

PROJECT EVALUATION SUMMARY (PES) - PART I

Report Control
Symbol U-447

1. PROJECT TITLE TAX ADMINISTRATION			2. PROJECT NUMBER 263-0115	3. MISSION/AID/W OFFICE USAID/Cairo
5. KEY PROJECT IMPLEMENTATION DATES			4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) <u>83-9</u>	
A. First PRO-AG or Equivalent FY <u>80</u>	B. Final Obligation Expected FY <u>85</u>	C. Final Input Delivery FY <u>85</u>	<input checked="" type="checkbox"/> REGULAR EVALUATION <input type="checkbox"/> SPECIAL EVALUATION 6. ESTIMATED PROJECT FUNDING A. Total \$ <u>5.3million</u> B. U.S. \$ <u>3.7million</u>	
			7. PERIOD COVERED BY EVALUATION From (month/yr.) <u>September, 1980</u> To (month/yr.) <u>May, 1983</u> Date of Evaluation Review <u>May, 1983</u>	

F ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)	B. NAME OF OFFICER RESPONSIBLE FOR ACTION	C. DATE ACTION TO BE COMPLETED
1. Efforts should be directed at establishment of a priority rather than truly selective system of examination and should be addressed by TDY rather than long-term assistance.	IRS/Tax Dept.	N/A
2. Non-project tax-related training programs should be coordinated with project efforts to the extent possible.	USAID (IT/FI and HRDC/ET)	N/A
3. Additional TDY assistance should be provided for development of an on-job-training program.	IRS/Tax Dept.	N/A
4. Automatic Data Processing: a) Assistance should be provided for the development of a long-term ADP implementation plan and training plan.	IRS	N/A
b) Careful consideration and study of the Tax Department's current data processing capabilities and its future computerization needs and capabilities should be undertaken. (Based on a computer needs study, further decisions on equipment and servicing purchases may need to be made.)	USAID	October, 1983

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS			10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT	
<input type="checkbox"/> Project Paper	<input type="checkbox"/> Implementation Plan e.g., CPI Network	<input type="checkbox"/> Other (Specify)	A. <input checked="" type="checkbox"/> Continue Project Without Change	
<input type="checkbox"/> Financial Plan	<input checked="" type="checkbox"/> PIO/T		B. <input type="checkbox"/> Change Project Design and/or	
<input type="checkbox"/> Logical Framework	<input type="checkbox"/> PIO/C	<input type="checkbox"/> Other (Specify)	<input type="checkbox"/> Change Implementation Plan	
<input type="checkbox"/> Project Agreement	<input type="checkbox"/> PIO/P		C. <input type="checkbox"/> Discontinue Project	

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)		12. Mission/AID/W Office Director Approval	
Steffi Meyer, IT/FI <i>[Signature]</i>		Signature <i>[Signature]</i>	
James Suma, IT/FI <i>[Signature]</i>		Typed Name	
Van Dyne McCutcheon, AD/IT <i>[Signature]</i>		M.P.W. Stone, Director	
Norman Sweet, AD/DPPE <i>[Signature]</i>		Date	
		8-5-83	

MID-TERM EVALUATION
OF THE
TAX ADMINISTRATION PROJECT

PROJECT NO. 263-0115
ARAB REPUBLIC OF EGYPT
JUNE 1983

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FINAL

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EXECUTIVE SUMMARY

The Tax Administration Project (TAP) has as its primary goal the increased mobilization of domestic resources for development. Secondary and supporting objectives are improved tax equity and greater efficiency in the Ministry of Finance, Tax Department operations.

Areas for U.S. assistance were initially identified in a 1975 study of the tax structure. USAID financed assistance took place through ad hoc efforts until the project was formalized in 1980. The project focus remains essentially the same as that outlined in 1975. Four phases of assistance are identified: (a) technical assistance in reorganizing the tax department administration; (b) development of a tax training institute; (c) computerization of tax functions; and (d) streamlining and simplifying of the collections and examinations processes. The improvements are especially aimed at the business income taxes, the second largest category of GOE taxes (after consumption taxes). USAID inputs, in addition to technical assistance, have been commodities and U.S. based training.

Achievements to-date have been the joint result of IRS and Tax Department cooperation. IRS has been a catalyst as well as a source of new techniques. The IRS approach which combines U.S. visits by selected GOE officials, TDY advisors, and continuity generated through long term advisors deserves much credit for helping Tax Department officials accept institutional changes. Outcomes of the IRS assistance have an excellent chance for continuation after TAP because changes have been fundamental and practical rather than academic concepts. Achievements are more evident in process (how work is done) than in the product (increased revenues) because TAP is new.

Four areas of achievement can be identified. First, the tax department has been reorganized along functional lines. While problems exist, the department staff has accepted the responsibilities rather well. Second, the tax training institute has been developed as a separate sector with attractive facilities in Zeitoun. Course materials have been prepared, equipment provided, and several courses successfully completed. Third, the ADP division has been created, staffed, and initial corps of programmers and system analysts trained. Twenty-four data entry machines have been acquired and have been in operation since August 1982. A system for processing business tax withholding forms is in the final phase of testing. Fourth, a streamlined and more accurate collection system has been pilot tested and recently expanded to all Tax Department districts. The new collection system has significantly reduced paper work and transcribing errors. It has partially shifted the burden of collections to the taxpayer and away from the administration.

Time delays have been a consistent problem. Premature project development before the GOE was prepared to move is one reason. Difficulties in getting senior department officials appointed and sites prepared are others. Development has been slow in the examination area because of the failure to resolve the problem of 100 percent examination of all returns. Work is still needed in this area.

The TAP was never properly coordinated with the tax modernization project. As a result neither has achieved optimum results because they were originally assumed to develop in tandem.

Six issues or potential problems that can influence the outcome of TAP are discussed, and, where appropriate, recommendations are made to assist in achieving the fundamental objectives. First is the simultaneous retirement of the Tax Department Chief and the reassignment of the senior IRS Advisor. Second is the recognition that the project is focused to achieve simultaneously three goals (equity, efficiency, and increased revenue) and though not mutually exclusive the goals are not completely compatible with each other.

Third the approach for designing an improved examinations structure is a particularly sticky issue (not whether to examine 100 percent of the returns, but how to design a system for priority examinations). Fourth is the need for better integration of Tax Training Institute processes with on-the-job training. Fifth is the problem of continuing U.S. based training. Sixth, several unresolved issues remain the ADP area. Among them is the need for a long range operational plan, its implementation, and staffing as well as acquiring hardware and its maintenance.

The following are basic recommendations as a result of the evaluation.

Recommendation 1: IRS assistance should be targeted towards developing a priority rather than a truly selective system for examining returns. Unless the GOE Tax Department expresses a strong commitment to move to a priority examination system using IRS assistance, the examinations tasks should be performed by the senior long-term advisor and a series of TDY advisors.

Recommendations 2: . additional (currently unplanned) TDY training advisor should develop an effective OJT program that would support TTI training. This person or the new senior long-term advisor should also examine other options for better integration of the TTI into the Tax Department.

Recommendation 3: The advisor already planned to follow-up on management training should be scheduled after sufficient time has passed to allow a careful examination of how well existing local institutions are able to provide the desired training.

Recommendation 4: The new long term ADP advisor should focus his initial attention on assisting the ADP Division in developing an acceptable long term plan, a systems design, and a plan of implementation.

Recommendation 5: IRS or an institution with comparable skills should conduct the computer needs study as was planned in the PP amendment with a long term view to the best use of Tax Department and USAID resources. The senior IRS long term advisor should have a vital role regardless of the institution performing the study.

Recommendation 6: USAID should give careful consideration to funding expansion of the Tax Department computerization capability which would include providing a computer, new data entry equipment, and sustained assistance in development of the system.

Recommendation 7: The buying agent (Tax Department) should be required to demonstrate it has budgeted for and committed to purchasing a maintenance agreement at the time any hardware is procured.

Recommendation 8: The long term ADP advisor should examine the way the computer staff is being trained and if appropriate assist in developing an on-going program that will help maintain a continuous supply of staff.

Recommendation 9: The amendment to 402/78 approved by the CAOM should be considered as satisfying the reorganization CP once the amendment is signed by the Minister of Finance.

Recommendation 10: Funds for U.S. based training should be added to the TAP or a relationship between participant training programs and TAP should be developed so as to yield the maximum benefits from the U.S. training experience.

I- INTRODUCTION

A. Tax Administration: Goals and Objectives

The Tax Administration project has the goal of "increased mobilization of domestic resources for development." This goal is to be achieved through modernizing the administration of the Government of Egypt's (GOE) personal and business income taxes. The presumption is that this will lead to increased revenues and better tax equity since government sector workers will pay a lower share of taxes under an improved system. Interest in this area remains keen as Minister of Finance Salah Hamed said increasing collections from the existing tax structure was a top priority for FY82/83¹.

Four general areas were chosen for sustained attention in the project. The Tax Department (TD) reorganization authorized by Ministerial Decision 402/1978 was to be implemented and delegations of authority made such that all officials understood their responsibilities and could carry out the assigned tasks. Second, an in-house Tax Training Institute (TTI) was to be established and started. Third, an ADP division was to be developed within the TD. Finally, the collections and examinations fields were identified, though more subtly, as areas where technical assistance should be focused.

B. Overview of the Ministry of Finance Tax Department and its Taxes

The TD is responsible for administering business and personal income taxes, stamp duties, and inheritance taxes. Together these taxes were responsible for raising LE1879.5 million during fiscal year (FY) 1981/82, or 42 percent of the national government's tax revenues. Only LE85.6 million was derived from the personal income tax while LE1,579.1 million came from business taxes.

1. Salah Hamed, "Report to the President on the FY82/83 Budget, June 1982."

The system of income taxes is schedular rather than global, meaning different taxes are imposed by category of income. One tax is assessed on wages, another on income from professional activities, and another on business profits.

The TD is structured as 7 sectors in the the central office, 23 regional offices, and 122 district offices. The district offices are arranged on either a geographical or functional basis. Districts inside Cairo and Alexandria are generally set up functionally based on the type of business whereas others are based on geography. A Contractors and Spinning and Weaving District in Cairo are examples of districts set up to deal with only one type of business.

Avoidance of taxes is widespread. Estimates are that between two-thirds and three-fourths of businesses file no declaration of earnings and little information appears to be available about the taxpaying community. Even for those filing the presumption is that every return is an example of tax evasion. That is, all returns are presumed to be falsified, and this is certainly true in substance. False returns are difficult to demonstrate because 80 percent of the taxpaying community keeps no records.

The majority of tax revenues come from businesses, with public sector companies providing a significant share. The public sector contribution is not certain because of conflicting information but probably varied between 43 and 68 percent during fiscal years since 1978. Public sector revenues are probably a falling proportion because of poor growth performance by some public sector companies and legislation which has exempted parts of public sector activity from taxes. Public sector companies are believed to be responsible for 44 percent of delinquent tax revenues. The revenues derived from public sector companies are

a transfer from one government hand to another and not a tax in the traditional sense².

Wage tax withholding is done at the source of income where feasible. Thus most of it probably comes from government and public sector employees. Withholding of business taxes is achieved through a complex system of additions and deductions. About 8500 withholding entities including all public sector and many private sector companies record all buying and selling transactions and withhold either a one or two percent share. For example if Firm A makes an LE1000 purchase from an entity, the entity will actually charge LE1010 (for one percent withholding). If the entity sells items valued at LE1000 to Firm A it will actually pay LE990. The remaining LE10 in each case is transferred to the tax department as withholding against Firm A's taxes. It must be remembered that the tax is on profit, not sales, but sales transactions are used for withholding and for providing a partial record of business transactions.

A frequent problem is that entities are slow in remitting withholdings to the Tax Department. This leads to lost revenues and taxpayer unhappiness as Department records are inaccurate or incomplete.

2. Nonetheless, taxes are an important way for the Central Government to collect revenues from public sector companies because only about 48 percent of after tax profits are directly transferred to the government.

C. Evaluation: Purpose and Methodology

Three evaluations are planned in the Tax Administration Project:

a) an evaluation of the ADP system performance; b) a mid-term evaluation; and c) a final evaluation. The mid-term evaluation performed herein is to examine progress-to-date in relation to expended resources and to examine the projects' focus and approach. One expected evaluation output is assessment of the projects' performance and cost effectiveness in achieving the objectives. Questions such as whether the TD's institutional capacity to raise revenues is improving and what project components have been most/least effective are to be answered here. Direction for future efforts under the project is a second expected output. The evaluation was timed shortly after the project amendment to maximize the benefits of any needed reorientation of efforts. Finally, the evaluation is expected to assist in "development of similar projects in Egypt, the Near East and AID worldwide" by identifying reasons for successes and failures.

The evaluation methodology consisted of collecting data through four sources: a) extensive study of files and reports on the project; b) structured interviews with involved officials in central management, TTI and ADP offices; c) site visits at TD district offices and interviews with appropriate staff; and d) lengthy discussions with USAID and Internal Revenue Service (IRS) officials. Chart I is a partial list of TD staff interviewed.

The TD has 122 district offices of which three were visited. The purpose of site visits was to assess the impact of procedural changes at the working level. The Spinning and Weaving and Contractors Districts were visited because they have had the longest experiences with the new collections system and are two of the most active districts. The Sinnouris District (Fayoum Region) was chosen as representative of small districts outside Cairo.

The information from these four sources was compiled and synthesized to reach the findings described below.

Chart I

Tax Department Officials Interviewed

Mr. Abdou Abdel Khabir, Chief

Mr. Mohamed Shaheen, Special Assistant, Tax Evasion

Mr. Houssam Faid, Undersecretary for Compliance

Mr. Wafa El Shahed, Undersecretary for Information

Collections

Mr. Fathy El Hadad, Chief

Mr. Fouad Amin Helmi

Examirations

Mr. Monier Labib, Chief

Mr. Saad Shoukry

TTI

Mr. Saad Taniou, Director

Mr. Mohamed Gangoum

Mr. Ahmed Fouad

ADP Center

Mr. Rifaat Taniou, Chief

Mr. Taniou Ibrahim

Mr. Mohamed Ashmawy

Spinning and Weaving District

Mr. Ahmed El Shaib, District Manager

Mr. Abdel Hamid Atta

Contractors District

Mr. Fouad Hussein, District Manager

Mr. Gadallah Khalil

Sinnouria District

Mr. Hassan Fouad Ahmed, District Manager

II- HISTORY

A. Pre-Project Background: A Brief Survey

The original request for USAID assistance in the operations of the Tax Department developed as a result of discussions between Mr. Sayed Mohamed Habib, Undersecretary of State and U.S. Embassy and U.S. Treasury Department officials in the fall of 1974. The outcome of the discussions was a request from Mr. Ahmed Abou Ismail, Minister of Finance, for technical assistance in the following areas:

- 1) A review of procedures now followed in collecting, processing, and auditing income tax returns;
- 2) A review of practicality of utilizing automated data processing systems in the department;
- 3) A review of systems for collecting and reporting of income tax statistics;
- 4) A review of current overall organizational and functional responsibility within the internal tax service.

As a result of this request the Tax Administration Advisory Services (TAAS) of the U.S. Internal Revenue Service dispatched a survey team to Cairo in May 1975 to conduct an on-sight survey³. The contents of the report can be briefly summarized under three topics: problems, causes and effects, and recommendations.

3. Department of the Treasury, Internal Revenue Service, Tax Administration Advisory Service Division, Report on Tax Administration in the Arab Republic of Egypt, June, 1975.

Problems:

- 1) There was no uniform processing system to receive, account for, and file tax returns.
- 2) The audit and investigative enforcement programs had limited effectiveness.
- 3) There was no program for systematically discovering nonfilers and for obtaining delinquent returns.
- 4) The current collection policy encouraged nonpayment rather than prompt payment.

Causes and Effects:

- 1) The schedular rather than global tax system.
- 2) Taxpayer attitudes toward taxation.
- 3) The current assessment system.
- 4) Effects:
 - a. Serious loss of revenue (especially in the professional and self employed areas) and of tax equity.
 - b. Loss of taxpayer confidence in equity and efficiency leading to tax evasion and lack of accurate, voluntary compliance.

Recommendations:

- 1) Legal:
 - a) Replace the schedular with a global tax system.

b) Provide authority to obtain financial data (for example, net worth) on taxpayers (this condition has nominally been met in the interim).

c) Provide for payment of interest on overdue taxes (this condition has nominally been met in the interim).

2) Organization: Reorganize the department on a functional basis and establish clearly the lines of responsibility for each functional area.

3) Administration:

a) Simplify procedures, forms, and controls to eliminate excessive paperwork.

b) Establish a training institute with a permanent instructor corps.

c) Centralize functional controls.

d) Upgrade operational facilities (space and equipment).

e) Install a modern management information program.

Auditing would be modernized on a selective basis and the quality upgraded. Finally, compliance would be strengthened primarily by establishing a delinquent returns program and establishing a special investigations section for discovering fraud. An expanded computerized master tax file would be a useful tool in the improved compliance efforts. While the Egyptians were thought to possess the necessary ability and expertise to improve and modernize the tax system, the use of foreign generalists and specialists in the various functional areas would conserve time and energy in achieving the objectives.

The reaction of both the U.S. officials and the Ministry of Finance was positive. The time was felt to be right for a concerted modernization effort but while the GOE was groping for solutions they were not progressing satisfactorily toward a comprehensive and positive modernization program. As Mr. William Newnam stated in the fall of 1976, at the preproject stage, the assignment of an administration advisor to work continuously with Egyptian tax officials would offer the opportunity to narrow the conceptual gap and introduce new thinking which could lead to a project for planned, systematic reform.

Tax administration reform was given a new impetus by a report in March 1978 by IRS advisor, William W. Newnam⁴. With the above objectives in mind Mr. Newnam was designated to work with a committee composed of representatives of the TD Organization and Training Division to discuss proposals for reorganizing. Based on the content of his report a contract to develop an integrated program in the policy, administration, and computer operations areas was entered into between the Ministry and USAID/IRS. His report was also the basis for Ministerial Decision 402/78, the structural reorganization of the TD along functional lines.

The introduction and summary to Mr. Newnam's report is contained in the Appendix. The report covered both his review of existing conditions and recommendations for change and implementation of the new system. It also recommended a separate training institute and continued technical assistance for at least one year for further functional and program study. Areas of administrative responsibility were to be classified in order to achieve greater coordination in tax administration and management training was to be strengthened.

GOE tax and finance officials continued to put undue emphasis on the computerization phase for processing tax returns (and still do). The result was a series of memorandums and reports on computerization, the best known of which is called the Terry Report⁵. Basically, Terry concluded that, while computerization would increase the flow of necessary information to tax examiners, computers would not solve the objectives of organization, enforcement, and equity. Nor would computerization readily solve the problem of flow of information because of several weaknesses in the current data base. Chief among the weaknesses were the following:

- (1) Many taxpayers do not submit the required information, or submit it incompletely or inaccurately.
- (2) There is a lack of systems and procedural uniformity and diversity of systems.
- (3) Records of payments received are unreliable.
- (4) Problems of a taxpayer identification system are not fully resolved.
- (5) Coherent long range plans and objectives to be achieved and actions required are not developed.

While sufficient computer capacity may be rented to perform the (Pilot) Form 13 (now Form 40) project, as new forms are mechanized, more capacity will be needed. Moreover, sufficient keystroke capacity must be provided for the initial project.

4. William W. Newnam, "Proposed Reorganization of the Taxation Department: Ministry of Finance, Arab Republic of Egypt," March 29, 1978.

5. Tax Administration Advisory Services Division, "Report on Pilot ADP Project in the Arab Republic of Egypt: A Review", January 1978.

After fully recognizing the need for computerization and the current data deficiencies, Mr. Terry recommended the following:

- (1) The development of a long range operational plan.
- (2) That the department initiate a program of better compliance with reporting requirements.
- (3) That the department develop a program to recruit and train systems analysts and programmers.
- (4) That the department create a central processing organization.
- (5) That the department secure long range technical advice to assist in the computerization program (3 to 5 years if done properly).

The series of reports and recommendations which were written in the mid to late 1970's were followed in 1978/79 by a one year IRS advisor who was provided by USAID to begin implementation of the proposed concepts.

The first advisor, James Watson returned to the United States and was replaced in early 1980 by another, John Ramos, who was substantially responsible for writing the original project paper (PP).

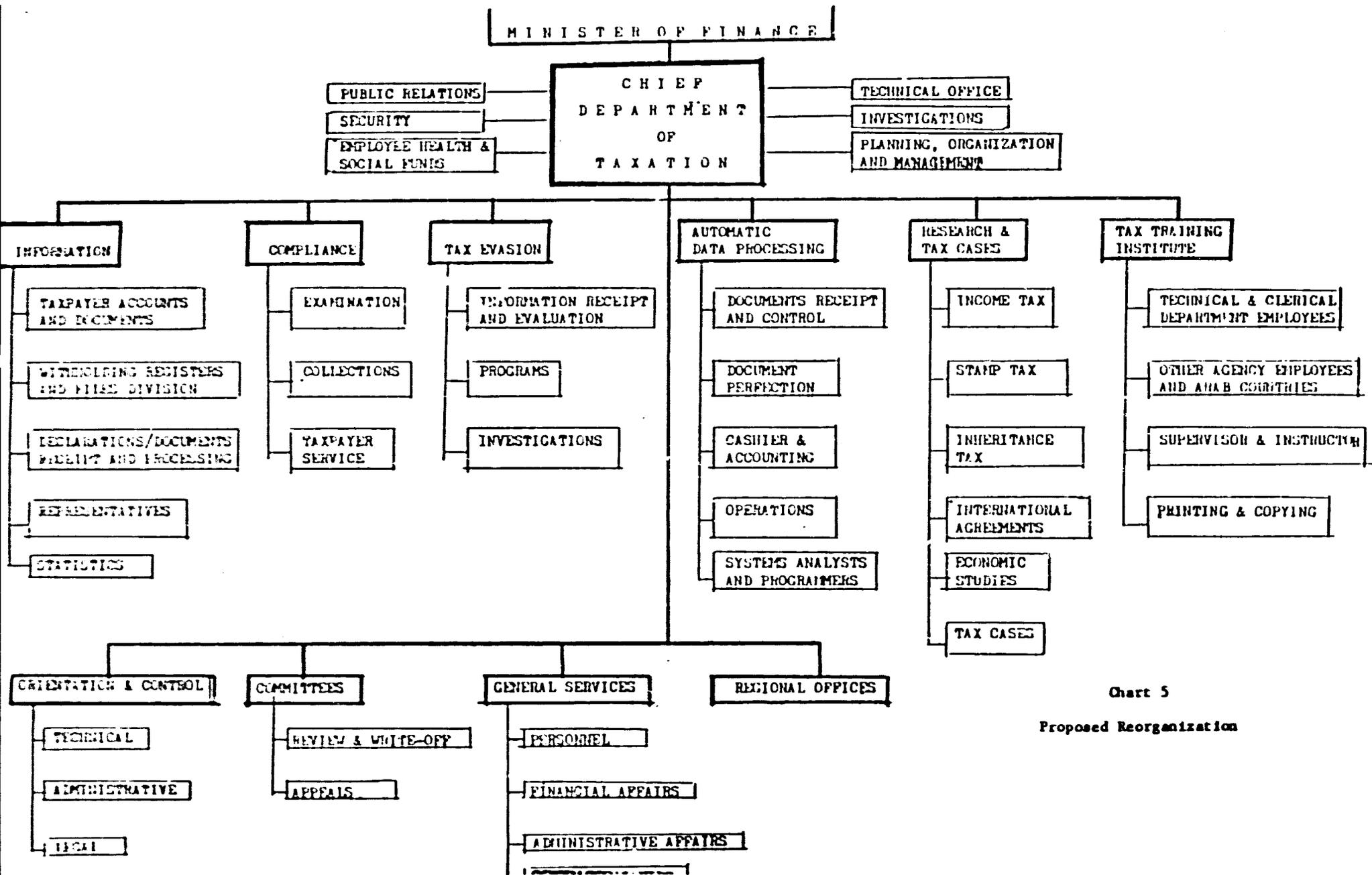


Chart 5
Proposed Reorganization

B. Project History

From the early years of the discussions, only the emphasis, not the goals and objectives of the activities have changed. Thus, the current project is little different from the organization and administration recommendations of the 1975 report described above. Tax Modernization, a sister project was to develop legal recommendations along the lines of those proposed by the 1975 report. Because of the lengthy, closely related pre-project history, no simple demarcation exists between project and pre-project activities. Activities such as the Tax Training Institute (TTI) and the ADP unit were begun before the PP was written.

Minister of Finance, Ali Loutfi, requested assistance for the project in April 1979. The Project Implementation Document (PID) was approved in December 1979 and the Project Agreement was signed August 31, 1980. Initially US \$2.1 million was allocated to the project but the project amendment dated May 19, 1983 increased the total to US \$3.69 million. The GOE has committed the equivalent of US \$1.58 million to the project.

The project has been composed of four categories of project inputs: long term advisors, TDY advisors, commodities, and U.S. training. A senior advisor and an ADP advisor have served in the long term capacities. A series of ten TDY advisors have assisted in areas including training, collections, examinations, and ADP during the time period of January 1981 through May 1983 (see Chart 2). The objectives of these advisors have been varied but were planned such that they lead towards achieving the overall goals.

At least US \$392,922 in commodities were purchased through the assistance (see Chart 3) with almost all equipment targeted for the TTI and ADP unit. Of this total US \$270,000 was funded from pre-project sources. Approximately US \$240,000 in additional money to finance more

CHART 2

T D Y I N P U T S

<u>I. TRAINING ADVISORS</u>	<u>ARRIVE</u>	<u>DEPART</u>	<u>OBJECTIVES</u>
1. Bob Freer	Jan 18, 81	Apr 9, 81	General organization, TTI objectives and planning.
2. Tom Sullivan	Mar 14, 82	May 30, 82	Course design techniques.
3. Dan Buersmeyer	Jul 10, 82	Oct, 3, 82	Basic instructor training.
4. John Cummings	Apr 15, 83	May 27, 83	Development of management training program.
<u>II. COLLECTONS ADVISORS</u>			
1. Don Walsh	Sept 1, 81	Nov 26, 81	General organization, delinquent accounts collection system.
2. Conrad Longoria	Jan 21, 82	Mar 21, 82	Current accounts system.
<u>III. EXAMINATION ADVISORS</u>			
1. George Whitehouse	Sept 18, 81	Dec 15, 81	General organization, selective examination system.
2. Jess Hernandez	Jan 21, 82	Apr 21, 82	Quality review program, Examination Supervisor's Handbook.
<u>IV. ADP ADVISORS:</u>			
1. John Sturm	May 29, 82	Sept 6, 82	Systems development.
2. Gus Schroeder	Jan 13, 83	Apr 13, 83	Documents receipt and control system.

CHART 3

COMMODITIES SUPPORT

T.T.I.

Training Equipment

Overhead projectors	
Easels - Each classroom	
TV and Camera - Instructor Training	\$24,963
Chairs	68,529
Tables	13,226
Printer (partial AID reimbursement)	6,012

ADP

Mohawk Data System (24 key stations, control panel, desk pok, tape drive funded under 0026)	\$270,000
15 13-digit number machines	3,192

Collection

180 8-digit numbering machines (on order since January)	\$6,500
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data entry equipment is available and awaiting the ADP systems evaluation. The ADP evaluation is scheduled for September 1983, 18 months after ADP operations began.

Forty-two Department of Taxation officials have participated in U.S. based training. Areas of training include orientation visits, the IRS INTAX course, and specialized training through IRS and the University of Southern California (see Chart 4). The general purpose of the U.S. based training inputs has been to demonstrate new ideas at work in order to make GOE officials more open to proposed changes.

Assistance has been focused on the business income rather than personal income taxes. The greater potential benefits in revenue collection is one reason. Another is that in Egypt, IRS type activities are likely to be more effective on business tax collections than on personal income tax collections. Business taxes are imposed on incomes of sole proprietors and professionals in addition to corporation and partnerships.

CHART 4

TRAINING INPUTS (In U.S.)

1. Orientation/Observation for senior officials - IRS

1. Nov 80 - Chief of Department

3 Sector Chiefs

2. May 82 - Chief of Department
Chief, Compliance Sector

Included participation in
CIAT Conference in Paraguay

3. June 83 - 4 Regional Managers

- Total 10 participants.

II. INTAX - IRS

1. June 81 6 Supervisors

2. Apr 82 6 "

3. Apr 83 6 "

Total 18 participants.

III. U.S.C.

1. June 81 2 participants - General Income Tax

2. Aug 81 2 " - Tax Evasion

3. Apr 82 3 " - General Income Tax

4. Apr 82 1 " - Tax Evasion

- Total 8 participants.

IV. Program Management - IRS

1. June 81 2 Managers - Collections Management

2. Dec 81 4 " - Training Management

3. May 82 2 " - ADP Management

- Total 8 participants.

C. Achievements-to-Date

IRS assistance can be appropriately described as management consulting. The concepts proposed are generally not radical adjustments, but instead simple procedural changes to improve operations. In some cases the changes could have been effected without IRS, but the technical assistance has been the catalyst to bring about change in many places where it otherwise would not have occurred. Certainly the assistance has accelerated the modernization process.

Items listed as achievements or disappointments are the result of joint efforts on the part of IRS advisors as management consultants and TD officials as practitioners. Neither is wholly responsible for successes or failures. The two working together are responsible for accomplishments-to-date.

The IRS approach has been instrumental in yielding good results. The methodology has been to send senior TD officials to the U.S. to see how similar functions are dealt with there. These visits are followed with TDY advisors to first plan and then begin to implement changes. Long term advisors are present to maintain continuity of effort. TD staff is involved in each step along the way so that each person has a commitment to the new techniques and the techniques can be adapted to the Egyptian situation.

IRS assistance is generally structured so that the impacts will endure after TAP ends. This is true because IRS is introducing systems and institutional changes to achieve the results rather than trying to transfer concepts. These systems and institutional changes will remain when IRS leaves.

The following four sections provide brief discussion of some achievements in four areas of the project's activities. The collections system, ADP division, and TTI have each been operating less than one year making evaluation difficult. At this point the changes have been in the process (how things are done) not the product (increased revenues, etc.).

1. Tax Department Reorganization: The Newnam Report led to Ministerial Decision 402/78 which was a reorganization of the TD along functional lines. Seven operating sectors such as compliance and information, 23 regional offices, and 122 districts resulted from the reorganization. Duties of each position were described and effort made to place responsibility in the appropriate place. Since the reorganization IRS assistance has focused on maximizing the reorganization's effectiveness.

Problems developed in four areas, all attributable to inadequacies in 402/78. A complete understanding of how sectors related to each other and to the TD Chief did not result. This probably happened because 402/78 took the approach of establishing duties rather than clearly stating responsibilities. An example is that the planning function is housed in a division reporting directly to the Chief rather than being included as part of the sector activities. Short term and some long term planning needs to be in the operating sectors. This problem has been most clearly demonstrated in the examinations area where the planning staff has insisted on 100 percent examination. Nonetheless, effective managers have been able to make progress in other sectors.

In a similar manner problems have arisen as regards the relationship between central management and the regional and district offices. Central management continues to have some operations functions and the sector chiefs are unclear how to relate to the manpower (tax collectors and examiners) in the field.

The ADP unit was developed as a division in the Information Sector rather than a sector in its own right. This hampers relationships between the ADP Chief and other sector heads.

The TD Chief also feels that too many people are reporting directly to him (at least 36). He believes that three deputies are necessary to streamline communications.

An amendment to 402/78 has been approved by the Central Agency for Organization and Manpower (CAOM) and Mr. Khabir, Chief of the Tax Department (see Chart 5). The Minister of Finance's approval is anticipated by the end of June.

The amendment's most important initiative is the creation of a separate ADP sector (see Chart 5). It fails to overcome the other problems, though earlier drafts of the revision would have. The less ambitious reorganization resulted because the most important element to Mr. Khabir, the deputy positions, was turned down. He is preparing to retire and lost interest in the reorganization after this setback.

2. Tax-Training Institute:: The TTI was developed as a separate sector. An attractive site was located and prepared in Zeitoun. Equipment, such as overhead projectors and a video tape machine, was provided through the project. Course materials were prepared for the collections and examinations areas under the direction of supervisors from tax offices. At least 26 courses involving 533 students have been taught since the TTI inception in August 1982. Courses have been in examinations, collections, curriculum development, and instructor training.

Much attention has been devoted to developing informative, but interesting training sessions. Students are taught through directed discussion rather than the lecture approach used in the past. Planned courses are implemented by the instructor as opposed to letting each instructor teach what he chooses.

Training is focused directly on the job the student will be filling. Currently, no effort is made to provide academic type training.

One complaint has been the TTI location in Zeitoun, at least one-half hour from the main TD offices. The concern is valid, but on balance the site is better than one at the main TD offices because the location is attractive and conducive to learning. Also, the site forces the students and instructors to get away from other responsibilities and focus on training.

3. ADP Division: The ADP division has been created, staffed, and equipped with 24 data entry machines. A site was prepared by GCE at a cost of approximately LL100,000. Training began at the site in April 1982 and operations began during August 1982. The proposed amendment to Ministerial Decision 402/78 would shift the ADP division status up to a sector, which presumably would be headed by someone at the undersecretary level.

An initial system for processing domestic business tax withholding returns has been developed and results from the first test of the system are expected immediately. 502,000 returns are in various stages of being processed for this purpose. Once all data is computerized the TD will have an improved ability to relate withholding to the appropriate taxpayer and this will be a first step towards a master taxpayer file.

A unique transaction form and a numbering system for taxpayers subject to withholding are significant aspects of the new system. The transactions withholding Form 40 replaced four forms and reduced paperwork. However, additional burdens have been placed on district offices to insure that the Form 40s are accurate and complete and to transfer the forms to Cairo for processing. In the long term this will be offset by more complete and accurate information on withholding.

Fifteen programmers received training at Ain Shams University, from a TDY advisor, and from the National Cash Register Company. The training process is slow because the programmers must develop English language proficiency and programming skills simultaneously, but the feeling is they will become skilled programmers. Unfortunately all of the 15 who received training (which started in 1979) were not placed into the ADP unit.

Four projects have been proposed for computerization, of which two are necessary to complete the withholding system. These two are to computerize withholding (1) on import and export transactions and (2) on transportation related activities. Together these involve about one-third as many returns as the domestic business transactions.

A realignment of the districts on a geographic basis rather than by type of business is planned. Computerization of taxpayer data is expected to facilitate allocating the taxpayers into districts. Significant compilation of files and much keystroking would be necessary for this task.

Finally, the plan is to prepare a master file of all corporate taxpayers filing in Cairo and Alexandria. This effort involves 3040 corporate accounts.

4. Collections: A streamlined and more accurate collection system was implemented effectively in the Cairo Contractors and Spinning and Weaving Districts beginning July 1982. The system was extended to several pilot districts in Alexandria during January 1983 and to the rest of Egypt in April.

An important feature of the collection system is that it places the burden for payment of taxes on the taxpayer. Office techniques using the mail to issue warnings and third party collection procedures are applied initially to delinquent accounts before visits by collection officers. In the past collection officers went to see delinquent taxpayers first. One disadvantage of the system is that after the warnings taxpayers withdraw assets before payments are collected through third parties.

Another contribution is reduced paperwork. One form and a single ledger is now serving the function that six ledgers and five forms did before. More accurate information on tax liabilities results because transcribing errors often led to disagreement between the ledgers. In these cases the taxpayer would be asked to prove how much he owed. Workers have been transferred away from the collections process as workloads have decreased.

Revenues may have risen some as the new system has gone into effect. The evidence is only casual and no direct cause and effect can be established. Through May collections for FY 82/83 are up 18.4 percent nationwide compared with a year ago. Spinning and Weaving District collections are up 31.4 percent and Contractors District are up 13.1 percent. In Contractors, however, slow growth in withholding is the reason. Revenues from delinquent accounts (which are responsive to the new collection system) are up 26.4 percent. So collections performance in the pilot districts is surpassing the average of other districts.

D. Disappointments-to-date

Three areas where the project was poorly planned or did not live up to expectations are listed here.

1. Time Delays. Every phase of the project except the 1978 reorganization has experienced long time delays. Reasons for delay are varied and blame cannot be affixed to any one group, but overly optimistic time schedules were one problem. The project is designed to develop an institution and change workers attitudes about how to approach taxes. These are long term activities and even now are just beginning to happen.

Perhaps the most important cause of the delays was that USAID and IRS moved to develop the project before the GOE was prepared. The initial request for assistance leading to this project (Ali Loutfi's letter, May 6, 1979) requested computer equipment, aid with the TTI, and U.S. training. The computer equipment appears to have been the central concern here. The management consulting, which has been a focus of the project was not directly requested. The TD was not expecting the management consulting and was not sure how to use it when it arrived.

Another general problem has been getting senior TD staff appointed. The conditions precedent (CP) for a TTI Director was not met until October 1981 despite this issue being raised by Jim Watson in 1979. The rank of Undersecretary was not granted to sector heads until May 1981 and then for only four sectors. Three sector head slots were vacant when the project amendment was written. Management consulting without the senior management being in place will certainly be slow moving and less productive.

The ADP unit was expected to be in place by June 1980, before the PP was ever approved. The site was finally prepared in March 1982. A significant lag in USAID procurement and undue time for the GOE to prepare the site were the most important specific reasons. The TTI was also delayed because of difficulties in finding and preparing a site.

2. Examinations. The TD has a policy of examining 100 percent of returns. Insufficient staff is available to do an adequate job so in some districts returns from 1978 are still being examined. This issue is dealt with in more detail in the issues section below.

Two TDY advisors and the senior long term IRS advisor have worked on improving examinations operations. An organization chart has been developed, position descriptions have been written, and a procedure for selecting taxpayers for examination has been prepared. A quality review program has also been conceptualized to allow clerks to do some work before the mammour receives the returns.

No results can be attributed to the inputs in the examinations field. The TD has been unwilling to move to a system with less than 100 percent examination. The mammour remains heavily overworked with insufficient time to do quality examinations. Much IRS focus on a strict selection process for examinations in the face of TD resistance, has also contributed to the lack of success. Finally, mammours are believed to be inadequately trained for the job and this will need remedying before significant change can occur. The TTI training will be a step towards overcoming this shortcoming but is unlikely to be adequate to prepare examiners for the subtleties of their job.

3. Coordination with Tax Modernization Project. The Tax Administration Project (TAP) was designed to implement the organization and administration recommendations of the 1975 report and the Tax Modernization Project (TMP) was to implement the legal recommendations. In a real sense the TAP was to modernize the system to make the TMP more effective.

Mr. Sedky in the Ministry of Finance was project manager for both efforts and the same USAID project officer was responsible for both projects. No coordination was structured between the two projects. In practice TMP has moved slowly, particularly since the Income Tax Law of 1981 was enacted while TAP began to progress. This was a primary reason why little interaction between the projects occurred.

The projects should have been formally developed together to maximize the potential from the two efforts. The TMP product could be structured to overcome legal difficulties that are discovered through the TAP project. An example is that no taxes can be collected from a taxpayer during litigation. A legal framework could be built to collect those taxes where agreement occurs and interest charged on any additional revenues collected through the courts.

Legislation coming from TMP could eliminate the need for the specific administrative reforms adopted through TAP or shift the direction of the reforms. This could affect technical assistance in collections and examinations but probably would not affect TTI or the ADP unit.

III. ISSUES AND PROBLEMS

The problems and potential problems that can impede future success for TAP are discussed in this section. Where appropriate, recommendations are made that can help alleviate the prospective situation.

A. Personnel Changes

Three people have served as TD Chief during the project life. Mr. Nefah was Chief during the project's development and early months, Mr. Sayed was Chief for approximately seven months, and Mr. Khabir has served since August 1981.

The project developed slowly because Mr. Nefah was generally uninterested. This continued through Mr. Sayed's term. Though he was supportive of the project, as an interim chief he was not backed by the Ministry of Finance. Project activities accelerated once Mr. Khabir became head, as he actively supported the project and found ways to use the technical assistance. In the absence of this push the project would have achieved considerably less than it has, given the early disinterest in many areas of the project.

Senior IRS advisor John Ramos was also an important component of the project's vitality as he forcefully lobbied for development of a broad base of technical support and nurtured the project through its early years. His role in creating a place for TAP in the TD was key during the initial phases.

Mr. Khabir is retiring during June 1983 and John Ramos will be leaving at approximately the same time. The input of these individuals was necessary to the success already achieved and their departure may adversely affect future achievements. The outcome depends on the interest of the new TD chief and the drive of the new senior IRS advisor.

B. Project Goals

Improved collections, efficiency, and equity can be readily identified as goals for the Tax Administration Project⁶. Among these, providing additional tax revenue for development was targeted as the main goal of the project. Equity was mentioned in the PP text as another desirable result of the project. Greater efficiency was identified as a way to achieve these other goals.

Objectively verifiable indications of success were listed as income tax revenue increasing to 25 percent of total tax revenues by 1981, the budget deficit declining to 9 percent of GDP by 1984, and income tax revenues, discounted for inflation, increasing by 15 percent over pre-project levels. Income tax revenues now exceed one-third of total tax revenues. Business income tax revenues grew 83.4 percent between FY1978 and FY81/82 after inflation is omitted. Personal income taxes remained fixed after netting out inflation, but in aggregate, income taxes grew much faster than the stated objective. The current account deficit in FY 81/82 was about three percent, though the total deficit was nearer to twenty-five percent.

These statistics support project success but a link between project activities and achievement of the above cannot be directly made. In fact, large increases in collections from growing oil revenues and Suez Canal operations are responsible for most of these large changes. Higher tax rates for consumption taxes have also been a factor. Success in the project has been too recent to be responsible for much of the improvements noted above.

Technical assistance has begun to help obtain more revenues through a collection system that will more effectively garner the assessed taxes. The existence of a computer system will probably cause people to pay a larger share of their legal tax liability because of fear that "the computer will catch them". Better training, organization, and a computerized operation will increase collections slowly. In summary the project components are a long term strategy to increase revenues, and should not be expected to have large immediate revenue payoffs.

Much of the benefits from the technical assistance will be in equity and efficiency. The TD will be able to collect taxes more equitably in the sense that it will do a better job of collecting revenues from those who legally should be paying. This is a shift within the TD away from simply focusing on maximizing collections to also considering who is paying taxes. Every area of the project is contributing in this area.

Increased efficiency is also resulting from all areas of the project as paperwork is reduced, activities are better streamlined, and workers are better prepared to carry out their responsibilities.

6. Other goals for a tax structure are also important but are not discussed here.

Performance in meeting the three goals has been good and has been within the framework that IRS can legally operate. Return has been high for the resources USAID and the GOE have invested into the project. But the benefits from IRS technical assistance are distributed across all three goals and the project's intent is to do more than increase collections.

Other areas, outside the legal constraints on IRS operations, offer better short term potential for simply raising more revenues. Limiting tax evasion is one example. A policy decision to train examination advisors better, to increase salaries discourage acceptance of bribes, and to enforce penalties for tax fraud would be a major step towards increasing revenues.

C. Examinations

Tax liabilities are set during the examinations process so this is an important area for attention. Examiners are too busy to do an acceptable job because they are expected to examine all returns. The average examiner must handle between 500 and 700 returns per year. George Whitehouse estimated that examiners in the Contractors District could do an adequate job if they dealt with less than one-third as many cases. The result is that districts are as many as five years behind on examinations (the statute of limitation is six) and a poor job is done in examinations.

One approach to the problem is to use a selection system for choosing a percentage of returns for examination. Some returns would be unexamined with this system. We believe this will not work at the present time since penalties for evasion are rarely enforced. A selection system will be inadequate when the presumption is that every return is in error. A selection system would encourage greater evasion since taxpayers are generally not penalized for falsifying returns.

A priority examination system offers greater potential. In this case every return would go through a type of quality review process, or cursory examination to look for fraud and to determine which returns would be examined more completely. Based on priorities, all large and other questionable returns would be chosen for in-depth examination. The percentage of moderate size and small returns chosen for in-depth review would be determined by the number that can be examined well. The priorities should not be based simply on the existing classification of returns into four groups using taxable income. Taxable income may bear little relationship with likely benefits from examinations or likely fraud. Rather classification should be on a gross business activity concept.

The long term examinations advisor should develop a methodology for quickly choosing returns for thorough examination. This includes, both establishing criteria for setting priorities and developing techniques for using judgement. A program should be developed for use at the TTI to train examiners in the system. More experienced examiners should be trained in how to identify questionable returns and how to perform in-depth audits of taxpayers with records. Since IRS techniques will generally not be transferable for dealing with cases without records, little attention should be focused here. The priority system should be introduced into pilot districts with the advisor's assistance. If the technique is successful it should be extended throughout the country.

Recommendation 1: IRS assistance should be targeted towards developing a priority rather than a truly selective system for examining returns. Unless the GOE Tax Department expresses a strong commitment to move to a priority examination system using IRS assistance, the examinations tasks should be performed by the senior long term advisor and a series of TDY advisors.

D. Tax Training Institute

The TTI has been visibly successful and has great potential for the future. Discussions with individuals in the central office and in the district offices suggest, however, that it has not achieved support or generated enthusiasm within the technical offices. No positive feedback was found at any level other than from the TD Chief and interviews at the TTI. Generally the response to the TTI was that people expected little positive results from the training. The TTI is new and was developed mostly because of senior level pressure. Furthermore, the sector chiefs are probably concerned about losing direct control over training for their functions and would prefer to keep the training functions in their own sectors.

Better integration within the TD is necessary for the TTI to be fully and readily effective. One way to encourage this would be to have orientation sessions at the TTI for sector leadership and regional and district managers. A more enduring mechanism would be to have the TTI and sector offices jointly develop an effective-on-the-job training program (OJT). This program would help link the TTI to the operating sectors. Furthermore, it is an important way to provide additional training for new mammals, a vital factor, particularly in examinations. Work on an OJT program was also promoted by the most recent training advisor, John Cummings.

Recommendation 2: An additional (currently unplanned) TDY training advisor should develop an effective OJT program that would support TTI training. This person or the new senior long-term advisor should also examine other options for better integration of the TTI into the Tax Department.

The management development program developed by Cummings is new and its effectiveness cannot be judged yet. The ability of local institutions to support practical, broad management development has been questioned. Achievement must be carefully evaluated in this vital area.

Recommendation 3: The advisor already planned to follow-up on management training should be scheduled after sufficient time has passed to allow a careful examination of how well existing local institutions are able to provide the desired training.

E. ADP Division

The ADP unit has the long term potential to provide comprehensive information on taxpayer withholding, to develop a master file of taxpayer data, to expand enforcement activities, and to give limited assistance in uncovering tax evasion, in effect to improve all aspects of tax administration. Each of the expected benefits will come slowly. Little immediate payoff can be expected and in the short term the effort is largely capacity building. Nonetheless, the need for computerization is present so these initial developmental steps are important to take.

An overall long-range operational plan must be developed so that priorities can be set and the hardware needs can be carefully designed. It is essential that this overall plan be structured into a proposed system and the hardware based on this system. Evidence of some planning for the short term is in the IRS files but an understanding of a precise plan for an overall system could not be elicited from TD officials. Early reports by USAID/IRS advisors emphasized the need for long range plans stressing concepts, objectives to be achieved, and a plan of implementation. The GOE, however, has been tardy in developing an acceptable plan. Further advisor assistance is necessary.

Mohandes Company is undertaking a two month design study of the TD needs. The military is to follow up with a related study. Both were planned at the direction of the Minister of Finance because he is anxious to improve collections and efficiency.

Proper designing of the system at this stage of the ADP Division existence is imperative. This will be a difficult task during the short term studies already underway because tax experts are not involved. The TD ADP staff will probably not be able to provide sufficient support for these studies because they are still learning how to develop systems. Therefore, we recommend the following:

Recommendation 4: The new long term ADP advisor should focus his initial attention on assisting the ADP Division in developing an acceptable long term plan, a systems design, and a plan of implementation.

Recommendation 5: IRS, or an institution with comparable skills should conduct the computer needs study as was planned in the PP amendment with a long term view to the best use of Tax Department and USAID resources. The senior IRS long term advisor should have a vital role regardless of the institution performing the study.

Adequate equipment is the major constraint on expansion of the ADP system. It has been difficult to access rented computer time and it has not been available on a timely basis. Further, TD operators are not able to use machine language, where appropriate, to solve problems.

Data entry equipment is also in short supply. TD estimates are that data entry operators can key and verify 40 Form 40's per day (the current project). 576,000 forms a year can be keyed if 40 forms are done per day by two shifts of operators using the 24 machines for 300 days per year. The number of items keyed can probably be reduced thereby saving time, but currently the Form 40 project absorbs all of the keying capacity. Space has been prepared for 12 new machines though this may still provide too few machines to handle the proposed computerization tasks. These issues will receive more attention in the ADP evaluation which should be performed in September as scheduled.

The Minister of Finance is keenly interested in more computerization of TD tasks. Computerization seems to be the focus within senior TD management as well. The complexity and volume of paperwork precludes efficient hand operation in areas such as withholding returns. Therefore, we recommend:

Recommendation 6: USAID should give careful consideration to funding expansion of the Tax Department computerization capability which would include providing a computer, new data entry equipment, and sustained assistance in development of the system.

We must stress that computerization will not solve all problems or suddenly increase revenues. Computerization is a way to increase equity and efficiency and locate some tax evaders but is not a direct method to increase collections. Further the benefit will develop slowly as the entire system is still in the infant stage and will experience data, staff, and communications problems.

The computer system needs to be oriented towards providing ready information at the district level, where most operations take place. There is a propensity for computer systems to be built with the developers needs and interest in mind rather than the users. Emphasis must be on getting information to the district offices when it is needed. The resulting system may need to be a combination of a central system with mini-computers in the half dozen or so large districts that handle most of the taxpayers.

Maintenance and staff must be considered in a computer purchase. Adequate maintenance is essential to a continuously operating computer system and therefore one that can provide information when needed.

Recommendation 7: The buying agent (Tax Department) should be required to demonstrate it has budgeted for and committed to purchasing a maintenance agreement at the time any hardware is procured.

GOE ministries continuously have a difficult time obtaining and keeping skilled staff because of the low salaries. This has not been a problem for the TD because the ADP unit is so new. Staffing needs are going to grow dramatically with increased usage of a computer system. For example, Gus Schroeder estimated that 175 people would be needed to develop a centralized filing system -- three times more people than the existing staff. The system adopted by the TD should be designed with the knowledge that staff will turn over frequently and positions will be difficult to fill.

The first 15 ADP trainees were prepared through a combination of university and IRS assistance. An institutionalized system for developing skilled programmers, keystrokers, and analysts must be in place to provide needed people.

Recommendation 8: The long term ADP advisor should examine the way the computer staff is being trained and if appropriate assist in developing an on-going program that will help maintain a continuous supply of staff.

F. Reorganization

Ministerial Decision 402/78 reorganized the department along functional lines. In the achievements section above some problems with outcomes from the decision were discussed. Recognition of these problems led to a CP that prevents disbursement of funds after June 1983 unless "Ministerial Decision 402/1978 has been revised to allow appropriate functional reorganization and appropriate functional delegations of authority."

This CP has not been met. An amendment in 402/78 designed to overcome the organizational problems was approved by the CAOM on June 5, 1983.

The approved amendment provides for the appropriate functional reorganization and delegations of authority as regards the ADP unit, but does not provide for the anticipated restatement of delegations of authority in the collections and examinations areas. Delegations or authority are provided in 402/78 but are not as clearly stated as desirable.

TAP is gaining momentum and a delay in technical assistance would damage relationships and potentially negate some of the results being achieved at this nascent stage. A different amendment would absorb a considerable time period because of the TD Chief's retirement and the need to get a different Chief to understand the issues and concur. The delegations of authority in the approved amendment to 402/78 would be sufficient to overcome organizational difficulties impeding technical assistance for the ADP unit, collections system, and TTI. A further reorganization would only be of assistance in the examinations area, but even here the difficult decision over what cases to examine will probably be made by the Minister of Finance or by the TD Chief.

Recommendation 9: The amendment to 402/78 approved by the CAOM should be considered as satisfying the reorganization CP once the amendment is signed by the Minister of Finance.

G. U.S. Training

TAP was developed with a component for U.S based observation and training trips. This was an important aspect of TAP because it introduced senior TD officials to new ideas and provided a demonstration of these ideas in operation. The need for U.S. based training continues as staff turns over frequently and a new chief, sector heads, and regional managers are appointed. New ideas will also be proposed by IRS staff and demonstrations of these in practice may be effective in the developmental process.

The Project Amendment does not provide additional funds for U.S. training. TD officials can still be chosen through general participant training programs but this has three disadvantages. First, the IRS senior advisor has helped select people to receive training in the past and given the purpose for training, choice of the right people is imperative. The IRS input would no longer be involved.

Second, the structural linkage between the IRS technical assistance project and U.S. training will be broken. People chosen for training may not see the relationship between their U.S experience and imports of TAP as clearly. The U.S. experience may also be focused less carefully to achieve TAP results. Third, general participant training programs are not meant to support project activities.

Recommendation 10: Funds for U.S. based training should be added to the TAP or a relationship between participant training programs and TAP should be developed so as to yield the maximum benefits from the U.S. training experience.

IV. CONCLUSION

The overriding goal of the Tax Administration Project is to mobilize domestic resources for development. To this end USAID/IRS developed a program for tax administration reform, Computerization of tax collections (ADP), tax training, and collections and examination streamlining. While the GOE was assumed to have an adequately staffed and academically educated Tax Department, it lacked the catalyst to initiate the necessary institutional reforms.

The administrative weaknesses were primarily due to a philosophy of taxation in which there was a lack of national uniformity and functional responsibility for tax collection. Also the system was one in which all taxpayers were assumed to understate their tax liability and the administration was challenged to discover the true liability. The result was a failure of the concept of self assessment on which efficient tax administration is built.

With IRS assistance, the TD has been reorganized along functional lines, computerization initiated, training programs developed, and tax collection processes streamlined. Some conceptual problems remain, however, and outside technical advice is still needed in some areas. The basic function of the advisors was to introduce institutional changes that will endure, not merely to introduce concepts.

Institutional change is a long-term process. The mind-set of both taxpayers and administrators must be changed and a sense of cooperation developed. The process is just taking hold in the Tax Department. We expect no immediate dramatic results but some process changes have been introduced and results are beginning to be seen.

This evaluation comes at a very early stage in the institutional evolution. There is much evidence of progress. Delays are evident, but not unexpected. One of the basic lessons learned from this experience is that the basis for institutionalization in such circumstances can be developed, but that both time and resources may be underestimated.

Resources dedicated to this project have generally been well utilized. It is imperative that the progress not be impaired and that adequate resources be continued until the objectives are met. The tasks are not completed until the GOE can move forward without the aid of outside encouragement and resources.

APPENDIX

Report on Pilot ADP Project in the Arab Republic of Egypt: A Review

INTRODUCTION AND SUMMARY

I Introduction

A committee composed of representatives of the Organization and Training Division and the advisor from the U. S. Internal Revenue Service, Mr. William W. Newnam, was constituted to discuss proposals for the reorganization of the Taxation Department. The initial meeting of the committee was held on February 23, 1978, and almost daily meetings were held for the subsequent several weeks.

The instructions to the committee from His Excellency, the Minister of Finance, Dr. Salah Hamed, were transmitted by his Undersecretary for Income Tax Affairs, Mr. Abdel Raouf Matawi, in his letter of February 23, 1978, to the Director General of Organization and Training, Mr. Mohammed Assad. It was indicated in this letter that the Minister requested the discussions include the following subjects (per English translation of letter written in Arabic):

1. The existing organizational structure of the Taxation Department and its defects. The proposals and the justifications toward the new organizational system.
2. To study the existing level of performance

and the means by which it can be improved and whether this could be achieved through training or through establishing a taxation school.

3. The existing incentive system as a means to boost production, and whether there might be another system more appropriate.
4. The opinion on specialized organization (of the Maamorias).

The series of papers in the report that follows attempts to be responsive to the Minister's instructions.

II Summary

A. Organizational Structure

1. The Maamoria:

- three operating Branches proposed, with responsibility for the work accomplishment placed on a designated Branch Manager.
- places in each Branch all personnel, both technical and clerical, necessary to accomplish the activities assigned to each Branch.
- consolidates in one Branch all work involved in documents processing and related record-keeping to provide a basis for streamlining processing, for better control

over documents and files and for reducing the number of records maintained.

- with some possible exceptions, specialized Maamorias should be converted to geographic Maamorias, after the basic Maamoria reorganization is completed.

2. The Regional Office:

- counterpart Branches corresponding to the Maamoria Branches are proposed to provide for improved direction of Maamorias.

- each Branch should be directed by a designated manager.

- the present Regional Inspectors' work should be absorbed by the respective Branch to provide for unified functional direction of the Maamorias.

3. The National Office:

- seven Sectors are proposed, each with clearly designated functions, without overlapping of functions among the Sectors.

These Sectors are:

Data Processing

Compliance

Committees

Technical Interpretation and Legal

Inspection and Employee Investigations
Services

Planning and Systems

- each Sector is given responsibility for the full managerial range of activities (planning, directing, control, etc.) over its respective functional area.
- the Data Processing, Compliance and Services Sectors exercise functional direction over the counterpart functions of the Regions and Maamorias, providing for a unified functional direction of the work of these field offices that does not now exist.
- responsibility for all document processing activities are centered in the Data Processing Sector, including computer processing when it is introduced into the Department.

B. Implementation

- a carefully planned implementation process is proposed, providing for implementation of the reorganization in a series of phases.

C. Employee Incentives

- the present salary levels together with the additional overtime and premium pay are not considered to provide adequate employee motivation.

- special efforts are needed to upgrade salary levels of Taxation Department employees, accompanied by improved organization, better management of resources, greater employee development, improved employee performance and improved personnel administration in general.

- incentives, in addition to monetary incentives, need to be explored such as improved physical environment, better position design, better career development, greater employee recognition and increased training.

D. Training

- a separate Training Division with greatly increased resources is recommended, which could be developed, in effect, into a Training School for the Taxation Department.

- a separate cadre of manager positions should be identified - Maamoria Chiefs and their

Branch Chiefs; Regional Chiefs and their
Branch Chiefs; Sector Chiefs and their
Division Chiefs - and they should receive
extensive training in management concepts
and techniques designed for the specific
requirements for each level of management.

E. Functional and Program Development

- once the new organizational structure is
in place, continued functional development
is recommended to achieve fully the objectives
of the reorganization.

F. Technical Assistance Requirements

- a technical advisor should be brought to
Egypt for a period of one year to advise and
assist the Taxation Department in implementing
the new organization; to identify more spe-
cifically further program development needed
to improve tax administration; and to advise
on plans to achieve such development.