PD-AAS-754

CLASSIFICATION

PROJECT EVALUATION SUMMARY (PES) — PART I

Report Symbol U-447

1. PROJECT TITLE	2. PROJECT NUMBER	3. MISSION/AID/W OFFICE
Revenue Generation for Development (Ministry of Finance Component)	518-0036-1	USAID/Ecuador
	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)	
	☒ REGULAR EVALUATION ☐ SPECIAL EVALUATION	

5. KEY PROJECT IMPLEMENTATION DATES			6. ESTIMATED PROJECT FUNDING	7. PERIOD COVERED BY EVALUATION
A. First PRO-AG or Equivalent FY 83	B. Final Obligation Expected FY 83	C. Final Input Delivery FY 85	A. Total $ 920,000 B. U.S. $570,000	From (month/yr.) 8/83 To (month/yr.) 6/85 Date of Evaluation Review

8. 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
None. This is a final evaluation and no issues are outstanding.	ISN 43564	000082

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

- ☐ Project Paper
- ☐ Financial Plan
- ☐ Logical Framework
- ☐ Project Agreement
- ☐ Implementation Plan e.g., CPI Network
- ☐ PIO/T
- ☐ PIO/C
- ☐ PIO/P
- ☐ Other (Specify)
- ☐ Other (Specify)

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

- A. ☒ Continue Project Without Change
- B. ☐ Change Project Design and/or ☐ Change Implementation Plan
- C. ☐ Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)

Leopoldo Garza, General Development Officer, USAID/Ecuador
Randy Roeser, Project Development Officer, USAID/Ecuador
Patricio Maldonado, Program Officer, USAID/Ecuador
Dr. Carlos Velasco, Project Coordinator, Ministry of Finance

12. Mission/AID/W Office Director Approval

Signature

Typed Name: Orlando Llenza

Date: 1/23/86

AID 1330-15 (3-78)

PES - REVENUE GENERATION (Ministry of Finance)

Part II

13. Summary

This is the final, summative evaluation of the Ministry of Finance (MOF) component of the Revenue Generation for Development Project. The PACD is June 30, 1985. This represents a cumulative extension of eight months from the original PACD. The first extension, of four months to February 28, 1985, occurred shortly offer Project start-up, due to a delay in contracting the resident advisor. After this initial delay, implementation (inputs and outputs) proceeded on schedule in close accordance with the Project design and was essentially completed by this revised PACD. The second extension, to June 30, 1985 was approved primarily to ensure continuity with the follow-on Fiscal Administrative Development Project (518-0042).

The Project has largely achieved its objectives. The EOPS of S/315 million in net increased Central Government revenues from the income and sales taxes (measured as collections plus assessments) was exceeded by 43 percent. More importantly, this short, pilot effort had the intended effect of demonstrating that significant revenue increases could be achieved through administrative "quick fixes" while identifying the fundamental organizational and policy constraints to much greater increases. The new Government of Ecuador (GOE) administration which assumed office in August 1984 readily accepted this evidence and enthusiastically participated in the design of a four year, $6.8 million follow-on Fiscal Administration Development Project which will address these fundamental constraints.

14. Evaluation Methodology

The Project Paper called for a single evaluation, shortly before Project termination. This evaluation would assess: (a) the success with which the new tax administration procedures were developed and implemented in the MOF; (b) the revenue impact of the pilot activities; and (c) the commitment of the MOF to maintain and expand these activities. As anticipated in the PP and in keeping with the small size of the Project, the evaluation was conducted on the basis of the final reports of the Project advisors (Attachment No. 1 to this PES) and the observations of the USAID Project Officer and key MOF personnel who were involved over the course of the Project.

The main quantitative indicator to be measured in the evaluation was increased tax revenues attributable to the Project. The baseline value for this indicator was, of course, zero. The advisors and MOF kept track of revenues generated through regular reports prepared by the MOF units responsible for the various revenue programs established under the Project. Since these programs and personnel were clearly identified from normal MOF operations, there was no difficulty in segregating the new revenues resulting from the Project.

15. <u>External Factors</u>

The only significant external factor that affected Project implementation was the change in government in August 1984. The original schedule anticipated that the pilot revenue activities would be virtually completed by that time. However, due largely to the initital contracting delays cited above, some programs were just beginning to be implemented in August. During the month prior to the inauguration, the uncertainty and cautiouness which typically beset bureaucrats in a time of tranisition became evident. As a result, implementation of the revenue activities became less aggressive. Uncertainty grew and morale declined in the months following the inauguration as the innevitable pesonnel shake-up took place. A couple career officials involved in Project implementation were removed but most remained. This condition persisted until late November when a new Director General of Revenues was appointed and affirmed his support for the Project, and stability returned to the implementing units. Throughout this period, however, advisory services continued as planned. The main effect of this external factor, then, was to reduce the revenues generated rather than delay implementation or alter assumptions relating to the feasibility of the Project.

16. Inputs

As noted above, the arrival of the resident advisor was delayed by more than four months until January 1984 due to administrative aspects of the contracting process (primarily security clearances). The Mission compensated for this by approving an initial one month contract with the selected advisor. This contract allowed the advisor to come to Ecuador in November 1983 to assist the MOF in a number of implementation planning activities. These included the planning of the short term U.S training activities which took place generally on schedule. However, the initial arrivals of the short term advisors, which depended on further preparatory work by the resident advisor, were delayed by four to five months. Follow-up visits by the short term advisors occurred without further slippage. The Project Paper provided for the procurement of one major commodity: computer equipment. The timing for delivery of the equipment was dependent on the further analyses and recommendations of the advisors and was therefore not specified in the PP. USAID placed the order for the equipment in November 1984. Due to excessive delays on the part of the U.S. supplier, however, the equipment did not reach Ecuador until May 1985. Preliminary planning and training for the use of the computer had been previously undertaken with the support of the local representative of the U.S. supplier. As a result, the MOF was able to install the system and begin using it for its intended purpose immediately. In sum, Project inputs for the most part were delivered in the planned quantities and, following initial delays, in a timely fashion.

17. Outputs

The results of the Project in terms of planned outputs are summarized in the following table:

OUTPUT TARGET	OUTPUT ACHIEVMENTS
1. Pilot programs developed and implemented to detect non-compliance among selected taxpayers in the	

areas of:	
(a) Nonfiling	1.(a) Program developed by March 1984; implementation begun in mid-April.
(b) Delinquent collections	(b) Program developed by late April 1984; implementation begun in mid-May.
(c) Underreporting (audit)	(c) Program developed by early May 1984; implementation begun in four provinces between August and November.
2. More efficient tax returns processing, including an increased number of processing functions performed at field level in pilot areas.	2. The short term advisor in processing chose to focus on a major problem in processing sales tax returns, then two years behind. He set up faster procedures for delivering the returns from the field and developed the specifications for a minicomputer to process the returns. This minicomputer was purchased and installed later in the Project.

3. Study for the reorganization of the MOF tax administrative units.	3. Study completed in late August 1984
4. Short term training given to 32 managers	4. 61 managers trained.

18. <u>Purpose</u>

The Project purpose is to develop mechanisms for improved central government revenue generation, especially from the income and sales taxes. Purpose achievement is measured by two End-of-Project Status indicators:

(a) <u>Institutionalization within the MOF of improved procedures for analyzing non-compliance among selected categories of taxpayers</u>. Given the short, pilot nature of this Project, it could be agreed that "institutionalization" was an overly ambitious objective. Indeed, to a large extent the Project advisors chose to set up the pilot programs outside the normal chain of command, to avoid stifling the programs in the bureaucracy while maximizing the demonstration effect. Institutionalization is more properly an objective of the long term follow-on project which will address the underlying organizational, human resource, and legal deficiencies affecting tax administration. Nevertheless, if institutionalization is defined to mean that the improved procedures were accepted, then there are several indications that this objective was fully met. As the various pilot programs proved their worth, the MOF assigned additional personel to them. Also the programs continued uninterrupted, albeit at a slower pace, through the govermental tranisition. Perhaps most important, subsequent to the final departure of the advisors is January 1985, the MOF formally decreed that the pilot programs would continue through the start-up of the follow-on project.

(b) New assessments of S/315 million from non-complying taxpayers as a result of the pilot revenue programs. As discussed in Section 13 above, the proper cut-off date for measuring this indicator is probably February 28, 1985. Since the MOF reports on Project status quarterly, progress as of that date cannot be determined. However, as of December 31, 1984, the pilot programs had produced net new revenues and assessments of S/450.4 million (43 percent over the target). As of March 31, 1985, the figure had risen to S/495.5 million (57 percent over the target). By the latter date, the nonfiling and delinquent returns programs had reached 52 percent and 69 percent, respectively; the audit program fell 10 percent short of target.

19. Goal

The Project is intended to contribute to the goal of strengthening GOE capacity to finance broad based development activities on a sustained basis. Progress toward goal achievement is defined in the Project Paper as an increase in income and sales tax revenues from 30 percent of Central Government current revenues in 1982 to 35 percent by 1988. Subsequent to Project Paper approval, the GOE released revised 1982 figures which showed the income and sales taxes constituting 27 percent of current revenues. In 1983, the contribution of these two taxes dipped to 25 percent, and preliminary 1984 figures from the MOF show a further reduction to 22 percent. It should be noted that in absolute terms income and sales tax revenues increased by 44 inflation rate of 33 percent. However, total current revenues increased bay over 60 percent as the GOE raised various tax rates and scaled back subsidies to compensate for the tight restrictions on borrowing to finance the deficit. Thus, there were small signs of improvement that this Project contributed to. Clearly, however, much larger, sustained efforts are needed to effect the Goal level changes in the Central government revenue structure.

20. Beneficiaries

The direct and identifiable beneficiaries of the Project were the dozens of MOF employees who participated in implementation of the pilot programs. As noted above, 61 received formal, short term training in the U.S. and third countries which imparted practical concepts of more efficient tax administration. Many others benefited from the "on-the-job" training and on-site seminars provided by the Project advisors in the course of implementation. These experiences had a notable positive effect on the motivation of mid and upper level MOF tax administration personnel and, in the context of the improved procedures and programs, substantially increased their productivity. For example, the revenue production of auditors in the pilot program was five times that of their counterparts in the regular audit function.

Beyond this level, the Project Paper recognized that this Project would not have a well defined target group as is normally the case. Theoretically, the benefits of a tax administrative project result from increased revenues which allow an increase in public services and investments. Assuming a reasonable progressive tax structure and government policy orientation, these public goods should contribute to equitable growth and development. Such benefits, however, are diffuse and difficult to trace. In any case, the increased revenues from this pilot Project were minimal relative to the total Central government budget; hence, these kinds of indirect benefits were also small. The significance of the Project is that it set the stage for a much larger scale effort which should have a sizable impact on revenues and thus on Ecuadorean development.

21. Unplanned Effects

None

22. Lessons Learned

(a) This Project demonstrated the value of a pilot approach, for both technical and political reasons. Technically, A.I.D. was able to test the potential for improved tax administration and the effectiveness of a specific strategy without making a large, long term commitment. The success of the pilot Project provided strong assurance and rationale for continuation of that strategy on a large scale under a follow-on project. From a so-called political point of view, A.I.D. is often faced with the dilemma in which it designs projects to address the priorities of one host country administration but, due to inevitable lag times, actual implementation access largely during a succeeding administration which may have different priorities. The pilot approach of this Project shows one way of dealing with this dilemma. The Project was initiated toward the end of one administration. The express intent of the design was to have a base of experience upon which to open a dialogue with the next administration regarding a more massive effort. This strategy succeeded. The government-elect accepted the idea of a follow-on project and design was underway by the time that government formally assumed power. As a result, the new project will be implemented almost totally during the tenure of the administration that requested it.

(b) The Project advisors had intended to implement the pilot programs with special units set up outside the normal bureaucratic channels. Given the many serious organizational deficiencies of the MOF, a true demonstration of the validity of the programs and of the need for more fundamental reform of the organization could only take place in this way. However, not surprisingly, there were strong bureaucratic pressures to bring the pilot programs into the fold rather than set up new units which threatened the entrenched power structure. These pressures should be resisted, as the results of this Project show. Only the delinquent collections pilot program maintained virtually total independence for the bureaucracy and achieved, the best results in terms of percentage of target and absolute amount of revenues generated. This approach may be criticized as avoiding the underlying problems and thus having little relevance for tax administration reform. But this criticism misses the point of a pilot Project which is not to bring about massive changes but rather to demonstrate how something can be done better *if only* those underlying problems were addressed. Pilot projects must be carefully designed, negotiated, and executed to ensure that "experimental" conditions are maintained and the demonstration effect maximized.

23. Special Comments - Remarks

Attachment No. 1 to this PES is the final report of the resident advisor, which incorporates the reports of the short term advisors and the reorganization study. Total length: 132 pages.