

PD-AAB-152-A1

5250048 - (4)

AID 1020-25 (7-68)		SECURITY CLASSIFICATION	001 PROJECT NUMBER
PROJECT APPRAISAL REPORT (PAR) (U-446) See M.O. 1026.1		Unclassified	525-11-720-048

002 PAR	MO.	DAY	YR.	003 U.S. OBLIGATION SPAN	004 PROJECT TITLE
AS OF:	2	2	1968	FY 68 Thru FY 72	Government Administration and Fiscal Reform (Tax Administration Improvement)
008 COOPERATING COUNTRY - REGION - AID/W OFFICE					
Panama					

006 FUNDING TABLE

AID DOLLAR FINANCING-OBLIGATIONS (\$000)	TOTAL	CONTRACT (NON-ADD)	PERSONNEL SERVICES			PARTICIPANTS		COMMODITIES		OTHER COSTS	
			AID	PASA	CONTRACT	DIR. PASA	CONTRACT	DIR. PASA	CONTRACT	DIR. PASA	CONTRACT
CUMULATIVE NET THRU ACTUAL YEAR (FY 19 68)				408				0	0		
PROPOSED OPERATIONAL YEAR (FY 19 69)				124				0	0		

CCC VALUE OF P.L. 480 COMMODITIES (\$000) → Thru Actual Year : 0 Operational Year Program : 0

007 IMPLEMENTING AGENCY TABLE

If contractors or participating agencies are employed, enter the name and contract or PASA number of each in appropriate spaces below; in the case of voluntary agencies, enter name and registration number from M.O. 1551.1, Attachment A. Enter the appropriate descriptive code in columns b and c, using the coding guide provided below.

TYPE CODE b	TYPE CODE c	a. IMPLEMENTING AGENCY	TYPE CODE		d. CONTRACT/ PASA/ VOLAG NO.	e. LEAVE BLANK FOR AID/W USE
			b.	c.		
1. U.S. CONTRACTOR 2. LOCAL CONTRACTOR 3. THIRD COUNTRY CONTRACTOR 4. PARTICIPATING AGENCY 5. VOLUNTARY AGENCY 6. OTHER:	0. PARTICIPATING AGENCY 1. UNIVERSITY 2. NON-PROFIT INSTITUTION 3. ARCHITECTURAL & ENGINEERING 4. CONSTRUCTION 5. OTHER COMMERCIAL 6. INDIVIDUAL 7. OTHER:	1. 2. Treasury Internal Revenue 3.	4	0	LA(TA) 58-00 Aug. 3	

PART I - PROJECT IMPACT

I-A. GENERAL NARRATIVE STATEMENT ON PROJECT EFFECTIVENESS, SIGNIFICANCE & EFFICIENCY.

This summary narrative should begin with a brief (one or two paragraph) statement of the principal events in the history of the project since the last PAR. Following this should come a concise narrative statement which evaluates the overall efficiency, effectiveness and significance of the project from the standpoint of:

- (1) overall performance and effectiveness of project implementation in achieving stated project targets;
- (2) the contribution to achievement of sector and goal plans;
- (3) anticipated results compared to costs, i.e., efficiency in resource utilization;
- (4) the continued relevance, importance and significance of the project to country development and/or the furtherance of U.S. objectives.

Include in the above outline, as necessary and appropriate, significant remedial actions undertaken or planned. The narrative can best be done after the rest of PART I is completed. It should integrate the partial analyses in I-B and I-C into an overall balanced appraisal of the project's impact. The narrative can refer to other sections of the PAR which are pertinent. If the evaluation in the previous PAR has not significantly changed, or if the project is too new to have achieved significant results, this Part should so state.

008 NARRATIVE FOR PART I-A (Continue on form AID 1020-25 I as necessary):

MISSION DIRECTOR APPROVAL →	SIGNATURE <i>[Signature]</i>	DATE March 5, 1969
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UNCLASSIFIED
SECURITY CLASSIFICATION

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Unclassified	525-11-720-048 (Tax)

PAR CONTINUATION SHEET

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2. Revenue Administration

During 1962, Panama was selected for the first fiscal survey undertaken by the Joint Tax Program of the Organization of American States, the Inter-American Development Bank and the Economic Commission for Latin America. As a result of the OAS/IDB Fiscal Survey, the GOP revised the income tax system in December 1964 as a major step toward an equitable, efficient and productive income tax. At the same time it was recognized that revenues were being lost because of inadequate tax administration processes and untrained personnel. It was not until 1962 that personnel of the Ministry of Finance and Treasury were covered into the civil service and employees secured a degree of stability in their positions. Tax administration practices had evolved at the personal whim of transient administrators, audit programs were skimpy at best and operational manuals notable by their absence.

In recognition of these administrative deficiencies, the GOP requested technical assistance to the Ministry's Directorate General of Revenues (DGI) in tax administration, which was provided through a Participating Agency Service Agreement (PASA) by AID with IRS.

The USAID/IRS program began in August '63 with the assignment of one long-term advisor whose primary efforts were to be devoted to improving performance in the administration of the income tax, Panama's largest revenue source. Preparation of a handbook for auditor personnel, development of a training program for income tax auditors, groundwork for a public information/education program and other projects were well underway at the time of the civil disorders in January 1964 which led to the withdrawal of the technical advisory programs.

Later, upon request from the GOP for the reestablishment of a program, a survey was made of the tax administration assistance areas most in need of development and/or improvement. The survey, carried out during August and September of 1964, identified the income tax (audit), collection and enforcement functions as primary targets for the assistance effort. Accordingly, an IRS-FTAS Tax Team consisting of a tax generalist and two specialists in the collection and enforcement areas was appointed to resume advisory services in October 1964.

Since October 1964, long-term and short-term technicians have been engaged in the programs mentioned above and in a variety of activities in the data processing installation of the revenue department, in the miscellaneous (excise) tax programs, in taxpayer information and education program, in-service training, and other areas described more in detail in this report.

008 Narrative for Part I-A

Overall performance and effectiveness of project implementation in achieving stated project targets has been quite satisfactory. The GOP revenue administration agency, in the last several years, has made significant advances in mechanizing its operations and in adopting modern techniques in the tax auditing/enforcement

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field. As pointed up in the Narratives for Part I-C-1 (Item 012) and Part II-B (Item 079), progress in the administration of the income tax, Panama's largest revenue source, has been especially good in the last four years.

It is not possible, of course, to isolate that portion of the increased revenues directly attributable to improvements in revenue administration but close, indirect comparisons would indicate that in such areas of identification of new taxpayers, increases in individual collections and expanded audited coverage, overall revenues are greater than could normally be attributable solely to increased national growth. It is also quite difficult to ascertain the portion of the increase attributable to the 1964 tax reform.

Assuming no appreciable slow-down in Panama's rate of growth in the next two to three years and assuming no major changes in the tax structure or rates, there are strong possibilities of realizing the sector goal of 10% to 12% increase per year. Thus, project costs are on the decline in terms of cost/benefit ratio. Moreover, as the administration efficiency increases in various areas, full time advisory services can be eliminated or replaced by short-term advisors as the need arises. The transition from full-time to short-term advisors in such areas as data processing and tax collection is expected to begin in FY 1970. The transition in the Audit program would follow in FY 1971, if the current rate of progress is maintained.

(The attachment to AIDTO Circular A171 sets out special instructions for completing Project Appraisal Reports on Treasury PASA activities. More detailed information on Project Impact is set out under item 012, Narrative for Part I-C.2. For more details on Resource Inputs, see item 079, Narrative for Part II-B.)

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PART I-B - PROJECT EFFECTIVENESS

009 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.	3. ACTUAL AND PLANNED OUTPUTS (ALL DATA CUMULATIVE)				6. PROJECTED TOTAL FOR PROJECT LIFE
		3 ACTUAL CUM. TO DATE	4. AS OF PRIOR JUNE 30		5. PLANNED BY NEXT JUNE 30	
			a. PLANNED	b. ACTUAL		
	1. Automatic Data Processing equipment installed and "master file" of Income Tax, Business License Tax and Property Tax taxpayers developed. System revision in process will provide for "transactions" file in addition to master file.	Complete	100%	100%		100%
	2. Conversion to third generation ADP system.	0	0	0	25%	100%
	3. Establishment of Office Audit function in Income Tax Dept.	Complete	25%	25%	75%	100%
	4. Establishment of a Review Section in Income Tax Dept.	Complete	100%	100%		100%
	5. Relocation of Income Tax Dept. to enlarged quarters.	Complete	100%	100%		100%
	6. Adoption of new filing system for income tax returns	Complete	100%	100%		100%
	7. Reorganization of DGI according to functional responsibilities	10%	0	0	80%	100%
	8. Establishment of improved tax collection operations. Reorganization indicated in #7 should facilitate completion of this project.	20%	0	0	80%	100%
	9. Establishment of higher standards for recruiting and training.	10%	5%	5%	45%	100%
	10. Establishment of effective tax fraud investigation program.	10%	0%	0	15%	100%
	11. Establishment of Internal Audit/Internal Security programs. Unanticipated by-product of reorganization.	10%	0	0	15%	100%
	12. Number of Participants trained in U.S. and/or third countries.	32%	32%	32%	8%	61%

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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:



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)	b. SCALE FOR COLUMN c: 3= Very Important; 2= Important; 1= Secondary Importance SCALE FOR COLUMN d: 3= Superior/Outstanding; 2= Adequate/Satisfactory/Good; 1= Unsatisfactory/Marginal 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) Sector Goal - Public Administration To improve the abilities of the GOP to plan, finance and implement its socio-economic development programs.	2	3
	(2) Project Goal - Tax Administration Improvement To assist the GOP Revenue Agency to increase collections by 10% to 12% per year through an improved tax administration system with upgraded audit, collection, tax intelligence, training, management and related operations.	3	3
	(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 longer-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):

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PART CONTINUATION SHEET

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012 Narrative for Part I-C.2

The comments below are equally applicable to the two Sector and Program goals in 011, above, unless otherwise stated. The presentation follows the suggested outline in the attachment to AIDTO Circular A-171, October 25, 1968.

(1) Attitude of host country officials

Host country officials have been very responsive to the advice of tax team members in virtually all areas of team activity - data processing, audit program design and techniques, collection techniques, public information and taxpayer education programs, organization and methods techniques, supervisory and management practices, etc.

For more comments on this subject, see the following portions of this report:

Item 079a. (Narrative for Part II-B)
Item 106 (Narrative for Part III)

(2) Revenue Increases:

The revenue statistics appearing in the table below reflect an achievement in quantity and direction quite impressive for a developing nation. In quantity, the total ordinary government revenue has increased by 63.1 per cent from 1963 to 1967, well ahead of the increase in gross national product (in current prices) of approximately 38.9 per cent. (Based on 1967 estimated GNP of B/.754.3 million). During this period of five years, total ordinary government revenue as a percentage of gross national product increased from 12.9 to an estimated 14.9 per cent.

The shift in emphasis among the revenue sources is also very important. Following the desired trend, there has been emphasis on direct taxes.

Summary of Total Revenue and Tax Revenue Receipts
(In thousands of Balboas)

Year	Total Revenue		Per Cent Increase		Tax Revenue		Per Cent Increase			
	Amount	%	Amount	%	Amount	%	Amount	%		
1963	69,078				52,200		--			
1964	75,628			9.5%	57,158		9.5%			
1965	86,542			14.4%	66,364		16.1%			
1966	100,345			16.0%	77,794		17.2%			
1967	112,714			12.3%	87,094		11.9%			
	1963		1964		1965		1966		1967	
<u>Revenue Source</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Direct Tax	19,637	28.4	22,575	29.8	26,732	30.9	34,526	34.4	39,178	34.4
Indirect Tax	32,563	47.2	34,583	45.7	39,632	45.8	43,268	43.1	47,916	42.1
Total Tax Revenue	52,200	75.6	57,158	75.6	66,364	76.7	77,794	77.5	87,094	77.3
Non-Tax Revenue	16,878	24.4	18,469	24.4	20,178	23.3	22,551	22.5	25,620	22.7
Total Gov't Revenue	69,078	100.0	75,627	100.0	86,542	100.0	100,345	100.0	112,714	100.0

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Data for 1968 place total revenue at B/. 119.4 million, or approximately 6.9 per cent ahead of 1967. The drop in the rate of increase is attributable in large measure to the political tensions, etc., discussed elsewhere in this report.

Relating technical assistance efforts to increases in revenue might be done from two viewpoints. The first being the general tax reform of 1964 which became effective January 1, 1965. That reform was based in large measure on the findings and recommendations of the OAS-IDB fiscal survey team headed by Professor Milton C. Taylor. While the survey covered broad fiscal policy and the gamut of direct and indirect taxation, the GOP elected to concentrate on recommendations dealing with amendments to the income tax. That the decision was a proper one is attested by the substantial growth in income tax revenue over the span of five years. Receipts in 1967 totaled B/. 34.5 million, more than twice the 1963 level of B/. 15.5 million.

The other element concerns the direct technical assistance rendered by the FTAS/IRS Tax Team. Recognizing the income tax as the source of greatest potential, the first advisory effort was aimed at developing an audit (enforcement) program to detect and correct the widespread under-reporting of income in filed tax returns. Concurrently, advances were made in implementing taxpayer assistance and education programs to better acquaint taxpayers with the requirements for reporting taxable income. For more details on this element, see the following parts of this report:

Item 022 P1p Item No. 1 Part II-A, Status of Schedule
 Item 079 Narrative for Part II-B (sub-part a)
 Item 106 Narrative for Part III (see Item 103)

(3) Collection efficiency:

(a) The annual unit cost of collection remained fairly constant over the 1965-1968 period (data are not available for 1964). Note the following table:

Year	Cost of DGI Operations (millions)	Revenue Collections (millions)	Number of DGI Employees	Cost of Collecting B/. 100.00
1965	1.903	69.7	752	B/. 2.73
1966	2.043	82.2	776	2.48
1967	2.626	92.4	917	2.84
1968 (Est)	2.823	104.1	931	2.71

(b) Advisory activity in the collection area has been concentrated on the Panama City headquarters operations since that activity collects the major portion of central government tax revenue. Having a large public reception and cashier staff, the Collection Division in Panama City lends itself to volume processing techniques. By contrast, the collection function in other provinces is carried out by individual "special collectors" in medium and small communities. These "special collectors" are political appointees, who often do not possess the formal education, have had no training for tax collection duties and who work alone. Presently, there are 77 "special collectors" in this category. Their compensation is derived from the commissions retained on taxes collected.

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The tax advisors have repeatedly counseled against continuing the "special collector" operations, urging that regular career civil servants be placed in the provincial headquarters office and be given responsibility for collecting all current and delinquent taxes in the provincial area. Subject to control and discipline of the provincial director, regular employees could be given training programs in effective collection techniques and could be utilized in a variety of tasks not performed by the "special collector" ranks. For example, regular employee "Collection Officers" could assist taxpayers in preparing returns, participate in canvasses for delinquent taxpayers, complete various pre-processing operations on tax returns and other documents flowing to the Data Processing Department, etc. At present, none of these functions are being done in the provincial offices in the Interior except by temporary assignment of headquarters office Audit Division personnel. It is doubtful if a training program would ever be undertaken to equip "special collectors" for these tasks because of the high cost element involved.

An important breakthrough was made in the reorganization plan approved December 1968. The plan authorized the Director General of Revenue to eliminate the "special collector" positions in the three largest provinces. While only four positions are involved, it paves the way for later action to eliminate the remaining positions. Another feature of the plan which will facilitate that action is the provision for allowing taxpayers to pay their taxes at any National or commercial bank. This will be developed in due time and it should do much to eliminate the problems attending the inefficient "special collector" system under which the department now operates.

An example of a successfully implemented improvement project in the collection area is the recently adopted machine-generated tax delinquency notice. Under the prior manual system one employee could prepare and mail from 15 to 25 delinquency notices per day. Using a newly designed continuous-feed form, the ADP Department initiates the notices and delivers them to the Collection Department for processing and mailing. With the new system, one employee is now able to issue several hundred notices each day. Upon completion of the test operation in Panama Province, the new system will be installed nationwide.

(c) As the table in paragraph (a), above, shows, revenues are increasing at a faster rate than total staffing of the revenue agency. Staffing in the collection activity has remained fairly constant over the last three to four years. Large increases took place in the Income Tax Department in 1966-67 when 60 new auditor personnel were hired. In the same period, the staffing of the Fiscal Vigilance Department grew substantially. Most of the personnel in the latter department have been utilized in customs-type activities rather than on tax fraud enforcement programs, the real purpose for which the Fiscal Vigilance Department was created. The reorganization plan discussed earlier strengthens the auditing and enforcement functions and will clearly delineate the customs-fiscal vigilance functions.

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As a final note on the unit cost of collection and staffing of the revenue department, it is appropriate to point out that the planned economy drives of the present GOP administration call for a reduction of approximately B/.200,000 in the 1969 operating budget for the revenue department. Most of the decrease will come from reductions in staffing. Approximately 60 positions will be lapsed. The majority of these positions were filled by political appointees whose departure will not decrease the effectiveness of the organization.

(4) Equitable Application of Revenue Laws:

The table below shows the types of tax revenue realized over the last five years.

Direct and Indirect Tax Revenue
(in thousands of Bahous)

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Direct Taxes					
Income Tax	18,523.4	22,215.8	29,666.1	34,163.2	37,318.0
Property Tax	3,906.2	4,262.1	4,362.7	4,750.4	5,226.1
Death & Gift Taxes	145.8	284.8	496.8	264.0	234.1
Total	<u>22,575.4</u>	<u>26,762.7</u>	<u>34,525.7</u>	<u>39,177.6</u>	<u>42,778.2</u>
Indirect Taxes					
Import Duties	19,834.0	22,479.0	29,398.5	27,418.7	27,286.6
Export Taxes	225.4	354.4	408.4	400.9	502.7
Re-Export. Tax	.2	5.8	31.0	91.6	36.9
Production of Goods	11,684.3	13,508.6	14,381.0	15,374.3	16,426.2
Stamps, Legal Paper	2,129.5	2,737.7	3,207.2	3,686.9	3,785.0
Consumption and Services Tax	710.2	545.1	842.7	943.9	988.8
Total	<u>34,583.6</u>	<u>39,631.5</u>	<u>43,268.8</u>	<u>47,916.3</u>	<u>49,625.2</u>

(a) As the table above shows, the largest increases have taken place in the income tax and in the import duties. The property tax, death (estate) and gift tax, the miscellaneous indirect taxes on production of goods, services, etc., have remained fairly constant or have grown only slightly.

Quite definitely, administrative efforts have been devoted in the main to the income tax. This is the only class of tax in which regular, planned audit (enforcement) programs have been developed and implemented. In 1963, the auditing force of 29 personnel examined 444 income tax returns and recommended additional income tax assessments totalling B/. 312,800. In 1967, the 64 auditors of the Income Tax Department examined 5,391 income tax returns and recommended more than B/.3 million additional assessments. No programs have been attempted

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for other types of taxes although there is a need for such a program. Thus, taxpayers of other than the income taxes have not been subject to the same scrutiny.

The property tax has also been sorely neglected. Note the relatively constant level of receipts over a five year period. The GOP recognizes the need for more attention to the property tax but it has been slow in acting. The first real effort was made in 1953 when the Comisión Catastral was established to revalue, or more accurately, to appraise for the first time, all of the real property in the Republic. Until the Comisión began its operations, there had never been any true assessments of property in Panama, the tax being based solely upon the declarations of the land owner. Moreover, there were no property records on file in a central location. In recent years, an AID-supported Agrarian Reform project undertook, among other tasks, the identification and valuation of rural properties in the major provinces of the Republic.

At the present time, a substantial portion of the rural project field work has been completed and the initial steps leading to the integration of the new data into the Revenue Department property tax 'master file' are slated to be taken early in January 1969. The processing and conversion of the rural cadastre data to property tax accounts in the 'master file' may well require more than one year due to the volume which is estimated at 130,000 properties. Concurrently with the promulgation of the new property valuations, plans are being made to establish in the Ministry of Finance a permanent organization for maintaining property records in current conditions. Known as the Dirección de Catastro Fiscal, that organization is responsible for supplying tax assessment data to the Director General of Revenue.

Thus, with the above measures, it is anticipated that greater revenue will be derived from the long-neglected property tax area and a more equitable, fair administration of the property tax laws will be possible.

Insofar as the other taxes are concerned, greater attention to enforcement should come as a result of the recently approved reorganization plan for the Revenue Department. Under the new plan, an auditing activity is charged with auditing all types of tax returns. The approach that will be followed is the "package-audit" plan, i.e., the auditor calling upon the taxpayer will inquire into all taxes for which the taxpayer may be liable - income tax, withholding tax, excise tax, business license tax, etc. Once operational, this approach will do much to focus attention on the fact that taxes other than income tax are being under-reported and should be subjected to enforcement programs. In due time, this should facilitate development of a balanced audit program, one that extends appropriate audit coverage to all classes of taxpayers and to all types of law. At that time, the GOP revenue administration will approach a more equitable application of the revenue laws with respect to both similarly and dissimilarly situated taxpayers.

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(b) A system for the current payment of income taxes has been operative for more than twenty-four years in Panama. Withholding on wages and salaries was introduced in 1934, and the procedure is administered in such a way as to retain the full amount of the tax. Under an administrative order, a taxpayer subject to withholding who does not receive more than one salary or another type of income is not required to file an income tax return.

Taxpayers not subject to the withholding procedures have been required, since 1953, to file a final tax return on March 15 for the preceding calendar year, and to pay any balance due on the preceding year's income tax liability by June 30. Also, on or before March 15 the taxpayer must estimate his current year's income and pay the tax that will be due thereon in three equal installments on or before June 30, September 30 and December 31 of the current year.

(c) While adequate penal sanctions exist for employee malfeasance or dishonesty in the execution of an official function, very few adverse actions have been initiated against revenue department employees for violations. Moreover, until December 1968 when the revenue department reorganization plan was approved, there was no specific agency within the revenue department or the ministry charged with preserving integrity in revenue administration.

Effective January 1, 1969, an Internal Security Unit and an Internal Audit Unit are authorized within the Revenue Department. Reporting directly to the Director General of Revenue, these units will be on guard for indications of bribery, corruption, conspiracy, etc., and will examine into the operations of all components to measure compliance with established policies and procedures. As both of these activities represent new functions, it is doubtful if effective programs will be operative in less than six to nine months, the amount of time needed for designing work programs and training personnel.

(d) Panama has undertaken some canvassing for delinquent returns but the effort has been minimal. This activity has been a target for advisory efforts since the early days of the project, however, progress has been extremely slow. In the summer of 1968, the most recent major effort in this direction was made when plans for an area canvass of one of the most rapidly developing residential sections of Panama City were mapped out. The canvass was designed to uncover essential tax information on profits from sale of land, construction of apartment units, rental receipts, etc. The project was not implemented, however, due to the change in administrations and accompanying changes in leadership, policies, goals, etc.

The need for attention to this important activity has been stressed in position papers presented to key members of recent GOP administrations. The tax team will continue pressing for action.

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(5) Public Support:

(a) Revenue administration improvement efforts are usually given newspaper coverage. On occasion, local television stations participate by making announcements, conducting interviews or covering an event in newscasts with film taken on the scene. Important events or developments are often made the subject of press conferences by the Director General of Revenue or the Minister of Finance. Some of the items receiving good publicity in recent periods include: new, simplified procedures for returns required from ranchers and cattlemen; relocation of Income Tax Department to modern, spacious quarters in a convenient downtown location; the creation of permanent duty stations for Income Tax Department auditors in provincial offices (though short-lived, this move was aimed at improving the audit (enforcement) programs in the interior); reorganization of the Revenue Department.

It is rather difficult to measure public response in general to the publicity given administrative improvement programs. As a rule the taxpayer remains quiet until he becomes personally involved or affected by a particular program or revenue department project.

Internally, the Revenue Department does have a good-in-house publication which covers accomplishments, new developments and detailed statements of functions, and responsibilities of the various components. Published monthly, the information bulletin is widely distributed.

(b) Newspaper, radio and television coverage of important tax returns or tax payment due dates keeps the public informed of its obligations. In substantially all cases, the releases represent paid advertisements. Panamanian newspapers, radio and television stations rarely offer free space or time for tax information subjects. Numerous efforts of Revenue Department Directors to enlist free support from the media "as a public service" have proved unsuccessful. As a result, the operating budget of the Revenue Department includes an advertising account. Like other operating accounts, it barely covers - or fails to cover adequately - the minimum needs.

There is no doubt that these information releases promote better compliance. The frequent reminders of penalties or interest on late payments do encourage the would-be delinquents to make timely submissions of returns and payments.

A relatively new but high-potential public information/education program is the Tax Lecture Series given in Panama City high schools and colleges. The 1967 program covered more than nine thousand students. Aimed at promoting a better understanding of the Panama system of taxation and the benefits inuring from tax monies collected, the lectures should promote a healthy attitude among those young people toward their civic responsibilities as a taxpayer in later life.

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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?	Y
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?	N
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? (Make sure AID/W has copies of existing coverage.)	N
021 <u>NARRATIVE FOR PART I.C.2</u> Identify each explanatory note by the number of the entry to which it pertains. (Continue on form AID 1020-25 I as necessary):	

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021 NARRATIVE FOR PART 1-C.2014 Effect of outside factors

Looking to outside factors which have been operating to increase revenues one must consider the general economic growth as the most important contributing factor. Panamanian economy in the eight year period 1960-1967 has grown at the rather extraordinary rate of 8.4% per annum, an accomplishment probably unmatched among developing nations. This growth has been achieved under relative price level stability with the cost of living rising at approximately one per cent per year. Note the following table of rates of growth of the gross internal product by sectors:

<u>Sectors</u>	<u>Annual Rate of Growth 1960-1967</u>
Agriculture, livestock, forestry, fishery	6.3%
Mining and quarrying	8.9
Manufacturing Industry	12.0
Construction	3.4
Electricity, gas and water	11.1
Transportation, warehousing and communications	13.3
Wholesale and retail commerce	8.9
Banking, insurance, real property, and other financing establishments	13.8
Home Property	4.9
Public Administration	7.9
Public and Private Services	5.1
Services provided to the Canal Zone	10.3
Total	<u>8.4%</u>

Data above are measured in 1960 constant prices. (Source: Statistics and Census Division, Contraloría General de la República).

For comments on other factors, including the 1964 tax reform, see Item 012, Narrative for Part 1-C-1, of this report.

015 Other donors or advisors

The Fiscal Survey of Panama conducted by Professor Milton C. Taylor in 1964 under auspices of the OAD-IDB has already been discussed under paragraph (2), Item 012, Narrative for Part 1-C-1.

In addition to the above, Professor Taylor returned to Panama in September 1968 under a USAID personal service contract to evaluate the GOP actions on the 1964 Survey recommendations and to ascertain

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desirable changes in general fiscal policy to enhance continued growth and development. Professor Taylor's report on this last survey has been delivered to the GOP for analysis and consideration. At this writing, no announcements have been made by the GOP concerning the policy recommendations.

018 Requirements for new technical aid

No new technical aid requirements are envisioned in the near future. Proper emphasis has been placed and will continue to be placed on the income tax by the technical advisors. In addition, as the rural property data compiled by the Agrarian Reform become available to the revenue department, property tax rolls will be expanded and any technical assistance necessary to implement that program will be provided by incumbent advisors or others available in the regular course of the PASA contract.

020 Country media coverage

There has been very little coverage of this project activity in country news media. There have been no known mistakes of unfavorable publicity directed to the United States because of the project activities.

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PART II - IMPLEMENTATION REPORT

II-A - STATUS OF SCHEDULE

U22 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
1	<p><u>Reorganize Income Tax Department; prepare and implement procedures manuals.</u></p> <p>Basic structure established with field and office audit groups examining difficult and less complex cases, respectively. Returns classification and selection for examination function operating satisfactorily.</p> <p>Quality and technical accuracy control established in a newly created "review" unit.</p> <p>GOP Revenue Department was reorganized effective January 1, 1969, in a decree signed December 11, 1968. Income Tax Department is abolished and a new division entitled "Auditoria y Reclamos" created. The new division will be charged with auditing all types of tax returns. Tax return processing and filing functions are transferred to other activities.</p> <p>Portion of earlier work on procedures manuals obsoleted by reorganization plan. A fresh start on manual writing projects will be undertaken when new authorities, responsibilities and functions have been promulgated for the Audit and Claims Division.</p>		X	
2	<p><u>Revise and install new collection techniques, expanding office collection (call-in) technique and eliminating commission collectors in provinces.</u></p> <p>New delinquent accounts procedures implemented and undergoing tests in Panama City. Results to date are satisfactory.</p> <p>Reorganization plan abolishes Collection Department, establishes provincial office for Panama Province, transfers collection functions to provincial offices under supervision of a middle manager located in the headquarters office. The new structure opens the way for central control which was non-existent under prior structure.</p> <p>Some commission collectors are abolished in the approved reorganization decree. Others will be retained until studies have been made to determine tax collection personnel needs in remote territories. The possibilities of merging certain posts and eliminating others will be considered.</p>		X	
3	<p><u>Reorganize Property Tax and Misc. Tax Departments, develop procedures manuals and investigations program</u></p> <p><u>Property Tax Department and Miscellaneous Tax Department abolished in the reorganization plan. Functions</u></p>			

(See Explanation, Item (a))

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PART II - IMPLEMENTATION REPORT

II-A - STATUS OF SCHEDULE

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PIP ITEM NO.	MAJOR ACTIONS OR STEPS, CAUSES AND RESULTS OF DELAYS OR REMEDIAL STEPS	(b) STATUS - PLACE AN "X" IN, ONE COLUMN		
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	<p>pertaining to receipt and processing of returns transferred to provincial offices and to newly created Fiscal Programming Division. Investigations function transferred to Audit and Claims Division.</p> <p>Earlier work on procedures and work-flow now obsolete. New project will be undertaken to design new procedures for receipt and processing of returns and for developing a program of simultaneously examining income and miscellaneous tax returns of the same taxpayer. Known as the "package audit" concept, this procedure promotes more effective utilization of technical personnel work time and reduces the number of official contacts with the taxpayers.</p>			
4	<p><u>Establish higher standards of recruitment and improved technical and supervisors training program.</u></p> <p>New and more sophisticated techniques were employed early in 1968 to recruit candidates for the newly authorized Data Processing Department Programmer positions. The results were quite successful. Experiences gained in that venture will have application in later recruiting programs. It is unlikely that any new revenue department employees will be hired in the near future, however, due to concentrated efforts of the administration to reduce government operating costs primarily through reduction in the number of employees on the rolls.</p> <p>The reorganization of the revenue department results in a considerable shifting and merging of functions and the creation of new functions. The auditing of miscellaneous tax returns, for example, is assigned to the Audit and Claims Division. Under prior organizational structures, there was no provision for auditing the miscellaneous taxes. Thus, there is a need for the new assignment. These programs will be developed as the reorganization plan progresses.</p>		X	
5	<p><u>Reorganize DGI according to type of activity, rather than by type of tax. This includes reorganization of provincial offices.</u></p> <p>The basic reorganization plan had been ready for quite some time, the original groundwork having been completed in mid-1965. It was contemplated that an updated version of the plan would be submitted to the National Assembly for approval in October 1968 or</p>			X

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PART II - IMPLEMENTATION REPORT

II-A - STATUS OF SCHEDULE

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		(1) BEHIND SCHEDULE	(2) ON SCHEDULE	(3) AHEAD OF SCHEDULE
	<p>shortly thereafter. Political events of October, however, forced postponement of all actions. In early December 1968, sudden and unexpected interest in reviving and implementing the plan was displayed by the ruling Junta. In rapid succession, the plan was reviewed, updated, approved by the Minister of Finance, and presented to both the Junta and the civilian cabinet. In less than three days after revival of work on the project, the plan was enacted into law. The implementation schedule remains unchanged, with December 1969 as the target date for physical completion.</p>			
6	<p><u>Establish appellate system for rapid, judicious handling of disputed tax cases.</u></p> <p>Originally scheduled to begin in July 1969, action on this project was initiated in December 1968 upon the approval of the reorganization plan for the revenue department. Under that plan an appellate group was established at the level immediately below the Director General of Revenue and charged with responsibility for conducting the final administrative review of a tax dispute within the revenue department. The first level of appeal was concurrently established at the Regional Administrator (provincial director) level.</p> <p>Preparation of procedures for the new appellate system will begin immediately and should be substantially completed by February 1969. The original target date of July 1970 envisions completion of the second phase of the new appellate system, a judicial forum in the nature of a "tax court" to which the taxpayer may appeal upon exhaustion of his administrative review rights.</p>			X
7	<p><u>Develop improved liquor tax permissive and enforcement programs.</u></p> <p>The approved reorganization plan will expedite work on these programs inasmuch as the authorities and responsibilities for each function are more clearly defined. Permissive functions will be performed under direct supervision of regional administrators with "staff" guidance from the Fiscal Programming Division of the national office. Enforcement programs aimed at fraud and violations of liquor statutes will be planned and executed by the invest-</p>			X

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PART II - IMPLEMENTATION REPORT

II-A - STATUS OF SCHEDULE

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(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
	gations Division of the newly structured Fiscal Vigilance organization of the revenue department. Technical training programs must be developed and implemented, procedural manuals must be written for both programs. The needed technical advisory service for these phases of the project will be supplied through temporary duty assignments of alcohol tax specialists under the IRS PASA agreement.			
8	<u>Develop internal audit/internal security function to detect employee malfeasance and preserve integrity in tax administration.</u> Two separate units, "Internal Security" and "Internal Control" were established, effective January 1, 1969, in the approved reorganization plan. The prepara- tory work for these programs was originally scheduled to begin in July 1969, however, it must now begin immediately in order to carry out the reorgani- zation plan. Some delay may be experienced in locating suitable personnel for these new functions. Since no other government agency outside of the national police has this type of function, recruiting from within govern- ment ranks will be difficult. Moreover, new and special training programs must be designed and executed before effective operations can exist. It is likely that some technical assistance will be necessary through the temporary assignment of specialists under the IRS PASA agreement.			X
9	<u>Redesign ADP systems for Income Tax, Patente and Property Tax and prepare for movement to third genera- tion computer.</u> The basic concept for maintaining data in all three areas (Income, Patentes, Property) is being changed to provide for separate files for constant data, such as names, addresses, category codes, etc. with accountabi- lity transactions (tax charges and payments) being maintained separately. In addition, the revision will provide an initial opportunity to establish accountabi- lity controls, and will make it possible to operate the system on a monthly cycle basis. The implementation of the initial system will therefore facilitate the implementation of the later systems, so that the first will be by far the most difficult. Use of a turn- around preprinted receipts will be implemented for the		X	

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PART II - IMPLEMENTATION REPORT

II-A - STATUS OF SCHEDULE

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		(1) BEHIND SCHEDULE	(2) ON SCHEDULE	(3) AHEAD OF SCHEDULE
10	<p>first payments of 1969, which should result in increased accuracy and reduced costs of data preparation. Consideration of third generation equipment is contingent on the situation after completion of current systems improvements.</p> <p><u>Incorporate liquor, customs and miscellaneous taxes into ADP system.</u> Initial studies have been made in the area of customs which indicate the most economical method of establishing ADP systems in the free zone activities would be through the use of a cooperative ADP installation which would share equipment and provide timely data for inventory control to the clients and customs control to the aduana. Efforts to establish such a cooperative are underway but inconclusive. One analyst has been assigned and will continue to study the potential ADP applications in other areas of customs. Other miscellaneous taxes generally represent small volumes, so the potential advantages of automation are in improved service and better management information, not reduced processing costs. The initial effort in these areas will be an attempt to integrate them into the systems for processing income tax or property tax.</p>		X	
11	<p><u>Develop and implement tax fraud intelligence programs for all classes of tax.</u> The preparatory work was scheduled to begin January 1970, however, the reorganization plan discussed earlier clearly established tax fraud investigations functions in the Fiscal Vigilance component of the revenue department, effective January 1, 1969. Since personnel for that function will be identified early in January 1969, planning and organizing work programs must commence immediately. Operating manuals and procedures must be written and training programs must be designed. The importance of the fraud investigations program in promoting greater voluntary compliance cannot be overemphasized. Consideration will be given to the assignment of a full time technical advisor under the IRS PASA agreement.</p>			X

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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	X
(b) Ahead of schedule	
(c) Behind schedule	
(1) AID/W Program Approval	
(2) Implementing Agency (Contractor/Participating Agency/Voluntary Agency)	
(3) Technicians	
(4) Participants	
(5) Commodities (non-FFF)	
(6) Cooperating Country	
(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	P
031 Adherence to AID administrative and other requirements	P	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	
		052 Appropriateness of original selection	P
PREDEPARTURE			
042 English language ability	P	053 Relevance of training for present project purposes	P
043 Availability of host country funding	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 meritorious ideas accepted by supervisors	P
046 Quality of technical orientation	P	057 Adequacy of performance	P
047 Quality of general orientation	P	058 Continuance on project	P
048 Participants' collaboration in planning content of program	N	059 Availability of necessary facilities and equipment	P
049 Collaboration by participants' supervisors in planning training	N	060 Mission or contractor follow-up activity	P
050 Participants' availability for training	P	061 Other (describe):	
051 Other (describe):			

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PART II-B - Continued

3. FACTORS-COMMODITIES

PLACE AN "X" IN APPROPRIATE BLOCK:	062 FFF	063 NON-FFF	064 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 comments 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 (marked N), 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 I 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.

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079 NARRATIVE FOR PART 11-B

a. Overall Implementation Performance.

In general, project implementation performance has been quite satisfactory and plans are proceeding on schedule. The basic concepts for operating efficient auditing, collecting, data processing, taxpayer assistance, public information and related tax administration programs have been communicated and are generally understood by key managers. What remains is the implementation. Progress is dependent, of course, upon available human resources and their capabilities to assimilate the expanding technical complexities of modern tax administration.

Mechanization of the processing, accounting and tax billing operations is advancing satisfactorily in the data processing activity, with the taxpayer "master file" concept installed and working. Problems have arisen as a result of faulty data introduced into the system upon original installation and as a result of inadequate advance planning prior to conversion to automation. The resolution of these problems requires time, patience and technical competence. Adequate programmer/analyst personnel are on board and working ... as their training and experiences progress their abilities to cope with the problem situations improves. On balance, the Panama data processing operations are in relatively good position and the prospects for responding to management's future needs are excellent.

Modern tax return auditing concepts have been accepted and installed. Returns are screened (classified) for errors and assigned to either an office interview or a field investigation unit, depending upon complexity of the tax return and technical issue involved. Until adoption of the reorganization plan, auditing was limited to income tax returns. Under the new structure, effective January 1, 1969, the "Audit and Claims Division" assumed responsibility for examining all types of tax returns. In conjunction with the auditing function, an appeals system has been installed for granting administrative reviews of contested tax cases. Further progress in establishing an effective, fair appellate system was made in the December 1968 reorganization which established the "Junta de Apelaciones" as the second and final administrative review level within the revenue department.

Efficiency in the collection program should be increased substantially as a result of the reorganization of the revenue department. That plan provided for the long needed centralized control over collection activities. Previously, collection activities in the interior provinces were under control of a supervisor of provincial offices while collections in Panama province were under the Director of the Collection Department. More effective use has been made of data processing in collection programs and the potential for further applications is very good.

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The enforcement program has lagged, never achieving expectations of the 1964 plans which created the Fiscal Vigilance function. Its preoccupation with customs facilities and customs-type activities lead to considerable confusion and conflicts between Fiscal Vigilance and Customs Departments. As a result, a tax fraud investigations function never materialized. The December 1968 reorganization plan clarified the roles of the respective departments and paved the way for development of an effective tax fraud investigations arm.

Efforts to increase the revenue from taxation of rural lands have not materialized because essential data required by the Director General of Revenue have not been supplied by the GOP agency having responsibility for that function. Cadaster projects started more than a decade ago have yielded little if any useful data upon which property tax assessments could be made. Political considerations as well as project mismanagement hindered progress. The problems may be approaching resolution, however, if the GOP approves the pending plans for establishing a new agency within the Ministry of Finance to install and maintain land records which shall serve as the basis for assessing taxes as well as for other purposes.

b. Implementing Agency.

Comments below follow the outline contained in the attachment to AIDTO Circular A-171.

- 025 U.S. Internal Revenue Service personnel serving on long-term and on temporary duty assignment have, in the main, come from management or executive levels in the district, regional and national offices. The majority have served there in the tax agency for more than twenty years. Technical knowledge in their fields of specialization - auditing, collecting, enforcement, data processing - has been more than adequate to deal effectively with the basic and intermediate levels of development found in their counterpart activities.
- 028 Vast differences exist between the sophisticated modus operandi of the U.S. tax administration and that of the host country. What may be a minor technique or accepted, routine practice in the one agency could represent a highly advanced, complex approach that could serve no practical purpose in the other. The ability to adapt modern practices to sometimes primitive or badly oriented functions, therefore, calls for considerable imagination and ingenuity. Fortunately, most of the technicians working in the project have come from supervisory and management positions and have dealt with a variety of problem situations at grass root levels of the tax administration agency. Moreover, they are experienced in coaching and developing understudies and subordinates. Overall, tax team members have been used effectively to achieve objectives.
- 035 (i) Mission orientation for new arrivals on post consists of prescribed visits with various department heads for briefings on mission procedures

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and practices and a private consultation with the Mission Director who reviews broad mission program objectives and the role of the tax administration improvement project in the country assistance program.

- (ii) In addition to the contacts in (i), above, the Senior Tax Advisor is in regular, frequent contact with the Chief, Public Administration Division, and with the Deputy Director of the Mission. The Senior Advisor also attends the Mission Director's weekly staff meetings and special meetings of senior staff members called from time to time. The Mission Director and the Senior Tax Advisor have appeared together at various briefing sessions conducted by the Director General of Revenue, the Minister of Finance and other GOP officials.

Excellent communications and working relations exist between the tax team and mission officials.

- 036 Language proficiency of the majority of the team members has been at the S-2 level or better. Some members have reported with virtually no language proficiency, the urgent need for their services having curtailed language training programs or eliminated them entirely. The interpreter services provided under the project agreement were generally able to bridge the communications gap, however, the effectiveness of the advisor was certainly not at the level it could have been had the advisor been proficient in the Spanish language. While English is commonly spoken in Panama, there is a definite need for technical advisors to have a reasonably good working ability with the Spanish language. There is no question of the importance of that qualification, it is essential.

- 038 (i) The regular training programs conducted by the Internal Revenue Service and the Foreign Service Institute, State Department, are aimed primarily at language study and brief exposures to the cultural, sociological or physiological and geological factors of the general area of the technician's foreign post. Not a great deal of time is devoted to the techniques of rendering technical assistance. This is a shortcoming which, depending upon the background and experience of the technician, could be serious. A rather simple, but practical training program patterned around the material contained in the United Nations Technical Assistance pamphlet entitled "Briefing of International Consultants" could well prepare the technician-expert for his first venture in the field of technical assistance to a developing nation. That publication is distributed by the Training Director, USAID, Washington.

(ii) The first visit by a Treasury official was in May 1963, when Mr. John Carey reported for duty to
and

- (iii) A. Instruct the auditors in methods and procedures for detecting tax avoidance in business income tax returns, and
- B. Assist the Director, Income Tax Department, in establishing a program aimed at achieving and maintaining integrity in the tax officials.

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Civil disturbances in January 1964 terminated that first assistance program. In August 1964, a two-man team from the Foreign Tax Assistance Staff, U.S. Internal Revenue Service, performed a survey for the purpose of identifying deficiencies in existing systems, developing guidelines for improving tax administration and identifying needs for technical assistance. That survey formed the basis for the program which is operating today. The technical assistance needs are still identified with the auditing, collecting, enforcement and data processing functions.

In July 1966 a joint AID-IRS Review and Evaluation Team comprised of Dr. Luis Descartes, former Secretary of Finance of Puerto Rico, Mr. Charles Montrie, AID/W Latin American Bureau, Dr. Lowell Harriss, Professor of Economics, Columbia University, Mr. Ernest Vaughn, former commissioner of U.S. Internal Revenue Central Region, and Mr. Hendrick Macholan, of Foreign Tax Assistance Staff, IRS, Washington, reviewed the Panama Tax Administration Improvement Program and confirmed program objectives and assistance needs.

These visits have been useful from the standpoints of confirming project objectives and gaining continued host country support.

- (iv) Various staff members of the Foreign Tax Assistance Staff, IRS, and the Director of that unit, Mr. Harold Moss, visit Panama at irregular intervals annually to review program progress, discuss problems and explore avenues for providing better backstopping.
- (v) Backstopping has in all respects been quite adequate. The FTAS has responded on very short notice to requests for TDY advisors to assist in resolving critical problems in data processing operations and, more recently in December 1968, to an urgent plea for a specialist to assist in reviewing and updating the long delayed reorganization plan for the revenue department.

c. Participants

Through December 1968, thirty-one employees of the Revenue Department participated in USAID/IRS training programs. Most of the training was in the IRS INTAX Training Program Series - Audit Management, Collection Management, General Tax Administration, Audit Supervision, Collection Supervision and Training Management. In addition, the first group of ADP Department systems analysts attended the IRS designed and taught SATPRO I course in 1966. For the most part, trainees came from the supervisory and middle management ranks and returned to their positions upon completion of their courses.

The reorganization of the revenue Department effective January 1, 1969, will result in the merging and consolidation of several functions and in the elimination of some supervisory/manager positions. Since the

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auditing function is being expanded, it is unlikely that any of the audit trainees will be adversely affected or shifted out of the key positions they occupied in the predecessor Income Tax Department. While the Collection Division is also being abolished the collection function is being assumed by the newly established Panama City Regional office. Thus, the trainees from that area will continue to work in their fields of specialization.

The quality of training administered under the INTAX program has been excellent, covering modern techniques and practices at various levels of tax administration from small zone or area offices, up through district (state wide), regional (multi-state areas) and national offices. The program also includes visits to and orientation sessions in the data processing operations of IRS Area Service Centers. Because participants from several different countries may be attending the same course at the same time it is not possible for the programs to be designed to fit the particular, specific needs of each individual trainee. That is to say, program material may cover systems and procedures considerably more advanced and sophisticated than those of the participant's native land. It is not the intent of these programs to teach the trainee how to adopt the advanced U.S. systems to his own operations but rather to acquaint him with basic principles of modern tax administration which can be adapted to local operations and which can serve as the building blocks for more rapid advancement as the capabilities of the tax agency improve and as the politico-sociological environments permit.

For the reasons mentioned, some returned participants have voiced dissatisfaction over coverage of what they viewed as "unrelated material" or subjects at a higher level of complexity than their positions at home encompassed. The solution, they usually state, would lie in trainee and supervisor participation in the planning of the course content. Except in those cases where all trainees in a particular class were from the same country and from the same functional area, we feel that it would be neither practical nor desirable to attempt trainee/supervisor participation in course development.

Factors 048 and 049 of Part I-B-2 show a rating N only for the purpose of pointing up participant/supervisor expressions on the subject. It is not intended to reflect a program weakness needing correction.

The following points relate to the specific questions on page 4 of the attachment to AID10 Circular A-171:

- (i) Yes, in-country training programs might be organized to replace some of the programs now administered in the United States. This would considerably minimize the funding problems which now limit

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the number of persons available for training. One advantage of the out-of-country training that would be sacrificed in the in-country programs is the opportunity for the trainee to mix with participants from other nations and broaden his knowledge of tax systems other than his own. Also, when a trainee is away from his own duty station there are fewer opportunities for the training to be interrupted by pressures at home or on the job; the trainee can devote his full, undistracted time to his classroom and after hours study.

- (ii) Regional programs, Central America for example, might well be substituted for some programs now given in the United States. This would reduce travel costs per trainee and could result in larger enrollment. Also, it would provide opportunities for the inter-change of ideas among participants of several nations, a feature that would be lost in the in-country program.
- (iii) Mobile training teams could be used to ease the serious shortage of qualified instructors now existing in most developing nations. Teams could operate effectively in both the in-country and regional programs. For in-country programs, ideally the team could participate in surveys of training needs and in the development of material tailored to suit the specific needs of a section, division or department of the revenue administration agency.

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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.	P
081 Coordination and cooperation of LDC gov't. with public and private institutions and private enterprise.	P
082 Availability of reliable data for project planning, control and evaluation.	P
083 Competence and/or continuity in executive leadership of project.	N
084 Host country project funding.	P
085 Legislative changes relevant to project purposes.	P
086 Existence and adequacy of a project-related LDC organization.	P
087 Resolution of procedural and bureaucratic problems.	P
088 Availability of LDC physical resource inputs and/or supporting services and facilities.	P
089 Maintenance of facilities and equipment.	N
090 Resolution of tribal, class or caste problems.	-
091 Receptivity to change and innovation.	P
092 Political conditions specific to project.	P
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.	P
095 Extent of LDC efforts to widen the dissemination of project benefits and services.	P
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:	N
HOST COUNTRY COUNTERPART TECHNICIAN FACTORS:	
099 Level of technical education and/or technical experience.	P
100 Planning and management skills	P
101 Amount of technician man years available.	P
102 Continuity of staff.	P
103 Willingness to work in rural areas.	N
104 Pay and allowances.	P
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 I):

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PART III - Role of the Cooperating Country.

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NARRATIVE FOR PART III.

The GOP role in project planning, implementation and follow-up activities throughout the life of the project must be rated very satisfactory. Political tensions and uncertainties attending the national election and changes in GOP administrations in the last several months have slowed progress or diverted attention from some project activities, however, management has been fairly successful in meeting the revenue collection goals established in the national budget. Considering the circumstances under which the revenue department operated in the last year...civil riots and disorders, political campaign platforms discouraging payment of taxes, changes in tax department leadership, low morale due to employee uncertainty over job retention rights or administration change-over, military take-over of eleven day old "new" administration...the feat of exceeding last year's tax collections and almost meeting current year goals is a rather significant indicator of the stability and capacity of the GOP revenue administration arm.

Quite impressive too was the sudden, unexpected interest of the ruling junta in reviving a more than two year old plan for reorganizing the revenue department into a more efficient and effective operation. At the request of the junta, the proponent of the plan, Dr. Menalco Solís, was recalled from his Washington, D. C. post of Executive Secretary of CIAT (an organization of Latin American tax administrators) to assist in updating the plan and presenting it to the junta and the civilian cabinet. The plan was enacted into law on the same day it was presented. This represented a follow-up on efforts of earlier administrations, of course, but it exemplifies the attitude of the present administration toward project objectives.

Several factors above have been rated N. The reasons for these ratings follow:

083 Since August 1964 there have been seven full-time and one acting Director General of Revenue. Note the following summary of tenures:

Dr. Nuñez	August 1964	to	February 1965
Mr. Quirós	March 1965	to	May 1965
Dr. Solís	June 1965	to	October 1967
Dr. Arias	October 1967	to	June 1968
Mr. Ucros	June 1968	to	September 1968
Mr. Velarde	Oct. 10 1968	to	Oct. 12, 1968
Mr. Montenegro (acting)	Oct. 12 1968	to	Oct. 31, 1968
Dr. Castro	November 1, 1968	to present	

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This frequent change in leadership, attended by changes in emphasis and direction, has disrupted program plans, slowed progress and, in some cases, resulted in completely new courses being adopted. While many advances were made with each administration, some previously started programs holding much promise lost momentum or were indefinitely postponed.

- 089 Facilities and equipment have been sorely neglected, particularly in offices away from the headquarters. Tax offices in most locations in the interior are in bad state of repair and maintenance, contributing to a most undesirable image of neglect and inefficiency. Operating budgets of the DGI for the last six years have been wholly inadequate to cover true needs. Recent budgets for this item were as follows:

1968	\$8,000	1966	\$8,900
1967	\$6,700	1965	\$9,000

The total budget of the DGI for the years 1966, 1967 and 1968 exceeded \$2 million for each year.

- 098 Other. In the last four to five years there has not been a single case of tax evasion prosecuted by the GOP. Though adequate penalties exist for under reporting of income, exaggeration of expenses, delinquency in depositing withheld payroll taxes, refusal to provide information, providing of false information, etc., and the mechanism for investigations was created in 1964, no violators have been prosecuted. The Fiscal Vigilance Department was created January 1, 1965, and charged with enforcement of the customs, liquors, miscellaneous and income taxes. Its staff of more than 200 personnel has devoted time and efforts almost exclusively to policing customs operations. The other taxes have been ignored. If voluntary compliance is to be promoted the law violators must be detected and made to answer for their crimes. As in many less developed countries, there is in Panama a passive attitude toward imprisonment for taxes. It is unlikely that tax evaders will be subjected to much more than nominal monetary fines. The reorganization plan of December 11, 1968, specifically charges the Fiscal Vigilance activity with responsibility for investigating tax fraud. It would appear then that the way for renewed attention to this important function has been opened.

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103 Only in the last two years has much interest been shown in extending the audit program to cover taxpayers residing in other than the three main cities - Panama, Colon and David. While it is true that the major portion of revenue is derived from those areas, there are many taxpayers residing in other territories who should be subjected to the same scrutiny, as large city dwellers. Recognizing this need, the DGI attempted in June 1968 to establish permanent auditor positions in all major provinces. Employee discontent with forced relocation and poor supervision lead to the discontinuance of the program in September. One solution is the audit coverage of interior areas by personnel on temporary assignment out of the headquarters. This is contemplated in the reorganization plan adopted December 11, 1968.

Returning now to specific operational and counterpart factors, counterparts in most instances have been career civil servants with many years of experience in their respective areas. As a result, counterparts are well informed on operations and cognizant of serious problem areas needing attention. They are receptive to ideas for improvement and as their experience with the "adopted" solutions proves profitable are less inclined to exhibit the resistance to change normally encountered when the technician attempts to overhaul a system of long standing or suggest a departure from the old way of doing things. While there has been a rather high turnover in the key position of Director General, that counterpart, in each case, has been a cooperative, eager administrator dedicated to the goals of increasing national revenue and improving operational efficiency. Thus, the quality of the actual country effort to contribute to and support the project has been quite satisfactory insofar as counterpart input is concerned.

The quantity of GOP tax department personnel necessary to implement adopted projects has also been adequate. In at least two cases, for example, additional technical personnel were hired and trained for the specific purpose of carrying out tax improvement program projects promoted by the advisors. The first case involved the Income Tax Department. Agreeing to establish definite programs for examining income tax returns, the Director General obtained budget approval to increase the auditing staff by approximately 50% in the year 1966. Except for recent months, the auditing function operated very satisfactorily and was producing additional revenue at an annual rate of approximately \$3.1 million. The other case was the Data Processing Department.

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Authority to hire additional programmers was obtained in 1967. Following an extensive recruiting and screening process, the persons were hired in early 1968 and put through an intensive training program under close guidance (including classroom instruction) by the tax team ADP advisor. With the additional trained personnel the data processing function has been able to resolve many of the program deficiencies and lay appropriate groundwork for the development of new, more sophisticated data processing programs.

One political factor affecting country performance has already been cited, i.e., the circumstances attending the national elections in 1968. While this has had somewhat of a negative effect on the program of recent months it is far outweighed by positive factors in the early period of the project and by the December 11, 1968 action on the long delayed reorganization plan.

The most important action early in the project was the tax reform adopted by the Robles administration in December 1964. That reform introduced dramatic changes in the income tax, dramatic from the standpoint that there was little precedence among Latin American countries for the number and importance of income tax law changes effected at one time. Though that legislation did not resolve all of the problems it did move Panama well along the way toward a fully productive, equitable and rational income tax.

As for country efforts to widen participation in project implementation and benefits, late in 1967 the GOP agreed to finance the salary and other costs of the translator-interpreter position in order to free project funds for partially financing additional full-time ADP Advisor who reported to post in January 1968. Mounting problems in the data processing operations prompted the GOP request for this additional assistance. On another note, later in 1968 the GOP financed the costs of a three-man delegation to the second annual meeting of the CIAT in Buenos Aires. The experience gained by the senior officials attending that tax seminar lend positive support to project proposals for modernizing audit, collection, etc., programs. The declared purpose of the CIAT is the improvement of tax administration in member countries, with emphasis upon self-help... consistent with the basic principal of the Alliance for Progress.

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The prospects of GOP actions to strengthen the country role in project implementation appear quite favorable. The desire for further progress in revenue administration is quite apparent from the attitudes of the ruling junta and its appointees. A young, imaginative and energetic Director General of Revenue was appointed November 1, 1968, and he has been very responsive to the suggestions for strengthening the important programs already in process. The present Minister of Finance, a highly successful businessman in private life, has been quick to recognize serious defects in government management practices and controls. He was a strong supporter of the revenue department reorganization plan.

The current movement to reduce government expenditures may adversely affect the project. Large cuts in salary appropriation are forecast. While financial support for the reorganization plan has been promised, the revenue department will probably face a reduction in force along with all other agencies. As a minimum, it is likely that the request for twenty-six additional auditor positions will be denied.

No decrease in the scope or change in the design of the project are envisioned at this time. Assuming continued project support by the provisional government, the prime targets for technical assistance -- tax collection, enforcement and data processing -- will form adequate bases for the FY 1970 project implementation plan.

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):

Project purposes and design have not varied throughout the life of the project and it is not likely that any changes will be in order in the near future. Project efforts, aimed at increased revenue, have centered around improving the all-important tax collection and enforcement functions. These are the functions which must perform effectively for any tax administration to succeed. Although substantial improvements have been achieved in the GOP tax administration, the potential for further advancements is still quite large in both the tax collection and enforcement areas. Therefore, these areas will continue to be the prime targets. Changing country circumstances would not necessarily call for lessened attention to these areas or for any increased attention to other aspects of administration. Project input, U.S. and GOP, should remain constant through 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).	
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.	X
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:

Since no PROP has been developed for this activity, the reference is to the initial PROP which will be submitted prior to September 1, 1969.

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109 NARRATIVE FOR PART IV-B

As stated in the narrative for Part IV-A, the basic project purposes and design are sound and should be continued unchanged. There will continue to exist for an indefinite period the need for enforcement programs that promote greater voluntary taxpayer compliance, for collection programs that maintain revenue account balances in current condition, for controls and systems, automatic and manual, that render accurate and timely notices of tax payments due and that identify non-filers, for education/information programs that keep the public informed on its tax responsibilities and for other activities and endeavors that promote efficient, effective revenue administration.

It is proposed (Item 6, above) that a depth evaluation be conducted for the ADP program to determine past effectiveness and ascertain the need for shifts, if any, in program emphasis and direction. Since the Tax Administration Improvement project began operations in 1963, eight different advisors have served the data processing program for some fourteen tours of duty ranging from one week short term details to twenty-three month regular tours.

The initial ADP survey was made in November/December 1964. In reality, that survey was an "action" type assistance effort rather than a "review and report" type of assignment. The first assignment produced recommendations for a two stage program designed to obtain optimum ADP results by June 1965. The program was well on its way, with over half of the recommendations put into effect ahead of schedule, until February 1965 when the Implementing Director General of Revenue resigned. Further, between February and July 1965, the equipment supplied did not provide the desired support. As a result, none of the scheduled computer programs were completed.

The advisor who conducted the initial survey returned in June 1965 to reevaluate and revitalize the program, establish new objectives and program completion target dates. Comprehensive recommendations dealing with,

organization of the ADP Department,
staffing,
system analysis,
computer programming,
operations,
hardware, and
support from equipment supplies

were set out in the survey report released in September 1965.

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In May/June 1966, the advisor returned for a third time to review accomplishments in the ADP operations. His mission was expanded to include evaluation of the effectiveness of the "master file" concept, assistance in developing a short range ADP production plan and assistance in resolving problems that developed in the period between assignments. The review disclosed continuing weaknesses in work scheduling and programming as well as faulty or missing quality controls, the latter condition giving rise to error proliferation and growing taxpayer complaints against the administration.

In July 1967 two surveys were conducted, one addressed to the feasibility of converting GDP Revenue operations to a third generation computer system and other focusing on planning, staffing, training and technical assistance needs, particularly in the system analysis and programming functions. This is the most recent ADP program survey by personnel outside the local country team. Reviews are regularly being made, of course, by the full time ADP advisor serving on the Panama IRS Tax Team. Since August 1966, at least one full time ADP advisor has been assigned to the team.

Problems in the ADP operation continue to exist in several areas, especially in the property tax files. Erroneous data on property ownership, valuation and tax debits and credits result in numerous improper billings which, in turn, generate taxpayer complaints and undermine public confidence in the administration. Quality controls and production controls, subjects of early Survey reports, are still below minimum standards in most areas; the basic revenue accounting system lacks controls for file changes and for new tax debits; machine generated management reports are lacking, etc.

In view of the lapse of time since the last "outside" operations survey and in view of the continuation of earlier identified problems, it would appear appropriate to seek a depth evaluation in order to determine the effectiveness of the ADP program effort, its future scope and duration. This evaluation should be conducted under guidance of the Foreign Tax Assistance Staff, Internal Revenue Service, it is suggested that the survey be completed and a report rendered prior to June 30, 1969.

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FROM - AID/Washington

SUBJECT - Review of Government Administration and Fiscal Reform
(Tax Administration Improvement, 525-11-720-048) PAR,

REFERENCE - dated March 5, 1969

PANAMA
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1. AID/W's Evaluation Panel reviewed this PAR on October 12, 1970. The purpose of the review is to provide information to the Mission concerning the evaluative process as reflected by the PAR in an effort to improve its use as a management tool.

2. In general, this PAR was regarded by the Panel as being satisfactory. It is obvious that a great deal of time and effort went into making the report as comprehensive as possible. It should be noted, however, that while the Panel recognized the evaluation covered a six-year period, it felt the report may have been too lengthy for its designed purpose. The PAR is first and foremost a management device for Mission use. As such, it need not cover in great detail what might correctly be assumed as being familiar material to, say, the Mission Director. While appreciating the very great effort expended by the Mission in the subject PAR, the effort involved exceeded what seems necessary to meet AID/W's understanding of how the PAR exercise would be carried out. The Mission is free, of course, to set a more rigorous standard for itself though with caution that it increases the danger of the exercise becoming self-feeding and essential points of information being lost in sheer volume.

IRWIN

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