PD-ABD-393
ISN 74301

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

GUATEMALA

PROJECT PAPER

ESF FY 1991 BALANCE OF PAYMENTS PROGRAM

AID/LAC/P-659

PROJECT NUMBER: 520-0385
GRANT NUMBER : 520-K-605A

UNCLASSIFIED

PD-ABD-393

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number: 520-0385 520-K-605A

2. Country: GUATEMALA

3. Category: CASH TRANSFER

4. Date: SEP 26 1991

5. To: AA/LAC, James H. Michel

6. OYB Change Number: N/A

7. From: LAC/DR, Peter J. Bloom

8. OYB Increase: NONE

To be taken from: ECONOMIC SUPPORT FUNDS

9. Approval Requested for Commitment of: $ 20,000,000

10. Appropriation Budget Plan Code: LES191-35520-KG31

11. Type Funding: ☐ Loan ☒ Grant

12. Local Currency Arrangement: ☐ Informal ☒ Formal ☐ None

13. Estimated Delivery Period: FY 91/92

14. Transaction Eligibility Date:

15. Commodities Financed

16. Permitted Source		17. Estimated Source
U.S. only		U.S.
Limited F.W.		Industrialized Countries
Free World		Local
Cash	20,000,000	Other

18. Summary Description

The purpose of this $20 million cash transfer amendment is to assist the Government of Guatemala (GOG) in restoring sustained economic growth through the maintenance of sound monetary policy, the adoption of critical fiscal reforms and the restoration of credit-worthiness with international financial intermediaries. These funds will be combined with the remaining $30 million in FY 90 ESF. Full disbursement of $50 million will be conditioned upon a signed letter of intent with the International Monetary Fund (IMF) and an acceptable arrears-clearing package to assure renewed lending by the IMF, Inter American Development Bank (IDB) and the World Bank. The GOG will covenant that the economic stabilization program negotiated with the IMF will remain current.

Program funds will be deposited in a separate non-commingled, interest-bearing account in a U.S. bank or a World Bank/IMF-established trust account, and will finance the servicing of debt to International Financial Institutions. If available, funds may also be used to finance non-military U.S. bilateral debt. Following disbursement of the dollars, the GOG will deposit an equivalent amount of local currency in a special non-interest bearing account with Bank of Guatemala to be used to finance priority investment projects in the GOG's Core Development Budget and for the USAID/Guatemala's Trust Fund.

19. Clearances		Date
LAC/DPP:BSchouten	BS	9/24/91
GC/LAC:KHansen	Draft	09/04/91
LAC/CEN:JVanDenBoss		9-24-91
ARA/ECP:CBryant		
PPC/PB:TBarker	Draft	09/13/91
FM/A:RBonnaffon		9/26/91
LAC/DR:JEvans		9/24/91

20. Action

☒ APPROVED ☐ DISAPPROVED

Authorized Signature: [signature] Date: 9/26/91

Title: ASSISTANT ADMINISTRATOR, LAC

CLASSIFICATION

PROGRAM ASSISTANCE APPROVAL DOCUMENT

FY 1991

I. INTRODUCTION

A. Program Summary

The FY 1990 ESF program lapsed in December 1990 with the failure of the Government of Guatemala (GOG) to implement the economic program supported by the FY 90 ESF program. The final two tranches totalling $30 million were undisbursed. USAID/Guatemala proposes to amend the FY 1990 ESF agreement and obligate an additional $20 million of FY 1991 ESF balance of payments support program for a total agreement of $50 million. The grantee will be the newly elected Government of Guatemala acting through the Ministry of Finance. The U.S. dollar resources will be used to help eliminate external debt service arrears to the international financial institutions (IFIs), including the World Bank and the Interamerican Development Bank. It is expected that all ESF dollars will be used to clear arrears to the IFIs. If funds remain after this operation, they may be used to make arrears payments on non-military bilateral debt to the U.S. Government.

The GOG is implementing a comprehensive economic reform program in 1991. Aggregate demand policies have been tightened in order to reduce pressures on both the domestic price level and the exchange rate. If current trends continue, the 12-month inflation rate will be 15-20 percent (down from 60 percent in 1990), the real economic growth will reach 2.5-3.0 percent and the Bank of Guatemala (BOG) will accumulate $100 million in net international reserves as compared to losses of over $130 million last year. This short-term program is being complemented with an extensive tax reform program, to be submitted to the Guatemalan Congress during August, a financial reform program and a simplification of the trade regime. Before the end of 1991, USAID expects the IMF and the GOG will complete negotiations on a stand-by agreement. Disbursement of the combined FY 90 and FY 91 ESF funds will be contingent on the successful negotiation of a stand-by agreement with the IMF, and negotiation of an arrears clearing package.

As part of the GOG's stabilization program, the overall deficit of the Central Government will be reduced from 2.7 percent of GDP in 1990 to about 1.1 percent in 1991. This reduction reflects a tightening of overall expenditures. After having peaked at 13.3 percent of GDP in 1989, Central Government expenditures fell to 10.7 percent in 1990 and are projected to fall to near 9.2 percent of GDP in 1991. This reduction is achieved by the combination of tight controls over current expenditures and implementation of only priority investment projects.

The GOG recognizes that the tax reform package to be submitted to Congress this month will not generate any significant improvements in tax collections during 1991. Administrative improvements have been introduced, however, that already have resulted in improved tax collections and this trend is expected to continue. After declining from 8.6 percent of GDP in 1988 to 6.9 percent in 1990, overall tax collections are projected to increase to 7.2 percent of GDP in 1991. From January to June, total tax revenue has increased by 53 percent in nominal terms (10.5 percent in real terms) over the same period last year. The GOG's goal is to increase overall tax collections to approximately 10 percent of GDP in 1992 and the GOG expects to raise tax collections to over 12 percent of GDP by 1995.

This tight fiscal policy will be reinforced by maintenance of the present monetary stance of the Bank of Guatemala (BOG). During the first five months of the year, the BOG reduced domestic liquidity through a combination of high interest rates on BOG bonds, control of its credit operations and an increase in reserve requirements. This stance will be continued throughout 1991.

The GOG recognizes that the continued implementation of restrictive demand management policies is not compatible with long-term economic growth. Investments in key sectors of the economy--including infrastructure, health and education--are required if the Guatemalan economy is to continue to grow. Efforts must be made to accelerate domestic investment and accelerate disbursements from the international financial institutions like the World Bank and the Inter-American Development Bank (IDB).

To permit expansion of public sector investment, the GOG is developing a comprehensive fiscal program to increase revenues. This program includes a tax amnesty to clear out past overdue accounts and raise additional revenues, an emergency bonds program and one time tax to generate immediate short-term revenue needs, and administrative reforms to increase compliance and collection. Now the GOG is presenting, as the next part of the fiscal modernization process, a tax reform initiative to the Guatemalan Congress to establish a fundamentally new tax structure. Once this legislation passes Congress, the next steps in the modernization process will be to revise the Tax Code and to reorganize the Ministry of Finance to better institute needed administration changes.

Through the emergency bonds program and one time tax, the Government expects to collect between Q500-550 million for immediate needs. Of this total, 40 percent will go to the Ministries of Education and Health, 20 percent for basic infrastructure, 3 percent to the Ministry of the Interior, and the remaining 37 percent to cover external debt arrears. The tax amnesty currently being debated in Congress, is expected to generate an additional Q150 million. As the tax program generates revenues for the government, the resources will be used to finance priority investment programs.

The GOG will also clear all external arrears with the international financial institutions during 1991 in order to renew resource flows from such entities. Both the World Bank and the IDB have significant investment programs ready to implement that will address the constraints to economic growth. As those programs get underway, economic growth in Guatemala is expected to accelerate.

The U.S. Mission estimates that the total additional revenue likely to be generated in 1992 from the structural tax reform will be approximately one billion quetzales, an increase of around one-third over the 1991 base. With this increase total revenues for 1992 would reach around 9 percent of GDP, over a 30 percent improvement over current levels, but below the 10 percent target set by the GOG. The U.S. Mission believes that the comprehensive structural nature of the reform merits obligation of the ESF assistance package. However, final disbursement of resources will be conditioned on an agreement with the IMF, which may require additional revenue adjustments.

B. <u>Issues</u>

1. <u>Is USG Support in Arrears Clearing Necessary?</u>

If Guatemala is to maintain economic growth over the medium term, significant resource flows from both the World Bank and the IDB are necessary. The World Bank has identified export sector reforms, public sector institution building and agricultural reforms as key areas for future investment. The IDB is preparing a multisector credit program and a microenterprise credit program in addition to cofinancing programs with the World Bank. Over the next several years, these institutions are expected to disburse up to $400 million. Access to these resources, however, is restricted by the large debt service arrearages to both institutions. On December 31, 1990, the GOG owed the World Bank $63 million and the IDB $29 million.

The GOG is not in a position to eliminate these arrears without donor support. While the present liquidity position of the BOG appears strong, these resources are insufficient to meet the demand of the economy for foreign exchange and clear arrears. During the first half of 1991, the BOG accumulated almost $400 million in liquid international reserves. However, this sharp build-up represents the growth in short-term capital inflows used for investment in BOG bonds rather than a trade-related reserve gain. As those bonds mature--primarily in the period August-October--the BOG will need to use its accumulated dollar holdings to offset any increase in the money supply beyond projected levels. In addition, the GOG faces significant foreign exchange requirements during the year. Total debt service amounts to $240 million composed of external arrears equivalent to $100 million and an additional $140 million which is owed to the IFIs for this present year. The current account deficit is estimated at almost $300 million. The BOG must hold a portion of its dollar holdings to meet unforeseen circumstances. In sum, total dollar needs amount to almost $600 million, far in excess of its present dollar holdings. The ESF funds will help meet a portion of those needs.

2. Impact on Poverty

Stabilization programs can put at risk large portions of a country's poorest population, particularly if large cuts are made in social services provided to the poor. Since 1986, the GOG has followed a policy aimed at eliminating the impediments to market forces and at ensuring that Guatemalan goods are competitive in international markets. Although there have been frequent changes in the exchange rate system--particularly in 1990--the real effective exchange rate has depreciated throughout the period approximately at the same rate as domestic inflation. The exchange rate, therefore, has remained competitive, as evidenced by the fact that nontraditional exports have grown at an average annual rate of 25 percent between 1986 and 1990, and continue to grow in 1991.

Structural changes in an economy occur slowly and the positive impact of structural adjustment on growth is often felt only after a considerable time lag. Nevertheless, information on poverty in Guatemala suggests that, between 1986 and 1989 overall poverty conditions declined throughout Guatemala (see Section IIB for details). While some departments had an increase in the number of families living below the poverty line--particularly in the north and north-western departments of Baja Verapaz, Alta Verapaz, Huehuetenango and Quiche--most departments registered a reduction in the overall poverty index. The most dramatic improvements were noted in the south-western departments of Solola, Totonicapan, Quetzaltenango, Suchitepequez, Retalhuleu and San Marcos. The number of families living below the poverty line was reduced. The biggest improvement, however, resulted from an increase in average incomes of the poor. This reduction in the extremes of poverty went hand-in-hand with an expansion of nontraditional export activities by small-scale farmers. In the areas where the expansion of nontraditional export activity has been the greatest, poverty levels have fallen fastest. Where more traditional activities were maintained, poverty levels stagnated or worsened. In sum, nontraditional export growth has brought the small-scale farmer into the market economy, and improved income levels.

3. Lack of Sector-Specific Program

For the previous three years, the Mission has designed an ESF program combining macroeconomic stabilization and sector-specific programs. This year, however, such a program was not envisioned. First, the arrears-clearing operation is the most critical constraint to achieving stable growth over the medium term. Without such a program, Guatemala will not have access to needed foreign resources for investment activities. Second, the declining resource levels make such a combination difficult to implement effectively. The GOG plans to use the resources from both the FY 90 program and the FY 91 program to permit immediate arrears clearing. Finally, the Mission will be shifting sector-specific conditional programs in the agricultural sector to a multi-year PL 480 Title III program beginning in FY 92.

As indicated in the FY92-93 Action Plan, the Mission plans to shift its focus entirely to sector activities once the international financial institutions take a more active role in supporting short-term macroeconomic policy in Guatemala. The Mission's initial focus will be in the area of trade and investment.

II. ECONOMIC PERFORMANCE, 1986-90

A. Stabilization and Adjustment: 1986-90

1. Background

Guatemala is the largest Central American country in terms of both population and economic activity. The climate is varied and the wide distribution of soils allows cultivation of a variety of agricultural crops including coffee, tropical crops, fruits and vegetables. During the 1960s and 1970s, Guatemala's economy enjoyed steady growth, reflecting the impact of high prices for the country's export goods, the growth of exports within the Central American Common Market (CACM) and significant inflows of foreign resources. At the same time, prudent financial policies, including low fiscal deficits, moderate monetary expansion and flexible wage policies all contributed to low inflation rates, low external debt and maintenance of exchange rate stability.

These conditions were reversed during the first half of the 1980s. The external position of the country deteriorated as the country's terms of trade deteriorated and trade channeled through the CACM collapsed. The negative impact of these external factors was compounded by expansionary fiscal and monetary policies, adopted to counter the deteriorating external developments. The overall deficit of the nonfinancial public sector rose sharply as overall outlays increased and tax collections collapsed. Bank of Guatemala credit to the nonfinancial public sector expanded rapidly, outpacing the growth in the demand for financial holdings of the private sector.

The GOG tried to mitigate the effects of this deterioration by adjusting the exchange rate system. In 1984 the fixed parity of the quetzal with the dollar was abandoned and replaced with a three-tiered exchange rate system (the official, banking and auction markets). In practice, however, the operation of the system became disorderly and involved large subsidies by the Bank of Guatemala. The increase in BOG losses added additional pressure to the money supply growth. As a result, the overall balance of payments registered deficits in excess of 3.0 percent of GDP compared with the small surpluses registered in the second half of the 1970s.

2. Initial Stabilization

Upon taking office in 1986, the new Government changed dramatically the orientation of public policy by reducing the role of the state. The objective of this change in orientation was to control inflationary pressures and strengthen the external situation. Measures initially adopted included (1) a radical simplification of the exchange rate system, (2) a temporary export tax, (3) reduction of exchange rate subsidies, (4) a reduction in the number of items under price controls from 490 to 25, (5) increases in the prices of products remaining under control--especially petroleum products, agricultural inputs, pharmaceuticals and wheat--(6) tariff increases in telecommunications and water supply, (7) monetary measures aimed at reducing the growth of the money supply, and (8) more flexible interest rates. The GOG also began to ease customs restrictions, streamline export procedures, drop all fiscal incentives to export to the CACM countries, and reduce import tariffs on apparel and textiles.

The immediate impact of this stabilization program was positive and resulted in broad improvements in a number of areas. The decline in economic growth was halted and inflation decelerated sharply. The combined public sector deficit--including the losses of the Bank of Guatemala--was cut in half to 2 1/2 percent of GDP in 1986, primarily through a significant reduction in Bank of Guatemala losses.

3. Frustrated Structural Adjustment

Following the initial stage of stabilization, the GOG began to institute wide-ranging structural reforms aimed at expanding the role of market forces in the determination of economic activities. Their impact, however, was partially offset by an inability to maintain consistent monetary and fiscal policies. Given the fixed exchange rate system, that slippage in demand management policies did not affect prices or domestic growth. A serious external disequilibria developed, however, and a severe foreign exchange crisis emerged in 1989.

A variety of policy adjustments were introduced between 1987 and 1989. Among the most important measures adopted were a revamping of the Guatemalan tax program (1987), opening of the "bolsa de valores" (bond market) to trade Guatemalan public and private sector financial instruments (1987), unification of all commodity trade into the regulated exchange market (1987), the unification and depreciation of the exchange rate (1988) and the subsequent adoption of a floating exchange rate (1989).

The private sector responded quickly to these policy changes. Private investment increased from 8.0 percent of GDP in 1986 to almost 11.0 percent of GDP by 1989 and private sector capital repatriation accelerated. As a result, real economic growth averaged almost 4.0 percent between 1987 and 1989. At the same time, inflation steadily declined from almost 40 percent to only 13 percent in 1989. Overall demand management policies of the government, however, continued to slip. The deficit of the nonfinancial public sector slowly increased as expenditure growth outpaced tax revenues. Monetary policy also eased as the Bank of Guatemala redeemed special BOG bonds ("bonos de estabilización") in 1988 and incurred growing exchange rate losses in 1988. As the BOG had few monetary instruments, it was unable to moderate the growth in the BOG's net domestic assets and subsequent monetization of the economy.

These developments led to a loss in the BOG's net international reserves position of $130 million in 1988 and of an additional $88 million in 1989. By late 1989, dollar holdings of the BOG were exhausted and a serious foreign exchange crisis emerged. The GOG adopted a freely floating exchange rate, freed controls on domestic interest rates, authorized the use of open market instruments by the BOG and increased utility rates and gasoline prices. The Monetary Board also halted provision of new exchange guarantees on exports.

4. FY 1990 ESF Program

The economic situation continued to deteriorate in the first half of 1990 as the BOG failed to offset the impact of either the remaining exchange guarantees on the money supply or the increase in domestic liquidity created in late 1989. As a result, the recently floated exchange rate rapidly depreciated and inflation accelerated. Accumulated inflation in January-June 1990 reached 23 percent compared with only 5.9 percent during the same period of 1989. (Table 4)

The Mission believed that the country was on the brink of a spiraling inflation that threatened both the structural gains made over the last five years and the prospects for a peaceful transition of government programmed in the presidential elections of November, 1990. Accordingly, the Mission negotiated an economic program designed to strengthen monetary policy and address the deteriorating financial position of the government. The program included (1) authorization by the Monetary Board for the BOG to undertake the implementation of monetary policy, (2) establishment of an auction market for BOG open market instruments and (3) establishment of a monthly monetary program to monitor developments for the remaining months of 1990. That monthly program allowed the BOG to determine the value of bonds needed to be sold to meet the monetary targets. To address the fiscal deterioration, GOG increased the prices of gasoline, diesel, electricity and water rates, implemented a hiring freeze and limited expenditures. Based on this program, a $50 million ESF program was obligated and the first of three tranches was disbursed in October, 1990.

The immediate impact of these measures was quite positive. The inflation rate slowed and the exchange rate stabilized. However, the approaching elections--scheduled for late-1990--resulted in an abrupt drop in tax collections and an expansion in overall expenditures. The resulting deficit was financed with BOG credit. Because the BOG did not continue to implement the agreed monetary program, the Mission withheld the remaining tranches of the the ESF grant. Subsequent negotiations to bring the program back on-track were unsuccessful. By the end of the year, point-to-point inflation reached 60 percent and the floating exchange rate depreciated by a cumulative annual 61 percent. The international reserve position of the BOG fell by $132 million, mostly reflecting the accumulation of external debt-service arrears.

B. Impact on Poverty

The GOG began a serious structural adjustment program in 1986. Although the effects of that reform program were partially mitigated by the slippages in macroeconomic policies, the structural reforms opened the economy and permitted an expansion of the number of families benefiting from economic growth. Such policies have had an initial impact on poverty levels in the country. If the present direction of economic policy is maintained, the pace of improvement is likely to accelerate.

The incidence of poverty in the country is high. In 1989, almost 57 percent of the families of the country did not earn enough income to purchase the minimum consumption basket (Tables 1 and 2). That consumption basket is composed of 12 basic goods, selected on the basis of an expenditure survey conducted by National Institute of Statistics (INE). That basket is periodically updated and has been adjusted for both urban and rural settings.

The highest incidence of poverty is in the Highland areas--particularly the departments in the north and north-west (Alta Verapaz, Baja Verapaz, Huehuetenango and Quiche) where the incidence is over 80 percent. With the sole exception of the metropolitan area of the capital, however, at least half of the population of each department lives below the poverty line.

The incidence of poverty is based on the number of poor families living below the poverty line. That index, however, does not indicate how poor the poor really are--the index remains unchanged if the poor become poorer. An index that reflects changes in the degree of poverty among the poor is the poverty gap index. That index measures the extent that the average income of the poor is below the poverty line as a percent of the poverty line itself; it measures the depth of poverty in any region. The combination of these two indicators makes it possible to analyze both changes in overall poverty and determine whether those changes resulted from a change in the number of poor or in changes in the incomes of the poor.

Although the incidence of poverty in Guatemala is high, the period 1986-1989 saw a reduction in the extremes of poverty in the country (Table 3). The improvement in poverty reflected the net impact of a slight increase in the number of families with incomes below the poverty line and a marked reduction in the poverty gap--i.e., the difference between average family income and the poverty line. The largest reduction in poverty levels between 1986 and 1989 were in the south-western departments of Solola, Totonicapan, Quetzaltenango, Suchitepequez, Retalhuleu and San Marcos. In those departments a relatively marginal reduction in the number of families living below the poverty line was reinforced with a marked drop in the extremes of poverty. In other words, the incomes of the poor improved at a rapid pace in those departments. For an explanation of the measurement of poverty in Guatemala, see Appendix A.

A faster reduction in the combined poverty index was prevented by a sharp increase in poverty levels in both the northern and north-western departments. Those areas saw both an increase in the number of the families living below the poverty line and an increase in the poverty gap. In part, the worsening conditions in those areas arose from the political difficulties and the subsequent isolation of those areas from all development assistance.

It is difficult to draw robust conclusions about the causes of poverty. However, in areas where the percentage of families dependent on self-employment was the smallest and where the increase in nontraditional export activities was the highest, the poverty gap fell by the largest amount. These results support the view that poverty alleviation occurs most rapidly where labor is drawn into the market economy. Without question, the structural reform of the economy over the period 1986-89 was responsible for this reduction in poverty.

III. ECONOMIC PROGRAM OF THE NEW GOVERNMENT

A. Initial Constraints

The GOG that took office in January 1991 faced difficult economic conditions. The large increase in the money supply that occurred in the waning months of the Cerezo government threatened to maintain pressure on both the domestic price level and the exchange rate. Tax collections had collapsed and the GOG was forced to cut overall outlays by almost 30 percent in real terms. The resulting neglect of investments--particularly in infrastructure, communication, health and education--threatened to create important bottlenecks that would slow economic growth.

The GOG also confronted accumulated external debt service obligations for 1991 to the international financial institutions of $240 million (arrears of about $100 million plus an additional $140 million in current debt payments). Given the slow project disbursements from these institutions, the GOG faced significant negative net official flows which had to be financed by reducing the current account deficit and increasing private sector capital inflows.

Finally, the GOG needed to balance the urgent needs of immediate stabilization of the domestic price level and the exchange rate with the structural needs for immediate improvements in infrastructure and communications. Given the steady deterioration of the tax base, overall expenditures were likely to be reduced. If the bottlenecks to continued growth could not be addressed, however, the pace of private sector investment--the factor most responsible for the continued economic growth during the previous five years--would not be maintained.

B. Recent Economic Performance

1. Summary

The immediate priority of the GOG was stabilization of the price level and the exchange rate. In an effort to contract the expanded money supply, the BOG initiated an aggressive program to place BOG bonds with the private sector and decentralized public agencies. At the same time, the net domestic assets of the BOG were contracted. As liquidity fell, the pressures on the price level eased. This slowdown was reinforced by a seasonal downturn in agricultural prices. Notwithstanding the reduction in inflationary pressures, the Monetary Board maintained extremely high interest rates on BOG bonds. As inflationary expectations eased and interest rates remained high, BOG bonds became increasingly attractive and the private sector began repatriating capital from abroad for investment in BOG bonds. As a result, inflation eased and the net international reserves of the BOG sharply expanded. Throughout the first semester of the year, the Ministry of Finance maintained extremely tight control of its expenditure levels and generated a slight surplus.

2. Inflation

A combination of tight controls on money creation--described below--and a seasonal downturn in agricultural prices limited annual accumulated inflation to only 6.8 percent during the first semester of 1991 (Table 4). A more notable development was that, following a surge in inflation in early January, inflation was negative between mid-January and the end of March. This control of the price level in 1991 was in marked contrast with the first semester of 1990 when inappropriate monetary policies resulted in a six-month accumulated inflation rate of 23.1 percent. This turn-around in inflation helped improve private sector expectations about the short-term prospects for the Guatemalan economy.

3. Monetary conditions

Monetary conditions tightened during the first quarter of 1991. Unlike in previous years, the BOG absorbed the bulk of the excess liquidity created in December through active sales of its open market instruments (CENIVACUS). This success was jeopardized by large sales of dollars to the BOG which threatened to remonetize the economy. However, the BOG offset such pressures though a contraction of its net domestic credit. As a result, currency grew by only 1.1 percent during January-March compared with a 2.3 percent increase during the same period of last year.

Private sector demand for CENIVACUS was surprisingly robust throughout the first quarter. After selling Q33 million in the first quarter of 1990 and only Q247 million throughout all of 1990, the BOG sold Q819 million in CENIVACUS during the first three months of the year (Table 5). The increased demand arose from the related aspects of a sharp drop in domestic inflation and very high nominal interest rates on CENIVACUS. With the sharp slowdown in inflation and with annualized interest rates on CENIVACUS unchanged at 33 percent, investments in BOG instruments were highly attractive. After reducing the excess liquidity generated in December, the private sector began aggressively repatriating dollar holdings and investing the quetzal equivalents in CENIVACUS. This rapid shift of the private sector's portfolio into CENIVACUS was a critical development that maintained stability during the first quarter.

The shift of private sector portfolios from dollar-denominated assets into CENIVACUS suggests a sharp improvement in private sector expectations of economic stability. The dollar inflow appears to reflect capital repatriation rather than an increase in export activity of the private sector. The issue that emerges--returned to below--is whether the GOG can adopt policies that reinforce such change in expectations.

Tight control over the operations of the BOG reinforced the anti-inflationary impact of the CENIVACUS sales. While the net international reserves of the BOG increased as of the end of March by 46 percent reflecting the purchase of dollars by the BOG from the private sector, the impact of that increase on the money supply was neutralized by a 45 percent contraction in the BOG's net domestic credit (Table 6). That contraction reflected the above-mentioned sales of CENIVACUS held in the BOG's portfolio to the private sector. This behavior is considerably different from developments in the first quarter of 1990 when the BOG's net credit position increased by 20 percent and international reserves fell sharply.

4. Balance of Payments

Only preliminary data on exchange receipts provided by the banking system are available. Although limited, such information can provide an indication of developments in the external sector.

Private sector dollar net inflows amounted to almost $200 million in the first three months of 1991, compared with a net outflow of $52 million during the same period of 1990 (Table 8). This increase reflected a positive reversal in capital account transactions. Net capital outflows during the first quarter of 1990 amounted to $164 million compared with net inflows of almost $60 million in the same period of this year (Table 8). As current account transactions were virtually the same in both years, this turnaround in the capital account explains the bulk of the increase in dollar holdings of the BOG.

Export performance during the first quarter of 1991 has not been as robust as in 1990. Total export value declined by 6.6 percent to $322 million (Table 9). The principal cause is the sharp reduction in the value of traditional exports--cotton exports fell by 58 percent, sugar exports by 33 percent, banana exports by 21 percent and coffee exports by 4 percent--and a marginal increase in nontraditional exports over the same period in 1990. The slowdown in nontraditional export growth was worrisome to the GOG. By May, however, growth had accelerated, returning the 12-month growth rate to around 25 percent.

5. Central Government Operations

Operations of the Central Government during the first semester of the year were tightly constrained. Overall expenditures were restricted as overall tax collections recovered from the low 1990 levels. As a result, Central Government finances registered a modest surplus in the first semester of this year (Table 10 and 10A). While the short-term macroeconomic situation benefited from this policy stance, the inability of the government to carry out essential investments in infrastructure put in jeopardy continued growth of the economy.

Measured in current quetzales, overall tax collections grew by 53.2 percent between the first semesters of 1990 and 1991 as compared with a 38.7 percent increase in prices during the same period. (Tables 4, 11 and 11A). Collections of income tax increased at the fastest pace--141 percent in current terms and 73.8 percent in real terms--reflecting efforts by the Ministry of Finance to collect on outstanding audits of high-income taxpayers. That rapid growth, however, was offset by only marginal performance of other collections. VAT and import tax collections, which should grow in line with inflation and exchange rate devaluations, rose by 35 percent and 24 percent, respectively. Stamp tax and excise tax collections increased by 20-30 percent during the same period.

As in previous years, the GOG curtailed expenditures in the face of the low revenue performance. Total outlays for the first semester of 1991 increased by 32.7

percent over levels for the same period in 1990 (Table 10). This represents a net decline in real terms from the previous year. In part this slow growth reflected accumulation of domestic arrears and investment outlays continued to be minimal.

The Ministry of Finance is proposing a dual strategy for confronting this lack of liquidity. The immediate revenue needs will be met through either the payment of a one time tax or the forced placement of bonds with the private sector. The Guatemalan Congress approved the bond legislation in early July, 1991. The Ministry of Finance expects between Q500 million and Q700 million from the combined bonds and tax amnesty receipts which will be used for debt service payments and priority investments in education, health and infrastructure. A tax reform proposal is currently being submitted to Congress and administrative improvements in the tax collection procedures will be put in place to increase resource levels over the medium term.

C. Stabilization Program for 1991

1. Introduction

The GOG is addressing the economic problems of Guatemala in two stages. First, a tight macroeconomic stabilization plan will be followed throughout 1991. This program will result in a sharp reduction of inflation and an accumulation in needed international reserves of the BOG. The International Monetary Fund is expected to support this program with a shadow program which will be converted to a formal stand-by arrangement in late 1991. The second stage includes major structural reforms in the tax system, the financial system and the trade regime that will ensure continued stability over the medium term.

The Mission has supported the stabilization phase with technical assistance to the GOG. The FY91 program, however, is designed to help implement the structural reforms needed for continued economic stability. The GOG will soon submit a tax reform program to the Guatemalan Congress. For disbursement of the ESF grant, however, the GOG must successfully negotiate a program with the IMF. That program is expected to be based on (1) continued implementation of the stabilization program, (2) implementation of administrative reforms that will increase GOG revenues, and (3) passage of the tax reform program by Congress. The Mission will make the successful negotiation of such a program a condition precedent for the disbursement of the ESF grant to the BOG's special account.

The short term stabilization program for 1991 is described below.

2. Operations of the Nonfinancial Public Sector

The overall deficit of the Central Government is projected to fall from 2.1 percent of GDP in 1990 to 1.1 percent in 1991 (Tables 12 and 13). This reduction is based on the combination of policies aimed at halting the deterioration in Central Government revenues and contracting expenditures to manageable levels.

Overall revenues of the Central Government in 1991 will remain unchanged at 8.2 percent of GDP. The Ministry of Finance will implement administrative measures--described below--aimed at improving collections of value-added tax (VAT), income tax and excise taxes. The delays in implementing the tax reform package have made it impossible for the government to increase more rapidly the revenue enhancing measures.

Faced with an inelastic revenue base, the GOG has put severe limitations on Central Government expenditures. Each Ministry has been restricted to increases in current expenditures of not more than 10 percent over 1990 levels. Wage increases are limited to only 20 percent and the purchase of goods and services is restricted. Investment outlays are projected to remain unchanged in nominal terms with respect to 1990. If the GOG can mobilize external resources faster than contemplated in this projection, investment expenditures can be increased in a commensurate way. The result of this austerity program is that overall expenditures will fall from 10.3 percent of GDP in 1990 to 9.2 percent in 1991.

The GOG is committed to restricting the deficit of the overall public sector. That deficit, including BOG losses is projected to decrease from 5.3 percent of GDP in 1990 to no more than 2.2 percent in 1991 (Table 14). The GOG is presently examining alterative energy price structures. If those changes are implemented quickly, the surplus in the rest of the public sector will be higher and the overall deficit could be somewhat lower than 2.0 percent.

3. Operations of the Bank of Guatemala

The Monetary Board authorized in early 1991 an increase in the reserve requirements aimed at controlling expansion of the BOG's net domestic assets. That increase, together with the maintenance of high interest rates on BOG bonds permitted a reduction in domestic liquidity.

The BOG is committed to maintaining that policy stance. Net credit to the public sector will remain tightly restricted. The BOG will also prevent any abrupt shift in private sector portfolios away from BOG bonds into other instruments from increasing the domestic money supply. If faced with that possibility, the BOG will use some combination of dollar sales, increases in reserve requirements and interest rate increases to ensure that inflationary pressures do not reemerge.

Based on the assumption that about half of the BOG bonds now in private sector portfolios are redeemed rather than reinvested, the BOG expects to increase reserve requirements and sell accumulated dollars. If demand remains unresponsive, the BOG will increase domestic bond interest rates.

The BOG projects overall currency issue to grow by about 15 percent over the 12-month period ending December 1991 (Table 15). This growth in money is consistent with an inflation rate of 15 to 20 percent.

4. Balance of Payments

The current account deficit of the balance of payments is projected to fall from $344.0 million to $314.3 million--from almost 5.0 percent of GDP in 1990 to 3.5 percent in 1991 (Table 16). This reduction reflects the combination of moderate growth in exports and only a marginal increase in imports. Total exports are projected to grow by 5.6 percent. Although coffee exports are expected to be stronger during the second half of 1991--reflecting an improvement in international coffee prices--overall traditional exports are projected to grow by only 4 percent. Nontraditional exports, on the other hand are projected to continue to expand by over 20 percent.

The capital account, on the other hand, is projected to increase significantly, from 2.9 percent of GDP to 3.8 percent, based largely on a rapid influx of private sector short-term capital. Although some capital flight is expected in the second half of the year--as the private sector disinvest in BOG bonds and purchases dollars--the net impact for the year is still expected to be positive. As a result, an overall balance of payments surplus of $100 million is expected.

D. Structural Reform Program

1. Summary

The economic team of the GOG recognized that important structural reforms were needed to accompany the control of aggregate demand so that the growth prospects of the Guatemalan economy could be maximized. Immediate attention has been given to the design and implementation of a broad-based tax modernization and reform program, including administrative changes in the tax system. The guiding principles used by the Ministry of Finance to construct a new tax revenue system were base broadening, equity, simplicity and administrative feasibility. The government has formulated a series of fiscal laws which form an integral part of the Tax Modernization Program to be presented to the Guatemalan Congress in August. In order to meet its domestic and international obligations, the GOG has resolved that the new fiscal reform program will produce revenues equivalent to 10 percent of GDP in 1992.

With the assistance of the technical advisors under the A.I.D. funded Fiscal Administration Project (FAP), alternative policy measures have been studied and discussed at length; the impacts on tax collection and economic performance have been carefully estimated; new tax legislation proposals have been drafted; and the needs for administrative changes have been identified and are in process of implementation. Actions in this area are being complemented by financial and trade reforms.

2. Introduction

Traditionally only a small portion of Guatemala's GDP is collected in tax revenues for public expenditures. The fiscal issue is related to the inadequate revenue system, the low level of public savings, and the low allocation of public expenditures. By every indicator of fiscal operations relative to GDP, the public sector in Guatemala has some of the lowest rates of revenue and expenditure in Latin America. Its rate of tax contribution has tended to be 50 percent below the average for its Central American neighbors, and half of the average of a sample of 66 developing countries.

Tax collections as a percent of GDP have fallen from a peak of almost 11 percent at the end of the 1970s to 7 percent in 1990. This deterioration of the tax base reflected the combination of the impact of import tariff reduction, the gradual elimination of export taxes and growing tax evasion. Although several attempts at tax reform have been undertaken in the past--particularly in 1987--those reforms had only a temporary impact on Central Government revenue.

In a recent USAID sponsored study through the Fiscal Administration Project (FAP), Guatemala was compared with 66 countries worldwide using a series of economic and tax variables. The results indicate that if Guatemala would exercise tax collections equal to the average efforts of these countries, it would double the amount of taxes that it currently is collecting. The low levels of public sector revenues can be attributed to three primary factors: first, the tax base applies to only a small portion of economic activity or basic wealth; second, there exists an extensive system of exemptions and exonerations that limit the taxable base; and third, the level of compliance is low due to administrative and operational weakness and tax evasion with poorly developed system of penalties. It is calculated, for instance, that total exemptions amounted to Q750 million in 1989, or 3.2 percent of GDP.

The current tax system tends to be slightly progressive. Those families in the top half of the income scale pay 88.6 percent of the total tax collections. About half of the total household income is accounted for by the top 10 percent of the income distribution, which pay over 55 percent of total taxes. The bottom half of the income distribution account for 14 percent of total income and pays under 12 percent of total taxes. (Table 17) Preliminary estimates indicate that the proposed reforms will make the current tax system more progressive, raising tax between 1.5 and 2.2 percent of personal income for the bottom five deciles, and between 2.6 and 4.0 percent for the top half of the income distribution range.

In terms of tax structure, approximately three quarters of all central government revenues have come from indirect taxes, of which two thirds are domestic value-added taxes and the remainder taxes on international trade. While export taxes have traditionally played an important role in the GOG system (typically 3 to 4 times the Latin American average), these have declined to negligible amounts as the democratic governments have reduced them in order to foster export competitiveness and foreign exchange earnings. Import taxes continue to play a key role in the total tax burden, but there are an excessive amount of exempted items. The relatively new value added tax (VAT) is now the primary revenue earner. Among the other taxes, the most important has been the traditionally cumbersome stamp tax, levied primarily on legal and financial transactions.

Direct taxes have never been particularly productive in Guatemala, rose slowly between 17 and 25 percent of total current revenues. Virtually all direct tax revenues are on income; taxes on property and inheritance have been negligible. The low yield of personal income taxes reflects the high level of exemptions, deductions and tax evasion has left the majority of citizens virtually untaxed. The low yield and relative stagnation of property tax revenues is attributable largely to low tax rates based on self assessment, failure to keep the assessed values in line with rapidly rising land prices and administrative weaknesses.

The proposed Fiscal Modernization System will lay the base for an improved tax revenue generation system -- raising it up to Latin American standards -- and an improved budgetary system that will provide better, more effective services and investments for benefit of the country's populace.

3. GOG Objectives

The new fiscal reform package being submitted to Congress will contribute to the already well established monetary stabilization program by controlling the fiscal deficit, supporting economic recovery efforts (especially through export promotion and foreign investment) and providing a modern tax revenue and expenditure structure. The economic policy objectives include:

Sustainable economic growth with stable prices. A principal focus of the new tax program is to control the fiscal deficit and its effect on inflation. This will require an increase in fiscal revenues through a modification of the tax system, a better tax inspection and control system, and a better system of charges for those who receive public goods and services.

Promote export growth. The GOG will continue its efforts to foster export growth through its fiscal modernization program. This will include establishing a "zero rate" for traditional exports and elimination of problems associated with credits for tax paid on inputs for export products.

Attract foreign investment. The GOG recognizes that there are currently inequities in the system of taxation with regard to foreign investment, and that investors from abroad are attracted by a stable economic environment. The new modernization program has provisions that acknowledge the double taxation systems that most foreign investors are subject to, and provides special provisions for the drawback and free zone industries. A revised fiscal system will contribute to a more stable fiscal situation, a requirement for both potential international donor and private foreign investor confidence and investment.

The central objective of the Tax Modernization Program is to create a legal and administrative structure that will allow the government to recuperate the taxpayers confidence in the tax system, to increase the extent of tax collections by broadening the tax base, and to improve compliance through better administrative systems and by instituting penalties. In order to attain this renewed confidence, tax base broadening and improved compliance, the GOG has stated that the following principles will be applied to the fiscal reform package:

Improve the system's equity. As long as income earners are not treated equally under the law or the tax system and priviledges are given to some, there will be a natural resistance to comply with the tax obligations.

Rationalize the tax structure. The current tax system that is not reasonable, neither in its rates nor tax base. For example, the personal income tax has an inequitable average rate system rather than marginal rate one and the value added tax discourages trade by not correctly refunding or crediting non-traditional exporters for tax paid.

Simplify the tax structure. Taxpayers do not have confidence in a tax system that people do not understand and which requires a complex and expensive tax administration.

Reduce compliance costs. Bureaucratic red tape breeds unnecessary resistance to tax compliance. Under the GOG proposal, compliance procedures will be facilitated and simplified, including payment of taxes at any bank.

Eliminate Arbitrariness. Typically in Guatemala, taxes have been collected only where they are easy to find and administer, such as trade tariff taxes and withholding through the public sector or formal private sector. One of the features of the GOG's new fiscal reform package is an emphasis on professional tax administration, with a computerized accounting system, a system of current accounts for effective tracking and servicing of taxpayers, and guarantees of equal enforcement.

Strengthen inspection and tax system control. Currently Guatemalans know that if they do not pay their taxes, there is little probability that they will be detected. Worse yet, if they are detected, the penalties are not severe nor very effective. The GOG proposal emphasizes that the new tax system will enforce compliance through an effective and strong series of penalties.

Provide confidence in the use of collected funds. In Guatemala, vocal groups have used the argument of poor use of GOG funds as a rationale for not paying taxes, and compliance rates have declined significantly. Much progress has already been made through the assistance of the Fiscal Administration Project in improving budget structure and administration. The new set of laws will establish a more transparent system of budgeting, allocation and audit of public expenditures that can be used to effectively inform the public of funds usage and assure the legitimate use of funds.

4. Tax Reform Measures

The reform package that is being submitted to Congress will modify four basic taxes--income tax (for individuals and businesses), the value-added tax (VAT), the system of tariffs, and a new territorial (land) tax. The GOG proposal will also shift a non-tax, compensatory surcharge for petroleum into a permanent tax status both for petroleum products entering the country and at the point of consumption. The Ministry also has instituted a series of administrative reforms to enhance the revenue performance of the GOG in 1992 and into the future. These measures have already produced an increase in nominal tax revenues by over 50 percent in the first half of 1991, as compared with the same period in 1990--over 10 percent improvement in real terms for an administration that was faced with declining revenues, when it took office six months ago. (Table 11)

a. Personal Income Tax

The current Guatemalan individual income tax produces a relatively low level of revenue due to its limited coverage, inherently unfair rate system, and an extensive list of exemptions. It is estimated that only about 2 percent of the economically active population are affected by the individual income tax. The income tax is an average tax system--every quetzal of taxable income is subject to the tax rate of the taxable income bracket into which it falls. As an individual moves from one tax bracket into another, therefore, his tax obligation increases dramatically. This feature has tended to foster understatement of income. Currently there are 16 tax brackets ranging from a minimum 4 percent to a maximum tax rate of 34 percent. Interest earnings are not taxed and an extensive list of deductions are allowed.

The GOG has proposed a marked simplification of this system. First, a marginal tax rate system, progressive in nature and similar to that in the United States, will be implemented. Secondly, the current 16 brackets will be collapsed into only 3 brackets for simplicity:

Progressive Income Tax and Simplified Levels

Taxable Income	Tax Marginal Rate
Up to Q20,000	15 percent
Q20,000 to Q50,000	20 percent
Over Q50,000	25 percent

In the reformed tax system only the income earned in each bracket is subject to the tax rate of that bracket. As income earnings increase, the higher tax is applied only to the marginal increase in earnings. In addition, the GOG proposal being submitted to Congress will substitute the extensive deduction system for a standard deduction of Q18,000. The current deduction system is not controlled effectively by the tax administration, and for that reason these deductions will be replaced by the standard fixed amount. It is felt that this new personal income tax system will be simple for the taxpayer to understand and easier for the Ministry of Finance to administer.

The personal income tax base will be expanded with the inclusion of other income sources. Interest income, heretofore having had a haven from taxation, will now be taxed at a flat 15 percent for both individuals and businesses. The taxation of interest earnings is expected to account for approximately two-thirds of the total net increase in tax revenue of personal income. This practice of exclusion of interest earnings from tax computation will be substituted by a tax withheld in the banks. In addition, the portion of the traditional Christmas bonus above the value of one month (as Constitutionally mandated) will be subject to income tax.

b. Corporate Income Tax

The primary direct tax is the corporate income tax which accounts for about 70 percent of direct and about one-sixth of total tax revenue. Effective tax rates are relatively low averaging between 1.5 and 2.0 percent of gross corporate income. The business income tax structure is currently also an average rate system with three tax levels: firms with net income up to Q30,000 pay 12 percent, those with net income up to Q60,000 pay 22 percent and those with higher net income pay 34 percent. Traditionally this tax has not been well controlled, many firms do not pay this tax, and the revenue generations are low. Capital gains and interest earnings either are not taxed or taxed hardly at all. Interest expenses have been deductible. Currently deductions for the corporate income tax average over 90 percent of gross corporate income.

In order to eliminate many of the above mentioned distortions and simplify the administration of corporate income taxes, the proposed system would institute a 1 percent minimum tax on total net assets and adopt a flat 25 percent rate on all positive net income. The one percent tax being levied on net assets is an attempt by the GOG to collect revenue even from those firms that have traditionally reported losses in net income and have not paid any taxes. Some of the other major changes that will be adopted include:

Eliminate all tax incentives with the exception of those contemplated in the two export promotion laws -- the drawback industry (maquila) and the free trade zones.

Subject financial institutions to corporate income tax. In return the government will pay market interest rates to those financial institutions that invest in government bonds.

Allow total deduction of benefits and bonuses of employees, but include them as taxable personal income.

Allow enterprises to carry forward losses for a period of three years.

A number of other administrative and structural improvements should simplify income taxation and eliminate loopholes. With the proposed modifications to personal and corporate income tax structures, together with higher compliance in the future, the GOG expects to double the amount of revenue currently collected, adding an additional Q350 millions by 1992.

c. Value-Added Tax (VAT)

The current value added tax structure is defective due to the exclusion of many goods and services from the tax base. The value added tax (IVA in Spanish) covers both commercial transactions -- sales, imports to be consumed domestically, transfers of proprietorship, rents accrued from real estate -- and non-personal services. Since its inception in 1983, its revenues have tended to grow, and in some measure compensate for some of the reductions in export taxes. More recently, the VAT's base has been reduced by a lack of control, administration and growing evasion. Recent studies have shown that less than half of total sales in the economy are accounted for by firms registered for VAT, due to a combination of statutory exemptions, particularly for small firms, and underreporting of sales. Of those less than 80 percent are subject to VAT. This effectively reduces the 7.0 percent rate on local sales to less than 2 percent. The effective VAT rate on imports is reduced to less than 6 percent due to exemptions.

The taxable base for VAT is being expanded with the elimination of a series of current exemptions and zero rated items. Administrative improvements will increase collections over this expanded base. With the structural changes in place, the GOG could adjust rates over the new VAT base as necessary for fiscal needs.

In order to broaden the base of VAT taxation, all exemptions will be eliminated, except for those that are Constitutionally mandated (non-profit nongovernmental organizations, national universities, the Social Security Institute, diplomats), plus traditional and non traditional exports. More specifically, the elimination of all other zero-based rates and exonerations will affect such items as basic foods (except for small firms and popular markets), petroleum imports and products, school supplies, water, electricity and medicines. In order to increase credibility and fairness, the Ministry of Finance will provide full and timely refunds and IVA credits to taxpayers.

The GOG expects that the above mentioned modifications to the VAT tax base will produce an additional Q400 million in 1992. In addition, the application of strong penalties for non-compliance together with administrative improvements is expected to yield an additional Q250 million. Together these measures are expected by the GOG to increase current revenue collection levels by an additional two thirds by 1992.

d. Territorial Tax

Taxes on wealth -- such as land, assets and inheritance -- have not been traditionally an effective feature of the Guatemalan revenue system. Guatemalan property tax revenues as a percent of GDP are two and a half times less than the Latin American average. The GOG consolidated the municipal (rental) and national (territorial) property taxes in 1987, but failed to produce the expected results due to deficiencies in its administration and control. The system was based on self appraisal, and primarily affected transfers of property. When the Ministry of Finance attempted to establish a new property value system, the land and property holders boycotted the effort. Revenues reached Q40 million and then fell in real terms with noncompliance and a system of property assessments that did not keep pace with land values.

Under the proposed Tax Modernization Program, the old tax will be substituted by a new, more simple to administer territorial (land) tax. The municipalities are expected to take a greater role in its administration and revenue generation. It will be applied on land holdings evaluated based on location and value. The new tax structure will initially use simple flat rates applied to land values defined over broad areas of the country instead of a complicated system of cadaster for land and property.

The simplicity of this tax structure will make it much easier to establish feasible administrative systems and procedures. With this simple, broad-based system of territorial taxation, the GOG expects to generate additional revenues of approximately Q100 million by 1992, and that over the next two years collections will increase to Q250 million per year.

e. Tariffs

Since 1986, the GOG has moved progressively towards a more open economy in which market forces play a central role in the distribution of scarce resources. As the largest government interventions in the economy were dismantled, the government turned increasingly to providing incentives for private sector participation in export activities. In 1991, Guatemala requested membership in the GATT and began bilateral negotiations on the harmonization of trade regulations. Much of the tariff reduction undertaken in 1990 were taken in this light.

Guatemala has made significant progress in liberalizing its trade regime, by reducing export tariffs to zero and progressively reducing import tariffs. The last major reduction lowered the ceiling for tariffs to 37 percent (effectively 40 percent with the current surcharge). This system of exemptions has fostered tax evasion and tax avoidance with the misrepresentation of imported goods.

The orderly restructuring of the tariff rate structure is in line with the simplification and unification efforts within the region, and with Guatemala's new bid for GATT membership. Tariff rate reduction and further liberalization is not incompatible with increases in import tax revenues. The proposed changes in the tariff structure include measures that will work towards a narrowing of customs tariff rate dispersion and an elimination of all zero rate based products and most exonerations (except diplomatic, Central American and Constitutionally-mandated), which will increase the overall level of revenue.

The GOG proposal calls for an immediate reduction of the present tax dispersion tariff structure of 0-37 percent, to a more narrowly dispersed structure with a minimum rate of 5 and a maximum rate of 35 percent. Over the next two years the GOG will move towards an eventual unified tariff rate with a two rate--10 and 20 percent--system of duties. The changes in the tax rates and taxable items are expected by the GOG to produce a net increase in revenues of Q200 millions by next year.

5. Administrative Improvements

The GOG has complemented the tax reform package with significant changes in the administration of the tax system. The first step is a revision of the tax code passed by Congress in late 1990. That code had a number of difficulties including (1) the elimination of withholding procedures for income tax, (2) the establishment of extremely low penalties, and (3) the establishment of interest penalties that began to be calculated from the moment the tax payer is officially advised of his interest obligation rather than from when the obligation is incurred. On the other hand, interest owed by the government is calculated from the moment the obligation is incurred. The Ministry will submit to Congress the modifications of the tax code by the end of the year.

The Ministry of Finance also will establish a unified taxpayer registry whereby income tax returns can be compared with all other activities carried out by the taxpayer.

Progress has been made in the offices of customs and internal revenue. A system was put in place that permits the Ministry of Finance to track income tax audits. That system includes the identification of the audits most likely to generate revenues for the Ministry and a training plan for auditors.

The Customs Office has implemented a "Vehicles Appraisal Program"--applicable to all new or used vehicles that enter the country--that removes discretion from inspectors to set tax rates. This system has eliminated possibilities of corruption on vehicle imports at the level of customs. The program has already generated Q20 million in additional revenues, an increase of 25 percent over the same period last year. In the future this program will include a control that will help the authorities to detect if the car is stolen. The system is also being expanded to include other types of imports.

Administrative improvements are not limited to revenue collection process. Reforms are needed in the operation of the expenditure control sections of the Ministry of Finance. Operational improvements already have been achieved in three areas. First, the format of the Central Government revenues and expenditures budget for 1992 has been completely revised. This new format makes the budget more transparent, traces transfers among accounts and permits the establishment of a monitoring system. Second, guidelines for the structure of the new budget have been implemented that include prioritized programs for each of the ministries, the establishment of expenditure ceilings for the ministries and norms for the execution of expenditures. Third, a monitoring unit will be established in the Ministry to measure actual performance against budgeted levels. This monitoring unit will be established as soon as the Congress approves the 1992 budget. This unit will also provide the Minister with information about the implementation of fiscal policy. These actions will help the government to have a more effective tracking of its expenditures, to avoid transfers and to help each Ministry with the management of its own expenditures.

6. Financial Sector Reform

The financial system of Guatemala is relatively concentrated with a limited number of financial instruments. The GOG understands that, to ensure long-term growth, the financial system needs to accelerate the pace of savings mobilization and improve the distributive role of the commercial banks.

In order to achieve those goals, the BOG will initiate a program of financial reform before the end of 1991. The first step is a revision of the present banking law. Regulations limiting activities of commercial banks need to be modernized.

The Bank of Guatemala (BOG) is also considering expanding the role of the Stock Market. The BOG is currently preparing regulations to allow the Stock Market to buy and sell dollar futures contracts. The Market now needs to expand its activities into the intermediation of stocks issued by private enterprises. The number and variety of financial instruments offered in the informal markets have expanded rapidly over the last several years. As the commercial banks have been slow to mobilize private sector savings and channel those resources to the private sector, private firms have taken over that role. The objective of the financial reforms envisioned by the GOG is to reintermediate those savings into the formal system, increase the availability of credit to a broader range of Guatemalans and reduce both the risk and the cost of such financing.

Finally, the Monetary Board will begin a program of strengthening the Superintendency of Banks. New regulations need to be developed including minimum capital requirements, and regulations governing the distribution of bank portfolios. The auditing capacity of the Superintendency also needs to be improved with training in bank supervision being given greater emphasis.

7. Conclusion

The comprehensive fiscal reform program proposed by the GOG is ambitious in terms of the scope of separate taxes measures affected, the extent of structural change in tax base and rate modifications, and the challenges to improve compliance through new administrative systems and strong sanctions. The USAID recognizes these major strides as representing fundamental reforms in the fiscal system. We are especially proud of the contributions made by USAID supported Fiscal Administration Project in the diagnosis and study of the existing fiscal structure, the systematic analysis of reform alternatives and most recently, the team's assistance in the elaboration of the new modernization legislation and administrative procedures.

The GOG has established the goal of 10 percent of GDP in tax revenue for 1992. With revenue collection this year between 7.0 to 7.5 percent of GDP, the increase due to the fiscal reform next year would represent 2.5 to 3.0 percent of GDP, equivalent to an estimated Q1,150 to Q1,400 million in additional revenues. The Ministry of Finance has established a quantitative target of Q1,500 million in additional revenue for 1992, which would increase revenues by 50 percent in one year. While we commend the GOG for its efforts, our analysis indicates that a more reasonable estimate of added revenue is Q1,100 million, or approximately 33 percent over the 1991 tax revenue base. This would be below the target originally indicated by the IMF as a probable criteria for a Stand-By agreement, and the GOG may need to pursue further revenue adjustments to successfully conclude its negotiations with the Fund.

The U.S. Mission believes, however, that the level of effort demonstrated by the GOG to date merits authorization and obligation of the ESF resources, while conditioning disbursement of these resources on successful completion of negotiations with the IMF. Based on discussions with Administration officials, if additional modifications are required to reach agreement with the IMF, this will be more feasibly undertaken at a later date. The Serrano Administration has demonstrated political courage and talent in undertaking such broad reaching reforms six months after assuming office, and it has correctly focused on achieving fundamental structural reforms to the tax system.

IV. THE FY 91 ESF PROGRAM

A. Objectives of the Program

The FY 1991 ESF program is designed (1) to facilitate the payment of arrears to the international financial institutions, (2) to set Guatemala on a path toward sustained economic growth and (3) to obtain sufficient support from the international financial organizations. The elimination of external arrears is a necessary step if Guatemala is to normalize its financial relations with the IFIs. As described below, the ESF resources fill a critical gap in the arrears-clearing schedule proposed by the GOG. Without such support, the clearing process would become very complicated and normalization of relations between the IFIs and Guatemala would be postponed.

The normalization of relations with the IFIs is essential if Guatemala is to receive sufficient foreign exchange over the medium term to make critical investments in infrastructure and social sectors. It is expected that the IFIs have some $400 million that could be disbursed over the next four years. Achieving a steady flow of such resources is of critical importance to the medium-term stability of the country.

B. Program Outline

The GOG is implementing a sound macroeconomic program as described in other sections of this PAAD. The final step is being taken with the submission to the Guatemalan Congress of its fiscal reform program. That reform program is described in detail in Section III.D.

A second component of the FY 91 program is the elimination of arrears to the IFIs program. Although some payments had been made to the IFIs, as of May 30, the GOG owed approximately $110 million in external debt service arrears to the World Bank and the IDB. The GOG was current with the IMF. Although negotiation of a stand by agreement in principle with the IMF is possible, that arrangement cannot be approved by the Executive Board until all debt service arrears to the World Bank and the IDB are eliminated. The GOG expects to negotiate medium-term, concessional loans from Mexico, Venezuela or Colombia to finance the arrears-clearing operation for a total of $60 million. Those resources plus the ESF grant for $50 million and the GOG's own funds will permit total arrears clearing. The GOG is aware that these discussions may not result in a financial package sufficient to eliminate arrears. In that case, they will approach the U.S. Department of the Treasury for a bridge loan of approximately $60 million. That bridge would be paid off with resources from the first tranche of the World Bank SAL--expected in February or March, 1992--and from the IDB.

The GOG has also outlined an economic stabilization program entailing tight control over aggregate demand. That program contemplates real GDP growth of 3.0 percent, an inflation rate of 15-20 percent and a gain in the international reserves of the BOG of $100 million. The GOG expects to achieve such results by the adoption of a tight monetary and fiscal policy. Although the tax reform package will not have an impact on government revenues in 1991, the GOG has adopted a series of administrative improvements and expenditure controls that will ensure that the domestic financing of the deficit does not result in an increase in domestic liquidity above the growth of domestic money demand. This program is expected to be supported with a stand-by arrangement with the IMF. The details of this economic program are outlined in Section III.C.

C. Tranching of ESF Disbursements

The Mission proposes to disburse the ESF grant in a single tranche. Multiple tranches would severely complicate the arrears clearing process. Conditions precedent to the disbursement are (1) a signed letter of intent with the International Monetary Fund and (2) an arrears-clearing package acceptable to USAID, the World Bank and the IDB. The Agreement signed between USAID and the GOG will contain the covenant that the economic stabilization program negotiated with the IMF must be current. Before disbursal, the GOG will present to the Mission a copy of the letter of intent, a copy of the attached Memorandum of Understanding and a detailed description of the arrears-clearing operation.

D. Utilization of Dollar Resources

Upon the GOG meeting all conditions precedent, USAID/Guatemala will request disbursement into a separate account of the GOG in the Federal Reserve Bank of New York or directly into a special trust account established by the IMF or World Bank for the purpose of clearing GOG arrears to the IFIs. Evidence must be presented by the GOG to support the establishment of a separate account/trust account for the dollar grant funds i.e., provision of the account number, name of the bank account and address of the bank to USAID/Guatemala.

Funds, including any interest earned, will be used for payments of debt service arrears with the World Bank and the IDB. Any remaining funds will be used to clear non-military debt arrears with the U.S. Government. Before any disbursement, staff of the GOG and AID will jointly evaluate progress made in achieving the goals and targets of the economic program.

E. Utilization of Local Currencies

1. Background

USAID established in 1987 a Mission Order for the management of local currency funds (No. 19-7). This will be revised in the near future to incorporate the latest local currency policy advised in State 202944 dated 6/20/91 and State 204855 dated 6/21/91.

Within 10 working days following disbursement by AID/W of ESF grant dollars into the separate account, the Government of Guatemala (GOG) will deposit the equivalent amount of quetzales into the special local currency account in the Bank of Guatemala (BOG). The equivalent of $2 million will be provided as trust funds for the Mission; the remaining equivalent of $48 million will be used for GOG investment projects under the Core Development Budget. The rate of exchange will be the highest rate that, at the time of the U.S. dollar disbursement, is not unlawful in Guatemala.

As in previous years, the Mission proposes to use the local currencies associated with the ESF disbursement to support the Ministry of Finances Core Development Budget (CDB). That budget contains the government's highest priority development investments for the budget year. Support of the CDB has a number of benefits. First, projects included in the CDB are prepared using sound project-evaluation procedures. The Mission can therefore support an improved quality of investment throughout the GOG. Second, ministries have an incentive to carry out the rigorous evaluation steps so that their projects are included in the CDB. As a result, technical assistance is provided by the Ministry of Finance (MOF) to line ministries. Finally, the support of the CDB streamlines the budget process. In 1990, 63 percent of the projected CDB was executed. USAID is participating in the development of methods used by the GOG in the prioritization process, through provision of technical assistance in investment project evaluation.

The GOG submits a list of all activities, to be included in the CDB to USAID for review. Mission approval is based on two elements only: (1) that the CDB was prepared using sound budgetary principles, and (2) that it does not contain military and other expenditures prohibited under U.S. foreign assistance legislation. Through the Fiscal Administration Project, USAID/Guatemala is providing assistance to the Ministry of Finance to improve the budgetary process, particularly for capital budgeting.

The Divisic: of External Finance (DFEF) in MOF is responsible for coordinating requests by public sector agencies for use of the funds in budgeted activities, and thereafter for the overall management of the disbursement and monitoring of the use of the local currency funds. The special local currency account is kept in the Bank of Guatemala (BOG) under the operational control of the National Treasury Department in MOF. The Technical Budget Office of MOF participates in the ESF process through the establishment of the CDB. The Controller General's Office in its role as fiscal agent for the GOG is responsible for conducting audits of disbursements from the local currency special accounts.

2. General Assessment

The general assessment forwarded by the Mission to AID/W in March 1991 reported a moderate confidence level overall with regards to our local currency programs. In each of the previous two years an independent audit firm, Price Waterhouse, was contracted to perform a financial management compliance review of the GOG's administrative, accounting, and internal control systems established to comply with GOG's programming, implementation, financial administration and monitoring/reporting responsibilities under the local currency programs. These reviews included the above mentioned host country units which manage and monitor the local currency special accounts.

The general evaluations of the internal controls for the management of the local currency funds indicated that conceptually there is an adequate organization structure and separation of functions between DFEF, Technical Budget Office, National Treasury and National Accounting Office. However, the detailed examination of disbursements from the ESF special bank accounts revealed that the internal control environment in general, and certain procedures and mechanisms implemented by the GOG for project budgeting execution and disbursements needed to be strengthened.

Monitoring and project evaluation procedures were weak and the GOG had not produced the periodic reports on budgetary allocations and disbursements required by the agreements with USAID/Guatemala. The GOG Controller General's Office has not conformed with generally accepted auditing standards, e.g., adequate professional proficiency of audit personnel, freedom from impairments to independence, and observance of due professional care. However, no indication was found relating to non-permissible expenditures or diversion of funds.

The recommendations made by Price Waterhouse related to specific areas such as better controls over disbursements, accounting certificates, rotating funds and budgetary transfers have been closed based on actions taken subsequently by the GOG. Technical assistance for computer operations provided under a UNDP program has resulted in more timely and complete reports. To compensate for the situation with respect to the Controller General's Office, USAID since 1988 has contracted with RIG-approved local affiliates of U.S. CPA firms, to perform financial management and compliance reviews of the local currency programs.

The GOG does not have adequate and comprehensive budget, control and audit systems in place to manage the funds as required by A.I.D. local currency guidance without constant monitoring by USAID staff and technical assistance. Institutional strengthening of the MOF system is required, directed at improving coordination between the various HC units which manage and use the local currency funds and the strengthening of monitoring and evaluation systems. The weaknesses have been identified and will be addressed using funds from the CDB and additional audit coverage.

3. Local Currency Guidance

Upon the implementation of the technical assistance described above, and eventual development of a system of performance indicators for the local currency program, USAID/Guatemala and the GOG will be in full compliance with the new local currency guidance. However, since the Mission was in the midst of negotiating the economic program and PAAD when the new local currency guidance entered into effect on July 1, 1991, USAID/Guatemala requests that the effective date of the new policy not be applicable to this FY 1991 obligation as is provided for in the new local currency guidance. It should also be noted that this will probably be the final year of ESF Balance of Payments assistance to Guatemala.

The following system has been adopted by USAID for the management of local currency funds within the context of specific sector support (as defined in section 6.3.C of State 204855) directed mainly to counterpart for A.I.D. and other OECD and multilateral donor projects. The system is structured to comply with the following two levels of accountability for local currency:

- the special account must be managed so that the local currency is deposited and disbursed in the agreed-upon manner, and

- the local currencies are used for intended purposes once they are disbursed from the special account.

a. Special Account

USAID/Guatemala has always required that a special account be established for each ESF or PL 480 agreement. These accounts are non-interest bearing as the Bank of Guatemala by law is not allowed to pay interest on GOG-owned accounts. In order to comply with the latest guidance, a written determination will be made by the Mission Director not to follow A.I.D.'s preference for interest-bearing accounts. A copy will be retained by the Mission.

The funds deposited in the special account are not transferred to the General Fund but are directly disbursed from the separate account to liquidate purchase/payment orders, supported by the necessary documentation which clearly identifies the budget line code which must be included within the CDB approved by a USAID Project Implementation Letter, and also be included in the GOG budget with the financing code of the respective ESF agreement. The Financial Analysis Section of the USAID Controller's Office has always received copies of the check register and bank statements for each special account on a regular monthly basis. In line with the latest guidance a copy of the bank statement will be required directly from the Bank of Guatemala.

b. Special Account Reporting

USAID requires quarterly reports from DFEF detailing by budget line item budgetary allocations, disbursements and accruals, and the reconciliation to the bank statements. Although lengthy delays were experienced in the past, these reports are now being received in a timely and complete manner.

c. Report Verification

Due to the delay in receiving reports the Mission Controller's Office in the past was obliged to perform a 100% analysis and reconciliation of the disbursements from the special accounts in order to be able to prepare the quarterly reports for Mission management on the local currency agreements. With the receipt of timely and complete reports from DFEF the Mission will reconcile them to the check registers and bank statements and perform periodic reviews of the documentation underlying the disbursements. In addition to receiving quarterly reports, the Mission under the standard ESF agreement clauses on Reports, Records, Inspections, Audit, retains adequate rights to ensure that, with timely access, it can examine supporting documentation to verify that the agreement on local currency use has not been violated.

However, problems have been experienced in past audits and financial reviews due to difficulties in finding the relevant documentation as a result of the filing systems used. It is intended to include a covenant in this year's agreement requiring modifications in the system to ensure an adequate audit trail.

d. Audit

The agreement requires the GOG Controller General's Office to audit the local currency agreements. Reports have been issued based on the audit of 1988 and 1989 records. However, these reports did not meet professional standards and were not acceptable to USAID. Because of this, we will include funds in the Core Development Budget to finance annual audits. The audit work will use GAO standards and will be done in accordance with the guidelines established by the A.I.D. Inspector General. The program agreement will reserve audit rights in the U.S. and state that A.I.D. audit rights will not be subordinated or infringed by arrangements for audits by the host country or outside auditors.

e. Trust Funds

USAID is requesting $2 million in local currency for the Operating Expense Trust Fund account. The same requirements used for appropriated OE dollars will be applied to the OE Trust Funds except for source and origin. Because of the source of the funds and the limitations on using reverse accommodation exchange, the source for goods and services will normally be Guatemala. Funds not needed for immediate disbursing needs will be placed in interest bearing certificates of deposit denominated in quetzales. Approval for the investment of Trust Funds is included in the Trust Fund agreement.

Methodologies for Measuring Poverty and Changes in Poverty

The fundamental questions that arises when measuring poverty is how an individual's standard of living should be quantified and how the resulting poverty line is determined. That measure should then increase both when the income of the poor decreases (referred to in the literature as the monotonicity axiom) and when income is transferred from the relatively less poor to the relatively poorer families (the transfer axiom). In other words, the measure used should take into account the distribution of the living standards of the poor--the family income is one proxy for such standards--not merely indicate how many people are poor.

The most commonly used poverty measure is the head-count index, which gives the proportion of the population with a standard of living below the poverty line. However, the head-count index does not indicate how poor the poor really are--the measure is unchanged if the poor become poorer and the depth of poverty increases. An index that does reflect the depth of poverty is the poverty gap index. That index measures the average, over all households, of the gaps between the poor households' income and the poverty line, as a ratio of the poverty line itself.

An aggregate poverty index has been proposed by a number of researchers to address such issues (Foster, Greer and Thorbecke, 1984; Ravallion and Huppi, 1991; and Kanbur, 1987). That index combines the head-count index and the poverty-gap index into a composite, aggregate poverty index. The head-count index can be written as

$$H = q/n$$

where H is the head count ratio, q is the number of families below the poverty line and n is the total number of households.

The poverty-gap index can be written as

$$G = [1/(zq)]*[\sum_{i=1}^{q} (z - y_i)]$$

where G is the poverty gap-index, y_i is family income for household i, the poverty line is denoted as z, and $(z - y_i)$ is the poverty gap measure.

These two measures can then be combined into the aggregate poverty index, P, which can, in turn, be decomposed into H and G:

$$P = [1/(nz)]*[\sum_{i=1}^{q}(z - y_i)]$$

This measure is used in the paper to evaluate the causes of changes in aggregate poverty. Improvements can then be attributed to either reductions in the absolute number of the poor, to improvements in the average income of the poor or to some combination of these two factors.

Appendix B

TABLES

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Table 1
FAMILIES LIVING BELOW
POVERTY LINE

Region	Total (000s)	Percent of Population
Total	917,202.1	56.9
Guatemala City	135,717.5	37.0
Central	98,172.8	54.6
North	90,188.2	78.1
North-west	157,733.3	82.6
South-west	239,963.7	59.0
South-east	99,096.5	62.6
Peten	17,728.1	50.2
North-east	78,602.0	49.9

Source: OEPA based on National Institute of Statistics -INE- "Encuesta Socio-demografica 1989"

MDEG/POVLEV-1
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TABLE 2
GUATEMALA: BASIC FAMILY FOOD BASKET, 1975-1990
PRICES FOR A MIDDLE INCOME FAMILY WITH 5 MEMBERS

ITEM	QTY GRAMS	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
TOTAL		2.83	2.98	3.22	3.46	3.76	4.28	4.80	4.68	4.64	4.59	5.34	7.66	8.88	9.95	11.06	19.90
Tortilla	2065	0.76	0.76	0.81	0.85	0.85	1.03	1.12	1.08	0.99	0.99	0.94	1.53	1.84	2.07	2.51	3.91
Bread	309	0.26	0.30	0.30	0.30	0.32	0.36	0.42	0.42	0.36	0.35	0.39	0.54	0.62	0.74	0.77	1.10
Rice	148	0.08	0.07	0.08	0.08	0.09	0.09	0.10	0.11	0.10	0.10	0.11	0.21	0.26	0.26	0.25	0.39
Beans	375	0.17	0.15	0.19	0.24	0.22	0.30	0.33	0.22	0.26	0.23	0.33	0.46	0.51	0.68	0.70	1.51
Meats	306	0.45	0.48	0.52	0.57	0.71	0.79	0.83	0.84	0.83	0.84	1.16	1.60	1.80	1.95	2.10	3.28
Eggs	137	0.17	0.17	0.17	0.17	0.19	0.21	0.22	0.22	0.25	0.24	0.32	0.41	0.48	0.57	0.65	0.85
Milk	588	0.15	0.16	0.18	0.19	0.20	0.21	0.27	0.28	0.31	0.32	0.36	0.48	0.53	0.55	0.64	4.30
Vegetables	545	0.16	0.19	0.22	0.24	0.29	0.28	0.30	0.33	0.44	0.41	0.45	0.68	0.86	1.00	1.01	1.45
Fruits	405	0.12	0.15	0.17	0.19	0.22	0.25	0.28	0.26	0.20	0.20	0.23	0.31	0.38	0.40	0.50	0.44
Sugar	488	0.10	0.12	0.13	0.15	0.16	0.17	0.24	0.24	0.24	0.24	0.24	0.30	0.33	0.37	0.43	0.64
Shortening	128	0.15	0.16	0.16	0.16	0.17	0.20	0.25	0.25	0.24	0.25	0.32	0.44	0.46	0.46	0.50	0.70
Fuel 10%		0.26	0.27	0.29	0.32	0.34	0.39	0.44	0.43	0.42	0.42	0.49	0.70	0.81	0.90	1.00	1.33

*Calculation based on first semester
Source National Planning Office -SEGEPLAN-, Food and Nutrition Department

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HFBASKET
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Table 3
POVERTY LEVELS BY REGION

	Combined Poverty Index		Headcount Index		Poverty Gap Index	
	1986	1989	1986	1989	1986	1989
Total	26.7	25.4	55.9	56.9	47.7	44.7
Guatemala City	13.1	10.3	39.4	37.0	33.4	27.9
Central	21.2	21.5	49.5	54.6	42.8	39.4
North	34.1	44.2	66.7	78.1	51.1	56.6
North-west	45.1	47.9	78.3	82.6	57.6	58.0
South-west	29.2	24.3	60.2	59.0	48.5	41.2
South-east	28.5	29.4	57.2	62.6	49.8	47.0
Peten	24.8	21.9	52.6	50.2	47.2	43.6
North-east	25.6	23.7	51.4	49.9	49.9	47.5

MAGDA/POVLEVELS
OEPA:6/26/91

Source: OEPA based on National Institute of Statistics -INE- "Encuesta Nacional Socio-demografica 1989"

Table 4
CONSUMER PRICE INDEX
GUATEMALA CITY
(March-April 1983 = 100)

MONTH	PERCENTAGE CHANGE: 12-MONTH CHANGE 1989	1990	1991	ANNUAL ACCUMULATED 1989	1990	1991
JANUARY	12.3	21.8	60.7	1.7	3.1	3.6
FEBRUARY	12.2	23.1	57.5	2.3	4.8	3.2
MARCH	12.6	25.7	53.1	3.2	7.9	3.4
APRIL	13.7	29.0	49.4	4.4	12.1	4.7
MAY	14.6	35.7	42.5	5.2	18.8	5.9
JUNE	13.7	39.8	38.7	5.9	23.1	6.8
JULY	10.2	44.5		6.0	27.5	
AUGUST	10.0	44.1		7.3	28.7	
SEPTEMBER	10.3	51.4		8.4	36.5	
OCTOBER	11.4	54.6		10.5	42.1	
NOVEMBER	14.5	56.2		13.5	47.5	
DECEMBER	20.2	59.8		20.2	59.8	

Source: National Institute of Statistics (INE)

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Table 5
OPEN MARKET OPERATIONS OF THE BANK OF GUATEMALA
(In millions of quetzales)

	YEAR		January - March	
	1989	1990	1990	1991
	Stocks			
Total	1,052.3	1,299.5	1,084.9	2,118.5
Public Sector	590.8	715.6	730.2	764.7
Private banks 1/	103.8	160.2	140.6	498.7
Non-bank private sector	357.7	423.7	214.1	855.1
	Change over December			
Total	96.9	247.2	32.6	819.0
Public Sector	-0.6	124.8	139.4	49.1
Private banks 1/	56.2	56.4	36.8	338.5
Non-bank private sector	41.3	66.0	-143.6	431.4

1/ Includes purchases through auctions.

Source: Bank of Guatemala.

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OEPA/mdeg

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Table 6
SUMMARY OPERATIONS OF THE
BANK OF GUATEMALA
(In percent) 1/

	1990	JANUARY - MARCH 1990	JANUARY - MARCH 1991
Net international reserves	-40.9	-19.6	45.5
Net domestic assets	83.0	21.2	-44.6
Public sector (net)	-3.8	-6.8	-49.6
Commercial banks	-11.0	3.4	-4.2
Other	97.8 2/	24.6	9.2
Currency issue	42.1	2.3	1.1

1/ With respect to currency issue of the beginning of the period.

2/ Includes valuation adjustment and Bank of Guatemala losses.

Source: Bank of Guatemala

SUMOPGOV
OEPA/mdeg

Table 7
DOLLAR HOLDINGS OF THE BANK OF GUATEMALA
(In millions of U.S. Dollars)

	Stock	Change over December
1990		

March	38.3	-52.4
June	30.5	-60.2
September	65.5	-25.2
December	53.0	-37.7
1991		

March	252.3	199.3
June	399.7	346.7

Source: Bank of Guatemala

DOLL-HOLD
OEPA/mdeg

Table 8
FOREIGN EXCHANGE BALANCE
(In millions of dollars)

	January - March	
	1990	1991
Current Transactions	111.2	142.0
Exports	344.9	322.1
Imports	-240.1 1/	-240.7
Interest (net)	-34.3	-26.6
Other	40.7	87.2
Capital Transactions	-163.6	57.3
Public	-11.2	31.6
Private	-152.4	25.7
Change in dollar holding	-52.4	199.3

1/ Adjusted for capital flight.

Source: Bank of Guatemala and AID staff estimates.

EXCH-BAL
OEPA/mdeg

Vg

Table 9
EXPORT RECEIPTS
(In millions of dollars)

	January - March	
	1990	1991
TOTAL	344.9	322.1
Traditional	253.4	208.8
Cotton	10.6	4.5
Sugar	70.7	47.9
Banana	15.8	12.5
Coffee	134.5	129.4
Other	21.8	14.5
Central American exports	6.1	17.1
Nontraditional exports	85.4	96.2
Clothing	12.9	19.5
Vegetables	8.9	11.2
Flowers	4.1	3.9
Other	59.5	61.6

Source: Bank of Guatemala.

EXP-REC
OEPA/mdeg

Table 10
Operations of the Central Government
(In millions of quetzales)

	1989	1990	January - June 1990	January - June 1991
Revenues	2,238.7	2,713.0	1,211.7	1,965.4
Tax	1,850.2	2,343.3	1,059.8	1,623.8
Non-tax	388.5	369.7	151.9	341.6
Expenditures	3,166.7	3,622.0	1,319.6	1,750.8
Wages and salaries	959.4	1,087.3	498.6	575.4
Goods and services	505.8	651.0	195.5	206.4
Interest	332.4	500.1	190.0	438.9
Transfers	606.9	779.9	248.7	323.1
Investment	762.2	603.7	186.8	207.0
Surplus/Deficit (-)	-928.0	-909.0	-107.9	214.6
Financing	928.0	909.0	107.9	-214.6
External financing	194.9	213.9	5.1	36.9
Donations	99.7	89.3	0.0	0.0
Internal financing	633.4	605.8	102.8	-251.5

Source: Ministry of Finance.

Table 10A
OPERATIONS OF THE CENTRAL GOVERNMENT
(In percent of annual GDP) 1/

			January - June	
	1989	1990	1990	1991
Revenues	9.5	8.0	3.6	4.3
Tax	7.8	6.9	3.1	3.5
Non-tax	1.6	1.1	0.4	0.7
Expenditures	13.4	10.7	1.7	3.8
Wages and salaries	4.1	3.2	1.5	1.3
Goods and services	2.1	1.9	0.3	0.5
Interest	1.4	1.5	0.6	1.0
Transfers	2.6	2.3	0.7	0.7
Investment	3.2	1.8	0.6	0.5
Surplus/Deficit (-)	(3.9)	(2.7)	(0.3)	0.5
Financing	3.9	2.7	0.3	(0.5)
External financing	0.8	0.6	0.0	0.1
Donations	0.4	0.3	0.0	0.0
Internal financing	2.7	1.8	0.3	(0.5)

Source: Bank of Guatemala

Table 11
TAX REVENUE OF THE CENTRAL GOVERNMENT

	1989	1990	January - June 1990	January - June 1991
	(In millions of quetzales)			
Tax revenue	1,850.2	2,343.3	1,059.8	1,623.8
Income tax	406.3	507.0	207.7	500.7
IVA	558.1	791.3	350.9	474.8
Stamp	116.3	138.1	63.9	83.8
Excise	213.2	267.1	75.9	91.2
Import	406.1	523.0	235.0	291.4
Other	150.2	116.8	126.4	181.9
	(In percentage change over 12 months)			
Tax revenue	4.8	26.7	6.4	53.2
Income tax	(1.8)	24.8	1.8	141.1
IVA	12.6	41.8	14.0	35.3
Stamp	12.3	18.7	20.0	31.1
Excise	19.0	25.3	(0.4)	20.2
Import	4.6	28.8	(0.2)	24.0
Other	(28.3)	(22.2)	10.0	43.9

Source: Ministry of Finance

TABLE11
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Table 11 - A
TAX REVENUE OF THE CENTRAL GOVERNMENT

	1989	1990	January - June 1990	January - June 1991
	(In millions of constant 1989 quetzales)			
Tax revenue	1,850.2	1,466.4	860.6	950.9
Income tax	406.3	317.3	168.7	293.2
IVA	558.1	495.2	285.0	278.0
Stamp	116.3	86.4	51.9	49.1
Excise	192.9	167.1	61.6	53.4
Import	406.1	327.3	190.8	170.6
Other	182.9	73.1	102.6	106.5
	(Percentage change over previous period)			
Tax revenue		(20.7)		10.5
Income tax		(21.9)		73.8
IVA		(11.3)		(2.4)
Stamp		(25.7)		(5.4)
Excise		(13.4)		(13.4)
Import		(19.4)		(10.6)
Other		(60.0)		3.8

Source: Ministry of Finance (Table 11)

Table 12
OPERATIONS OF THE CENTRAL GOVERNMENT
(In Percent of GDP)

	1986	1987	1988	1989	Prel 1990	Proj 1991
Total revenue	8.9	9.4	10.1	9.5	8.0	8.1
Current revenue	8.9	9.4	10.1	9.5	8.0	8.1
Tax revenue	6.9	8.0	8.6	7.8	6.9	7.2
Direct taxes	1.2	1.6	2.2	1.9	1.6	1.8
Indirect tax	3.3	4.0	4.0	4.0	3.7	4.1
International trade	2.4	2.4	2.4	1.9	1.6	1.3
Nontax revenue	1.8	1.3	1.4	1.4	0.9	0.8
Transfers	0.1	0.1	0.2	0.2	0.2	0.1
Capital Revenue	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	10.8	11.8	12.9	13.4	10.7	9.2
Current Expenditures	8.9	9.7	10.4	10.2	8.9	7.9
Wages	4.2	4.4	4.5	4.1	3.2	2.8
Goods & Services	1.9	1.9	2.1	2.1	1.9	1.8
Interests & Commissions	1.3	1.4	1.5	1.4	1.5	1.6
Transfers	1.5	1.9	2.3	2.6	2.3	1.7
Capital Expenditures	1.9	2.1	2.5	3.2	1.8	1.4
Net Lending	0.0	0.0	0.0	0.0	0.0	0.0
Surplus or Deficit	(1.9)	(2.4)	(2.7)	(3.9)	(2.7)	(1.1)
Financing	1.9	2.4	2.7	3.9	2.7	1.1
Foreign Financing	0.9	1.4	1.8	1.2	0.9	0.3
w/o Donation	0.4	1.1	1.1	0.8	0.6	0.0
Internal Financing	1.0	1.1	0.9	2.7	1.8	0.8

Source: Bank of Guatemala

Table 13
OPERATIONS OF THE CENTRAL GOVERNMENT
(In Millions of Quetzales)

	1986	1987	1988	1989	Prel 1990	Proj 1991
Total revenue	1,406.2	1,659.8	2,081.8	2,238.7	2,713.0	3,702.4
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Current revenue	1,406.0	1,659.3	2,081.7	2,238.7	2,713.0	3,702.4
Tax revenue	1,093.9	1,412.5	1,765.1	1,850.2	2,343.3	3,296.0
Direct taxes	188.6	276.2	452.2	451.6	551.8	817.0
Income tax	169.7	250.8	413.9	406.3	507.0	770.0
Property tax	18.9	25.4	38.3	45.3	44.8	47.0
Indirect tax	528.2	712.5	822.0	938.1	1,263.9	1,868.5
IVA	308.3	411.7	495.8	558.1	791.3	1,233.4
Stamp	71.7	91.6	103.6	116.3	138.1	170.8
Excise	129.7	163.5	179.1	213.2	267.1	182.0
Other	18.5	45.8	43.5	50.5	67.4	282.3
International trade	377.1	423.8	491.0	460.5	527.6	610.5
Export	213.0	150.7	102.8	54.4	4.6	0.5
Import	136.7	273.1	388.2	406.1	523.0	610.0
Special trade tax	27.4	0.0	0.0	0.0	0.0	0.0
Nontax revenue	289.0	227.7	282.5	332.9	298.3	345.4
Compensatory fund	139.5	68.1	85.0	86.6	10.8	300.0
Fees	32.1	34.9	45.8	53.0	57.6	64.1
Other	117.4	124.6	151.7	193.3	229.9	177.3
Transfers	23.2	19.1	34.1	55.6	71.4	61.0
Public	15.5	7.7	21.3	41.5	21.9	22.0
Private	7.7	11.5	12.8	14.1	49.5	39.0
Capital Revenue	0.2	0.5	0.1	0.0	0.0	0.0
Total expenditure	1,704.8	2,093.6	2,643.0	3,166.7	3,622.0	4,227.7
----------------	-------	-------	-------	-------	-------	-------
Current Expenditures	1,406.5	1,715.2	2,133.1	2,404.5	3,018.3	3,594.3
Wages	670.9	785.2	916.1	959.4	1,087.3	1,294.5
Goods & Services	294.1	344.3	434.1	505.8	651.0	830.0
Interests & Commissions	207.9	244.9	301.8	332.4	500.1	712.8
Transfers	233.6	340.8	481.1	606.9	779.9	757.0
Public sector	183.6	255.7	367.1	376.4	458.1	404.4
Private sector	50.0	85.1	114.0	230.5	321.8	352.6
Capital Expenditures	298.3	378.4	509.9	762.2	603.7	633.4
Net Lending	0.0	0.0	0.0	0.0	0.0	0.0
Surplus or Deficit	(298.6)	(433.8)	(561.2)	(928.0)	(909.0)	(525.3)
-----------------	-----	-----	-----	-----	-----	-----
Financing	298.6	433.8	561.2	928.0	909.0	525.3
---------	-----	-----	-----	-----	-----	-----
Foreign Financing	136.9	245.2	369.5	294.6	303.2	140.3
w/o Donation	58.6	195.9	217.0	194.9	213.9	0.0
Arrears	0.0	0.0	0.0	0.0	0.0	35.0
Arrears payment	0.0	0.0	0.0	0.0	0.0	465.0
Arrears financing	0.0	0.0	0.0	0.0	0.0	500.0
Internal Financing	161.7	188.6	191.7	633.4	605.8	350.0
Forced bond proceeds	0.0	0.0	0.0	0.0	0.0	350.0
Other	161.7	188.6	191.7	633.4	605.8	(0.0)

Source: Ministry of Finance

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Table 14
SUMMARY OPERATIONS OF THE NONFINANCIAL
PUBLIC SECTOR

	1986	1987	1988	1989	Prel. 1990	Proj. 1991
			(In millions of quetzales)			
Public Sector Deficit	-413	-646	-725	-1129	-1781	-1014
BOG losses	-287	-396	-328	-297	-728	-600
Nonfinancial Public Sector	-126	-250	-397	-832	-1053	-414
Central Government	-299	-434	-561	-928	-909	-514
Rest of public sector	173	184	164	96	-144	100
			(In percent of GDP)			
Public Sector Deficit	-2.6	-3.6	-3.5	-4.8	-5.3	-2.2
BOG losses	-1.8	-2.2	-1.6	-1.3	-2.1	-1.3
Nonfinancial Public Sector	-0.8	-1.4	-1.9	-3.5	-3.1	-0.9
Central Government	-1.9	-2.5	-2.7	-3.9	-2.7	-1.1
Rest of public sector	1.1	1.0	0.8	0.4	-0.4	0.2
GDP	15,838	17,711	20,545	23,636	33,909	45,777

Source: Bank of Guatemala and USAID estimates

Table 15
SUMMARY MONETARY ACCOUNTS
Bank of Guatemala
(In millions of Quetzales)

	1988	1989	1989	1990	1990	1991
	Q2.7 = $1		Q4.5 = $1		Q5.5 = $1	
Net International Reserves 1/	-11.9	-248.4	-413.8	-468.9	-573.1	-23.1
Net Domestic Assets	1187.3	1719.4	1884.8	2559.9	2664.1	2428.1
Public Sector (net)	1001.6	1099.1	1099.1	981.5	951.5	124.0
Net Credit	1983.6	2158.8	2158.8	2558.5	2528.5	2528.5
Open Market Operations	-982.0	-1059.7	-1059.7	-1577.0	-1577.0	-2404.5
Net Credit to Banks	-599.8	-666.6	-666.6	-828.4	-828.4	-873.9
Credit	157.2	163.4	163.4	110.7	110.7	110.7
Reserves	-757.0	-830.0	-830.0	-939.1	-939.1	-984.6
Medium- and Long-term foreign Liabilities	-1133.5	-996.3	-1660.5	-1424.3	-1741.3	-2524.5
Bank of Guatemala Arrears	-203.0	-275.2	-458.6	-568.8	-695.2	0.0
Stabilization Bonds	-1026.8	-892.9	-1254.3	-1153.1	-1343.2	-1343.2
Other	3148.8	3451.3	4825.7	5553.4	6320.7	7045.7
Currency Issue	1175.4	1471.0	1471.0	2091.0	2091.0	2405.0

Source: Bank of Guatemala

1/Excludes external arrears

Table 16
SUMMARY BALANCE OF PAYMENTS
(In millions of US dollars)

	1987	1988	1989	1990	Proj. 1991
Current Account	-600.9	-543.6	-467.6	-344.0	-314.3
Trade Balance	-469.4	-483.6	-514.4	-437.5	-411.9
Exports f.o.b.	977.8	1073.4	1126.6	1211.3	1279.0
Imports c.i.f.	-1447.2	-1557.0	-1641.0	-1648.8	-1690.9
Non-oil	-1252.7	-1364.2	-1429.2	-1368.6	-1473.2
Oil	-194.5	-192.8	-211.8	-280.2	-217.7
Services and Private Transfers	-131.5	-60.0	46.8	93.5	97.6
Capital Account	449.5	352.9	225.4	169.6	434.5
Official Transfers	33.9	50.6	32.1	33.9	33.0
Official Capital	11.1	-55.1	-80.6	-53.6	-0.6
NFPS	40.9	3.9	14.6	12.0	3.1
Bank of Guatemala	-29.8	-59.0	-95.2	-65.6	3.7
Private capital	404.5	357.4	273.9	189.3	402.1
Overall balance of payments	-151.4	-190.7	-242.2	-174.4	120.2
Exceptional Financing	91.0	75.0	69.5	20.0	72.8
BOP support (ESF)	91.0	75.0	69.5	20.0	50.0
Additional support	--	--	--	--	22.8
Net Intl. Reserve Change	60.4	115.7	172.7	154.2	-193.0
Net official reserves (-increase)	43.7	129.4	87.6	12.2	-100.0
Arrears (- decrease)	16.7	-13.7	85.1	142.0	-93.0

Source: Bank of Guatemala

Table 17
GUATEMALA: HOUSEHOLD INCOME AND TAX DISTRIBUTION

Income Level	Income Distribution	Tax Distribution
First Decile	1.2	1.0
Second Decile	2.1	1.7
Third Decile	2.7	2.2
Fourth Decile	3.4	2.8
Fifth Decile	4.3	3.7
Sixth Decile	5.5	4.8
Seventh Decile	7.1	6.2
Eighth Decile	9.8	8.8
Ninth Decile	14.8	13.6
Tenth Decile	49.2	55.2
Total	100.0	100.0

Source: Fiscal Administration Project and
National Institute of Statistics -INE-

TAXINCDIS/MCL
OEPA/8.5.91

Appendix C

INITIAL ENVIRONMENTAL EXAMINATION

PROJECT LOCATION	:	Guatemala
PROJECT TITLE	:	ESF Cash Transfer Program
FUNDING	:	$50,000,000

PROJECT DESCRIPTION

The funds under this Program will be made available to the Government of Guatemala (GOG) in direct support of its economic program. Funds will provide, as in the FY 1986, 1987, 1988, 1989 and 1990 Programs, immediate balance of payments support to Guatemala and the allocation of urgently needed foreign exchange to help eliminate external debt service arrears to the international financial institutions (IFIs), including the World Bank, the Interamerican Development Bank and the Central American Bank for Economic Integration. Availability of funds under this Program is contingent upon compliance with the conditions to be mutually agreed upon between the GOG and A.I.D. on the 1991 economic program.

In all cases, funds made available will be programmed through the Guatemalan Ministry of Finance and Central Bank which have overall responsibility for determining the subsequent use of funds. All local currency associated with the program, with the exception of an estimated US $2 million dollars for USAID-managed operating expenses, technical support and audit trust funds, will be disbursed as general budget support to the GOG in accordance with the general parameters established in the FY 1988 Core Development Budget mechanism. Under this mechanism, AID neither programs nor approves the specific uses of local currency funds.

ENVIRONMENTAL IMPACT

The proposed program qualifies for a categorical exclusion according to Section 216.2 (C) (2) of 22 CFR as one in which "AID does not have knowledge of, or control over, and the objective of AID in furnishing assistance does not require, either prior approval of financing or prior to implementation of specific activities, knowledge of or control over, the details of the specific activities that have an effect on the physical and natural environment for which financing is provided by AID".

, 61.

RECOMMENDATION

Based on the A.I.D. regulation discussed above, the Mission recommends that the ESF Cash Transfer Program for FY 1991 be given a Categorical Exclusion determination requiring no further environmental review.

Concurrence: Stephen Wingert
/Terrence J. Brown
/Mission Director

August 7, 1991
Date

Approvals:	ANakatsuma		Date	7/30/91
	PNovick		Date	7/30/91
	WGoodwin		Date	7/30/91
	JLombardo		Date	8-7-91
	DAdams		Date	8-2-91
	SWingert		Date	8-7-91

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Agency for International Development
Washington, D.C. 20523

LAC-IEE-91-79

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Guatemala
Project Title	:	ESF Cash Transfer Program
Project Number	:	520-0394
Funding	:	$50 million
Life of Project	:	One Year (FY 1991)
IEE Prepared by	:	Alfred Nakatsuma USAID/Guatemala
Recommended Threshold Decision	:	Categorical Exclusion
Bureau Threshold Decision	:	Concur with Recommendation
Comments	:	Concurrence subject to condition being placed in appropriate documents that local currency associated with this program not be used to finance the purchase, use, or importation of pesticides, or construction work that would have a major environmental impact.
Copy to	:	Terrence J. Brown, Director USAID/Guatemala
Copy to	:	Alfred Nakatsuma, USAID/Guatemala
Copy to	:	David Hoelscher, USAID/Guatemala
Copy to	:	Wayne Williams, REA/CEN
Copy to	:	Mark Silverman, LAC/DR/CEN
Copy to	:	IEE File

John O Wilson Date AUG 21 1991

John O. Wilson
Deputy Chief Environmental Officer
Bureau for Latin America
and the Caribbean

GUATEMALA

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only.

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. Narcotics

a. **Negative certification** (FY 1991 Appropriations Act Sec. 559(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, the President has not so certified

b. **Positive certification** (FAA Sec. 481(h)). (This provision applies 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 laundered with the knowledge or complicity of the government):

(1) does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? ....Multilateral. Guatemala is a signatory to the U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988.

(2) 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 (a) 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 (b) the vital national interests of the United States require the provision of such assistance? ....Yes

c. **Government Policy** (1986 Anti-Drug Abuse Act of 1986 Sec. 2013(b)). (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 ....a) No or distribution of illicit drugs; (b) in which any senior official of the 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?

..........b) No

..........c) No

..........d) No

2. **Indebtedness to U.S. citizens** (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? ....No

3. **Seizure of U.S. Property** (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? ....No

4. **Communist countries** (FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545): Is recipient country a Communist country? If so, has the President: (a) 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, or (b) removed a country from applicable ....No

restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba. Iraq, Libya, Vietnam, 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?

5. **Mob Action (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

6. **OPIC Investment Guaranty (FAA Sec. 620(l)):** Has the country failed to enter into an investment guaranty agreement with OPIC? ....No

7. **Seizure of U.S. Fishing Vessels** (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? ....No

8. **Loan Default (FAA Sec. 620(q); FY 1991 Appropriations Act Sec. 518 (Brooke Amendment)):** (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? ....a) No (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 1990 Appropriations Act appropriates funds? ....b) No

9. **Military Equipment (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? ....Yes, taken into consideration by the Administrator at the time of approval of the 1991 OYB.

(Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of 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.)

10. **Diplomatic Relations with U.S.** (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

11. **U.N. Obligations** (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.) ....Guatemala is in arrears on the payment of obligations to the U.N. This was taken into account by the Administrator at the time of approval of the OYB.

12. **International Terrorism**

a. **Sanctuary and support** (FY 1991 Appropriations Act Sec. 556; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons? ....a) No ....b) No

b. **Airport Security** (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

13. **Discrimination** (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

14. **Nuclear Technology** (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? ....No 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? ....No 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? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) ....No

15. **Algiers Meeting** (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.

16. **Military Coup** (FY 1991 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

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17. **Refugee Cooperation** (FY 1991 Appropriations Act Sec. 539): 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

18. **Exploitation of Children** (FY 1991 Appropriations Act Sec. 599D, amending FAA Sec. 116): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services? ....No

B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

1. **Human Rights Violations** (FAA Sec. 116): Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? ....No

2. **Abortions** (FY 1991 Appropriations Act Sec. 535): Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? ....No

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C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

Human Rights Violations (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? ....No

Clearances

LAC/CEN:JVDBos ____ 8-16-91
LAC/SAM:JSchneider ____ 8-16-91
LAC/TI:JVermillion ____ 8-16-91
ARA/CEN:JArndt ____
State/IOSB:THobgood ____ 8/16/91
State/HA/BA:MJacobson ____ 8/16/91
LAC/DPP:EZallman ____
State/RP/ENA:DKemp ____ 8/16/91
GC/LAC:KHansen ____ 8/20
State/INM:ECarroll ____ 8/20

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Funds resources. Part B includes criteria applicable only to Development Assistance resources. Part C. includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage 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.

The Mission views the program as a necessary condition to (a), (b), (c), and (e).

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage

The program will permit the GOG to raise the revenue required for investment in human resources and infrastructure, essential to

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).

improved prospects for U.S. private trade and investment in Guatemala.

3.Congressional **Notification**

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): if money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

Congressional Notification is in process and will be completed prior to obligation of funds.

b. **Notice of new account** obligation (FY 1991 Appropriation Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. **Cash transfers and nonproject sector assistance** (FY 1991 Appropriations Act Sec. 575(b) (3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance,

Yes

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has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

N/A

5. **Legislative Action** (FAA Sect. 611(a) (2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

A signed letter of intent with the IMF, which includes _inter alia_ fiscal reform legislation, is required prior to disbursement of funds.

6. **Water Resources** (FAA Sec. 611(b); FY 1991 Appropriations Act. Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, _et seq_.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

7. **Cash Transfer and Sector Assistance** (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?	yes.
8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistance Administrator taken into consideration the country's capability to maintain and utilize the project effectively?	N/A
9. **Multiple Country Objectives** (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage 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; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	N/A (see A.1)

10. U.S. Private Trade (FAA Sec. 601(b)): Information and conclusions on how project 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).	N/A (see A.2)
11. Local Currencies	
a. Recipient Contributions (FAA Sec. 612(b), 636(h)): Describe steps taken to 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.	N/A
b. U.S.-Owned Currency (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.
c. Separate Account (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:	
(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount	Yes.

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of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government? Yes.

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes? Yes.

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? Yes

12. **Trade Restrictions**

a. **Surplus Commodities** (FY 1991 Appropriations Act. Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, N/A and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

b. **Textiles (Lautenberg Amendment)** (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses work on the person), work gloves or leather wearing apparel? — N/A

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c) (3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas? — No.

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14. **Sahel Accounting** (FAA Sec. 121(d)): If a sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

N/A

15. **PVO Assistance**

a. **Auditing and registration** (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

b. **Funding Sources** (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

16. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry

The duly executed agreement will be pouched to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force.

into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

17. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

N/A

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18. **Women in Development** (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

N/A

19. **Regional and Multilateral Assistance** (FAA Sec 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

The assistance is part of a larger program that involves assistance from IFI's and the IMF.

20. **Abortions** (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No.

b. Will any funds be used to lobby for abortion?

No.

21. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

No.

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22. U.S.-Owned Foreign Currencies

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

N/A

b. Release of currencies (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.

23. Procurement

a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

N/A

b. U.S. Procurement (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

N/A

c. Marine insurance (FAA Sec. 604(d)): 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

d. Non-U.S. agricultural Procurement (FAA Sec. 604(e)): 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

e. Construction or engineering services (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 the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

N/A

f. Cargo preference shipping (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

N/A

commercial vessels to the extent such vessels are available at fair and reasonable rates?

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

N/A

h. **U.S. air carriers** (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

i. **Termination for convenience of U.S. Government** (FY 1991 Appropriations Act. 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

j. **Consulting services** (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through

N/A

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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)?

k. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage? N/A

l. **Competitive Selection procedures** (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

24. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A

b. **Construction contract** (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

c. **Large projects, Congressional approval** (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 Congressional Presentation), or does assistance have the express approval of Congress? N/A

25. **U.S. Audit Rights** (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? N/A

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26. **Communist Assistance** (FAA Sec. 620(h)). Do arrangements exist to ensure 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 foreign aid projects or activities of the Communist-bloc countries?

Yes.

27. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

Yes.

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

Yes.

28. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals

Yes.

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in accordance with a land reform program certified by the President?

29. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — Yes.

30. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? — Yes.

31. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing 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.

32. **Military Personnel** (FY 1991 Appropriations Act. Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? — Yes.

33. **Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues?** — Yes.

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34. **Multilateral Organization Lending** (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?

Yes. ESF dollars will be used to assist the GOG only to clear arrears with multilateral lending institutions.

35. **Export of Nuclear Resources** (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?

Yes.

36. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

Yes.

37. **Publicity or Propaganda** (FY 1991 Appropriations Act Sec. 516): Will assistance 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?

No.

38. **Marine Insurance** (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and

N/A

subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

39. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? — No.

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? — Yes.

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes? — No.

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3. **Commodity Grants/Separate Accounts** (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

4. **Generation and Use of Local Currencies** (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 at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? — N/A.

5. **Cash Transfer Requirements** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)): If assistance is in the form of a cash transfer:

a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? — Yes.

b. **Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are — Yes.

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to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

c. U.S. Government use of local currencies: Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

Yes.

d. Congressional notice: Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

Yes.

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