|--|--|--------|--|--------|--|--------|--|---|--------|
| KPNG Fringe Benefits | | | 10,532 | | 42,126 | | 31,595 | | 0 | 84,253 |
|----------------------|--|--|--------|--|--------|--|--------|--|---|--------|

| | | | | | | | | | | |
|----------------|--|--|--------|--|---------|--|---------|--|---|---------|
| Indirect Costs | | | 36,875 | | 147,499 | | 110,624 | | 0 | 294,998 |
|----------------|--|--|--------|--|---------|--|---------|--|---|---------|

Consultants

| | | | | | | | | | | |
|-----------------|-----|----|--------|----|--------|----|--------|---|---|--------|
| Austin | 350 | 30 | 10,500 | 30 | 10,500 | 30 | 10,500 | 0 | 0 | 31,500 |
| Short Term, TBA | 300 | 90 | 27,000 | 60 | 18,000 | 60 | 18,000 | 0 | 0 | 63,000 |
| Subtotal | | | 37,500 | | 28,500 | | 28,500 | | 0 | 94,500 |

Travel

| | | | | | | | | | | |
|-----------------|------|--|--------|------|--------|------|--------|---|---|--------|
| Austin | 1/21 | | 2,542 | 1/21 | 2,842 | 1/21 | 2,842 | 0 | 0 | 8,526 |
| Consultants | 3/90 | | 11,199 | 2/60 | 7,466 | 2/60 | 7,466 | 0 | 0 | 26,131 |
| Travel Subtotal | | | 14,041 | | 10,308 | | 10,308 | | 0 | 34,657 |

| | | | | | | | | | | |
|-----------------------------|--|--|-------|--|-------|--|-------|--|---|-------|
| Insurance, DSA & AID Assist | | | 1,250 | | 3,569 | | 2,677 | | 0 | 7,492 |
|-----------------------------|--|--|-------|--|-------|--|-------|--|---|-------|

Residents Allowances

| | | | | | | | | | | |
|-------------------------------------|--|--|--------|--|--------|--|--------|--|---|---------|
| Post Differential, 15% of Salary | | | 5,266 | | 21,063 | | 15,797 | | 0 | 42,126 |
| Moving (household goods), roundtrip | | | 20,000 | | 0 | | 20,000 | | 0 | 40,000 |
| Instal Travel | | | 3,000 | | 0 | | 0 | | 0 | 3,000 |
| Temporary Quarters, 90 days | | | 7,500 | | 0 | | 3,900 | | 0 | 11,700 |
| Housing | | | 16,353 | | 28,200 | | 18,800 | | 0 | 63,353 |
| R&R Travel, after 1 year | | | 0 | | 2,800 | | 0 | | 0 | 2,800 |
| Allowances Subtotal | | | 52,419 | | 52,063 | | 58,497 | | 0 | 162,979 |

| | | | | | | | | | | |
|---------------------------|--|--|---------|--|---------|--|---------|--|---|---------|
| Income Tax Administration | | | 187,705 | | 424,487 | | 347,517 | | 0 | 959,709 |
|---------------------------|--|--|---------|--|---------|--|---------|--|---|---------|

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| | LEVEL OF DAILY RATE EFFORT | | Year 1 | | LEVEL OF EFFORT | | Year 2 | | LEVEL OF EFFORT | | Year 3 | | LEVEL OF EFFORT | | Year 4 | | TOTAL |
|-------------------------------------|----------------------------|------|---------------|----|-----------------|----------------|--------|----------------|-----------------|----|----------|----|-----------------|----|--------|--|----------------|
| | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | | | |
| B. INDIRECT TAX | | | | | | | | | | | | | | | | | |
| KPMS Personnel Salaries Resident | 270 | 3 | 17,553 | | 12 | 70,211 | 4 | 35,105 | | 0 | 0 | | 0 | | | | 122,869 |
| KPMS Fringe Benefits | | | 5,266 | | | 21,063 | | 10,532 | | | 0 | | 0 | | | | 36,861 |
| Indirect Costs | | | 16,437 | | | 73,749 | | 36,875 | | | 0 | | 0 | | | | 129,061 |
| Consultants Due | 550 | 30 | 16,500 | | 30 | 16,500 | 0 | 0 | | 0 | 0 | | 0 | | | | 33,000 |
| Travel Due | | 1/14 | 2,149 | | 1/14 | 2,149 | 0 | 0 | | 0 | 0 | | 0 | | | | 4,299 |
| Insurance, DEA & AID Assist | | | 903 | | | 3,452 | | 1,726 | | | 0 | | 0 | | | | 6,091 |
| Resident Allowances | | | | | | | | | | | | | | | | | |
| Post Differential, 15% of salary | | | 2,633 | | | 10,532 | | 5,266 | | | 0 | | 0 | | | | 18,430 |
| Moving (household goods), roundtrip | | | 10,000 | | | 0 | | 10,000 | | | 0 | | 0 | | | | 20,000 |
| Initial Travel | | | 1,500 | | | 0 | | 0 | | | 0 | | 0 | | | | 1,500 |
| Temporary Quarters | | | 3,900 | | | 0 | | 1,950 | | | 0 | | 0 | | | | 5,250 |
| Housing | | | 8,175 | | | 14,100 | | 5,875 | | | 0 | | 0 | | | | 28,150 |
| R&R Travel, after 1 year | | | 0 | | | 1,400 | | 0 | | | 0 | | 0 | | | | 1,400 |
| Allowances Subtotal | | | 26,208 | | | 26,032 | | 23,091 | | | 0 | | 0 | | | | 75,330 |
| Indirect Tax Subtotal | | | <u>87,016</u> | | | <u>213,156</u> | | <u>167,329</u> | | | <u>0</u> | | <u>0</u> | | | | <u>407,500</u> |

| | LEVEL OF DAILY RATE EFFORT | | Year 1 | | LEVEL OF EFFORT | | Year 2 | | LEVEL OF EFFORT | | Year 3 | | LEVEL OF EFFORT | | Year 4 | | TOTAL | |
|--|----------------------------|----------|----------------|----|-----------------|----------------|--------|-----------|-----------------|----|----------|----------|-----------------|----|--------|--|----------------|--|
| | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | | | | |
| C. CUSTOMS ADMINISTRATION | | | | | | | | | | | | | | | | | | |
| KPNS Personnel Salaries | | | | | | | | | | | | | | | | | | |
| Resident Generalist | 270 | 3 | 17,553 | | 12 | 70,211 | | 6 | 35,105 | | 0 | 0 | | | | | 122,869 | |
| Resident Computer | 270 | 3 | 17,553 | | 12 | 70,211 | | 6 | 35,105 | | 0 | 0 | | | | | 122,869 | |
| KPNS Subtotal | | 6 | 35,105 | | 24 | 140,422 | | 12 | 70,211 | | 0 | 0 | | | | | 245,738 | |
| KPNS Fringe Benefits | | | 10,532 | | | 42,126 | | | 21,063 | | 0 | 0 | | | | | 73,721 | |
| Indirect Costs | | | 36,875 | | | 147,499 | | | 73,749 | | 0 | 0 | | | | | 258,123 | |
| Consultants | | | | | | | | | | | | | | | | | | |
| Stacey | 440 | 30 | 13,200 | | 30 | 13,200 | | 30 | 13,200 | | 0 | 0 | | | | | 39,600 | |
| Travel | | | | | | | | | | | | | | | | | | |
| Stacey | | 2/21 | 3,605 | | 1/14 | 2,149 | | 1/7 | 1,456 | | 0 | 0 | | | | | 7,210 | |
| Insurance, DBA & AID Assist | | | | | | | | | | | | | | | | | | |
| | | | 1,692 | | | 4,427 | | | 3,213 | | | 0 | | | | | 11,332 | |
| Residents Allowances | | | | | | | | | | | | | | | | | | |
| Post Differential, 15% of Salary | | | 5,266 | | | 21,063 | | | 10,532 | | | 0 | | | | | 36,861 | |
| Moving (household goods), roundtrip | | | 20,000 | | | 0 | | | 20,000 | | | 0 | | | | | 40,000 | |
| Initial Travel | | | 3,000 | | | 0 | | | 0 | | | 0 | | | | | 3,000 | |
| Temporary Quarters | | | 7,800 | | | 0 | | | 3,900 | | | 0 | | | | | 11,700 | |
| Housing | | | 16,350 | | | 28,200 | | | 11,750 | | | 0 | | | | | 56,300 | |
| R&R Travel, after 1 year | | | 0 | | | 2,800 | | | 0 | | | 0 | | | | | 2,800 | |
| Allowances Subtotal | | | 52,416 | | | 52,063 | | | 46,182 | | | 0 | | | | | 150,661 | |
| Customs Administration | | | 153,425 | | | 403,886 | | | 229,075 | | | 0 | | | | | 786,385 | |

1/12

| | LEVEL OF DAILY RATE EFFORT | | Year 1 | | LEVEL OF EFFORT | | Year 2 | | LEVEL OF EFFORT | | Year 3 | | LEVEL OF EFFORT | | Year 4 | | TOTAL |
|--|----------------------------|----|--------|----|-----------------|----|--------|----|-----------------|----|--------|----|-----------------|----|--------|--|-------|
| | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | | | |

B. BUDGETING SYSTEM

KPMS Personnel Salaries

| | | | | | | | | | | | | | | | | | |
|-----------------------|-----|----|--------|--|----|---------|--|----|--------|--|---|---|--|--|--|--|---------|
| Johnson | 425 | 4 | 36,839 | | 3 | 27,629 | | 1 | 9,210 | | 0 | 0 | | | | | |
| Resident, Concepts | 270 | 3 | 17,553 | | 12 | 70,211 | | 9 | 52,659 | | 0 | 0 | | | | | 73,678 |
| Resident, Trng. & Pro | 270 | 3 | 17,553 | | 12 | 70,211 | | 6 | 35,105 | | 0 | 0 | | | | | 140,422 |
| Sr. Analysts | 225 | 3 | 14,627 | | 3 | 14,627 | | 0 | 0 | | 0 | 0 | | | | | 122,669 |
| Jr. Analysts | 125 | 2 | 5,418 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | | | | 29,255 |
| Sr. Analysts, Payroll | 225 | 0 | 0 | | 6 | 29,255 | | 0 | 0 | | 0 | 0 | | | | | 5,418 |
| Jr. Analysts, Payroll | 125 | 0 | 0 | | 9 | 24,379 | | 0 | 0 | | 0 | 0 | | | | | 29,255 |
| KPMS Subtotal | | 15 | 91,959 | | 45 | 236,311 | | 16 | 96,973 | | 0 | 0 | | | | | 24,379 |

KPMS Fringe Benefits

| | | | | | | | | | | | | | | | | | |
|--|--|--|--------|--|--|--------|--|--|--------|--|--|---|--|--|--|--|---------|
| | | | 25,757 | | | 71,130 | | | 26,862 | | | 0 | | | | | 125,748 |
|--|--|--|--------|--|--|--------|--|--|--------|--|--|---|--|--|--|--|---------|

Indirect Costs

| | | | | | | | | | | | | | | | | | |
|--|--|--|---------|--|--|---------|--|--|---------|--|--|---|--|--|--|--|---------|
| | | | 125,266 | | | 306,222 | | | 104,469 | | | 0 | | | | | 535,956 |
|--|--|--|---------|--|--|---------|--|--|---------|--|--|---|--|--|--|--|---------|

Consultants

| | | | | | | | | | | | | | | | | | |
|-----------------------|-----|-----|---------|--|---|---|--|---|---|--|---|---|--|--|--|--|---------|
| TSA, Budget Concepts | 400 | 180 | 72,000 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | | | | 72,000 |
| TSA, Fiscal Analysts | 400 | 60 | 24,000 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | | | | 24,000 |
| TSA, Prog. Analysis I | 400 | 90 | 36,000 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | | | | 36,000 |
| Subtotal | | | 132,000 | | | 0 | | | 0 | | | 0 | | | | | 132,000 |

Travel

| | | | | | | | | | | | | | | | | | |
|--------------------------------|------|--|--------|--|------|--------|--|-----|-------|--|---|---|--|--|--|--|--------|
| Johnson | 5/35 | | 7,250 | | 3/21 | 4,368 | | 1/7 | 1,456 | | 0 | 0 | | | | | 13,104 |
| Sr. Analysts | 3/21 | | 4,368 | | 3/21 | 4,368 | | 1/7 | 1,456 | | 0 | 0 | | | | | 10,192 |
| Jr. Analysts | 2/14 | | 2,912 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | | | | 2,912 |
| Sr. Analysts, Payroll | 0 | | 0 | | 2/14 | 2,912 | | 0 | 0 | | 0 | 0 | | | | | 2,912 |
| Jr. Analysts, Payroll | 0 | | 0 | | 3/21 | 4,368 | | 0 | 0 | | 0 | 0 | | | | | 4,368 |
| Consult., Budget Concepts | 3/21 | | 4,368 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | | | | 4,368 |
| Consult., Fiscal Analysis | 2/14 | | 2,912 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | | | | 4,368 |
| Consult., Prog. Analysis Trng. | 2/28 | | 4,298 | | 0 | 0 | | 0 | 0 | | 0 | 0 | | | | | 2,912 |
| Subtotal | | | 26,138 | | | 16,016 | | | 2,912 | | | 0 | | | | | 45,066 |

Insurance, ESA & AID Assist

| | | | | | | | | | | | | | | | | | |
|--|--|--|-------|--|--|-------|--|--|-------|--|--|---|--|--|--|--|--------|
| | | | 5,252 | | | 9,072 | | | 3,723 | | | 0 | | | | | 18,047 |
|--|--|--|-------|--|--|-------|--|--|-------|--|--|---|--|--|--|--|--------|

Residents Allowances

| | | | | | | | | | | | | | | | | | |
|-------------------------------------|--|--|--------|--|--|--------|--|--|--------|--|--|---|--|--|--|--|---------|
| Post Differential, 15% of Salary | | | 5,266 | | | 21,063 | | | 13,165 | | | 0 | | | | | 39,494 |
| Moving (household goods), roundtrip | | | 20,000 | | | 0 | | | 20,000 | | | 0 | | | | | 40,000 |
| Initial Travel | | | 3,000 | | | 0 | | | 0 | | | 0 | | | | | 3,000 |
| Temporary Quarters | | | 7,800 | | | 0 | | | 3,900 | | | 0 | | | | | 11,700 |
| Housing | | | 16,350 | | | 28,200 | | | 15,275 | | | 0 | | | | | 59,825 |
| R&R Travel, after 1 year | | | 0 | | | 2,800 | | | 0 | | | 0 | | | | | 2,800 |
| Allowances Subtotal | | | 52,416 | | | 52,063 | | | 52,340 | | | 0 | | | | | 156,919 |

Budgeting Subtotal

| | | | | | | | | | | | | | | | | | |
|--|--|--|----------------|--|--|----------------|--|--|----------------|--|--|----------|--|--|--|--|------------------|
| | | | <u>458,918</u> | | | <u>690,914</u> | | | <u>287,278</u> | | | <u>0</u> | | | | | <u>1,436,910</u> |
|--|--|--|----------------|--|--|----------------|--|--|----------------|--|--|----------|--|--|--|--|------------------|

| | LEVEL OF DAILY RATE EFFORT | | Year 1 | | LEVEL OF EFFORT | | Year 2 | | LEVEL OF EFFORT | | Year 3 | | LEVEL OF EFFORT | | Year 4 | | TOTAL |
|------------------------------|----------------------------|------|---------|----|-----------------|---------|--------|------|-----------------|----|--------|--------|-----------------|------|--------|----|---------|
| | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | |
| TECHNICAL ASSISTANCE SUPPORT | | | | | | | | | | | | | | | | | |
| 1. KPMG Peat Marwick | | | | | | | | | | | | | | | | | |
| KPMG Personnel Salaries | | | | | | | | | | | | | | | | | |
| Engagement Principal | 425 | 0.5 | 4,605 | | 0.25 | 2,302 | | 0.25 | 2,302 | | 0.25 | 2,302 | | 0.25 | 2,302 | | 11,512 |
| Admin. Director | 150 | 4 | 13,002 | | 4 | 13,002 | | 4 | 13,002 | | 4 | 13,002 | | 2 | 6,501 | | 45,507 |
| Admin. Assistant | 100 | 4 | 8,668 | | 4 | 8,668 | | 4 | 8,668 | | 4 | 8,668 | | 2 | 4,334 | | 30,538 |
| KPMG Subtotal | | 9 | 26,275 | | 8 | 23,972 | | 8.25 | 23,972 | | | | | 2 | 13,137 | | 87,357 |
| KPMG Fringe Benefits | | | 7,892 | | | 7,192 | | | 7,192 | | | | | | 3,941 | | 26,207 |
| Indirect Costs | | | 44,995 | | | 41,153 | | | 41,382 | | | | | | 17,881 | | 145,411 |
| Travel | | | | | | | | | | | | | | | | | |
| Engagement Principal | | 1/5 | 1,258 | | 0 | 0 | | 1/5 | 1,258 | | 1/5 | 1,258 | | 1/5 | 1,258 | | 3,774 |
| Admin. Director | | 2/10 | 2,516 | | 1/5 | 1,258 | | 1/5 | 1,258 | | 1/5 | 1,258 | | 1/5 | 1,258 | | 6,290 |
| Atlanta. 4RTs/year | | 1/4 | 1,000 | | 1/4 | 1,000 | | 1/4 | 1,000 | | 1/4 | 1,000 | | | 0 | | 3,900 |
| Travel Subtotal | | | 4,774 | | | 2,258 | | | 3,516 | | | | | | 2,516 | | 13,064 |
| Insurance, DBA & AID Assist | | | 565 | | | 565 | | | 565 | | | | | | 300 | | 1,995 |
| KPMG Home Office Subtotal | | | 84,492 | | | 75,140 | | | 76,627 | | | | | | 37,776 | | 274,535 |
| 2. Georgia State University | | | | | | | | | | | | | | | | | |
| GSU Personnel | | | | | | | | | | | | | | | | | |
| Bahl | 525 | 1.5 | 17,065 | | 1.5 | 17,065 | | 1 | 11,377 | | 0.5 | 5,689 | | 0.5 | 5,689 | | 51,195 |
| Hartonez | 255 | 1.5 | 8,259 | | 1.5 | 8,259 | | 1 | 5,526 | | 0.5 | 2,763 | | 0.5 | 2,763 | | 24,866 |
| Editor | 108 | 1 | 2,340 | | 2 | 4,681 | | 1.5 | 3,511 | | 0.5 | 1,170 | | 0.5 | 1,170 | | 11,792 |
| Secretaries | 65 | 6 | 8,451 | | 8 | 11,269 | | 6 | 8,451 | | 3 | 4,226 | | 3 | 4,226 | | 32,397 |
| Research Assistants | 22 | 24 | 11,442 | | 36 | 17,163 | | 12 | 5,721 | | 12 | 5,721 | | 12 | 5,721 | | 40,046 |
| Subtotal | | | 47,567 | | | 58,466 | | | 34,585 | | | | | | 19,568 | | 160,206 |
| GSU Fringe Benefits | | | 12,244 | | | 15,043 | | | 6,899 | | | | | | 5,035 | | 41,221 |
| GSU Indirect Costs | | | 27,104 | | | 33,300 | | | 19,698 | | | | | | 11,145 | | 91,217 |
| Travel | | | | | | | | | | | | | | | | | |
| Bahl | | 5/35 | 7,280 | | 6/42 | 8,736 | | 2/10 | 2,516 | | 2/14 | 2,912 | | 2/14 | 2,912 | | 21,444 |
| Hartonez | | 5/35 | 7,280 | | 6/42 | 8,736 | | 2/10 | 2,516 | | 2/14 | 2,912 | | 2/14 | 2,912 | | 21,444 |
| Research Associates | | 3/51 | 7,338 | | 3/51 | 7,338 | | 1/10 | 1,753 | | | 0 | | | 0 | | 16,429 |
| DC, 2RTs/year | | 2/4 | 1,500 | | 2/4 | 1,500 | | 2/4 | 1,500 | | | 0 | | | 0 | | 4,500 |
| Travel Subtotal | | | 23,398 | | | 26,310 | | | 8,285 | | | | | | 5,824 | | 63,817 |
| Insurance, DBA & AID Assist | | | 1,023 | | | 1,257 | | | 744 | | | | | | 421 | | 3,445 |
| Other Direct Costs | | | | | | | | | | | | | | | | | |
| Office Operations | | | 1,750 | | | 3,000 | | | 1,000 | | | | | | 1,000 | | 6,750 |
| Publications | | | 2,000 | | | 5,000 | | | 5,000 | | | | | | 5,000 | | 17,000 |
| Subtotal | | | 3,750 | | | 8,000 | | | 6,000 | | | | | | 6,000 | | 23,750 |
| GSU Subtotal | | | 115,107 | | | 142,376 | | | 78,211 | | | | | | 47,993 | | 333,686 |
| MCHE OFFICE TOTAL | | | 199,598 | | | 217,516 | | | 154,838 | | | | | | 85,769 | | 657,721 |

5/11

III. GUATEMALA OFFICE

| | LEVEL OF DAILY RATE EFFORT | | Year 1 | | LEVEL OF EFFORT | | Year 2 | | LEVEL OF EFFORT | | Year 3 | | LEVEL OF EFFORT | | Year 4 | | TOTAL | |
|-------------------------------------|----------------------------|----|---------------|---------------|-----------------|----------------|---------------|----|-----------------|---------------|--------|----------------|-----------------|----|--------|--|-------|----------------|
| | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | FX | LC | | | | |
| TECHNICAL ASSISTANCE | | | | | | | | | | | | | | | | | | |
| KPS Personnel Salaries | | | | | | | | | | | | | | | | | | |
| Resident Advisor | 270 | 3 | 17,553 | | 12 | 70,211 | | 12 | 70,211 | | 6 | 35,105 | | | | | | 193,689 |
| KPS Fringe Benefits | | | 5,266 | | | 21,063 | | | 21,063 | | | 10,532 | | | | | | 57,926 |
| Indirect Costs | | | 18,437 | | | 73,749 | | | 73,749 | | | 36,875 | | | | | | 202,811 |
| Insurance, DBA & diD Assist | | | 812 | | | 2,684 | | | 2,684 | | | 1,342 | | | | | | 7,522 |
| Resident Allowances | | | | | | | | | | | | | | | | | | |
| Post Differential, 15% of Salary | | | 2,633 | | | 10,532 | | | 10,532 | | | 5,266 | | | | | | 28,962 |
| Perish (household goods), roundtrip | | | 10,000 | | | 0 | | | 0 | | | 10,000 | | | | | | 20,000 |
| Initial Travel | | | 1,500 | | | 0 | | | 0 | | | 0 | | | | | | 1,500 |
| Temporary Quarters | | | 3,900 | | | 0 | | | 0 | | | 0 | | | | | | 3,900 |
| Housing | | | 8,175 | | | 14,100 | | | 14,100 | | | 5,875 | | | | | | 42,250 |
| R&R Travel, after 1 year | | | 0 | | | 1,400 | | | 1,400 | | | 0 | | | | | | 2,800 |
| Allowances Subtotal | | | 26,208 | | | 26,032 | | | 26,032 | | | 23,091 | | | | | | 161,532 |
| Local Personnel | | | | | | | | | | | | | | | | | | |
| Admin. Secretary | 461.48 | 1 | 1,444 | | 1 | 5,778 | | 1 | 5,778 | | 1 | 2,629 | | | | | | 15,639 |
| Secretary | 351.85 | 2 | 2,111 | | 2 | 8,444 | | 2 | 6,444 | | 2 | 4,222 | | | | | | 21,222 |
| Passenger | 122.22 | 1 | 367 | | 1 | 1,467 | | 1 | 1,467 | | 1 | 733 | | | | | | 4,000 |
| Driver | 185.19 | 3 | 1,667 | | 3 | 6,667 | | 3 | 6,667 | | 3 | 3,333 | | | | | | 18,333 |
| Subtotal: | | | 5,589 | | | 22,356 | | | 22,356 | | | 11,178 | | | | | | 61,478 |
| Other Direct Costs | | | | | | | | | | | | | | | | | | |
| Supplies | | | 2,000 | | | 3,000 | | | 3,000 | | | 750 | | | | | | 8,750 |
| Office Equipment Maintenance | | | 1,500 | | | 3,000 | | | 3,000 | | | 750 | | | | | | 8,250 |
| Communications | | | 5,000 | | | 5,000 | | | 5,000 | | | 2,000 | | | | | | 17,000 |
| Vehicles, Maintenance | | | 3,750 | | | 7,500 | | | 7,500 | | | 1,875 | | | | | | 20,625 |
| Subtotal: | | | 12,250 | | | 18,500 | | | 18,500 | | | 5,375 | | | | | | 54,625 |
| Guatemala Office Subtotal | | | 68,276 | 17,839 | | 193,739 | 40,356 | | 193,739 | 40,856 | | 106,945 | 16,553 | | | | | 678,801 |

FISCAL ADMINISTRATION PROJECT 520-0371

USAID/Guatemala Detailed Component Budgets by FI/LC

Local costs are separated out purely for inflation calculation purposes. All costs are FI for the U.S. Institutional Contract

| | Year 1 | | Year 2 | | Year 3 | | Year 4 | | TOTAL |
|-------------------------------------|------------------|---------------|------------------|---------------|------------------|---------------|----------------|---------------|------------------|
| | FI | LC | FI | LC | FI | LC | FI | LC | |
| Subtotal Institutional Contract | 2,862,308 | 17,839 | 2,395,071 | 40,856 | 1,355,366 | 40,856 | 192,713 | 16,553 | 6,912,561 |
| 10% Contract Fee | 286,231 | 1,784 | 238,507 | 4,086 | 135,637 | 4,036 | 19,271 | 1,655 | 691,256 |
| Total Institutional Contract | 3,148,539 | 19,623 | 2,623,578 | 44,941 | 1,492,002 | 44,941 | 211,985 | 18,208 | 7,603,817 |
| EQUIPMENT | | | | | | | | | |
| Vehicles (3x17,000) | 51,000 | | | | | | | | 51,000 |
| Microcomputers (2x25,000) | 50,000 | | | | | | | | 50,000 |
| Office Computers | 12,500 | | | | | | | | 12,500 |
| Office Equipment | 5,000 | | | | | | | | 5,000 |
| Total Commodities | 118,500 | | | | | | | | 118,500 |
| EVALUATION AND AUDIT | 0 | | 95,000 | | 0 | | 95,000 | | 190,000 |
| INFLATION | | | | | | | | | |
| US Dollar Costs, 5% | 0 | | 135,929 | 6,741 | 78,330 | 7,752 | 16,923 | 3,612 | 251,182 |
| Local Costs, 15% | | | | | | | | | 19,106 |
| Total Inflation | | | | | | | | | 270,288 |
| CONTINGENCIES | | | | | | | | | 249,238 |
| PROJECT TOTAL | | | | | | | | | 838,395 |
| | | | | | | | | | 9,000,000 |

FISCAL ADMINISTRATION PROJECT 520-0371
606 Detailed Contribution Budgets

Level of Effort YEAR 1 Level of Effort YEAR 2 Level of Effort YEAR 3 Level of Effort YEAR 4 TOTAL

1. POLICY ANALYSIS COMPONENT

A. COMPREHENSIVE FISCAL REFORM CONCEPT PAPER:

| Category | Minister | Viceminister | Subtotal | Support Staff | Sub-total |
|--------------------------------------|-----------|--------------|----------|---------------|-----------|
| Research & Support Sta | 4.0 2,169 | 10.0 2,761 | 4,930 | 4,930 | 4,930 |
| Computer Ts | | | | 3,550 | 3,550 |
| Trainers/tr | | | | 5,324 | 5,324 |
| Travel | | | | | |
| Viceminister Director, E Subdirector | | | 12,325 | 12,325 | 12,325 |
| | | | | 8,874 | 8,874 |
| | | | | | 0 13,410 |
| | | | | | 0 20,115 |
| | | | | | 0 33,525 |

B. DEVELOPMENT OF SIMULATION CAPACITY
1. Business Income Model

| Category | Viceminister(s) | Director, Data | Subdirector | Research Assocs. | Support Staff | Computer Time | Trainers/Trainees | Travel | Viceminister(s) | Director, Data | Subdirector | Sub-total |
|----------|-----------------|----------------|-------------|------------------|---------------|---------------|-------------------|-----------|-----------------|----------------|-------------|-----------|
| Subtotal | 2.5 686 | 8.0 1,233 | 15.0 1,867 | | | | | | | | | 3,786 |
| | | | | 8.0 16,800 | 5,679 | 16,667 | 68,333 | | | | | 3,786 |
| | | | | | | | | | | | | 16,800 |
| | | | | | | | | | | | | 5,679 |
| | | | | | | | | | | | | 16,667 |
| | | | | | | | | | | | | 68,333 |
| | | | | | | | | 2.0 2,516 | | | | 2,516 |
| | | | | | | | | 2.0 2,516 | | | | 2,516 |
| | | | | | | | | 2.0 2,516 | | | | 2,516 |
| | | | | | | | | | | | | 7,548 |
| | | | | | | | | | | | | 7,548 |
| | | | | | | | | | | | | 118,813 |
| | | | | | | | | | | | | 118,813 |

Subtotal

| | Level of Effort | YEAR 1 | Level of Effort | YEAR 2 | Level of Effort | YEAR 3 | Level of Effort | YEAR 4 | TOTAL |
|---|-----------------|---------------|-----------------|---------------|-----------------|--------|-----------------|--------|---------------|
| C. TAX BURDENS | | | | | | | | | |
| Subdirector | 25.0 | 3,112 | 12.5 | 1,556 | | | | | 4,668 |
| Research Associate | 12.0 | 25,200 | 12.0 | 25,200 | | | | | 50,400 |
| Support Staff | | 4,668 | | 2,334 | | | | | 7,002 |
| Subtotal: | | <u>32,980</u> | | <u>29,090</u> | | | | | <u>62,070</u> |
| D. PUBLIC ENTERPRISES | | | | | | | | | |
| Subdirector | 12.5 | 1,556 | | | | | | | 1,556 |
| Support Staff | | 2,334 | | | | | | | 2,334 |
| Research Associate | 12.0 | 25,200 | | | | | | | 25,200 |
| Subtotal: | | <u>29,090</u> | | | | | | | <u>29,090</u> |
| E. FISCAL DECENTRALIZATION | | | | | | | | | |
| Minister | 4.0 | 2,169 | 4.0 | 2,169 | | | | | 4,338 |
| Vice Minister | 10.0 | 2,761 | 10.0 | 2,761 | | | | | 5,522 |
| Subtotal: | | <u>4,930</u> | | <u>4,930</u> | | | | | 9,860 |
| Support Staff | | 7,395 | | 7,395 | | | | | 14,790 |
| Research Associate | 12.0 | 25,200 | 12.0 | 25,200 | | | | | 50,400 |
| Subtotal: | | <u>37,525</u> | | <u>37,525</u> | | | | | <u>75,051</u> |
| F. BUSINESS INCOME TAX/FISCAL INCENTIVES | | | | | | | | | |
| Director, Festas | 4.3 | 1,070 | | | | | | | 1,070 |
| Subdirector, Festas | 12.5 | 1,556 | | | | | | | 1,556 |
| Subtotal: | | <u>2,626</u> | | | | | | | 2,626 |
| Support Staff | | 3,939 | | | | | | | 3,939 |
| Research Associate | 12.0 | 25,200 | | | | | | | 25,200 |
| Subtotal: | | <u>31,765</u> | | | | | | | <u>31,765</u> |

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| | Level of Effort | YEAR 1 | Level of Effort | YEAR 2 | Level of Effort | YEAR 3 | Level of Effort | YEAR 4 | TOTAL |
|--|-----------------|--------|-----------------|--------|-----------------|--------|-----------------|--------|-------|
|--|-----------------|--------|-----------------|--------|-----------------|--------|-----------------|--------|-------|

II. OPERATIONS COMPONENT

A. INCOME TAX ADMINISTRATION

| | | | | | | | | | |
|-----------------------|------|--------|------|---------|------|---------|--|--|---------|
| Director, Rentas | 12.5 | 2,139 | 25.0 | 4,278 | 25.0 | 4,278 | | | 10,695 |
| Director, Insuac. | 18.8 | 3,583 | 37.5 | 5,167 | 37.5 | 5,167 | | | 12,916 |
| Subdirectores, Rentas | 31.4 | 3,689 | 50.0 | 6,225 | 50.0 | 6,225 | | | 18,339 |
| | | 8,611 | | 15,670 | | 15,670 | | | 39,950 |
| Support Staff | | 12,917 | | 23,504 | | 23,504 | | | 59,925 |
| Trainers/Trainees | | 41,000 | | 164,000 | | 136,667 | | | 341,667 |
| Subtotal | | 62,528 | | 203,174 | | 175,841 | | | 441,543 |

B. ADMINISTRATION OF DOMESTIC INDIRECT TAXES

| | | | | | | | | | |
|-----------------------|------|--------|------|---------|------|---------|--|--|---------|
| Director, Rentas | 8.3 | 1,420 | 18.8 | 3,209 | 16.7 | 2,858 | | | 7,486 |
| Subdirectores, Rentas | 16.3 | 2,628 | 37.5 | 4,667 | 33.7 | 4,194 | | | 10,889 |
| | | 3,449 | | 7,875 | | 7,051 | | | 18,375 |
| Support Staff | | 5,173 | | 11,813 | | 10,577 | | | 27,563 |
| Trainers/Trainees | | 45,555 | | 164,000 | | 91,111 | | | 300,666 |
| Subtotal | | 54,177 | | 187,688 | | 108,739 | | | 348,604 |

C. CUSTOMS ADMINISTRATION

| | | | | | | | | | |
|------------------------|------|--------|------|---------|------|---------|--|--|---------|
| Viceminister | 6.3 | 1,729 | 20.0 | 5,534 | 12.5 | 3,459 | | | 10,721 |
| Director, Aduanas | 18.8 | 3,208 | 37.5 | 6,449 | 25.0 | 4,280 | | | 13,937 |
| Subdirectores, Aduanas | 37.6 | 4,541 | 50.0 | 6,638 | 37.5 | 4,540 | | | 15,139 |
| | | 9,478 | | 18,041 | | 12,279 | | | 39,797 |
| Support Staff | | 14,217 | | 27,061 | | 18,418 | | | 59,696 |
| Trainers/Trainees | | 41,000 | | 164,000 | | 91,156 | | | 296,156 |
| Subtotal | | 64,695 | | 209,101 | | 121,852 | | | 395,649 |

3. BUDGETING AND EXPENDITURE MANAGEMENT

| | | | | | | | | | |
|-----------------------|------|--------|------|---------|------|---------|--|--|---------|
| Director, Presupuesto | 12.6 | 2,792 | 25.0 | 5,583 | 25.0 | 5,583 | | | 13,958 |
| Subdirectores | 25.0 | 3,417 | 50.0 | 6,833 | 50.0 | 6,833 | | | 17,083 |
| | | 6,209 | | 12,416 | | 12,416 | | | 31,041 |
| Support Staff | | 9,314 | | 18,624 | | 18,624 | | | 46,562 |
| Trainers/Trainees | | 41,000 | | 164,000 | | 136,667 | | | 341,667 |
| Research Associate | 3.0 | 6,300 | 12.0 | 25,200 | 12.0 | 25,200 | | | 56,700 |
| Subtotal | | 62,823 | | 220,240 | | 192,907 | | | 475,970 |

| | Level of Effort | YEAR 1 | Level of Effort | YEAR 2 | Level of Effort | YEAR 3 | Level of Effort | YEAR 4 | TOTAL |
|--|-----------------|------------------|-----------------|------------------|-----------------|----------------|-----------------|---------------|------------------|
| III. BUREAU OFFICE | | | | | | | | | |
| TECHNICAL ASSISTANCE | | | | | | | | | |
| Vice-minister | 4.0 | 1,153 | 4.0 | 1,153 | 4.0 | 1,153 | 4.0 | 1,153 | 4,612 |
| Support Staff | | 1,730 | | 1,730 | | 1,730 | | 1,730 | 6,918 |
| Library | | 611 | | 2,444 | | 2,444 | | 1,222 | 6,721 |
| Office Space Renovation | 3.0 | 22,221 | 12.0 | 89,884 | 12.0 | 89,884 | 6.0 | 44,442 | 244,431 |
| Utilities | 3.0 | 9,461 | | | | | | | 6,461 |
| Maintenance | 3.0 | 1,921 | 12.0 | 7,682 | 12.0 | 7,682 | 6.0 | 3,841 | 21,126 |
| Furniture | 3.0 | 27,296 | 12.0 | 2,222 | 12.0 | 2,222 | 6.0 | 1,111 | 6,111 |
| | | 60,454 | | 98,788 | | 98,788 | | 49,394 | 367,424 |
| Supplies | | 1,111 | | 4,444 | | 4,444 | | 2,222 | 12,221 |
| Postage | | 1,393 | | 5,570 | | 5,570 | | 2,785 | 15,318 |
| Communications | | 2,009 | | 8,034 | | 8,034 | | 4,017 | 22,094 |
| Vehicle Maintenance | | 251 | | 924 | | 924 | | 462 | 2,541 |
| Subtotal | | 4,743 | | 18,972 | | 18,972 | | 9,486 | 52,173 |
| Subtotal | | 63,691 | | 127,087 | | 127,087 | | 62,955 | 377,848 |
| TECHNICAL ASSISTANCE SUPPORT - KPHG | | | | | | | | | |
| Administrative Assistant | 3.0 | 3,111 | 12.0 | 12,444 | 12.0 | 12,444 | 6.0 | 6,222 | 34,221 |
| Subtotal | | 3,111 | | 12,444 | | 12,444 | | 6,222 | 34,221 |
| TECHNICAL ASSISTANCE SUPPORT - GSU | | | | | | | | | |
| Minister | 4.0 | 2,264 | 4.0 | 2,264 | 4.0 | 2,264 | 4.0 | 2,264 | 9,056 |
| Vice-Minister | 4.0 | 1,153 | 4.0 | 1,153 | 4.0 | 1,153 | 4.0 | 1,153 | 4,612 |
| Research Associate | 6.0 | 6,222 | 12.0 | 12,444 | 12.0 | 12,444 | 6.0 | 6,222 | 37,332 |
| | | 9,639 | | 15,861 | | 15,861 | | 9,639 | 51,000 |
| Support Staff | | 14,459 | | 23,792 | | 23,792 | | 14,459 | 76,500 |
| | | 24,098 | | 39,653 | | 39,653 | | 24,098 | 127,500 |
| PROJECT TOTAL | | 1,141,914 | | 1,126,077 | | 783,396 | | 93,304 | 3,144,691 |

Initial Environmental Examination

Project Location : Guatemala
Project Title : Fiscal Administration
(520-0371)
Funding : \$4,000,000

Project Description

The purpose of the Project is to develop an efficient fiscal administrative system to promote priority development activities. This purpose will be met by providing technical assistance, equipment and training to the Ministry of Finance to improve the administrative capability of their divisions which administer taxes and which carry out budgetary and audit functions. These interventions will be designed to help the Guatemalan government achieve a higher level of investment and social service given its level of revenues, and to improve the fairness and efficiency under which the tax system is administered.

This Project will have three components:

- 1) Strengthening of the Ministry of Finance budget process and fiscal planning,
- 2) Improvement of tax structure and administration, and
- 3) Establishment of a tax system research program.

Environmental Impact

The proposed Project will not involve activities that have an effect on the natural and physical environment. The activities which will be carried out qualify for a categorical exclusion according to Section 216.2 (c) (2) (xiv) of 22 CFR as "studies, projects or programs intended to develop the capability of recipient countries to engage in development planning".

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Project Location : Guatemala
Project Title : Fiscal Administration
(520-0371)
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Project Description

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- 1) Strengthening of the Ministry of Finance budget process and fiscal planning,
- 2) Improvement of tax structure and administration, and
- 3) Establishment of a tax system research program.

Environmental Impact

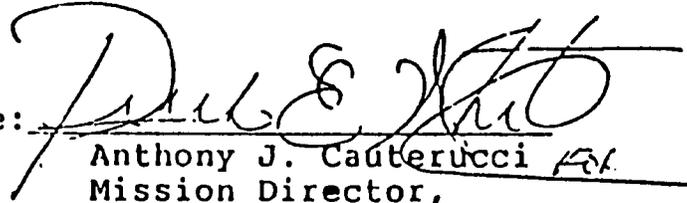
The proposed Project will not involve activities that have an effect on the natural and physical environment. The activities which will be carried out qualify for a categorical exclusion according to Section 216.2 (c) (2) (xiv) of 22 CFR as "studies, projects or programs intended to develop the capability of recipient countries to engage in development planning".

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Recommendation

Based on the categorical exclusion discussed above, the Mission recommends that the Fiscal Administration Project be given a Negative Determination requiring no further environmental review.

Concurrence:



Anthony J. Cauterucci *for*
Mission Director,
USAID/Guatemala

11/2/88
Date

3(A)2 - NONPROJECT ASSISTANCE
CHECKLIST

A. GENERAL CRITERIA FOR NON
PROJECT ASSISTANCE

1. FY 1986 Continuing
Resolution Sec. 524; FAA
Sec. 634A.

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

This program has been notified to the U.S. Congress under the title Economic Stabilization Program Recovery.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

Since the assistance is a grant, Congressional ratification may not be required. Since the President's party has a majority in Congress, ratification would not be expected to be difficult or timeconsuming.

3. FAA Sec. 209. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so, why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

No

4. FAA Sec. 601(a). Information and conclusions whether assistance will encourage

This program provides balance of payments assistance to initiate a stabilization program to assist the economy during the immediate

efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

5. FAA Sec; 601(b).
Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

6. FAA Sec. 612(b), 636(h);
FY 1986 Continuing
Resolution Sec. 507.
Describe steps taken to the assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

crisis. Other resources will be made available to support additional steps and progression from fundamental measures to greater emphasis on a long-term policy climate to foster productivity and growth. All sectors of Guatemalan society will share the burden of the economic stabilization program. ESF local currency resources will be targetted toward the public sector investment budget to sustain the development program objectives of increased incomes and opportunities for the rural and the urban poor.

The U.S. private sector has a strong role in the Guatemalan industrial and agricultural sectors. This program seeks to initially stabilize the economy which will stimulate their participation and continued investment through a comprehensive policy package including measures tending toward unification of the multiple exchange rate, reduction in the fiscal deficit, increased reliance on domestic savings through liberalization of interest rate policy, and dismantling of the pricing distortions.

The Government of Guatemala has consistently supported all AID-financed developmental projects with counterpart necessary to achieve project objectives, and will continue to do so for the present program.

7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? N/A
9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds? N/A
10. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? No

B. FUNDING CRITERIA FOR NON PROJECT ASSISTANCE

1. Non-project Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this

The assistance will contribute to the implementation of a credible and comprehensive stabilization program on the part of the civilian Government of Guatemala

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assistance consistent with the policy directions, purposes, and programs of part I of the FAA?

It is consistent with the policy directions, purposes, and programs of Part I of the FAA.

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

No

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

Yes

d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used?

N/A

e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?

N/A

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(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost effective way;

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall assess such plans to determine whether they will effectively promote economic development;

(iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;

(v) in order to maximize the likelihood that the imports financed by the United States under the

ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;

(vi)(A) seventy-five percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA;

(B) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.

f. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the

No

operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and and pursues nonproliferation policies consistent with those of the United States?

g. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(a); 111; 113; 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level; increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. N/A

institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106, 107. If assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for assistance, include relevant paragraph for each funds source.)

(1) (103) for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; (103A) if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic

research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Se. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigineously produced foodstuffs; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2)(104) for population planning under se. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family

planning for the poorest people with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(3)(105) for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens managements capability of institutions enabling the poor to participate in development and (b) extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4)(106) for technical assistance, energy, research reconstruction, and selected development problems; if so, extent activity is: (i)(a) concerned with data collection and analysis, the training of skilled

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personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

(i) technical cooperation and development activities, especially with U.S. private and voluntary, or regional and international development, organizations

(ii) research into, and evaluation of, economic development processes and techniques;

(iii) reconstruction after natural or manmade disaster;

(iv) for special development problems, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(v) for special development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5)(107) is appropriate effort placed on use of appropriate technology? (Relatively smaller, cost-savings, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor).

c. FAA 118(c) and (d). Does the assistance comply with the environmental procedures set forth in AID Regulation 16. Does the assistance take into consideration the problem of the destruction of tropical forests?

d. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

e. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

SC(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1989 Appropriations Act Sec. 578(b). Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? NO

2. FAA Sec. 481(h); FY 1989 Appropriations Act Sec. 578; 1988 Drug Act Secs. 4405-07. (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are

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laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

YES

N.A.

3. 1986 Drug Act Sec. 2013; 1988 Drug Act Sec. 4404; (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the

N.A.

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government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

A.I.D. knows of no such cases

5. FAA Sec. 620(e)(1): If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

There is no evidence of such action

6. FAA Secs. 620(a), 620(f), 620D; FY 1989 Appropriations Act Secs. 512, 550, 592. Is recipient country a Communist country? If so, has the President determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism? Will assistance be provided

No.

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either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? No.

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? No.

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? There is no evidence that an action of this nature has occurred for many years.

10. FAA Sec. 620(q); FY 1989 Appropriations Act Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1989 Appropriations Act appropriates funds? a.No
b.No

11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Yes, taken into account by the Administrator at the time of approval of Agency OYB

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Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? NO
13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.) Country is delinquent.
14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism? NO
15. FY 1989 Appropriations Act Sec. 568. Has the country been placed on the list provided for in Section 6(j) of the Export Administration Act of 1979 (currently Libya, Iran, South Yemen, Syria, Cuba, or North Korea)? NO
16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? NO

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17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? NO
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) NO
19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? NO
20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.) Guatemala was not represented at this meeting
21. FY 1989 Appropriations Act Sec. 527. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? NO

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22. FY 1989 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? NO
23. FY 1989 Appropriations Act Sec. 540. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? YES

SC (3) - STANDARD ITEM CHECKLIST

A. PROCUREMENT

- | | |
|---|--|
| 1. <u>FAA Sec. 602(a)</u> . Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? | Program provides for economic stabilization through a cash transfer. |
| 2. <u>FAA Sec. 604(a)</u> . Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? | N/A |
| 3. <u>FAA Sec. 604(d)</u> . If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? | N/A |
| 4. <u>FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a)</u> . If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) | N/A |

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.) N/A
6. FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? N/A
7. FAA Sec. 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of N/A

other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

N/A

9. FY 1988 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States.

N/A

10. FY 1988 Continuing Resolution Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

N/A

B. CONSTRUCTION

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used?

N/A

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? **N/A**

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress? **N/A**

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? **Yes**

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? **Yes**

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the **Yes**

foreign aid projects or activities of the Communist-bloc countries?

4. Will arrangements preclude use of financing:

- a. FAA Sec. 104(f); FY 1987 Continuing Resolution Secs. 525, 538. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods of the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion? **Yes**
- b. FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? **Yes**
- c. FAA Sec. 620(q). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? **N/A**
- d. FAA Sec. 660. To provide training, advice, or any financial support **Yes**

for police, prisons, or other law enforcement forces, except for narcotics programs?

e. FAA Sec. 662. For CIA activities? Yes

f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

g. FY 1988 Continuing Resolution Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes

h. FY 1988 Continuing Resolution Sec. 505. To pay U.N. assessments, arrearages or dues? Yes

i. FY 1988 Continuing Resolution Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes

j. FY 1988 Continuing Resolution Sec. 510. To finance the export of nuclear equipment, fuel, or technology?

k. FY 1988 Continuing Resolution Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of

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the population of such country contrary to the Universal Declaration of Human Rights?

1. FY 1988 Continuing Resolution Sec. 516; State Authorization Sec. 109.
To be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

LOGICAL FRAMEWORK

Project Title & Number: FISCAL ADMINISTRATION (520-0371)

Life of Project:
From FY 1989 to FY 1991
Total U.S. Funding: 9,000,000
Date Prepared: 5/23/89

| NARRATIVE: | OBJECTIVELY VERIFIABLE INDICATORS | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS |
|---|--|---|---|
| <p>Goal: To support the Government of Guatemala's efforts to stimulate robust economic growth, with a structure reflecting broad participation and optimal utilization of Guatemala's particular resource endowments, given cost-price relationships in world markets.</p> | <ol style="list-style-type: none"> 1. More equitable distribution of tax burdens and expenditure benefits across income groups. 2. Reduction in income disparities between Guatemala City and the rest of the country. 3. Local governments become more efficient in planning, executing, and financing their expenditures. 4. GOG continues to meet the fiscal targets of its economic program. | <ol style="list-style-type: none"> 1. Analysis of application and enforcement of fiscal measures using models developed under the project. 2. Case studies of local government finance and service provision. 3. Bank of Guatemala statistics on macroeconomy. 4. National Household and Expenditure Surveys. | <ol style="list-style-type: none"> 1. GOG continually monitors the impacts of its fiscal programs and makes appropriate adjustments to achieve its goals. 2. Sufficient and appropriate technical assistance and training are provided to local governments to improve their efficiency. 3. GOG continues its commitment to giving priority in its investment budget to those activities that promote more equitable distribution of the benefits of social and economic development. 4. USG and other donors continue to provide timely and appropriate assistance to Guatemala. |

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| NARRATIVE: | OBJECTIVELY VERIFIABLE INDICATORS | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS |
|--|---|--|--|
| <p>Purpose: To assist the Government of Guatemala in a comprehensive modernization of its fiscal administration.</p> | <ol style="list-style-type: none"> 1. Fiscal reform measures are enacted that reduce vertical and horizontal inequities. 2. Increased consistency between export incentive programs and basic policy objectives of increasing domestic value-added or net earnings of foreign exchange. 3. Fiscal decentralization policies are enacted to give local government increased fiscal autonomy. 4. The MOF Fiscal Analysis Institute becomes a key actor in tax and expenditure policy formulation. 5. Tax administration is improved through: <ol style="list-style-type: none"> 5.1 Improved productivity of tax auditors. 5.2 Improved quality of tax audit work. 5.3 Larger tax collections from delinquent taxpayers. 5.4 Decreased incidence of tax nonfilers and stop-filers. 6. Improved budget planning and expenditure administration systems. <ol style="list-style-type: none"> 6.1 The budget is based on criteria of program analyses. 6.2 The budget process is better integrated with longer-term public sector planning. 6.3 A new payroll and accounting system is in place. | <ol style="list-style-type: none"> 1. Analysis of new tax laws using models developed under project. 2. Bank of Guatemala statistics on value-added and net earnings of foreign exchange. 3. Case study analysis of pilot decentralization activities. 4. Institutional analysis of fiscal policy decision-making within the GOG. 5. Statistics on completed audits, tax collections, non-filers, stop filers and appeals rejection rates. 6. Budget execution rates, and other budget statistics. | <ol style="list-style-type: none"> 1. GOG continues its commitment to promote growth with equity beyond the 1990 elections. 2. GOG continues its support for democratic local government. 3. GOG increasingly relies on objective criteria and analysis in making fiscal policy decisions. 4. GOG and private sector are able to develop a constructive working relationship. 5. Other donor or GOG financing is provided to develop and install automated payroll and accounting system. |

| NARRATIVE: | OBJECTIVELY VERIFIABLE INDICATORS | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS |
|---|---|--|--|
| Outputs: | | | |
| 1. Policy analysis infrastructure installed and running within MOF. | 1. Analytic models developed and applied to Guatemala. | 1. Project monitoring and evaluation system. | 1. Appropriate resident advisors are recruited on a timely basis. |
| 2. Specific analyses performed on high-priority fiscal issues in Guatemala. | 1.1 Microsimulation 1.2 Forecasting 1.3 Marginal Effective Tax Rates 1.4 Computable General Equilibrium Model 1.5 Effective Protection 1.6 Taxpayer I.P. | 2. Observations of members of technical assistance team. | 2. Qualified Guatemalan counterparts are assigned to the project. |
| 3. Improved operational and administrative effectiveness of MOF fiscal administration. | 2. Specific analyses completed. | 3. MOF project-related reports. | 3. GOG maintains its commitment to improve fiscal administration. |
| 2.1 Income tax. 2.2 Value-added tax and other indirect taxes. 2.3 Customs. 2.4 Property tax. 2.5 Budget planning and execution. | 2.1 Fiscal reform concept paper. 2.2 Fiscal incentives. 2.3 Tax burdens/benefits. 2.4 Decentralization workplan. 2.5 Public enterprises database. | | |
| 4. Institute for Fiscal Policy Analysis institutionalized within MOF. | 3. Administrative changes implemented in: 3.1 Income taxation. 3.2 Value-added tax and other indirect taxes. 3.3 Customs. 3.4 Property tax. 3.5 Budgeting and expenditure systems. | | |
| | 4. Institute for Fiscal Policy Analysis formally incorporated into MOF administrative structure. | | |
| Inputs: (US\$ 000's) | Mission GOG TOTAL | 1. USAID Controller records. 2. Technical assistance contract reports. 3. MOF budget allotments and expenditure reports. | 1. GOG counterpart funds or in-kind contributions are provided in a timely manner. |
| 1. Technical assistance/training 2. Operational support 3. Commodities 4. Evaluation/audit 5. Contingency/inflation | 6,900 2,660 9,560 800 457 1,257 110 27 137 190 0 190 1,000 0 1,000 | | |
| TOTAL | 9,000 3,144 12,144 | | |

ACTION MEMORANDUM FOR THE DIRECTOR

March 17, 1988

THROUGH: DD, Paul E. White *PEW*
FROM: C/PDSO, Christina H. Schoux *CH Schoux*
SUBJECT: Fiscal Administration Project 520-0371, PP Guidance Memorandum

PROBLEM:

The subject PID was approved at the February 22 meeting of the Mission Executive Review Committee, and the authors of the PID were commended for a well-prepared document. AID/W was represented in the PID review by Clarence Zuvekas, LAC/DP.

Your signature on the PID Facesheet will signify formal approval of the PID and authorization to proceed with design work and development of the Project Paper.

DISCUSSION:

The following issues were discussed and decisions arrived at during the review:

1. Negative Perception of AID Activities

Issue:

How can the project be structured to minimize political risk to AID? What effect will USAID's proposed lead role in coordinating donor efforts in fiscal and budgetary reform have on increasing the Mission's vulnerability?

Discussion:

The Mission recognizes the political risks that are inherent in undertaking a fiscal administration project. However, the Mission also recognizes that an appropriate fiscal structure will provide the basis for sustained economic growth. Improved budget administration is key to assisting the GOG to

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establish investment priorities that provide for a wider distribution of the economic benefits of development.

An appropriate tax structure and administration are necessary to provide the required income to finance key development activities. The project is viewed as a necessary link between USAID's macroeconomic and sectoral objectives in Guatemala. Its design and implementation will be carefully coordinated with forthcoming World Bank assistance to the Ministry of Finance.

Guidance:

The Mission will attempt to develop the project in a way that minimizes the divisive aspects of the activity and maximizes the opportunities to forge a more collaborative approach between the public and private sectors in fiscal matters. It will be important that, during project development, a broad-based sense of ownership is established within high levels of the GOG. Also, it will be important to involve early on significant private sector players, who would be able to enhance the legitimacy of the fiscal administration project focus.

In this connection, it will be important to structure the project to create some independence or options among project activities in the event that adjustments are needed during implementation because of negative reaction or other changes in the socio political environment. The evaluation process should also be tailored to meet this need for implementation flexibility.

To help ensure GOG ownership of, and commitment to, the project from the outset, the following actions will be taken:

- a) USAID will obtain a letter of request from, or sign a memorandum of understanding with, the GOG for development of the project.
- b) USAID discussion of the project should begin as soon as possible with a competent GOG technical committee.
- c) The PP design team will be selected with extreme care. It should be comprised of prominent experts in fiscal policy and administration who will be able to forge a collaborative working relationship between the public and private sectors during Project Paper development. The PP

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team must also be sensitive to the social and political ramifications of proposed project activities.

- d) USAID will seek to obtain a side letter from the GOG, similar to the ESF side letter, which describes the fiscal administration program in terms of its objectives, requirements, and the responsibilities of the GOG and USAID. This document, tantamount to a mini-PP, will help to ensure that AID is financing a Guatemalan program for improved fiscal administration.
- e) During PP development, consideration should be given to maximizing host country procurement in the project to further underscore Guatemala ownership.
- f) Prominent members from a broad cross section of the general public should be consulted early on with regard to development of the project.

2. Funding

Issues:

- a) Although capital inputs are normally loan-financed, provision is made under AID policy to grant finance such costs under certain conditions. Given the highly sensitive nature of this project, would it be preferable to fund the project on a 100 percent grant basis?
- b) The PID does not mention use of ESF local currency to support project implementation. What plans are there to use other than DA resources?

Discussion:

The Mission recognizes the highly sensitive nature of the project. After consideration of the potential for heightening the polemics surrounding fiscal matters that could result by requiring Guatemalan Congressional approval for the project, a decision was taken to finance the project entirely on a grant basis.

Guidance:

The Project Paper should look at the distribution of foreign exchange and local costs in detail. The objective would be to minimize the allocation of grant funds by restricting them

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to finance foreign exchange costs, and maximizing the counterpart to finance local costs.

With regard to the functional account for the grant, it was decided that the Mission should look carefully at the implications for providing the funding exclusively through the Special Development Activities (SDA) account, or through alternatives such as projectized ESF.

3. Relevant Experience

Issue:

According to the PID the project "will draw heavily on the experience of the highly successful Revenue Board Assistance Project financed by USAID Jamaica." Given the political and social differences between the two countries, why do we feel that a system, which worked in Jamaica, can be successfully transferred to Guatemala?

Discussion and Guidance:

Although the most relevant experience to date appears to be that of Jamaica, the Mission will request an information search through A.I.D.'s Center for Development Information and Evaluation (CDIE). The search will focus on evaluations that provide information on the sociological and political factors affecting the design and implementation of fiscal or tax administration projects. Of particular relevance will be information related to effective sanctions for noncompliance with tax laws that may be applicable to developing countries. Review of these materials will be incorporated into the terms of reference for the PP team.

4. Project Magnitude and Timing

Issues:

- a) The proposed project, as the PID readily admits, is extremely ambitious in scope, covering the budget process, fiscal planning, tax structure and administration, and a tax system research program. Will its complexity compromise its effectiveness? Are all proposed components of equal importance?
- b) In a similar vein, is it feasible to design and complete what may well be sensitive and difficult negotiations by

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July of this year, particularly given the time involved in competitively procuring the design team?

Discussion:

The discussion of these issues took place in the context of issue one. Essentially, the scope of the project was based on what had been learned in other countries. Both the revenue and expenditure sides of the budget have to be examined to achieve equitable distributional changes in income. A simplified tax structure and administration might be seen as regressive if not accompanied by a public sector investment budget that together provide net benefits to lower income groups.

Guidance:

- a) The project design should take into account the factors affecting the public willingness to pay taxes, including perceptions of the efficiency of the budgetary process and the developmental impact of public sector expenditures.
- b) The PP will examine how the improved efficiency of tax structure and administration will contribute to providing the revenue required for development priorities.
- c) The PP should examine the impact of the project on the long-term prospects for financing the investment budget itself, and on private sector investment required for economic growth.

5. Social Implications

Issue:

The success of a project of this nature depends primarily on the human element: the willingness to pay taxes. Misjudging this element can result, not only in failure of the project, but in serious social and political consequences.

The Social Soundness analysis, as described in the PID, is too narrow in scope. It should include attitude surveys of broad segments of the population to determine existing attitudes and their causes and what the people expect in return for higher taxes.

Response:

The Mission's response to the first issue amply describes the approach that Project Paper development will take with regard to accounting for the social dynamics of the project.

6. Venue of PP review

Issue:

Given the sensitivity of this project, should the PP be reviewed in Washington, or at the Mission?

Decision:

A decision was taken, subsequent to the ERC meeting, that the PP would be submitted to AID/W for review and authorization.

RECOMMENDATION:

That you ratify the outcome of the February 22, 1988, Mission review of the PID and authorize USAID staff to proceed with PP development by signing the attached PID Facesheet.

Executive Review Committee Clearances:

PRM, RBurke [Signature]
PDSO, CHSchoux [Signature]
OEPA, SSkogstad [Signature]
ORD, HWing [Signature]
OHRD, LAyalde [Signature]
OPSP, FManteiga [Signature]
CONT, JHill [Signature]
ADM, AWalsh [Signature]

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UNCLASSIFIED
PDSO:JFLombardo:as



*Ministerio de Finanzas Públicas
Guatemala, C. A.*

RODOLFO PAIZ ANDRADE
MINISTRO

June 28, 1989
Ref.:DMF-030-89

Mr. Anthony Cauterucci
Agency for International Development
Guatemala, C. A.

Dear Mr. Cauterucci:

The purpose of this letter is to request officially, the cooperation of the United States Agency for International Development in financing a Fiscal Administration project to be undertaken by the Government of Guatemala. As you know we have, with USAID's assistance, been able to work closely with advisors from Peat Marwick and Georgia State University in the design of the project which they also would assist in implementing.

This project is of the highest priority to our Government, as it is intended to result in permanent improvements in our ability to administer the nation's fiscal affairs with efficiency. Sound administrative management practices are essential to providing the quantity and quality of basic social and economic services that the nation has a right to expect from its Government. They are also indispensable if the Government is to win the public's confidence in its ability to manage resources with integrity and efficiency in the conduct of the nation's business.

Fiscal Administration touches all areas of government operations and therefore all aspects of the relationship between the people and their Government. Because of its pervasive importance, a project that is directed to a comprehensive review of the entire fiscal administration process is one with respect to which we believe the general public must not only be informed but actively involved as well.

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Ministerio de Finanzas Públicas
Guatemala, C. A.

To: Mr. Anthony Cauterucci
June 28, 1989
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As you may know, we have already made certain key segments of the private sector aware that such a project was in the process of being designed. Early this year, for example, I arranged for a meeting of project design team members with the Non-traditional Exporters Guild. In addition, the Ministry of Finance and the College of Attorneys have been collaborating in drafting a revenue code for all taxes. The attorneys have also been made aware that a broader Fiscal Administration Project was being designed. Nevertheless, I consider it appropriate to make a general public announcement once the project has been formally approved and funded by AID.

As far as involving the public in the project, it is my judgement that the best mechanism for this would be a participatory high level public commission. This commission would include representatives of the main interest groups in the community and the community at large. Approximately six months after project implementation begins, assuming the project's background work has generated sufficient information to identify and quantify the key issues, the Commission will be appointed and publicly identified.

With relationship to the coordination with other donors who are also cooperating in the Fiscal Administration area, I am glad to inform you that we have taken the necessary steps to assure a positive and constructive work environment for all parties involved.

The project for which we are seeking AID financing constitutes the conceptual core of the fiscal administration effort and is also more comprehensive in scope. Consequently, I personally will be my Government's "counterpart", or project director. I will delegate the management of the day-to-day relationships with project counterparts to Vice Minister José Mauricio Rodríguez Wever who speaks with my authority on all project related matters. Nevertheless, I personally will remain substantively and continuously involved at all stages, and the chief and deputy chief of the AID funded consultants will report directly to me and my Vice Minister.

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*Ministerio de Finanzas Públicas
Guatemala, C. A.*

To: Mr. Anthony Cauterucci
June 28, 1989
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This project will also provide day-to-day training and review of specific operating systems, some of this in the same areas in which other donors are working. Vice Minister Rodríguez is charged with coordinating the efforts of the various donors to assure that there is no duplication of effort and that no area is left uncovered. Recent organizational changes have for the first time placed all donor cooperation under the control of Vice Minister Rodríguez. Consequently, coordination problems that have occasionally threatened to arise should no longer be a problem. Vice Minister Rodríguez and the AID funded consultant chief will monitor the entire fiscal administration horizon and, if problems of coordination, or any other origin, are observed bring them to my attention for early resolution.

To assure the central role that the project consultants are expected to play, I have arranged that office space and support be made available on the 15th floor of the Ministry of Finance. The project will have two telephone lines of its own and a full complement of supporting facilities and personnel. Physical facilities have been reviewed by the Peat Marwick design team and found fully satisfactory. Should requirements change in the course of the project, my office will assure that they are adequately and promptly met.

We are looking forward to a productive relationship in this very important project.



Rodolfo Paiz Andrade
Minister of Finance

ILLUSTRATIVE LIST OF TECHNICAL ASSISTANCE TO BE
PROVIDED UNDER THE PROJECT

| <u>Activities</u> | <u>Year 1</u> | | <u>Year 2</u> | | <u>Year 3</u> | | <u>Year 4</u> | |
|--------------------------------|--------------------|-----------------------|--------------------|-----------------------|--------------------|-----------------------|--------------------|-----------------------|
| | <u>Consultants</u> | <u>Time Month</u> | <u>Consultants</u> | <u>Time Month</u> | <u>Consultants</u> | <u>Time Month</u> | <u>Consultants</u> | <u>Time Month</u> |
| I. Policy Analysis Component | | | | | | | | |
| 1. Comprehensive Fiscal Reform | | | | | | | | |
| Director | 1 | 1 | 1 | 1 | 1 | 1 | -- | -- |
| Deputy Director | 1 | 4 | 1 | 4 | 1 | 1 | -- | -- |
| Special Advisory Panel 1 | 1 | 7 days | -- | -- | -- | -- | -- | -- |
| Special Advisory Panel 2 | $\frac{1}{4}$ | 7 days | -- | -- | -- | -- | -- | -- |
| | | | $\frac{2}{2}$ | | $\frac{2}{2}$ | | | |
| 2. Modeling Activities | | | | | | | | |
| General Coordination | 1 | 3.5 | -- | -- | -- | -- | -- | -- |
| a. Business Income Model | | | | | | | | |
| Senior Analyst | 1 | 11 | -- | -- | -- | -- | -- | -- |
| Junior Analyst | 1 | 11 | -- | -- | -- | -- | -- | -- |
| b. Individual Income Model | | | | | | | | |
| Senior Analyst | 1 | 10 | -- | -- | -- | -- | -- | -- |
| Junior Analyst | 1 | 12 | -- | -- | -- | -- | -- | -- |

| | | | | | | | | | |
|--------------------------------|----------------|---------|---------------|---------|----|----|----|----|----|
| c. Commodity Consumption Model | | | | | | | | | |
| Senior Analyst | 1 | 4 | -- | -- | -- | -- | -- | -- | -- |
| Junior Analyst | 1 | 5 | -- | -- | -- | -- | -- | -- | -- |
| d. Revenue Tracking Model | | | | | | | | | |
| Senior Analyst | 1 | 6 | -- | -- | -- | -- | -- | -- | -- |
| Junior Analyst | 1 | 4 | -- | -- | -- | -- | -- | -- | -- |
| e. Tax Payer I.D. Analysis | | | | | | | | | |
| Analysis | 1 | 30 days | -- | -- | -- | -- | -- | -- | -- |
| Computer Advisor | 1 | 60 days | -- | -- | -- | -- | -- | -- | -- |
| f. METR | | | | | | | | | |
| Analysis | 1 | 30 days | -- | -- | -- | -- | -- | -- | -- |
| Analysis | 1 | 30 days | -- | -- | -- | -- | -- | -- | -- |
| g. Effective Protection | | | | | | | | | |
| Consultant 1 | 1 | 30 days | -- | -- | -- | -- | -- | -- | -- |
| Consultant 2 | 1 | 30 days | -- | -- | -- | -- | -- | -- | -- |
| h. General Equilibrium Model | | | | | | | | | |
| Senior Analyst | 1 | 4.5 | -- | -- | -- | -- | -- | -- | -- |
| Junior Analyst | 3 | 16 | -- | -- | -- | -- | -- | -- | -- |
| Consultant | $\frac{1}{20}$ | 60 days | -- | -- | -- | -- | -- | -- | -- |
| 3. Tax Burdens | | | | | | | | | |
| Senior Analyst | 1 | 3 | 1 | 3 | -- | -- | -- | -- | -- |
| Consultant | $\frac{1}{2}$ | 30 days | $\frac{1}{2}$ | 30 days | -- | -- | -- | -- | -- |
| 4. Public Enterprise | | | | | | | | | |
| Consultant | $\frac{1}{1}$ | 90 days | -- | -- | -- | -- | -- | -- | -- |

| | | | | | | | | |
|--|---------------|---------|---------------|---------|----|----|----|----|
| 5. Fiscal Decentralization | | | | | | | | |
| Analyst 1 | 1 | 1.5 | 1 | 1.5 | -- | -- | -- | -- |
| Analyst 2 | $\frac{1}{2}$ | 1.5 | $\frac{1}{2}$ | 1.5 | -- | -- | -- | -- |
| 6. Business Income Tax/Fiscal Incentives | | | | | | | | |
| Consultant 1 | 1 | 90 days | -- | -- | -- | -- | -- | -- |
| Consultant 2 | 1 | 60 days | -- | -- | -- | -- | -- | -- |
| Consultant 3 | $\frac{1}{3}$ | 60 days | -- | -- | -- | -- | -- | -- |
| 7. Individual Income Tax Structure | | | | | | | | |
| Consultant | $\frac{1}{1}$ | 60 days | $\frac{1}{1}$ | 30 days | -- | -- | -- | -- |
| 8. Indirect Tax | | | | | | | | |
| Consultant 1 | 1 | 30 days | 1 | 60 days | -- | -- | -- | -- |
| Consultant 2 | $\frac{1}{2}$ | 30 days | $\frac{1}{1}$ | -- | -- | -- | -- | -- |
| 9. Property Tax | | | | | | | | |
| Consultant Policy | 1 | 60 days | -- | -- | -- | -- | -- | -- |
| Consultant Administration Specialist | $\frac{1}{2}$ | 60 days | -- | -- | -- | -- | -- | -- |

II. Operations Component

1. Income Tax Administration

| | | | | | | | | |
|----------------------|---------------|---------|---------------|---------|---------------|---------|----|----|
| Resident Audit | 1 | 3 | 1 | 12 | 1 | 9 | -- | -- |
| Resident Collections | 1 | 3 | 1 | 12 | 1 | 9 | -- | -- |
| Consultant 1 | 1 | 30 days | 1 | 30 days | 1 | 30 days | -- | -- |
| Consultant 2 | $\frac{1}{4}$ | 90 days | $\frac{1}{4}$ | 60 days | $\frac{1}{4}$ | 60 days | -- | -- |

2. Indirect Tax

| | | | | | | | | |
|------------|---------------|---------|---------------|---------|---------------|----|----|----|
| Resident | 1 | 3 | 1 | 12 | 1 | 6 | -- | -- |
| Consultant | $\frac{1}{2}$ | 30 days | $\frac{1}{2}$ | 30 days | $\frac{1}{1}$ | -- | -- | -- |

3. Custom Administration

| | | | | | | | | |
|--------------------------|---------------|---------|---------------|---------|---------------|---------|----|----|
| Resident Generalist | 1 | 3 | 1 | 12 | 1 | 6 | -- | -- |
| Resident Computerization | 1 | 3 | 1 | 12 | 1 | 6 | -- | -- |
| Consultant | $\frac{1}{3}$ | 30 days | $\frac{1}{3}$ | 30 days | $\frac{1}{3}$ | 30 days | -- | -- |

4. Budgeting System

| | | | | | | | | |
|---------------------------------|---------------|----------|---------------|----|---------------|----|----|----|
| Coordinator | 1 | 4 | 1 | 3 | 1 | 1 | -- | -- |
| Resident Concepts | 1 | 3 | 1 | 12 | 1 | 9 | -- | -- |
| Resident Training & Programming | 1 | 3 | 1 | 12 | 1 | 6 | -- | -- |
| Senior Analyst | 1 | 3 | 1 | 3 | -- | -- | -- | -- |
| Junior Analyst | 1 | 2 | -- | -- | -- | -- | -- | -- |
| Consultants | | | | | | | | |
| Budget Concepts | 1 | 180 days | -- | -- | -- | -- | -- | -- |
| Fiscal Analysis | 1 | 60 days | -- | -- | -- | -- | -- | -- |
| Senior Analyst Payroll | -- | -- | 1 | 6 | -- | -- | -- | -- |
| Junior Analyst Payroll | -- | -- | 1 | 9 | -- | -- | -- | -- |
| Program Analysis | $\frac{1}{8}$ | 90 days | $\frac{1}{6}$ | -- | $\frac{1}{3}$ | -- | -- | -- |

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| | | | | | | | | |
|------------------------------|-----------|-----|-----------|------|-----------|------|-----------|------|
| III. Guatemala Office | | | | | | | | |
| Resident Advisor | 1 | 3 | 1 | 12 | 1 | 12 | 1 | 6 |
| Technical Assistance Support | | | | | | | | |
| Engagement Principal | 1 | 0.5 | 1 | 0.25 | 1 | 0.25 | 1 | 0.25 |
| Administrative Director | 1 | 4 | 1 | 4 | 1 | 4 | 1 | 2 |
| Administrative Assistant | 1 | 4 | 1 | 4 | 1 | 4 | 1 | 2 |
| Georgia State University | | | | | | | | |
| Director | 1 | 1.5 | 1 | 1.5 | 1 | 1 | 1 | 0.5 |
| Deputy Director | 1 | 1.5 | 1 | 1.5 | 1 | 1 | 1 | 0.5 |
| Editor | 1 | 1 | 1 | 2 | 1 | 1.5 | 1 | 0.5 |
| Research Assistants | 4 | 24 | 4 | 36 | 4 | 12 | 4 | 12 |
| | <u>11</u> | | <u>11</u> | | <u>11</u> | | <u>11</u> | |

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