PD-AAA-772-E1

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A.I.D.
Reference Center
Room 1656 NS

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| | UNCLASSIFIED | 519-11-740-032.1 |

TAX ADMINISTRATION IMPROVEMENT

| | | |

cadastral and property assessment systems. The USAID contracted Collett and Clapp to perform these services. Following the preliminary study, the firm recommended the installation of a modern system of property identification and evaluation, and their services were contracted for developing an appraisal system, preparing an assessment manual and instruction for its use, training technicians, preparing work plans and schedules, designing forms, and providing technical supervision.

Field operations of the fiscal cadastral project began in September, 1965. An average of about 70 technical employees worked on the project until June, 1968, when the Director General of Direct Taxes began to reduce the force to about 30 employees because of low production rates.

The first permanent Internal Revenue Service tax advisor arrived in El Salvador the middle of 1964. His objective, as detailed in the Project Agreement, and agreed to by the Salvadoran Minister of Finance, was to assist in increasing tax revenues through improved tax administration procedures and techniques, and through better trained and better qualified tax technicians and administrators.

After preliminary studies and discussions with Ministry officials and the Directors General of the Direct and Indirect Tax Offices, it was agreed that technical training in these two offices should be the first order of business. This began almost immediately and a full-time IRS training specialist was assigned to the tax team in 1965. Under this emphasis a training program for eight Electronic Data Processing (EDP) system analysts, including training in the U.S. and Mexico, was developed, and six administrators from the Direct and Indirect Tax Offices and the Ministry of Finance were selected for management and supervisory training under the INTAX program in the United States.

From 1964 through 1967, a total of 26 different in-country, U.S. and third country training courses were conducted for almost 500 participants[1/]. Included among these participants is the present Director General of Indirect Taxes, the Chief of the Organization and Management Section in the Ministry of Finance, the Chief of the Audit Division in the Direct Tax Office, all of the first line audit supervisors in the Audit Division, and most of the present auditors in the Direct and Indirect Tax Offices.

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1/ This includes inspectors in the Indirect Tax Office, managers, systems analysts, supervisors, and auditors. Many persons took more than one course.

It was recognized early by the tax advisors that their single most important objective should be a complete reorganization of the audit division in the Direct Tax Office. All of the employees in this division answered to one supervisor; there were no reporting systems for management information and no controls on assigned work; and the division chief's span of control was so wide and his information so limited that he had virtually no information on the amount of time the auditors spent on cases, their productivity, or the number of cases examined.

Unfortunately, because of the impending national elections, the proposed reorganization of the Audit Division was resisted by the Director General of Direct Taxes and the Chief of the Audit Division. However, progress was made in other related areas:

1) A public information program on tax filing periods was initiated.

2) Taxpayer billings were shifted to electronic data processing.

3) A master list of taxpayer accounts was established and maintained with an EDP accounting system.

4) Receipt of returns and processing procedures were made a clerical task rather than a technical one, thus utilizing manpower more effectively.

These objectives were important and helped lay the groundwork for things to come, but their accomplishment did not have an immediate impact on tax revenue.

In September, 1967, a few months after the national election, the then Director General of Direct Taxes finally agreed to a reorganization of the Audit Division. Some of the more important innovations were the following:

1) The auditors were divided into groups of 10 to 12, and each group was under the direction of a group supervisor.

2) Four field audit groups and one office audit group were formed.

3) The supervisors received formal classroom training, as well as on-the-job training, and weekly staff meetings were held. They learned to interpret information, identify problem areas, and take necessary corrective actions.

4) A special group was established to classify returns on the basis of the potential tax to be collected from each.

5) A special delinquent returns group was formed and an instruction manual was prepared to assist its operations.

6) Control procedures on audits in process were established in order to eliminate the possibility of stolen returns.

7) Reporting systems for auditors and supervisors were established to provide management with information relative to time spent on each case, productivity of auditors and cases, percentage of time actually devoted to examination work, and number of cases finished by type and size.

Progress immediately following the reorganization was slow. The Chief of the Audit Division continued to openly resist the change, and the then Director General was not enthusiastic and did not give his support. This situation continued until May, 1968, when, with some encouragement from A.I.D., a new Director General was appointed. The new Director General has fully supported the tax improvement project, and in October, 1968 replaced the Chief of the Audit Division, with a competent, enthusiastic, and experienced auditor who has worked directly with the tax team previously and has received IRS Management Training in the United States under the INTAX Program.

2. PRESENT ACTIVITIES AND PLANS

Detailed plans for 1969 and subsequent years are spelled out in the PIP. The reorganization of the audit division and the enthusiasm of the new Director General and Chief of the Audit Division, should provide the basis for an extremely successful year and, barring counter-productive changes in personnel, continued improvement in the future.

Under a new amnesty law, a taxpayer who has never filed a return may present a 1967 return and thereby fulfill not only 1967 but all prior year obligations. If this is successful, the Direct Tax Office will add a large number of taxpayers to the rolls and therefore broaden the taxpayer base considerably. This should result in increases in collections over the long-run.

Due to questionable legislation, however, the amnesty law may have some negative effects in the short-run. In addition to applying to persons who have never filed a return, the law allows persons who previously have filed returns to submit corrected 1967 return and be absolved from any prior year's com-

mitment. This effectively nullifies all audit work on those persons who turn in a corrected 1967 return, as well as preventing audit assessments until March, 1969 when the amnesty period ends.

The results of this program -- both long- and short-run -- will not be known until sometime after March.

3. OVER-ALL EFFICIENCY, EFFECTIVENESS, AND SIGNIFICANCE OF THE PROJECT

a. Overall performance and effectiveness of the project implementation in achieving stated project targets.

(1) The Collett and Clapp contract for the fiscal cadastral project was plagued by numerous problems from its inception. From the time field operations started until August, 1968 a total of 7,449 parcels, less than two per cent of the estimated parcels in the country, were completed. This represents an average of less than one parcel per field team per day, far below the six to eight parcels per day which is considered average. As stated in Section 009(1) increases in property tax revenue as a result of this program were slight.

A recent review of the entire program by an IRS advisor in the property tax area identified the following problems which were responsible for the low productivity of the project:

(a) Poor project planning.

(b) Poorly organized mapping program.

(c) Personnel assigned did not have necessary qualifications for job.

(d) Salaries were too low to attract and retain competent employees.

(e) The number of employees hired was inadequate.

(f) The appraisal manual was too sophisticated and contained erroneous information.

(g) Adequate training was not provided.

(h) Inadequate supervision.

(i) Lack of transportation.

(j) Lack of equipment and supplies.

(k) Insufficient GOES budgetary support.

(2) The IRS training program was carried out effectively, and although participant training suffered from some of the usual problems of lack of direction for the participants and poor English language ability (see section 079 c), the returned trainees nevertheless have, for the most part, remained with the Tax Office and some now occupy high positions (see the Project History and Section 009 (2)).

Courses in El Salvador were conducted under the direction of an IRS-PASA technician. His fluency in the Spanish language and his prior experience and technical ability contributed to a successful in-country training program. An in-service training capability was established, and in December, 1968 the audit supervisors, with no assistance from the IRS Team, developed and taught a refresher training course and technical review for the auditors. The nine-hour course was given to all auditors in the audit division and was considered highly satisfactory.

(3) The reorganization of the Audit Division was a slow process filled with political overtones. It points out quite clearly the need for self-help and host country cooperation if a project of this sort is to be successful. The training and technical assistance provided by the IRS team undoubtedly laid a firm foundation for progress. But had there not been personnel changes in two key positions -- the Director General of Direct Taxes and the Chief of the Audit Division -- it is safe to assume that little progress would have been made in examinations of returns and recommendations for additional tax.

The reorganizational plan itself seems to have been based on sound principles and with the proper direction from the top appears to be having satisfactory results in increasing efficiency within the Audit Division.

(4) Results in the areas of examined returns, examined returns per auditor, and recommendations for additional tax are shown below:

(a) Examined Returns. The number of returns examined yearly since 1962 has fluctuated considerably. Apart from auditor efficiency, two reasons for the fluctuations are changes in the number of auditors and changes in the definition of "examined return". In earlier years, the standard preliminary

check for arithmetic accuracy was considered to have been an "examined return", even if no further examination was made. Almost all audits were performed in the office and there were virtually no field audit operations. More recently this definition was changed to include only those returns which go through the process of complete review by an auditor. (About 80 per cent of these are now field reviews.) At present all returns are checked for arithmetic before being considered for audit examination.

In addition, the number of auditors was reduced by approximately 15 (19%) in September, 1965 in order to help provide a technical staff for the fiscal cadastral project[1/]. For that reason, examined returns fell sharply in 1966. In the September 1967 reorganization, the effective number of auditors was reduced by about seven (11%) when the best and most productive auditors were selected as supervisors or placed in administrative positions (these individuals still retain the title of "auditor" however). With approximately the same number of auditors (see notes to Table 2) the number of examinations made during 1968 was almost 20 per cent greater than during the entire previous year. With respect to income tax, the area of greatest potential, the number of examinations during 1968 was up 33 per cent over the entire previous year. Table 1 shows these results.

Table 1 - Number of Returns Examined 1962 - 1968

| | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 |
|---|---|---|---|---|---|---|---|
| Income | 4564 | 5609 | 4938 | 3710 | 2886 | 2779 | 3692 |
| Property | 1410 | 2636 | 2403 | 2269 | 1448 | 1202 | 1364 |
| Estate | n.a. | 617 | 807 | 709 | 861 | 827 | 829 |
| Gift | n.a. | 364 | 453 | 379 | 490 | 502 | 422 |
| Total | 5974 | 9226 | 8601 | 7066 | 5685 | 5310 | 6307 |

(b) Examined Returns per Auditor. The productivity of Audit Division can be measured in a slightly more refined manner by using this index. However, certain problems still

1/ None of that staff remains with the cadastral project. The 1968 reduction discussed previously consisted of 25 contract personnel and 15 auditors. The auditors returned to the Audit Division gradually during the last half of the year.

exist: the former Director General of the Direct Taxes used the comparatively high-pay auditor position as a political plum, designating various friends as auditors although they performed no audit functions and often worked nowhere near the Audit Division. An attempt has been made to eliminate these persons from prior years's data, although this will not be complete accurate. The improvements coming from the reorganization and from efforts by the IRS team to reduce the number of auditors per case from two to one should have positive effects on the average. Table 2 shows these data.

Table 2 - Number of Returns Examined per Auditor
1963 - 1968

| | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 |
|---|---|---|---|---|---|---|
| Total Returns Examined | 9,226 | 8,601 | 7,066 | 5,685 | 5,310 | 6,307 |
| Number of Auditors | 80 | 80 | 80 | 65* | 63** | 65*** |
| Average Returns Examined per Auditor | 115.3 | 107.5 | 88.3 | 87.5 | 84.3 | 97.0 |

* Decrease came at end of 1965 when 15 auditors were selected to work on the fiscal cadastral project.

** Reduction of 7 auditors who were selected as supervisors in September is (7 x ¼ yr) = 2 auditors lost.

*** 15 auditors returned from fiscal cadastral project between June and December, 1968. The remaining 5 auditors who were selected as supervisors in September, 1967 were lost. Therefore, figure placed at 65 which includes + (15 x ½ yr)-5 = 2 auditors gained.

(c) Recommendations for Additional Tax. These, as with returns examined, can be expected to fluctuate depending on the number of auditors as well as auditor efficiency. The sharp decline in 1966 may therefore be explained by the reduction in auditors. Subsequent increases tend to reflect increased auditor efficiency. During 1968 the additional tax and penalties recommended by the auditors (as a result of their findings in the examinations of taxpayers' returns) was almost double that of the previous year. The additional income tax recommended was more than three times the amount recommended in 1967. Table 3 shows these results.

Table 3 - Additional Tax Recommended 1962 - 1968
(In thousands of Colones)

| | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 |
|---|---|---|---|---|---|---|---|
| Income | 3,292 | 7,858 | 8,159 | 3,717 | 2,232 | 2,156 | 7,484 |
| Property | 568 | 1,229 | 514 | 418 | 144 | 118 | 256 |
| Estate* | 2,560 | 1,377 | 3,375 | 2,115 | 1,093 | 2,891 | 3,145 |
| Gift* | 698 | 775 | 989 | 429 | 685 | 421 | 372 |
| Total | 7,118 | 11,239 | 13,037 | 6,679 | 4,154 | 5,586 | 11,257 |

* Taxpayers for these taxes do not file returns on a regular basis.

b. The Contribution to Achievement of Sector and Goal Plans

As previously pointed out, most of the tax advisors' efforts have been directed toward improved administration in the direct tax area (income and property taxes). The greatest potential for additional revenues and the greatest enforcement and administrative problems are centered in these two areas. Until 1967, when the previously discussed organizational changes were made, little progress took place. However, with the reorganization of the audit division in 1967, and the installation of the new Director General and the new Chief of the Audit Division in 1968 significant progress has been made in both years and should continue into the foreseeable future.

The sector goal of increasing revenues by 15 per cent a year between 1964 and 1969 will not be achieved. As pointed out in section 012, direct tax revenues on a receipt-plus-accrual basis failed to increase between 1964 (when the new income tax law was passed) and 1966. In fact, they fell by about 4.5 per cent during this period. During 1967 collections increased by over 14 per cent, and 1968 collections (when the ¢10 million coming from the increased rates of the property tax are netted out) were up by 12 per cent. Table 4 shows these data in more detail.

Table 4 - Direct Taxes -- Receipts plus Accruals
1963 - 1968
(In millions of Colones) (¢2.50 = U.S.$1.00)

| Tax | Year | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1968 (a) |
| Income Tax | 24.7 | 35.7 | 34.7 | 34.7 | 38.7 | 45.2 | 45.2 |
| Increase from prior year | - | +44.5% | - 2.8% | -0- | +11.5% | +16.8% | +16.8% |
| Property (vialidad) Tax | 4.0 | 5.0 | 5.0 | 5.2 | 5.7 | 15.4 | 5.4 |
| Increase from prior year | - | +25.0% | -0- | + 4.0% | + 9.6% | +170.2% | - 5.3% |
| Other Direct Taxes | 4.5 | 5.3 | 4.8 | 4.0 | 5.8 | 5.7 | 5.7 |
| Increase from prior year | - | +17.8% | - 9.4% | -16.7% | +45.0% | - 1.7% | - 1.7% |
| Total Direct Taxes | 33.2 | 46.0 | 44.5 | 43.9 | 50.2 | 66.3 | 56.3 |
| Increase from prior year | - | +38.6% | - 3.3% | - 1.3% | +14.3% | + 32.1% | +12.1% |
| Total as a per cent of GDP | 1.96 | 2.46 | 2.23 | 2.08 | 2.26 | n.a. | n.a. |

Notes: 1. Income tax rates increased in 1964

2. Property tax rates increased in 1968. Estimated additional revenue as a result = ¢10 million. The column headed "1968 (a)" makes this adjustment.

3. 1967 revenues were somewhat artificially increased by the transfer of ¢4.5 million from the government trust fund (collected in 1964 and 1965 under the subsequently repealed profit retention provision of the income tax law) to the general fund. 1968 revenues were increased by a ¢6.5 million transfer of withholding tax. Withholding tax transfers should continue into the future. Deducting both amounts would reduce the income tax figures to ¢34.2 million in 1967 and ¢38.7 million in 1968. Total tax collections in 1967 would therefore have increased by only 4.1%. In 1968 the increase would have been 30.8% without the ¢10 million property tax adjustment, and 9.0% with the adjustment. Deducting only the ¢4.5 million from the 1967 figure, would

give an income tax total of ¢34.2 million in 1967, while leaving 1968 unchanged. Total tax collections in 1967 still would have increased by only 4.1%. In 1968 the increases would have been 45.1% (without the ¢10 million adjustment), and 23.2% (with the adjustment).

While tax receipts plus accruals as measured in Table 4 are perhaps the best measure of improved tax administration, since they show the results of assessments coming from audit and subsequent juridical operations, they do not show actual tax collections. Because about 95 per cent of all assessed taxes are collected, the first measure is still fairly accurate, although time lags are often involved between assessments and collections. Collections of direct taxes have performed somewhat differently than their receipt-plus-accrual counterparts, being significantly lower in both 1967 and 1968. This difference is explained largely by the increased assessments coming from improved audit operations; these assessments have not yet been collected. Table 5 shows tax collections for 1963-1968.

Table 5 - Direct Taxes -- Collections 1963-1968
(In millions of Colones)

| Tax | Year 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1968 (a) |
|---|---|---|---|---|---|---|---|
| Income Tax | 22.9 | 30.3 | 34.0 | 35.6 | 32.5 | 35.3 | 35.3 |
| Increase from prior year | - | +32.3% | +12.2% | + 4.7% | - 8.7% | + 8.6% | + 8.6% |
| Property (Vialidad) Tax | 3.9 | 4.6 | 4.7 | 4.9 | 5.3 | 14.0 | 4.0 |
| Increase from prior year | - | +17.9% | + 2.2% | + 4.3% | +8.2% | +164.1% | -24.5% |
| Other Direct Taxes | 4.1 | 4.7 | 3.7 | 4.1 | 5.3 | 5.8 | 5.8 |
| Increase from prior year | - | +14.6% | -21.3% | +10.8% | +29.3% | + 9.4% | + 9.4% |
| Total Direct Taxes | 30.9 | 39.6 | 42.4 | 44.6 | 43.1 | 55.1 | 45.1 |
| Increase from prior year | - | +28.2% | + 7.1% | + 5.2% | - 3.4% | +27.8% | + 4.6% |
| Total as a per cent of GDP | 1.82 | 2.12 | 2.13 | 2.11 | 1.93 | n.a. | n.a. |

Notes: 1. Income tax rates increased in 1964.

2. Property tax rates increased in 1968. Estimated additional revenue as a result = $10 million. The column headed "1968(a)" makes this adjustment.

c. Anticipated Results Compared to Costs, i.e. Efficiency in Resource Utilization

The major cost to this program has been the salaries of the PASA technicians. The two other significant costs have been the Collett and Clapp contract, and participant training, both of which are discussed in Section 079 (b and c), as well as in other sections of this narrative.

The cost of the Collett and Clapp contract was greater than its benefits. This was in no small way due to a less than adequate performance of Collett and Clapp themselves (see Section 3a(1) of the narrative). However, the GOES was neither prepared for, nor willing to give its full support to, the fiscal cadastral project.

Participant training, in spite of its drawbacks, has nevertheless provided the Direct Tax Office of the GOES with a nucleus of personnel who are at least familiar with the proper techniques of tax administration. As mentioned in other portions of the PAR, the majority of the participants have remained with the Direct Tax Office, and therefore in all probability are contributing to a return in the form of additional tax assessments that exceeds the costs of their training.

Although progress has come slowly in the improvement of a base for improved tax administration in El Salvador, it has been made. The reorganization of the audit division, and the training of personnel -- both participant and in-country -- have taken place, albeit slowly, and would probably not have occurred without the presence of the IRS PASA team or some similarly qualified organization. Benefits in the form of increased tax assessments have finally been realized and, with the appropriate time-lag, collections increased in 1968 and should continue to do so in the future.

While the benefit-cost ratio is certainly not as adequate as it would have been if complete GOES cooperation had been present during the entire life of the project, it is certainly favorable and undoubtedly improving. If AID pressure for personnel changes in the Direct Tax Office had had its effect sooner, progress might have begun earlier and if IRS PASA technicians were able to exercise more influence on present Tax Office

personnel (see Section 079 b2), productive changes might take place more rapidly than at present. Nevertheless, changes have taken place, are taking place presently, and should continue to do so in the future.

d. The Continued Relevance, Importance, and Significance of the Project to Country Development and/or the Furtherance of U.S. Objectives

One of the most pressing problems facing the GOES at the present time is a shortage of funds for public investment projects. Given the need for a higher level of these funds, the Government is faced with three alternatives: (1) increase revenues; (2) decrease current expenditures; or (3) increase foreign borrowing. In order to increase its foreign borrowing, the GOES usually is required to provide counterpart, and in many cases a prerequisite for foreign loans is some sort of fiscal action designed to increase Central Government savings and hence available public investment funds. Decreasing current expenditures is both politically and administratively difficult; increasing tax rates is also difficult at the present time. In December, 1967, the GOES increased the Property (Vialidad) Tax rates, and in November, 1968 it joined with the other countries of the Central American Common Market in raising import duties. Increasing taxes is always a political risk in Latin America, and with the GOES riding on the crest of two increases within the period of a year, further rate changes become even more politically difficult.

This leaves improved tax administration what may be considered the path of least resistance, and at the same time the possible key to the continued economic growth of El Salvador in the short-run. Additionally, improved administration creates a more efficient base upon which future tax increases may operate and therefore be potentially more effective.

AID 1020-25 A (7-68)

SECURITY CLASSIFICATION

UNCLASSIFIED

PROJECT NUMBER

519-11-740-032.1

009

## PART I-B — PROJECT EFFECTIVENESS

### I-B-1 — OUTPUT REPORT AND FORECAST — (See detailed instructions)

| 1. CODE NO. AID/W USE ONLY | 2. This section is designed to record progress toward the achievement of each project output target which was scheduled in the PIP, Part II. Where progress toward a target is significantly greater or less than scheduled, describe reason(s) beneath the target. | ACTUAL AND PLANNED OUTPUTS (ALL DATA CUMULATIVE) | | | | |
|---|---|---|---|---|---|---|
| | | 3. ACTUAL CUM. TO DATE | 4. AS OF PRIOR JUNE 30 | | 5. PLANNED BY NEXT JUNE 30 | 6. PROJECTED TOTAL FOR PROJECT LIFE |
| | | | a. PLANNED | b. ACTUAL | | |
| | Collett and Clapp | | | | | |

1) Collett and Clapp to have assisted the GOES in (a) drafting a real estate appraisal manual for the Directorate of Direct Taxes and (b) installing and implementing a new real estate appraisal system which was to include job training of appraisers. Assistance to have been completed during 1964. Results of this work to raise revenues from real estate taxes from their 1964 level of [illegible] million per annum to [illegible] million by 1967.

Collett and Clapp completed the appraisal manual, trained real estate appraisers and helped the GOES begin appraisals. However, the project was poorly planned and organized, the training was not adequate, and the appraisal manual was too sophisticated.

Property tax revenue from [illegible] only increased by about $120,000. [illegible] project was temporarily cut back [illegible] pending a complete review of the [illegible] accomplishment.

The [illegible] team was not [illegible] [illegible] Collett and Clapp [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

This [illegible] has not been provided on the form. Identify each

[illegible] detailed in Section 3a

[illegible] investigators, and real property [illegible] of approximately 100 individuals [illegible] To have been completed

[illegible] investigators, and real property [illegible] audit control, and advanced [illegible] completed during FY 1966 and

[illegible] training and establishment of [illegible] bureaus. All technical [illegible] of cost accounting by [illegible] by the end of FY 67.

[illegible] and 1966 a total of [illegible] supervisors, [illegible] These courses were [illegible] and the United

[illegible] well and was effec- [illegible] the more advanced [illegible] absorb the more sophisti-

[illegible] ined are still on the [illegible] were trained under [illegible] been outstanding. [illegible] on the auditors time [illegible] essing time has been [illegible] creased, and the [illegible] hours on direct

[illegible] the Chief of the [illegible] Ministry of Finance, [illegible] Direct Tax Office [illegible] program in the United States. [illegible] encouraged with the

[illegible] has been established, and [illegible] supervisors themselves developed

and taught a nine-hour refresher training course and technical review for all auditors. The tax team considered the course highly satisfactory.

3) a. Gradual reform of the organizational structure and administrative operations of the Direct and Indirect Tax Offices.

b. Establish an effective tax audit operation in the Direct Tax Bureau, through the adoption by the GOES of basic policy, organization, and operating changes.

Following the national elections in 1967, the Director General of Direct Taxes approved the tax team's plan for reorganization of the audit division of the Direct Tax Office. However, progress following the reorganization was slow, as could be expected with a new organization, new supervisors, new procedures, new reporting systems, etc. Also, the Chief of the Audit Division openly resisted the reorganization and the Director General did not give it his full support.

As stated in the narrative, recent personnel changes have helped to correct this situation, and the reorganization is now having positive effects in raising the productivity of the Audit Division. From January, 1968 when records began to be kept until December, 1968, the amount of revenues recommended per audit man-hour gradually increased from ¢75. to ¢222.

4) Prepare operations manuals for the reorganized Direct Tax Bureau (see 3 above), review the results of the reorganization, and train auditors and supervisors.

Operations manuals have been provided for (1) the Delinquent Return Program, (2) Control Procedures, and (3) Classification and Selection of Returns.

Manuals will be prepared for group supervisors, audit techniques, and report writing when time permits. At present this project does not have top priority.

The following two goals were taken from the September, 1967 PROP. They were based on incomplete and inaccurate information. The PROP is presently being revised.

5) Audit 8,367 tax returns in 1967, compared to 4,284 in 1966.

The number of returns examined in 1967 was about 375 less than was examined in 1966. This decrease was expected because at the time of the reorganization about 10% of the best and most

productive auditors were selected as supervisors or placed in other administrative positions. The setback was temporary, however, as evidenced by the fact that examinations in 1968 were up almost 1,000 returns over the prior year.

6) Beginning with the fourth quarter 1967, add new taxpayers to the rolls at the rate of 200 per month.

Had the Delinquent Return Program been allowed to operate as was originally intended it is possible that the 200 return per month objective might have been reached.

The program was started in June, 1967. As designed, it provided that all initial contacts for delinquent returns would be made by correspondence. A follow-up by personal contact would be made only if the taxpayers failed to reply or submit the delinquent returns due.

The Director General has not allowed the field force to participate in the follow-up portion of the program because of other higher priority work. To date, all delinquent returns have been secured through correspondence procedures. During the last seven months of 1967, 426 new taxpayers were added to the rolls. During 1968, 454 new taxpayers were located. The exact number of returns received is not known; however, at least two, and possibly more, are received from each new taxpayer.

Under a new amnesty law, it is expected that hundreds of new taxpayers will be added to the rolls. Under this law, a taxpayer who has never filed a return has until March, 1969 in which he may present a 1967 return and thereby fulfill all prior year obligations. The potential results and problems of this program are discussed in Section 2 of the narrative.

AID 1020-25 B (7-68)

| SECURITY CLASSIFICATION | PROJECT NUMBER |
|---|---|
| UNCLASSIFIED | 519-11-740-032.1 |

PART I-B – Continued

010 B.2 – OVERALL ACHIEVEMENT OF PROJECT TARGETS

Place an "X" within the bracket on the following seven-point scale that represents your judgment of the overall progress towards project targets:

| Unsatisfactory | | | Satisfactory | | | Outstanding |
|---|---|---|---|---|---|---|
| | | | X | | | |

PART I-C – PROJECT SIGNIFICANCE

011 C.1 – RELATION TO SECTOR AND PROGRAM GOALS (See detailed instructions M.O. 1026.1)

This section is designed to indicate the potential and actual impact of the project on relevant sector and program goals. List the goals in col. b and rate potential and actual project impact in cols. c and d.

| a. CODE NO. (AID/W USE ONLY) | SCALE FOR COLUMN c: 3= Very Important; 2= Important; 1= Secondary Importance<br>SCALE FOR COLUMN d: 3= Superior/Outstanding; 2= Adequate/Satisfactory/Good; 1= Unsatisfactory/Marginal<br>b. SECTOR AND PROGRAM GOALS (LIST ONLY THOSE ON WHICH THE PROJECT HAS A SIGNIFICANT EFFECT) | c. POTENTIAL IMPACT ON EACH GOAL IF PROJECT ACHIEVES TARGETS | d. ACTUAL IMPACT ON GOAL TO DATE RELATIVE TO PROGRESS EXPECTED AT THIS STAGE |
|---|---|---|---|
| | (1) Improve direct tax administration of the GOES so as to contribute to an increase in total direct tax collection of approximately 15% a year from 1964-1969. | 3 | 1 |
| | (2) | | |
| | (3) | | |
| | (4) | | |

For goals where column c. is rated 3 or 2 and column d. is rated 1, explain in the space for narrative. The narrative should also indicate the extent to which the potential impacts rated 3 or 2 in column c. are dependent on factors external to the achievement of the project targets, i.e., is there a substantial risk of the anticipated impact being forestalled by factors not involved in the achievement of project targets. If possible and relevant, it also would be useful to mention in the narrative your reading of any current indicators that long-term purposes, beyond scheduled project targets, are likely or unlikely to be achieved. Each explanatory note must be identified by the number of the entry (col. b) to which it pertains.

012 NARRATIVE FOR PART I-C.1 (Continue on form AID 1020-25 I):

During the years 1964 thru 1966 direct tax revenues did not increase. Training and other activities during this period were important in laying the ground work for future accomplishments, however they did not have an important impact on tax revenue. During 1967 the total direct tax revenue on a receipt-plus-accrual basis increased by over 14 per cent. During 1968 this increase, adjusted for increased tax rates, was 12 per cent. For further details see Section 3 (b) of the narrative.

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PART I-C – Continued

C.2 – GENERAL QUESTIONS

These questions concern developments since the prior PAR. For each question place "Y" for Yes, "N" for No, or "NA" for Not Applicable in the right hand column. For each question where "Y" is entered, explain briefly in the space below the table.

| | MARK IN THIS COL. |
|---|---|
| 013 Have there been any significant, unusual or unanticipated results not covered so far in this PAR? | N |
| 014 Have means, conditions or activities other than project measures had a substantial effect on project output or accomplishments? | Y |
| 015 Have any problems arisen as the result of advice or action or major contributions to the project by another donor? | NA |
| 016 If the answer to 014 or 015 is yes, or for any other reason, is the project now less necessary, unnecessary or subject to modification or earlier termination? | N |
| 017 Have any important lessons, positive or negative, emerged which might have broad applicability? | Y |
| 018 Has this project revealed any requirement for research or new technical aids on which AID/W should take the initiative? | N |
| 019 Do any aspects of the project lend themselves to publicity in newspapers, magazines, television or films in the United States? | N |
| 020 Has there been a lack of effective cooperating country media coverage? (State sure AID/W has copies of existing coverage.) | N |

021 NARRATIVE FOR PART I-C.2 Identify each explanatory note by the number of the entry to which it pertains. (Continue on form AID 1020-25 I as necessary):

014 Property tax rates were increased as of January 1, 1968. Additional direct tax revenue in 1968 as a result of this increase is estimated at about $4 million.

017 The need for complete cooperation by the host-country. See narrative, Section 3a (3).

AID 1020-25 D (7-69)

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PART II – IMPLEMENTATION REPORT

II-A – STATUS OF SCHEDULE

Q2 A-1 – INDIVIDUAL ACTIONS (See detailed Instructions M.O. 1026.1). This is a listing of major actions or steps which were scheduled for physical start or continuing implementation in the reporting period as reflected in the Project Implementation Plan, Part I.

| (a) PIP ITEM NO. | MAJOR ACTIONS OR STEPS: CAUSES AND RESULTS OF DELAYS: REMEDIAL STEPS | (b) STATUS – PLACE AN "X" IN ONE COLUMN (1) BEHIND SCHEDULE | (2) ON SCHEDULE | (3) AHEAD OF SCHEDULE |
|---|---|---|---|---|
| | No PIP prepared for this project prior to 1968.<br><br>No implementing action sequence. | | | |

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PART II – Continued

023 II-A.2 – OVERALL TIMELINESS

In general, project implementation is (place an "X" in one block):

| | | |
|---|---|---|
| BLOCK (c): If marked, place an "X" in any of the blocks one thru eight that apply. This is limited to key aspects of implementation, e.g., timely delivery of commodities, return of participants to assume their project responsibilities, cooperating country funding, arrival of technicians. | (a) On schedule | |
| | (b) Ahead of schedule | |
| | (c) Behind schedule | X |
| | (1) AID/W Program Approval | |
| | (2) Implementing Agency (Contractor/Participating Agency/Voluntary Agency) | |
| | (3) Technicians | |
| | (4) Participants | |
| | (5) Commodities (non-FFF) | |
| | (6) Cooperating Country Cooperation prior to 9-67 | X |
| | (7) Commodities (FFF) | |
| | (8) Other (specify): | |

II-B – RESOURCE INPUTS

This section appraises the effectiveness of U.S. resource inputs. There follow illustrative lists of factors, grouped under Implementing Agency, Participant Training and Commodities, that might influence the effectiveness of each of these types of project resources. In the blocks after only those factors which significantly affect project accomplishments, write the letter P if effect is positive or satisfactory, or the letter N if effect is negative or less than satisfactory.

1. FACTORS-IMPLEMENTING AGENCY (Contract/Participating Agency/Voluntary Agency)

| | | | |
|---|---|---|---|
| 024 IF NO IMPLEMENTING AGENCY IN THIS PROJECT, PLACE AN "X" IN THIS BLOCK: | | 032 Quality, comprehensiveness and candor of required reports | P |
| | | 033 Promptness of required reports | P |
| 025 Adequacy of technical knowledge | P | 034 Adherence to work schedule | P |
| 026 Understanding of project purposes | P | 035 Working relations with Americans | P |
| 027 Project planning and management | P | 036 Working relations with cooperating country nationals | P |
| 028 Ability to adapt technical knowledge to local situation | P | 037 Adaptation to local working and living environment | P |
| 029 Effective use of participant training element | P | 038 Home office backstopping and substantive interest | P |
| 030 Ability to train and utilize local staff | P | 039 Timely recruiting of qualified technicians | |
| 031 Adherence to AID administrative and other requirements | | 040 Other (describe): | |

2. FACTORS-PARTICIPANT TRAINING

| | | | |
|---|---|---|---|
| 041 IF NO PARTICIPANT ELEMENT IN PROJECT, PLACE AN "X" IN THIS BLOCK: | | TRAINING UTILIZATION AND FOLLOW UP | |
| PREDEPARTURE | | 052 Appropriateness of original selection | |
| 042 English language ability | N | 053 Relevance of training for present project purposes | P |
| 043 Availability of host country training | P | 054 Appropriateness of post-training placement | P |
| 044 Host country operational considerations (e.g., selection procedures) | P | 055 Utility of training regardless of changes in project | P |
| 045 Technical/professional qualifications | P | 056 Ability to get reasonable ideas accepted by supervisors | |
| 046 Quality of technical orientation | | 057 Adequacy of performance | |
| 047 Quality of general orientation | | 058 Continuance on project | P |
| 048 Participants' collaboration in planning content of program | N | 059 Availability of necessary facilities and equipment | |
| 049 Collaboration by participants' supervisors in planning training | | 060 Mission or contractor follow-up activity | |
| 050 Participants' availability for training | | 061 Other (describe): | |
| 051 Other (describe): | | | |

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PART II-B – Continued

3. FACTORS-COMMODITIES

| PLACE AN "X" IN APPROPRIATE BLOCK: | 092 FPP | | 093 NON-FPP | | 094 NO COMMODITY ELEMENT | X | 072 Control measures against damage and deterioration in shipment. | |
|---|---|---|---|---|---|---|---|---|
| 065 Timeliness of AID/W program approval (i.e., PIO/C, Transfer Authorization). | | | | | | | 073 Control measures against deterioration in storage. | |
| 066 Quality of commodities, adherence to specifications, marking. | | | | | | | 074 Readiness and availability of facilities. | |
| 067 Timeliness in procurement or reconditioning. | | | | | | | 075 Appropriateness of use of commodities. | |
| 068 Timeliness of shipment to port of entry. | | | | | | | 076 Maintenance and spares support. | |
| 069 Adequacy of port and inland storage facilities. | | | | | | | 077 Adequacy of property records, accounting and controls. | |
| 070 Timeliness of shipment from port to site. | | | | | | | 078 Other (Describe): | |
| 071 Control measures against loss and theft. | | | | | | | | |

Indicate in a concise narrative statement (under the heading a. Overall Implementation Performance, below) your summary appraisal of the status of project implementation, covering both significant achievements and problem areas. This should include any comments about the adequacy of provision of direct hire technicians as well as an overall appraisal of the contents provided under the three headings (b, c & d) which follow. For projects which include a dollar input for generation of local currency to meet local cost requirements, indicate the status of that input (see Detailed Instructions).

Discuss separately (under separate headings b, c & d) the status of Implementing Agency Actions, Participants and Commodities. Where above listed factors are causing significant problems (coded 11), describe briefly in the appropriate narrative section: (1) the cause and source of the problem, (2) the consequences of not correcting it, and (3) what corrective action has been taken, called for, or planned by the Mission. Identify each factor discussed by its number.

079 NARRATIVE FOR PART II-B: (After narrative section a. Overall Implementation Performance, below, follow, on form AID 1020-25 as needed, with the following narrative section headings: b. Implementing Agency, c. Participants, d. Commodities. List all narrative section headings in order. For any headings which are not applicable, mark them as such and follow immediately below with the next narrative section heading.)

a. Overall Implementation Performance.

As indicated in the narrative, the bottleneck in the implementation of this project was created mainly by reluctance on the part of Salvadoran officials to make suggested and required changes in the Audit Division of the Direct Tax Office. The most significant achievement was the recent reorganization of this division into a unit capable of efficient operation, followed by personnel changes in key positions which allow the reorganization to operate effectively.

The technical knowledge of the IRS PASA team in designing the reorganization was invaluable, and it is safe to say that without IRS assistance the reorganization probably would not have taken place at all, and certainly would not have been as potentially effective.

In-country training was effective in laying the base for the reorganization; participant training, while limited somewhat nevertheless has been given to the right persons who have remained with the Direct Tax Office, and are located in positions where they may use effectively what they have learned.

b. Implementing Agencies.

1) The Collett and Clapp contract team was in many ways a

failure. As discussed in the narrative, their training program was ineffective and the manual of operations which they produced was too complicated. At the same time, GOES cooperation was not sufficient either prior to the project (in selecting capable individuals for training) or during it (in providing the follow-up necessary for a successful completion of the cadastral survey). This again points out the need for assuring the commitment of the host country before beginning a project, a difficult thing to do when both political and economic futures are unknown and often almost impossible to predict.

2) The IRS PASA team has performed well, although they have not familiarized themselves with Salvadoran tax accounting techniques as well as they might have. The in-country training program which they conducted was headed by a capable individual who at the same time was fluent in the Spanish language. Training was completed and the supervisors of the Audit Division recently organized and conducted a successful training program with no IRS assistance. The reorganization plan appears to be technically competent and well suited to both the local situation and the abilities of the host country nationals involved.

The main weakness of the IRS team seems to be its lack of ability to exert a great deal of influence on key persons in the Direct Tax Office. This is attributable in part to communications problems in the Spanish language and in part to the pride of the nationals involved, who do not wish to seem to be "taking orders from the Gringos". Even the new heads of the Direct Tax Office and the Audit Division who are responsible for effectively implementing the reorganization do not make full use of the IRS services available to them, and often fail to consult with the technicians on potentially important decisions.

c. Participants.

Some of the returned participants have disclosed in conversations with USAID training officials that before their departure for training they had little understanding of the content of their training programs or what was expected of them. The fact that the majority of the returned participants have asked the USAID for grants to study English at the Bi-National Center indicates that their English language capability was probably not adequate at the time of their training.

d. Commodities.

N.A.

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## PART III - ROLE OF THE COOPERATING COUNTRY

The following list of illustrative items are to be considered by the evaluator. In the block after only those items which significantly affect project effectiveness, write the letter P if the effect of the item is positive or satisfactory, or the letter N if the effect of the item is negative or less than satisfactory.

| | |
|---|---|
| **SPECIFIC OPERATIONAL FACTORS:** | |
| 080 Coordination and cooperation within and between ministries. | |
| 081 Coordination and cooperation of LDC gov't. with public and private institutions and private enterprise. | |
| 082 Availability of reliable data for project planning, control and evaluation. | N |
| 083 Competence and/or continuity in executive leadership of project. | P* |
| 084 Host country project funding. | |
| 085 Legislative changes relevant to project purposes. | P |
| 086 Existence and adequacy of a project-related LDC organization. | |
| 087 Resolution of procedural and bureaucratic problems. | N |
| 088 Availability of LDC physical resource inputs and/or supporting services and facilities. | P |
| 089 Maintenance of facilities and equipment. | |
| 090 Resolution of tribal, class or caste problems. | |
| 091 Receptivity to change and innovation. | N |
| 092 Political conditions specific to project. | |
| 093 Capacity to transform ideas into actions, i.e., ability to implement project plans. | P |
| 094 Intent and/or capacity to sustain and expand the impact of the project after U.S. inputs are terminated. | |
| 095 Extent of LDC efforts to widen the dissemination of project benefits and services. | |
| 096 Utilization of trained manpower (e.g., participants, counterpart technicians) in project operations. | P |
| 097 Enforcement of relevant procedures (e.g., newly established tax collection and audit system). | P |
| 098 Other: | |
| **HOST COUNTRY COUNTERPART TECHNICIAN FACTORS:** | |
| 099 Level of technical education and/or technical experience. | |
| 100 Planning and management skills. | |
| 101 Amount of technician man years available. | |
| 102 Continuity of staff. | P |
| 103 Willingness to work in rural areas. | |
| 104 Pay and allowances. | |
| 105 Other: | |

In the space below for narrative provide a succinct discussion and overall appraisal of the quality of country performance related to this project, particularly over the past year. Consider important trends and prospects. See Detailed Instructions for an illustrative list of considerations to be covered.

For only those items marked N include brief statements covering the nature of the problem, its impact on the achievement of project targets (i.e., its importance) and the nature and cost of corrective action taken or planned. Identify each explanatory note.

106 NARRATIVE FOR PART III (Continue on form AID 1020-25 1):

Item marked "P*" would have been negative if the project had been evaluated prior to the reorganization and personnel changes discussed in the narrative.

082 Data only available for 1968; prior to that time the Direct Tax Office had no information relating to auditor productivity, amount of time spent on each case, or even such things as the location of cases in the process of audit.

087 Although the reorganization discussed in the history section of the narrative has helped to alleviate some of these problems, many still remain. Records are poor and the Electronic Data Processing facilities are not used effectively. In many instances, two auditors work together on a single case in spite of the fact that it has been demonstrated that efficiency and productivity are improved when there is only one auditor per case.

This sheet is to be used for any Narrative Sections for which sufficient space has not been provided on the form. Identify each narrative by its Part and Section Designation.

091 Although the reorganization was finally achieved in late 1967 and potentially effective leadership took over in 1968, the new personnel are still not as receptive to adopting suggestions for changes as they might be. See also Section 079 b (2).

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**UNCLASSIFIED**

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## PART IV – PROGRAMMING IMPLICATIONS

### IV-A – EFFECT ON PURPOSE AND DESIGN

Indicate in a brief narrative whether the Mission experience to date with this project and/or changing country circumstances call for some adjustment in project purposes or design, and why, and the approximate cost implications. Cover any of the following considerations or others that may be relevant. (See Detailed Instructions for additional illustrative considerations.) Relevant experience or country situations that were described earlier can simply be referenced. The spelling out of specific changes should be left to the appropriate programming documents, but a brief indication of the type of change contemplated should be given here to clarify the need for change. For example, changes might be indicated if they would:

1. better achieve program/project purposes;
2. address more critical or higher priority purposes within a goal plan;
3. produce desired results at less cost;
4. give more assurance of lasting institutional development upon U.S. withdrawal.

107 NARRATIVE FOR PART IV-A (Continue on form AID 1020-25 I):

U.S. technical assistance in tax administration is scheduled to be continued through FY 68 and FY 69 and, barring any unforeseen complications, will be phased out in FY 1970.

### IV-B – PROPOSED ACTION

108 This project should be (Place an "X" in appropriate block(s)):

| | |
|---|---|
| 1. Continued as presently scheduled in PIP. | |
| 2. Continued with minor changes in the PIP, made at mission level (not requiring submission of an amended PIP to AID/W). | X |
| 3. Continued with significant changes in the PIP (but not sufficient to require a revised PROP). A formally revised PIP will follow. | |
| 4. Extended beyond its present schedule to (Date): Mo. ____ Day ____ Yr. ____. Explain in narrative. PROP will follow. | |
| 5. Substantively revised. PROP will follow. | |
| 6. Evaluated in depth to determine its effectiveness, future scope, and duration. | |
| 7. Discontinued earlier than presently scheduled. Date recommended for termination: Mo. ____ Day ____ Yr. ____ | |
| 8. Other. Explain in narrative. | |

109 NARRATIVE FOR PART IV-B: