

GUATEMALA
**PROMOCIÓN DE UN SISTEMA TRIBUTARIO SÓLIDO Y SIMPLE/
PROMOTION OF A SOLID AND SIMPLE TAX SYSTEM
(PSSTS)**

CONTRACT NO: PCE-I-00-00-00015-00
TASK ORDER NO: 801
CONTRACT CEILING PRICE: \$491,566
PERIOD OF PERFORMANCE: August 17, 2001 to April 30, 2003
COUNTRY: Guatemala
REGION: Latin America and the Caribbean
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DAI PROJECT MANAGER: Mark Gallagher

PROJECT OBJECTIVE:

The objectives of the PSSTS Task Order are:

1. To provide expert advice to the Ministry of Finance in the formulation of fiscal policy reforms to achieve increased tax revenues and a more efficient and equitable tax system;
2. To conduct a “benchmarking” study of the Superintendency of Tax Administration (SAT), comparing existing policies and operational practices of the Guatemalan Tax Authority with policies and practices of similar institutions in other countries; and,
3. To assist USAID/G-CAP to identify, prioritize and implement activities/studies to assist the Ministries of Finance and Economy to achieve Peace Accord targets on revenue collection and to implement commitments of the Fiscal Pact relating to economic reactivations and improved efficiency in public sector expenditures.

Modification #1 to the Task Order increased the scope of objective number 3 to:

- Conduct an update of existing tax incidence studies;
- Assist SAT implement the benchmarking study recommendations;
- Develop a plan to create an Anti-Corruption Unit in the SAT; and
- Provide technical support to Ministry of Finance.

DELIVERABLES:

The four original reports named in the Task Order are:

1. Efficiency of the Existing Tax Regime, Focusing on Low Performing Taxes
2. Assessment of Fiscal Incentives and their Usefulness to Economic Development/Reactivation of Guatemala
3. Benchmarking Study of the SAT
4. Concept Paper on USAID’s Role in Economic and Fiscal Policy Reform Efforts in Guatemala

STATUS:

All deliverables have been submitted to USAID with the exception of the Concept Paper on USAID's Role in Economic and Fiscal Policy Reform Efforts in Guatemala. The mission is considering how it would use the remaining TO resources and is contemplating canceling this final deliverable.

UNFORESEEN PROBLEMS:

Some initial resistance on the part of the SAT was overcome through great efforts of the DAI Team working hand in hand with the USAID team and, especially, the Mission Director.

Although the work of the team was finally accepted with great enthusiasm by counterparts and USAID, and we were requested to provide greater assistance, such as in helping to define specific next steps toward improving tax administration, politics has intervened and the excellent top management at the SAT was changed by the President. This development does not bode well for Guatemala.

KEY LESSONS:

- The development of the Semi-Autonomous Revenue Authority in Guatemala introduced the first real and worthwhile institutional change in tax administration and has resulted in greater tax compliance, collections and lower corruption.
- Even with the introduction of the SAT as a Semi-Autonomous Revenue Authority, the lack of a true rule of law environment has allowed the President of the country to undermine the very basic autonomy of the SAT.
- Active participation by USAID Mission staff and top management (both the Mission Director and Deputy Director were involved) can help to bring about very positive results under very sensitive circumstances.