15A

PD-ABH-797

V-1 - A.I.D. EVALUATION SUMMARY PART I

(BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS)

XD

IDENTIFICATION DATA

A. REPORTING A.I.D. UNIT:

~~USAID/ECUADOR~~
(Mission or AID/W Office)

(ES#)

B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN?

yes ☐ slipped ☐ ad hoc ☐

Eval. Plan Submission Date: FY___ Q___

C. EVALUATION TIMING

Interim ☐ final ☒ ex post ☐ other ☐

D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report)

Project #	Project/Program Title (or title & date of evaluation report)	First PROAG or equivalent (FY)	Most recent PACD (mo/yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
518-0042	FISCAL ADMINISTRATION DEVELOPMENT PROJECT	1985	06/30/93	7,050	6,308

ACTIONS

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

Action(s) Required	Name of officer responsible for Action	Date Action to be Completed
1. Manage the translation of the evaluation report prior to be delivered to the MOF	PPD	
2. Complete the Project Assistant Completion Report	PPD	December, 1993
3. Complete the Project Evaluation Summary	PPD	December 1993

(Attach extra sheet if necessary)

APPROVALS

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo___ day___ yr___

G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Signature	[signature]	[signature]	[signature]	[signature]
Typed Name	Edgar Guillén	Dr. Carlos Velasco Coordinador Proyec.	Paula Goddard	John A. Sanbrailo
Date:	1/28/94	01/14/94		2/10/94

H. EVALUATION ABSTRACT (do not exceed the space provided)

The purpose of the Fiscal Administration Development Project was to increase non-oil tax revenues, especially from income and sales tax, through several activities that would also create a better General Directorate of Revenues (GDR). A new purpose was added during Phase II to assist the GDR in implementing the tax reform.

Findings

1. The training program itself was completed successfully; nevertheless, the training strategy was not completely adequate.
2. In spite of the training program, productivity was not increased and there was no incentives for the staff to improve.
3. Corruption continues to be prevalent..
4. Implementation of tax filing and collection activities through the banking system was successful.
5. The dual goals of higher efficiency in audit and collection of delinquent accounts were not achieved.
6. The Objective Global Assessment System was partly implemented.
7. The data processing organization received constructive technical assistance, but the unit was not satisfied with the assistance during the last year.
8. Computer equipment was provided by several donors, but there was no coordination among donors to ensure compatibility.
9. At the end of the project, the goal of increasing revenues through a better-run, better equipped, more efficient institution has not been achieved.
10. The target of increasing public sector investment to 10% of Gross Domestic Product was not achieved during the last phase of the project.

Conclusions

1. The project was overly ambitious in coverage and not very flexible in the face of changing circumstances.
2. Phase II was not an isolated effort; it was a continuous flow, fully supported by Phase I.
3. The project made the GDR more aware of and receptive to the needs for reform.
4. It was successful in implementing tax collection through the banking system.
5. Detection of nonfilers and stregthened audit program were not achieved.
6. The failures resulted from a combination of internal resistance to change within the GDR, a lack of leadership at high levels of the GDR, highly variable government commitment, deficient technical assistance from the contractor and a lack of project flexibility in order to adjust to changing circumstances.

Recommendations

1. Tax Management: Concentrate efforts on the audit and inspections departments.
2. Tax Structure: Eliminate exemptions and exonerations from taxation, eliminate the Objective Global Assessment System (SEOG).

I. EVALUATION COSTS

1. Evaluation Team

Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (US$)	Source of Funds
Joaquin Bohorquez David S. Nathan	Nathan Associates	IQC-AEP-5451-I-00-2058	$40,304.	Grant Project Funds

2. Mission/Office Professional Staff Person-Days (estimate) 20 days 2 people part time

3. Borrower/Grantee Professional Staff Person-Days (estimate) 20 days 4 people part time

A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided)
Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: USAID/ECUADOR　　Date this summary prepared: December 30, 1993

Title and Date of Full Evaluation Report: FINAL EVALUATION OF ECUADOR FISCAL ADMINISTRATION DEVELOPMENT PROJECT, August 1993

1. Purpose of the activity evaluated: The purpose of the Fiscal Administration Development Project was to strengthen the Government of Ecuador's capability to finance equitable development on a sustained basis. The primary goal of Phase II was to support the institutionalization of the 1988 and 89 tax reforms, in addition to the goal and purposes of the original agreement.

2. Purpose of the evaluation and methology: The purpose of the evaluation report was to evaluate Phase II of the Fiscal Administration Development Project, which through two contraceptual stages, lasted from March 31, 1990 to July 31, 1992. This evaluation examined the relevance , efficiency, impact, and sustainability of the primary goal of Phase II of the Project.
The evaluation team reviewed documents relevant to the project and interviewed more than 45 government and nongovernment people in Quito and Guayaquil. The interviews had problems typical on an analysis made nearly a year after project completion.

3. Findings:
   a. The training program itself was completed successfully; 4,635 employees were trained through 200 courses and seminars, an average of 2 courses per employee. Nevertheless, the training strategy was not completely adequate in that a great percentage was trained in skills unrelated to the requirements.
   b. In spite of the training program, productivity was not increased and there was no incentives for the staff to improve.
   c. Corruption continues to be prevalent and it is identified as a major failing of the system.
   d. The public relations effort was successful to the extent that it provided the public with basis instructions and information on the tax reform. However, it did not improve taxpayers' attitudes toward tax evasion which remains at high levels
   e. Implementation of tax filing and collection activities through the banking system was successful. Today, close to 100% of the collection is done through this system.
   f. The dual goals of higher efficiency in audit and collection of delinquent accounts were not achieved. Enforcement of the audit process requires government commitment and an appropriate legal and regulatory framework in order to enforce notifications and collections.
   g. The Objective Global Assessment System was partly implemented. The system is not practical, is difficult and costly to administer and is an open door for tax evasion.
   h. The data processing organization received constructive technical assistance, but the unit was not satisfied with the assistance during the last year.
   i. Computer equipment was provided by several donors, but there was no coordination among donors to ensure compatibility. It meant that some equipment was either not used at all or not to full capacity. There has been no government commitment to basis maintenance or supplies.
   j. At the end of the project, the goal of increasing revenues through a better-run, better-equipped, more efficient institution has not been achieved. The small

increase seems to have resulted more from changes introduced by the tax reform and other measures unrelated to the project than from increased revenues.

k. The target of increasing public sector investment to 10% of Gross Domestic Product (GDP) by 1990 was not achieved during the last phase of the project and the highest ratio achieved was 8% in 1991.

4. Principal Recommendations:

a. Recommendations to the Government of Ecuador:

In relation to Tax Management, the GDR should concentrate efforts on the audits and inspections departments and install in these departments a small, efficient, motivated well-paid team of young professionals in accounting and business administration. The GDR should improve the regulatory system in order to make tax enforcement a transparent and effective pool.

In relation to Tax Structure, the GDR should eliminate the Objective Global Assessment System and sustitute with a presumptive tax based either on assets or on turnover values. The exemptions and exonerations from income taxation, and sales tax should be eliminated. The exoneration level for income tax liability should be reduced to a level not higher than twice the average income per capita of Ecuador, roughly one-half its actual level.

b. General Recommendations:

- Until the government place a high priority on tax collection and enforcement, donor funds for tax administration and reform will be underused.

- Project implementation should take place in stages with continuation subject to successive and gradual achievement of specific goals and continuous government support.

- Training program should be developed for key areas, but only with the Government's commitment of increased salaries for personnel.

- To avoid wasting resources, donors who act as joint partners in monitoring the common project should coordinate more closely.

- The project should include its own measuring and monitoring capability.

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ATTACHMENTS

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

Final Evaluation of Ecuador Fiscal Administration Development Project- Final Report.

MISSION COMMENTS ON FULL REPORT

L. COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRANTEE

USAID: The Mission considered that the Final Evaluation of the Fiscal Administration Development Project was useful. The report will be translated and delivered to the Ministry of Finance.

XD-ABH-497-A
ISN 86469

Final Report

Final Evaluation of Ecuador Fiscal Administration Development Project

SUBMITTED TO
USAID/Ecuador

SUBMITTED BY
Nathan Associates Inc.
Economic and Management Consultants
Arlington, Virginia

UNDER
IQC No. AEP-5451-I-00-2058-00
Delivery Order No. 6

August 1993

Contents

Contents (*continued*)

TABLES

Glossary

A.I.D.	U.S. Agency for International Development
ARCOE	Referential Analysis System for Ecuadoran Taxpayers
CIAT	Inter-American Center For Tax Administration
GDP	gross domestic product
GDR	General Directorate of Revenues
ICE	special consumption tax
IDB	Inter-American Development Bank
Jefaturas	area offices
MOF	Ministry of Finance and Public Credit
PP	Project Paper, Fiscal Administration Development Project
Rentas	income tax
Retención en la fuente	tax withholding
RUC	Master Register of Taxpayers
SEOG	Objective Global Assessment System (presumptive tax by trade or profession)
TARIF	Tax-Level Determination System (tax indexing)
USAID	A.I.D. Mission
VAT	value-added tax

Preface

This report was prepared by Joaquin Bohorquez and David S. Nathan at the request of USAID/ Ecuador under the Macroeconomics Indefinite Quantity Contract (IQC No. AEP-5451-I-00-2058-00, Delivery Order No. 6) between A.I.D. and Nathan Associates Inc.

Phase I of the Fiscal Administration Development Project began March 29, 1985, when USAID/Ecuador and the Government of Ecuador signed an agreement to implement the project. The purpose of the project was to increase the government's non-oil tax revenues in order to reduce the government's dependence on oil revenues and provide additional funds to finance development and social programs. In 1990 the project was extended to July 31, 1992, and another project component (Phase II) was added to help the government institutionalize tax administration under the then-newly enacted Tax Reform Act. This evaluation report addresses Phase II of the project. Phase I project activities are addressed when they are relevant to the activities of the follow-on effort. However, the focus of this evaluation is Phase II project activities.

During this assignment, the evaluation team reviewed documents relevant to the project (see Appendix B) and interviewed more than 45 government and nongovernment people in Quito and Guayaquil. The interviews had problems typical of an analysis made nearly a year after project completion: most of the staff at the General Directorate of Revenues (GDR) and the Inter-American Center for Tax Administration (CIAT) involved in the project had left; several government officials had been replaced; and within USAID the only project participant remaining was the project officer, who supervised only the last 7 months, when activity was minimal compared with that during the first 21 months.

The evaluation report has two parts. The first part addresses the specific questions raised by USAID in the statement of work (SOW) with regard to project output, project targets achieved, and reasons for not achieving them. The first part also addresses the four broader questions listed in the SOW.

The remaining sections of the report discuss economic indicators and analyses relating to the effects of tax reform, as well as findings, conclusions, and recommendations derived from the information gathered to address the specific questions in the first part and the analysis of economic data that indicates the results of the project.

Executive Summary

The Fiscal Administration Development Project began in August 1985 and was scheduled to end December 31, 1989. In December 1989 an easier-to-administer, comprehensive tax reform was passed that became effective January 1, 1990, and complemented an earlier, partial reform passed in 1988. The support to a long-awaited reform was the decisive factor in extending the project, on this occasion under a new contractor, the Inter-American Center for Tax Administration (CIAT), for 16 months from March 31, 1990, to July 31, 1991, and again for 12 months from August 1, 1991, to July 31, 1992, the final expiration date after 28 months of activity. The second phase of the project, initiated in 1990, is the subject of this evaluation. During Phase II the Inter-American Development Bank (IDB) also participated in a project with the same goal as that of the USAID project. Its contract extended from January 15, 1990, to December 28, 1992.

The purpose of the project was to increase non-oil tax revenues, especially from income and sales tax [value-added tax (VAT)], through several activities that would also create a more efficient and better-equipped General Directorate of Revenues (GDR). During Phase II, an additional action was given priority status, namely, to assist the GDR in implementing the 1989 tax reform. Specifically, the following actions were planned targets:

- Undertake an extensive program to train GDR personnel in the administration of the new tax law (in addition to training already initiated under Phase I) and to increase labor and management productivity. The program was to become a permanent activity in the GDR;
- Undertake a countrywide public communications drive to educate taxpayers in the filing and accounting requirements of the new law, and increase public awareness of the need for tax compliance;
- Implement tax filing and collection through the commercial banking system;
- Increase the quantity and quality of audits to identify tax evaders, nonfilers, and stop-filers;
- Increase effectiveness in collecting delinquent accounts; and
- Implement the Objective Global Assessment System (SEOG), a presumptive system for determining income and value-added-tax liabilities.

The effort was to be supported by an efficient data processing organization, the donation of personal computers, printers, accessories, and the refurbishing of classrooms.

The training program itself was completed successfully. From June 1990 to July 1992, a total of 4,635 GDR employees were trained through 200 courses and seminars, an average of 2 courses per employee. Nevertheless, the training strategy was not completely adequate in that a significant number of personnel were trained in skills unrelated to either the short- or medium-term requirements of the GDR. Rather, they were trained in areas such as Lotus 1-2-3 and WordPerfect, which had no direct application back in the office since little or no computer equipment is available for staff use. In spite of the wide coverage of the training program, productivity has not increased and in critical areas such as audit productivity it has actually declined. Also, there are no incentives for the staff to improve in terms of either increased salaries or job recognition. The only incentive for training derives from the possibility of increased income from activities outside the government.

The training program lost much of its impact with the subsequent dismissal of 30 percent of the personnel who had worked in the GDR during the intensive training period. Some of the personnel were involved in tax collection and were no longer needed when the system was privatized. Regarding the continuity of the training program, it has floundered for lack of financial support from the Government of Ecuador. Job-related attitudes of GDR personnel have not improved.

Corruption continues to be prevalent as stated quite forthrightly by some of the GDR staff interviewed. Corruption was identified as a major failing of the system by virtually all of the private sector people interviewed.

The public relations effort was successful to the extent that it provided the public with basic instructions and information on the tax reform's new rates and filing requirements. However, it was not successful in improving taxpayers' attitudes toward tax evasion, which remains at very high levels according to the evaluation team's rough estimates, the IDB, and the contractor's opinion.

Implementation of tax filing and collection activities through the banking system was successful. Today, close to 100 percent of the collection is done through this system. There are now 370 tax collection points, up from 20 before the reform. One of the main benefits of this system is a reduction in collection costs, which should result from privatization.

The dual goals of higher efficiency in audit and collection of delinquent accounts were not achieved. In some instances, these forces were beyond the contractor's reach. Enforcement of the audit process requires government commitment and an appropriate legal and regulatory framework in order to enforce notifications and collections.

The SEOG created by the tax reform was partly implemented. In 1991, only 1,326 payments were registered from this system out of a total of 13,432 potential taxpayers. The system is not practical, provides a low yield, and is difficult and costly to administer. But the most glaring disadvantage of the system is that it is an open door for tax evasion by taxpayers who should keep accounting records and do not qualify for the system (such as the fuel transportation association).

The data processing organization received constructive technical assistance during the first 16 months of the project, but the unit was not satisfied with the assistance received during the last year.

Computer equipment was provided by several donors, but there was no coordination among donors to ensure compatibility. We found instances in which lack of compatibility meant that some equipment was either not used at all or not to full capacity. There has been no government commitment to basic maintenance or supplies such as paper. The Ministry of Finance mainframe, on which the GDR heavily relies to process tax data, is operational only 8 hours a day 5 days a week, in spite of heavy demand. In addition, there are several unused microcomputers, mid-sized computers, and printers throughout GDR.

Two international donors—USAID and IDB—participated jointly during Phase II of the project. It is not clear what increased benefits and synergies this joint effort has produced. On the contrary, the effect of the partnership has been to dilute the accountability of the main contractor.

With regard to the project's stated purpose of increased revenues, the small increase to GDP, indicated in the table below, seems to have resulted more from changes introduced within the system by the tax reform and other measures unrelated to the project than from increases revenues. At the end of the project, the goal of increasing revenues through a better-run, better-equipped, more efficient institution has not been achieved.

Income tax (including corporate tax but excluding taxes paid by oil companies Texaco and Cities) and VAT (which does not include VAT paid directly by oil companies) are presented next as percentages of GDP.

Year	Income tax (percentage of GDP)	VAT (percentage of GDP)
1985	1.38	1.62
1986	1.64	2.73
1987	1.65	2.68
1988	1.36	2.74
1989	1.96	2.77
1990	1.53	2.91
1991	1.79	3.15
1992	1.78	3.22

Tax revenues are based on information from the GDR Planning Office. Information on GDP is from the Banco Central del Ecuador's *Bulletin No. 16*, June 1993.

In 1989 and 1992 the ratios should be affected by general tax amnesties. In 1989 there is a one-time cash-flow effect from moving a large portion of collections to a pay-as-you-go system. The VAT increase in 1986 resulted from increasing the rate from 6 percent to 10 percent. The increase in 1990 resulted from increasing the number of taxable items.

The project had a target of increasing public sector investment to 10 percent of GDP by 1990. This target was not achieved either at that time or during the last phase of the project. The highest ratio achieved during the life of the project was 8 percent in 1991; the ratio declined to 7.7 in 1992. The projected ratios for 1993 and 1994 are 7.5 percent for each year according to World Bank figures.

CONCLUSIONS AND RECOMMENDATIONS

The project was overly ambitious in coverage and not very flexible in the face of changing circumstances. It insisted on covering all aspects of institution building, when actual progress and the political environment suggested dropping some programs and concentrating efforts on some achievable and targeted goals, or suspending the project altogether. It ignored some useful lessons learned from the last evaluation. The contractor concentrated on classroom training and design and publishing numerous manuals and paid less attention to implementation; this resulted in little technology transfer or practical results. At this stage, it is important to emphasize that Phase II was not an isolated effort; rather, it was a continuous flow, fully supported by Phase I, with more than 4 years of work and experience in basically the same issues and goals.

One positive aspect of the project has been to make the GDR more aware of and receptive to the needs for reform. It was also successful in implementing tax collection through the banking system, and the public instruction drive effectively covered a large segment of the taxpayer population.

The failures resulted from a combination of internal resistance to change within the GDR, a lack of leadership at high levels of the GDR (during Phase II the GDR had an interim director for 18 months and the Office of Internal Audits and Control had no director or deputy director for 5 months), highly variable government commitment, deficient technical assistance from the contractor; and a lack of project flexibility in order to adjust to changing circumstances.

Lessons Learned

- Until the president of Ecuador and his administration place a high priority on tax collection and enforcement, donor funds for tax administration and reform will likely be underused by the Government of Ecuador.
- Project implementation should take place in stages, with continuation subject to successive and gradual achievement of specific goals, and continuous government support.
- Focused training programs should be developed for key areas, but only with the Government of Ecuador's commitment of increased salaries for tax administration personnel.
- When participating in joint ventures with other donor agencies, there should be a clear delineation of target areas and achievements to be produced under each contract.
- The project should include its own measuring and monitoring capability. In this case the project should have developed a tax computation model for fiscal analysis, a model based on disaggregation of information contained in tax returns records. This point is not applicable in countries where such models already exist. The model is badly needed in Ecuador and would be very useful for serious tax reform proposals.

Recommendations to the Government of Ecuador

- **Tax Management.** Concentrate efforts on the audits and inspections departments. Install in these departments a small, efficient, motivated, well-paid team of young professionals in accounting and business administration. Improve the regulatory system in order to make tax enforcement a transparent and effective tool.
- **Tax Structure.** Continue along the path of administratively simple taxes. The following steps will be necessary:
  - — The Objective Global Assessment System (SEOG) is a system of presumptive taxation based on negotiating what a trade or professional association pays for both income tax and VAT. The association in turn assigns individual burdens among its members. This system is difficult to administer efficiently. For this reason it is used as a shelter for evasion where individuals join the system and pay token tax amounts. The SEOG should be eliminated and substituted with a presumptive tax based either on assets or on turnover values.
  - — Eliminate exemptions and exonerations from income taxation, corporate taxation, and VAT. Regarding the exoneration level for income tax liability, it should be reduced to a level not higher than twice the average income per capita of Ecuador, roughly one-half its actual level (1.7 is the highest ratio observed elsewhere in Latin America).

1. Purpose and Description of the Evaluation

INTRODUCTION

The purpose of this evaluation report is to evaluate Phase II of the Fiscal Administration Development Project, which, through two contractual stages, lasted from March 31, 1990, to July 31, 1992. This evaluation examines the relevance, efficiency, impact, and sustainability of the primary goal of the second phase of the project.

The primary purpose of Phase II was to support the institutionalization of the 1988 and 1989 tax reforms, in addition to the goal and purposes of the original agreement [Phase I (March 29, 1985–March 29, 1990)], which were to strengthen the Government of Ecuador's capability to finance equitable development on a sustained basis. The purpose of the agreement was to increase central government fiscal revenues, especially income and sales taxes. The target was a net increase in non-oil tax revenues of S/.25 billion (1983 sucres) over the life of the project. The target of S/.25 billion claimed to have been achieved in Phase I is not applicable to Phase II.

The original agreement had the secondary purpose of strengthening the capability of the central government in fiscal revenue administration, which includes the institutionalization of any tax reform.

BACKGROUND

Macroeconomic Framework

Ecuadoran government revenues have been subject to fluctuating oil prices and output levels since the 1970s. Prospects for the late 1990s are declining production levels. The impending oil crisis was one of the leading forces behind the tax reforms introduced in 1988 and 1989. The situation is aggravated by the debt overhang and resulting large proportion of the budget (32 percent for 1992) that will have to be allocated for debt repayments. Ecuador remains the most indebted middle-income country in Latin America. The revenues from non-oil taxation would have to increase significantly in order to achieve sustained development rates. The revenue impact of the structural changes of reform was supposed to be neutral. Nevertheless, greater administrative simplicity should have produced increased revenues. The reforms affected the income tax, the corporate tax, the value-added tax (VAT) and excise taxes and abolished more than 100 insignificant taxes.

The changes brought income tax collections closer to a pay-as-you-go system, and currently nearly 83 percent of taxes are collected in the year in which they are incurred, compared with 37 percent before the reform.

From a system in which withholding was applied only to employees (and some financial institutions), the new law established a process for retail businesses and corporations whereby taxes must be withheld in order for payments to qualify as deductions.

The cash-flow effect of this change produced a one-time increase in revenues for 1989 and was reinforced by a tax amnesty granted for the same year. Another general amnesty was declared in 1992.

Highlights of the 1988 and 1989 Tax Reforms

The principal changes made by the tax reforms include

1. Integration of income taxation of corporate entities and individuals.
2. Reduction of the number and level of rates of the integrated taxation system.
3. Elimination of several income tax deductions and business tax exemptions. The reform also introduced tax indexing for inflation and presumptive income taxation for agricultural activities.
4. Introduction of a presumptive income tax and presumptive sales tax scheme (SEOG).
5. Introduction of a tax withholding system on all payments by corporate entities.
6. Expansion of the base for VAT to include additional services.
7. Reduction in the number of excise taxes to only five categories of articles, including tobacco products, alcoholic beverages, and nonalcoholic beverages.
8. Introduction of a process of tariff reduction in three stages to reach a final range between 5 and 20 percent (except 40 percent for automobiles).

Tax Structure

Individual Income Tax

The reform eliminated tax filing requirements for most wage earners and exonerated those with incomes up to four times the average per capita income of Ecuador (1.7 is the average comparable ratio in other countries). This measure drastically reduced the number of people on the tax rolls and should have made the tax system easier to administer and enforce. (Theoretically the new law should have exempted 96 percent of the population from the income tax system, either through zero tax liability or nonfiling requirements.) The reform also introduced indexation for inflation, lowered and simplified the tax rate structure, and reduced exemptions and integrated personal and corporate taxation.

Corporate Tax

Before 1989, corporate and personal income taxes were not integrated. Business income was subject to different treatment depending on several factors. Currently, business profits are subject to a profit-sharing scheme applicable to 15 percent of gross profits to be distributed among the company's employees. The remaining is taxed with rates that were reduced from a range of 8 to 69 percent to a range of 10 to 25 percent. The rate for foreign companies was set at 36 percent and 25 percent on profits reinvested in Ecuador. The effective rates resulting from these two taxes (36.25 for local companies and 45.6 percent for foreign companies) are among the highest tax rates in Latin America. Starting in 1993, an indexing system will be introduced in the balance sheets of legal entities.

Taxes on the Financial Sector

All local credit operations are subject to a 1 percent tax on interest earned up to one year and 2 percent on interest earned from longer-term credits. Foreign credits registered with the Central Bank are subject to taxes of 0.5 to 2.0 percent.

Value-Added Tax

The VAT rate has been 10 percent since 1986. Its importance as a revenue producer has increased. Since 1985, VAT revenues have increased from 1.62 percent of GDP to 3.21 percent in 1992. The 1989 reform eliminated some exemptions and expanded the tax base, resulting in a small revenue increase.

Evasion of VAT appears to be high. An approximate measure of the "correct" level of VAT revenues is the difference between total VAT revenue and the 10 percent rate applied to half the GDP value. This measure is based on the Chilean model, whereby an 18 percent rate yields a 9 percent return to GDP. If this measure were applied in Ecuador, total VAT revenues for 1991 would have been S/.973 million instead of the actual revenue of S./626 million (1983 sucres).

Systems of Presumptive Taxation

Objective Global Assessment System

The Objective Global Assessment System (SEOG) offers self-employed individuals in business or a profession the choice of presumptive income taxation. To qualify for this system, an individual's assets and annual income should not exceed S./22.35 million and S./67.05 million respectively (amounts to be indexed annually with cost-of-living variations). In 1991, only 1,326 individuals paid SEOG tax, out of a total of 13,432 registered in the system. Also in 1991 the system had an established tax base equivalent to 0.03 percent of GDP and only 0.002 percent was collected, and several professions and commercial activities were exempted from the system. Some activities, such as transportation, were not audited at all. Adding all the above shows that approximately 45,000 potential taxpayers did not pay any taxes in 1991. Like VAT, SEOG seems to be a major area for evasion, and many nonqualifying individuals have been included in the system.

Presumptive Income Tax on Agricultural Activities

There is a presumptive income tax on agricultural activities equivalent to 5 percent of the cadastral value of the property. The revenue from this source is lower than it should be because cadastral values underestimate by far the commercial value of the real state.

Special Consumptions

The special consumption tax (ICE) is an excise tax applicable to five groups of articles, including cigarette sales, which constitute about 70 percent of all revenues. Total revenue from this source is approximately one-quarter of VAT revenues. Import taxes were reduced and simplified in 1990, resulting in a large increase in imports for that year.

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2. Phase II Project Outputs

This chapter addresses each of the questions raised in Part A of the statement of work (SOW) on the completion of the activities under each of the project components and responds to USAID's concern about whether the outputs set forth in the terms of reference for Phase II of the Fiscal Administration Development Project were accomplished and, if not, why not. Each of the questions in the SOW are repeated in this section. the evaluation team used interviews, as well as contractor reports, interim evaluations, a questionnaire, and other documents as information sources. We compared planned output, when applicable, with actual output, when available, and gave reasons why output fell significantly below the plan. The presentation here represents total output for the life of Phase II.

The relation of project output to Government of Ecuador economic and financial performance is found elsewhere in this report.

PROJECT COMPONENT 1: INFORMATION DISSEMINATION, PUBLIC EDUCATION, AND TRAINING

The primary objective of Component 1 was to prepare the public to comply with the Tax Reform Act of 1989 through education and information. Education took the form of seminars on tax reform; publication and distribution of books, pamphlets, and newspaper inserts; and training of the General Directorate of Revenues (GDR).

Seminars on Tax Reform

Question: How many seminars were conducted?

Answer: A total of 131 of the targeted 150 seminars on tax reform legislation were conducted. One hundred twenty trainers were from the Ministry of Finance (MOF), exceeding the 100 called for by the project by 20. Seminars were attended by 13,453 people, achieving countrywide coverage. Trade and professional organizations were emphasized in the criteria for selection of participants; however, all respondents to an invitation announced in the newspaper were admitted.

In addition to seminars held during Phase II of the Fiscal Administration Development Project, the evaluation team was told that seminars were presented by trade associations, chambers of commerce, and other civic or professional groups. The evaluation team concludes that the target was met for achieving project output.

Question: What did the seminars accomplish?

Answer: The seminars helped ease the difficulties the public would otherwise have faced in complying with major new tax requirements and procedures. Seminars were to build on experience gained from the passage of Law 6, December 1988, which began a process of simplifying Ecuador's complex tax laws and administration. The principal accomplishment of the tax reform seminars was the dissemination of information on the new system and how individuals would be affected.

Question: What were the seminar topics?

Answer: The seminars discussed the requirements of the new tax law, including withholding requirements, new tax brackets, VAT requirements, elimination of proportional taxes, the SEOG system (see Chapter 1), and changes in corporate tax requirements.

As indicated earlier, Law 6 provided a foundation for discussion of some of these topics.

Question: Did MOF reach the stated output levels by July 31, 1992?

Answer: A total of 131 seminars were conducted, 87 percent of the 150 target.

Question: Determine and describe the reasons for any lack of progress.

Answer: Substantial progress was made on this activity; 87 percent of the target was achieved. That level of achievement, in the view of the evaluation team, is sufficient to claim completion of target outputs. The reason provided to us by the Inter-American Center for Tax Administration for the 13 percent shortfall was that individual seminars took longer to conduct than originally planned. Thus, although there were fewer seminars the total number of seminar hours was exceeded. We have not found a plan specifically addressing seminars, so there is no way to verify that assertion. Nonetheless, we believe 131 seminars certainly met the intent, and the shortfall in number of seminars was minimal.

Publication of Books, Pamphlets, and Newspaper Inserts

The purpose of publishing books, pamphlets, and newspaper inserts was to provide public information on accounting principles, adjustment for inflation, tax reform regulations, and other practical guidelines in order for taxpayers to understand and comply with the new tax reform law.

Question: How many publications were printed and distributed in each of the stated categories and for which audience?

Answer: The outputs for this activity are given in Table 1. Perhaps the most useful publication for the general public is the Tax Guide (Guía Tributaria). Published for each of the years 1989 through 1993, the guide includes (1) the principal provisions of the new tax law, (2) completed sample forms, (3) questions and answers, and (4) locations where taxes can be paid. This guide will be available for the 1994 tax season.

Question: What were the topics of the publications?

Answer: See topics in Table 1.

Table 1. Publications and Newspaper Inserts Tax Reform Law

Title or Topic	Number of Copies	Audience
Glossary of Supreme Court Tax Definitions	1,000	GDR personnel, trade and professional associations, and other public sector authorities
High Court Tax Appeal Procedures	1,000	GDR personnel, trade and professional associations, and other public sector authorities
Tax cases of High Court of Appeals	30	High-level GDR staff
1989 Tax Guide	60,000	All classes of taxpayers. Distributed through newspapers throughout the country.
1990 Tax Guide	60,000	All classes of taxpayers. Distributed through newspapers throughout the country.
1991 Tax Guide	70,000	All classes of taxpayers. Distributed through newspapers throughout the country.
1992 Tax Guide	70,000	All classes of taxpayers. Distributed through newspapers throughout the country.

Note: GDR = General Directorate of Revenue.

Question: Are these materials still being used and circulated?

Answer: The first two publications (see Table 1) will be valid until the legal procedures are modified; they are no longer circulated. The tax guides continue to be published.

Question: Is there evidence of their usefulness?

Answer: Some publications are applicable only in the year in which they are printed. Others, such as the tax guide, are still in print and are available. There is a demand for other publications from universities, professional and trade organizations, and the general public that are of more permanent value.

In addition to the publications issued by the government through the project, private organizations also publish information on the new tax law. For example, Price Waterhouse publishes annually a booklet, *Doing Business in Ecuador*, which thoroughly discusses tax laws in Ecuador. The booklet is available to domestic and foreign businesses and individuals. To the extent that the government, through the project and now on its own, continues to provide annual tax guides, we find that the publications are successful in meeting the project target.

Training of the General Directorate of Revenues

The GDR training portion of this component will be discussed under the technical assistance component as agreed to by the USAID mission. The evaluation team agreed that the training of government personnel called for by Component 1 was difficult to distinguish from training under

Component 2. Handling the two training elements separately would be confusing. Moreover, it makes sense to separate project activities directed solely at the public from those directed at the government. See assessment of all training under Component 2: Administration of Reform Legislation, discussed next.

PROJECT COMPONENT 2: ADMINISTRATION OF REFORM LEGISLATION

The activities under Component 2 were directed at successfully administering the new tax law.

Questions: In what areas has technical assistance been provided? What did it accomplish? To what groups or organizations has the technical assistance been provided? Determine and describe the reasons for any lack of progress in this area. How has the technical assistance provided improved Government of Ecuador tax administration in each specific area above?

Answer: These questions are discussed in each area of technical assistance. Technical assistance was to be provided by consultants. Table 2 summarizes the type of technical assistance by year and topic provided by consultants, and Appendix D provides further details. Table 2 covers only the assistance funded by USAID. Similar assistance was provided though the Inter-American Development Bank project, sometimes concurrently with the USAID project.

Table 2. Technical Assistance Provided During Phase II

	No. of Months				
Technical Assistance	1990	1991	1992	Total	Percent
Chief of party	11.5	12	12	35.5	17.2
Training	7	12	7	26	12.6
Systems support	8	14.5	12	34.5	16.[illegible]
Organization and management	2	12	12	26	12.6
Tax control	3	12	12	27	13.1
Organizational development	-	2	12	14	6.8
Large taxpayers	1.5	6.5	-	8	3.9
Assessment estimates objectives	2	5.5	-	7.5	3.6
Systems development	-	-	5.5	5.5	2.7
Information systems	-	-	11.5	11.5	5.6
Regulatory system for institutionalizing tax reform	1	2	2	5	2.4
Collections system	-	-	1.5	1.5	0.7
Bank collections	-	-	2	2	1.0
Financial management	-	-	2	2	1.0
Total	36	78.5	91.5	206	100
Percentage of total	17.5	38.1	44.4		

Technical assistance was provided in four areas: (1) tax administration and information systems, (2) training of GDR personnel, (3) systems and equipment, and (4) macroeconomic studies.

1. Tax Administration and Information Systems
Activities under this area included (a) tax collection through the banking system, data processing for value-added tax, and withholding at the source; (b) taxpayer identification system and taxpayers' current account system; (c) banks current accounts systems; (d) presumptive tax assessment by trade and profession (SEOG); (e) office and field audit of major taxpayers, nonfilers programs; and (f) management programs and standardization of procedures.

- ***Tax Collection Through the Banking System, Data Processing for VAT, and Withholding at the Source.*** The project developed a system to process the collection and receipt of income tax returns and tax payments within commercial banks. This was a change in administration instituted by the 1989 reform.
  The system achieved the following results:
  - Increased the number of traditional points for collection of forms and payment of taxes from 20 to 370.
  - Increased from 20 percent to 98 percent tax collection data registered on magnetic tapes.
  - Improved the timeliness of data available for tax enforcement from 10 months to 1 month.
  - Improved the control on taxpayers withholding at the source.

- ***Taxpayer Identification System and Taxpayers' Current Accounts System.*** The taxpayer identifications system (RUC) has been in operation for 15 years. It was to be a database to identify taxpayers and classify them as VAT taxpayers, income taxpayers, or both. The project was to improve both systems by introducing current account data on taxpayers, that is, the amounts currently owed by each taxpayer in the system. Improvement is essential in order to achieve the enhanced tax administration system envisioned by the project. However, this task was not completed by the end of the project and is still not fully operational. Thus, the main benefit of the RUC was not achieved. Without a taxpayers' current accounts system, sound tax administration is not feasible.

- ***System of Current Accounts.*** The purpose of the system of current accounts is to
  - Verify that the amount collected through the banking system is the same as that received by the Government of Ecuador,
  - Calculate the interest owed on tax payment arrears and fines, and
  - Control the payment of sanctions applied to the banking system for breaches in the collection contract with the Government of Ecuador.

  Like the RUC, the system of current accounts was not completed by the end of the project and was not put into place until May 1993.

- ***Presumptive Tax Assessment by Trade and Profession (SEOG).*** A tax-level determination system (TARIF) for VAT and income tax under the SEOG system was designed. The system establishes a presumptive tax on taxpayers grouped in trade associations. The beneficiaries of the system are supposed to be non-wage-earning taxpayers who are assigned a fixed amount of tax to be paid yearly. One problem with the system is that payments, initially low, are not adjusted yearly, and, consequently, their real value has diminished because of high inflation levels in Ecuador. TARIF introduced yearly tax indexing to compensate for inflation. Determination of initial tax liabilities was the result of a mutual agreement between tax auditors and taxpayers. TARIF introduces a computer-adjusted tax liability. The system was designed and implemented only as a pilot program. The process of implementing the system has been time consuming with no important revenue results.

- ***Office and Field Audit of Major Taxpayers, Nonfilers Programs.*** A Referential Analysis System for the Ecuadoran Taxpayer (ARCOE) was designed. ARCOE is a personal computer-based database program for tax auditing. It contains a database of the 2,000 largest taxpayers and was used for a pilot audit project. The system has been installed since May 1993 in the five regional tax centers of Ecuador as a prototype.

One major expectation for both Phases I and II of the Fiscal Administration Development Project was to develop an effective audit function. Strong, professional, and equitable auditing is essential to effective tax administration. However, the audit function seems to have become less effective over the course of the project. The number of audits and auditors has decreased considerably as the value of contested audits has increased significantly—more than originally anticipated by the project. More audits are being contested than ever before, further questioning the quality of the audit. (See Table 9 and the accompanying explanation for a further discussion of audit performance during the project.)

An audit manual was prepared and distributed among GDR audit staff. However, the manual deals solely with technical matters such as depreciation. It does not address audit procedures. It should address topics such as criteria for audit selection, areas to be covered in an audit (instructions could be supplemented by a checklist), and types of audits, that is, full-scale or limited.

An additional area deserving greater attention is internal inspections. Under Phase I an inspection system and, eventually, a Department of Inspections were established. One of the purposes of the inspection unit is to ensure audit quality control and proper administration.

An inspection team has not visited the Guayaquil offices for 2 years. The reason is that the inspection program, heralded as one of the finest results of Phase I, has insufficient resources to conduct inspections outside Quito. The inspection unit has no funds for staff travel or per diem compensation. Its staff of 24 results in a ratio of 1 to 200 of the staff the unit is supposed to inspect. In fact, the unit has not been assigned any initiative to conduct its own investigations. It is authorized only to respond to requests from other offices and cannot take independent action, limiting its utility and effectiveness.

The evaluation team was also informed that the inspection unit was not operational for about 6 months during 1990 because the two top jobs—director and deputy director—were

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vacant. Both had left and no one was put in charge, not even on an acting basis. There is still no permanent director in the office, only an individual in an acting capacity.

This situation, at the very least, raises serious questions about the government's commitment to internal inspections, a program that is fundamental to implementing internal controls and providing assurance that the tax administration system is working honestly and equitably.

- *Management Programs and Standardization of Procedures*. Under the Fiscal Administration Development Project, 328 GDR employees participated in 13 courses totaling 13 hours. The course content included project promotion, institutional development, and design and administration of training programs.

Too often, management is an area that is either ignored or downplayed in technical assistance projects. Emphasis is given to technical areas with little recognition for the management skills needed to effectively use the enhanced technical ability. The designers of this project should be commended for recognizing the need for enhanced management.

The planning unit at GDR has been using management training effectively. It had a well-developed management-by-objective process that for the year designed yearly objectives for each GDR unit, identified the tasks that had to be completed in order to achieve the objectives, set a deadline for each task, named the responsible section, and published a yearly progress review.

It is important to note, however, that the planning unit already had some of this capability in order to meet requirements set out for it by the National Planning Organization. One important contribution of the project to the system was to establish links between the unit's annual budget and the management plan.

As part of the management program, tax administration procedures were to be standardized wherever appropriate. The project produced a large number of manuals. In addition to a project manual, a total of 51 manuals were produced in tax administration (21), tax systems (20), and training (10).

Appendix C lists each of the manuals produced in the above categories. In terms of volume, the project generated a substantial amount of documentation.

2. Training

As mentioned previously, USAID/Ecuador agreed to discuss the evaluation of GDR personnel training under Component 2. As was the case with Phase I of the Fiscal Administration Development Project, training was successful in terms of the output achieved. Many people were trained. As indicated in the following table, more than 5,000 individuals were trained under Phases I and II—more than twice the number of people in GDR.

Training Area	*Phase I*	*Phase II*	*Total*
Tax administration	367	1,546	1,913
Information systems	9	2,761	2,770
General management	175	328	503
Total	551	4,635	5,186

Although training targets were exceeded, the contribution made by project-funded training toward improved tax administration is questionable. Despite extensive past and ongoing training in auditing, productivity in that critical area has declined. Elsewhere, staff are trained in computing skills that cannot be used on the job because they have no computers, nor are they likely to have access to computers in the near future. Training must be accompanied by incentives to help ensure that it is translated into improved operational performance. There has been no commitment on the part of the government to providing such incentives.

Additional questions about training follow.

Question: What percentage of all GDR staff were trained under this activity?

Answer: Identified below are the number of training events and number of participants by subject area for the complete Fiscal Administration Development Project. Even taking into account that some employees attended more than one training session, it is clear that almost all GDR employees received training under either Phase I or Phase II of the project. Under Phase II alone, from June 1990 to July 1992, when there were 2,224 employees at GDR, nearly 7,000 hours of training was provided in 200 sessions to 4,635 participants.

Training Area	*Number of Events*	*Number of Hours*	*Number of Participants*
Tax administration	59	3,527	1,546
Information systems	128	2,905	2,761
General management	13	380	328
Total	200	6,712	4,635

Question: What were the topics of the training sessions?

Answer: Tables 3 through 5 provide details for each training area. In terms of trainee selection, each GDR division chief was told about available training courses. All applicants were automatically accepted. If the number of applicants exceeded available training slots, the training courses were repeated until everyone who applied had been sent to a class.

The following local institutions and companies participated in delivering training and materials, in addition to seven local private instructors employed to provide training:

Price Waterhouse
IBM
Universidad de Cuenca
Microsistemas
Escuela Politécnica del Litoral
Escuela Politécnica Nacional
Software Technology Inc.
Macosa
TECSOIN
Instituto de Estudios Administrativos
Deloitte Ross Tohmatsu

Table 3. Training in Tax Administration

Topic	Number of Events	Number of Hours	Number of Participants
Special consumptions control (ICE)	12	480	371
Techniques and procedures for tax audits	2	80	67
Basic guidelines for tax audits	5	15	152
Tax legislation and accounting	4	600	104
Tax legislation	10	640	300
Training of auditors	1	272	40
Inflation adjustment	15	360	450
Accounting for lawyers	1	40	25
Time management	1	80	24
Training abroad	8	952	13
Total	59	3,519	1,546

Table 4. Training in Information Systems

Topic	Number of Events	Number of Hours	Number of Participants
DOS	36	360	753
WordPerfect	33	825	717
Lotus 1-2-3	33	990	712
dBASE	4	120	101
Case accelerator	1	20	17
Installation of RUC system	4	64	120
Other	17	526	341
Total	128	2,905	2,761

Table 5. Training in General Management

Topic	Number of Events	Number of Hours	Number of Participants
Project promotion and divulgation	3	12	84
Institutional development, techniques, and processes	1	50	15
Design and administration of training programs	1	40	60
Additional training for trainers	3	30	91
Training of trainers	3	120	60
Secretarial skills	1	120	12
Administration by objectives	1	8	40
Total	13	380	328

No special effort was made during this project to train women. The percentage of women trained was 22 percent of total trainees, less than the 39 percent participation of women in the GDR labor force.

The project also provided out-of-country training opportunities as part of the first project extension (see Table 6). Thirteen high-level employees were trained in 8 tax-related subjects over 119 days in Colombia, France, and Mexico, and one employee attended a coordinators meeting in Panama.

Table 6. Out-of-Country Training, by Location and Subject

Subject	Country	No. Trained	Days
Tax administration	Colombia	2	7
Training system	Colombia	2	15
Computerized legal information files	Colombia	2	15
Taxes on special consumptions (ICE)	Mexico	1	15
Current tax law issues	Mexico	1	4
Value-added tax	France	1	30
Tax audits	France	1	26
Seminar for tax administration reform coordinators	Panama	1	7
Total		13	119

Question: Determine and describe the reasons for any lack of progress.

Answer: Project targets for the number of GDR staff to be trained were achieved. It appears that gender concerns were not taken into account in the design of the project, at least with respect to training. However, as indicated earlier, all applicants for training were accepted. Hence, we could not note any discrimination against women in the project. In fact, as the list of interviewees (Appendix A) indicates, several GDR managers were women.

Question: How many training modules have been developed under this activity? Determine and describe the reasons for any lack of progress.

Answer: Developing training courses was one of the institutionalization objectives for this project. Training was established regularly by the project; 500 employees or 50 percent of GDR professional staff were to receive training. Two modules, a legal module and a financial module, were provided by the project. The legal module was completed; in the financial module 460 auditors and tax experts were trained by the Central American Institute for Business Administration (INCAE). The following outputs were produced under the financial module.

- Accounting (75 hours)
- Inflation adjustment (45 hours)
- Financial analysis (45 hours)
- Computerized controls (60 hours)
- Presentation of audit reports (12 hours)
- Interpersonal relations and behavior (12 hours)

One critical area in which no training was provided was fiscal analysis. We were asked by GDR staff to send material on estimating tax evasion.

Training centers were established at the Ministry of Finance, General Directorate of Revenues in Quito and Guayaquil. Computer courses and substantive subject courses are taught in Guayaquil regularly. The computer training center is used 4 hours a day. However, although the training room use rate is high, the training itself is of little or no consequence: once trained in WordPerfect or Lotus 1-2-3, the staff has no equipment on which to use their newly obtained skills. Computer equipment is in short supply because either the government cannot afford to (or will not) purchase it, cannot afford to maintain what the project provided, or essential protective devices such as voltage regulators are not available. A better use of the training computers would be to transfer most of them to operations.

3. Equipment

Technical assistance—in the form of training (in and out of country), systems development, computer and office equipment, and office refurbishment—was made available.

Considerable equipment was purchased during Phase II of the project. The equipment, its location, and its use are identified in Appendix F. Problems concerning the use of equipment have been addressed to some degree in the training section, for example, the large number of personal computers used for training and very few available for operations. To summarize, problems that limit the usefulness of computer equipment are as follows.

- Equipment needs repair but no funds are available.
- Parts and protective devices, such as voltage regulators or connecting cables, are missing or were never furnished by the project.
- Equipment furnished under the project was incompatible with similar equipment furnished by other donors.
- Even where personal computers are available for operations, there are few or no printers.

In Guayaquil we observed first-hand the lack of computer capability, particularly in the audit section, although the training room had 16 PCs and a printer. It was unclear why people were being trained on equipment that was not available in their offices. We recommend, on the basis of a needs assessment that at least half of the computers be distributed throughout the GDR offices in Guayaquil. Over the longer term, we suggest that training that is currently conducted by GDR personnel in both training centers be transferred to private sector firms.

The team recognizes that this recommendation is not in line with one of the training objectives of the project, which was to train trainers. Because we did not have access to the training assessment, which should have been the analytical foundation for the project's training activities, we can only conclude that the training-the-trainers approach in the project has not been the most effective use of this technique. First, the training-the-trainers technique has been most successful when the "trained trainers" are operations personnel who transfer their knowledge to the staff in operational situations, not in the classroom. This makes the subject matter much more meaningful, and the return on training investments is faster and more likely.

Second, GDR personnel have no incentive to conduct training during off-duty hours, when, as we understand, some of the training takes place. No additional pay or other benefits are provided. There may, however, be an incentive for trainees to attend classes during off-hours because they can take what they have learned to the private sector, thus qualifying for better paying jobs. They benefit but the GDR does not.

Finally, and once again, we find it difficult to understand why equipment is being used for training when it can be better used to help the GDR do its job. Sixteen personal computers, we suggest, could make a significant contribution in audit, processing, and management.

4. Macroeconomic Studies

A series of analyses of the macroeconomic effect of tax reform and the relationship of reform to Government of Ecuador economic strategy was to be conducted under this activity. The SOW asks that the evaluation address the following questions.

- How many analyses were conducted?
- What were the topics?
- How have the results of the analysis been used?

No analysis was ever conducted. Twelve issues to be covered by the analyses listed in the first extension of the project, from March 1990 to July 1991, are in Appendix E. The extension document envisaged that the studies would be conducted as task orders under existing USAID contracts. CIAT was not responsible for conducting or monitoring the studies. No study was ever ordered by USAID.

3. Evaluation of Phase I Components Included in Phase II

Phase I indicators are listed in Attachment A of the project's Logical Framework in the project document. Most of the indicators listed in Attachment A were relevant only within the context of Phase I of the project. The activities relevant to Phase II are analyzed in this chapter.

PROJECT PURPOSE: INCREASED NON-OIL TAX REVENUES

The measure chosen during the design of project success indicators in 1985 was an increase in tax revenues by a determined amount in constant 1983 prices. That indicator was not the most appropriate since increases in GDP growth can produce the same effect without any relation to improved efficiency in tax administration. According to this indicator, the objective was achieved.

A more appropriate measure of improved administrative performance is the ratio of tax to GDP, which we have used to determine the impact of the project during Phase II.

The principal objective of the Fiscal Administration Development Project, increasing non-oil tax revenues, was not achieved. On the basis of GDR Planning Office tax data and Central Bank GDP figures, the evaluation team calculated the ratio of income tax (including corporate tax) and VAT to GDP, as shown in the following table.

	Income Tax/GDP	*VAT/GDP*
1985	1.38	1.62
1986	1.64	2.73
1987	1.65	2.68
1988	1.36	2.74
1989	1.96	2.77
1990	1.53	2.91
1991	1.79	3.15
1992	1.78	3.22

In 1989 and 1992, the increase in the tax rate coincided with a general tax amnesty. Also in 1989 there was a one-time cash-flow effect resulting from the transfer of a large portion of collections to a pay-as-you-go system. The VAT increase in 1986 resulted from increasing the rate from 6 percent to 10 percent. The increase in 1990 resulted from increasing the number of taxable items.

Consolidated general government revenues (central government plus regional governments) as a percentage of GDP were calculated using figures from the International Monetary Fund, adjusted by the evaluation team, and recently updated GDR figures, as shown in the following table (NA indicates not applicable).[1]

	1987	1988	1969	1990	1991	1992
Oil revenues	5.92	7.51	9.32	11.62	11.58	NA
Non-oil tax revenues	12.10	11.47	12.13	11.19	12.05	12.11

The project targeted increasing the ratio of investment to GDP to 10 percent by 1990. The target was not achieved then or during the last phase of the project. The highest ratio achieved during the life of the project was 8 percent in 1991, which declined to 7.7 in 1992. The projected ratio for 1993 and 1994 was 7.5 percent for each year, according to World Bank figures.

Presented in the following table are data showing savings and investment as a percentage of GDP, derived from World Bank estimates and projections based on constant real prices of petroleum.

	1988	1989	1990	1991	1992	1993	1994	1995
Savings	1.1	6.2	8.1	6.4	5.7	6.0	5.2	5.4
Investment	6.1	7.1	7.4	8.0	7.7	7.5	7.5	7.4
Surplus/deficit	−5.0	−0.9	0.8	−1.6	−2.0	−1.5	−2.3	−2.0

The purpose of the project—to increase non-oil tax revenues—was to be achieved through the completion of three goals: (1) increased detection of nonfilers and stop-filers, (2) increased auditing of tax returns already filed but underreported, and (3) increased collection of delinquent accounts.

GOALS

Increased Detection of Nonfilers and Stop-filers

Table 7 presents a summary of the results of various activities undertaken by the GDR to increase revenues through detection of nonfilers.

Inspections are undertaken by tax agents who visit taxpayers through random walks through the city, requesting RUC numbers and payment receipts from shops, restaurants, and offices.

The figure for 1990 represented 2.9 percent of total revenues from income tax and VAT. The figure for 1991 represented 1 percent of total revenues from income tax and VAT.

In 1991, several of the inspection plans were suspended in order to give priority to implementation of the pilot plan for large taxpayers. By 1992 this plan had not yet produced any results; apparently, no inspections were either realized or registered. Figures for regular audits, subject to special analysis, are presented elsewhere in this report. Revenues from ICE inspection are presented separately because they were not part of the terms of reference of CIAT; the results, however, are equally discouraging.

[1]Figures for 1992 are estimates by the evaluation team.

Table 7. Revenue from Nonfilers, 1990–1992 (millions of sucres)

Source	1990	1991
Objective Global Assessment System (SECG)	3,482	[a]
Visits to withholding agents	—	486
Impact plan	2,122	[b]
Permanent inspections	1,946	0
General plan for nonfilers and stop-filers	2,958	1,766
Additional inspections	—	3,691
Information cross-check plan	36	7
Total	10,544	5,949
Special consumption tax (ICE)	—	582

Note: Dashes indicate data not available.

[a]No data were produced.
[b]Suspended. Priority was directed to the large taxpayers plan.

Source: Annual progress reports, Planning Office, General Directorate of Revenues.

The results from inspections are insignificant for total revenues. The cost of this operation should be analyzed in order to determine—on the basis of a cost–benefit evaluation—what strategy to follow. CIAT technical assistance has made no impact on this component.

Increased Auditing of Tax Returns Already Filed but Underreported

This activity was designed to extend auditing to underreporting of taxes. In order to achieve the proposed goal, the following activities were undertaken:

- A total of 259 auditors received training in Ecuador and 1 in France.
- Auditors were supplied with the necessary documents and available data after 30 days, instead of the usual 10 months, and were given computer support. Nonetheless, the ARCOE program, a critical element in the strengthening of audit activity in this area, was not yet functioning at the time the audits were to be conducted.

Table 8 indicates the results of the project's audit activity.

By 1992, when the effects of some of the activities undertaken to improve the auditing process should have produced results, in reality

- The quality of audits had declined, as indicated by the increased ratio of the value of contested audits to the value of total audits.

Table 8. Audit Performance, 1987–1992

Year	(A) No. of Taxpayers Audited	(B) No. of Auditors	(C) Value of Audits (million sucres)	(D) Value of Audits (millions of 1983 sucres)	(E) Value of Contested Audits (million sucres)	(E)/(C)	(D)/(B)
1987	4,704	396	6,664	2,495	3,750	56.3	6.3
1988	4,378	389	6,415	1,518	2,782	43.4	3.9
1989	4,539	400	6,450	869	1,794	27.8	2.2
1990	2,694	410	7,250	658	3,126	43.1	1.6
1991	3,541	350	13,885	848	4,225	30.4	2.4
1992	3,634	369	21,329	845	12,582	59.0	2.3

Source: Raw data from General Directorate of Revenues. Calculations by Nathan Associates consultants.

- Both the total value of audits and the productivity per auditor, as represented by the amounts audited in real terms (1983 sucres), had decreased.
- The intensity of the audit drive, as represented by the number of audits undertaken, had declined. Additionally, the number of audits per auditor had declined.

For 1991 and preceding years, when most of the activities to achieve the goal had not yet been implemented, the figures show improved results.

Increased Collection of Delinquent Accounts

Increased collection of delinquent accounts was another activity critical for increasing revenues. The purpose of this activity was to improve the master taxpayers register (RUC) to include taxpayers' current account records. This improvement was to be implemented by 1992. But it has yet to take place and remains a significant shortfall in achieving project objectives, as indicated in Table 9.

The Logical Framework for Phase I set a target on the value of delinquent accounts not to exceed 10 percent of annual tax receipts. This objective was to be a measure of the increased efficiency in collections resulting from project activities, and was achieved during Phase I. Under those terms the target was achieved during Phase I. Nevertheless the indicator, as applied to the GDR figures, is meaningless for the following reasons.

- The items included in delinquent accounts have changed since 1985. Delinquent accounts in GDR include items unrelated to either income tax or VAT payments and are disorganized. A significant portion of the delinquent taxes had already been paid or had legally expired. Partial cleanup of this area was made in 1991. The GDR was in charge (and still retains some of the functions) of collecting payment for other government institutions and private banks (as in the case of checks not paid for lack of funds). The cleanup would have lowered the ratio of delinquent accounts to income tax plus VAT revenues.

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Table 9. Annual Collection of Delinquent Accounts, 1985–1991

Year	(A) Liabilities	(B) Collections	(C) Reductions	(D) Final Balances	(B)/(A)
1985	9,846	5,743	789	12,465	58.3
1986	10,984	7,253	714	15,482	66.0
1987	12,311	8,811	1,139	17,844	71.6
1988	17,503	11,946	2,294	21,108	68.2
1989	9,039	5,628	4,996	19,523	62.3
1990	7,483	2,078	1,972	22,955	27.8
1991	13,523	2,187	1,304	32,987	16.2

Source: Office of Planning, General Directorate of Revenue.

- The reforms of 1988 and 1989 increased the percentage of income tax and VAT collected through a pay-as-you-go system from 37 percent to 83 percent. The change produces more timely payments and consequently lowers the delinquency ratio.
- Most delinquent accounts are discovered through successful audits and inspections, and any reduction in those activities would lower the ratio. Such a reduction has taken place, as discussed earlier. Without proper analysis, a decrease in the efficiency of one department reflects an improvement in the efficiency of the collections department.

Under these circumstances, a more meaningful indicator for measuring the efficiency of the department would be the percentage of delinquent accounts collected yearly by the GDR. This indicator is less influenced by problems of what is included in the account and changes in the original tax environment. In fact, the collection of delinquent accounts diminished sharply during 1990 and 1991, indicating a lower departmental productivity. No comparable data are available for 1992.

One problem that should have been resolved before 1989 was the permanent and systematic identification and monitoring of delinquent accounts. This function has not yet been established.

4. Additional Questions Included in the Terms of Reference

The evaluation team responded to additional questions included in the terms of reference, as follows.

Question: Determine the relevance of the development constraints addressed by the project within the context of current USAID/Ecuador strategic objectives.

Answer: The Fiscal Administration Development Project was within the strategic objectives supported by USAID/Ecuador when the project was recommended in 1984. Moreover, the project is related, to an extent, to current USAID/Ecuador strategic objectives.

The initial project document recommending the Fiscal Administration Development Project tied the project to the approved Country Development Strategy Statement, which outlined a strategy to support structural adjustment that Ecuador must take as it emerges from the economic and financial crises of the early 1980s. Although the strategy emphasized achieving improved production and productivity through private sector activities, it also recognized the need to improve distribution of economic opportunities and social services in order to expand development. Since one of the objectives was to increase revenues, thus making additional resources available for government expenditures, the project can be considered consistent with strategic objectives.

Moreover, the project document catalogues several USAID policies to which the project responds, including (1) institutional development, (2) technology transfer, and (3) the tax policy dialogue reflected in the Latin America and the Caribbean Regional Strategy. Moreover, the project is further justified on the grounds that the project provides follow-on to tax administration support as provided by other donors, notably the World Bank and the Inter-American Development Bank. None of these projects is directed toward improving internal tax revenue, a gap that USAID and the Government of Ecuador believed needed to be filled.

The current list of USAID/Ecuador strategic objectives is

- Increased trade and employment in nontraditional exports;
- Increased income from small and medium-sized farms for selected commodities;
- Increased use, effectiveness, and sustainability of family planning and maternal and child health services;
- Strengthened democratic institutions with greater citizen participation; and
- Sustainable use of biological resources in selected geographic areas.

Other areas of interest to USAID/Ecuador are

- A national delivery system,
- Technical training (Centro Juvenil San Patricio), and
- Malaria control.

To the extent that any of the foregoing objectives require government financing, the Fiscal Administration Development Project is germane to current USAID strategic objectives, because one of the project's objectives is to generate additional revenue for social and economic development programs.

Question: Were the EOPS produced at an acceptable cost compared with activities accomplishing the same objectives?

Answer: No, because this evaluation of Phase I reaches conclusions similar to those of the Phase II evaluation. Alternative approaches and costs for achieving project objectives should be a part of project preparation. Programming options and costs should be taken into account in deciding whether and how to proceed with a project. It is not fruitful, in the opinion of the evaluation team, to consider alternative approaches 8 years after a project has begun, particularly a technical assistance project. In sum, the findings from evaluating both project phases are that too much was paid for too little.

Question: What negative impacts have resulted from this project?

Answer: By not instituting a program to enforce tax sanctions (for political reasons), the message was delivered to both GDR staff and taxpayers that the previous government was not serious about this undertaking. In other words, it was "business as usual."

Question: Are the effects of the project likely to have sustainable development impacts; that is, will they continue now that A.I.D. funding has stopped?

Answer: One of the most important effects has been an increase in awareness at the decision-making level, of the need for an efficient GDR. The implementation of ARCOE should eventually bring into play a good system for audits and inspections complemented by the RUC system—if the government does not let politics interfere in the process, as was experienced during the past administration.

One of the programs designed by the project was to increase the administrative autonomy of the GDR. This program is about to be implemented according to the Ministry of Finance and GDR officials we interviewed. This is a necessary tool for improving the efficiency of the GDR and has been presented as a cure-all for achieving such a goal. In our opinion, this constitutes a move in the right direction and is a necessary but insufficient condition for improving the efficiency of the GDR. The problems of the GDR go beyond decentralization. Decentralization does not mean higher salaries for personnel, more resources for the GDR, or changes in work attitude. Nor will it automatically banish politics from the audit process or from nomination and promotion policies. Decentralization might simply mean decentralized inefficiency.

The training program has lost 30 percent of its impact with the 30 percent reduction in personnel trained in the GDR under the project. Further, some employees we interviewed mentioned having already forgotten some of the skills learned during the training process for lack of practice, especially computer skills.

Questions: What is the extent to which gender concerns have been taken into account? Was there a specific drive for women?

Answer: No. There was no specific drive to achieve greater participation of women in the project. The percentage of women trained under the project was 22.6 percent, below the 27.8 percent participation of women in the GDR labor force.

5. Conclusions and Recommendations

The purpose of the project was to increase non-oil tax revenues, especially from income and sales taxes, through several actions that would produce a more efficient and better-equipped General Directorate of Revenues. During Phase II a logical, additional secondary purpose was added with priority status to assist the GDR in implementing the 1989 tax reform. Specifically, the following actions were immediate planned targets.

TRAINING

Targets and Outputs

An extensive training program for GDR personnel to administer the new tax law, in addition to training already initiated under Phase I, was to be created. One result of this training was to be increased labor and management productivity. The program was to become a regular and permanent fixture in the GDR. The training targets and outputs are detailed in Chapter 3. In terms of numbers alone, the targets were exceeded.

Conclusion

In terms of volume, the training activity was successfully completed. It can be said, however, that personnel have been trained beyond either the short- or medium-term requirements of the GDR. In addition, personnel were trained regardless of their potential to continue in the GDR. It was obvious that the privatization of tax collection through the banking system would leave idle a large number of GDR employees involved in that operation. Nevertheless, training proceeded despite this eventuality.

In order to maximize the use of scarce resources, training should be related to short- and medium-term goals, with a clear relation between training, revenue goals, and existing operational infrastructure. It was not efficient to train GDR employees to use equipment that, at best, they could access only by the end of the century, by which time their new skills will have been forgotten.

The total number of employees at the GDR in 1990 was 2,244; this figure is now 1,562, a reduction of 30 percent. The conclusion from this size of staff reduction is that 30 percent of the training resulted in wasted effort from the standpoint of the project.

In spite of the wide coverage of the training program, productivity has not increased. Quite the opposite has taken place in critical areas such as audit, where there has been a decline in productivity. Incentives, either in terms of increased salaries or job recognition, do not exist for personnel to improve job performance. The only incentive for training derives from the possibility for increased income from activities outside the government sphere. Employee attitudes toward their jobs have not improved. However, one positive aspect of the project is that the GDR has become more aware of and receptive to the need for reform.

Corruption continues to be prevalent, as indicated quite frankly by some of the GDR staff we interviewed. They, as well as members of the public we interviewed, identified corruption as a continued and major failing of the system. No matter how well-designed a technical assistance project is or how well project activities were delivered, if corruption continues, the project is bound to fail. This situation is not unique to USAID projects or to Ecuador.

The training program has been inconsistent because of the lack of financial support from the Government of Ecuador.

PUBLIC RELATIONS AND PUBLICATIONS

Targets and Outputs

A mass communications drive was undertaken to educate the taxpayer population in the filing and accounting requirements of the new law and increase public awareness of the need for tax compliance.

Conclusion

The public relations effort was successful to the extent that it provided basic instruction and information on tax reform, such as the new rates and filing requirements. Nevertheless, it was not successful in improving taxpayers' attitudes toward tax evasion. Tax evasion, according to estimates by the evaluation team, the IDB, and the contractor's opinion, remains very high.

TECHNICAL ASSISTANCE

Targets and Outputs

Implementation of the reform was to be supported by an efficient systems and processing department in order to

- Effectively implement tax collection through the commercial banking system,
- Increase both the quantity and quality of audits in order to identify tax evasion, nonfilers, and stop-filers, and
- Increase effectiveness in collecting delinquent accounts.

The technical assistance effort was to be supported by the donation of personal computers, printers, and equipment support accessories, and the refurbishing of classrooms.

Implementation of Tax Collection System

The project was successful in assisting the GDR in transferring tax collections to the banking system. Today, close to 100 percent of taxes are collected through this system. The final success of the program naturally relies on the assumption that the private sector will be more efficient than the GDR in collecting taxes and, therefore, administrative costs will be reduced.

Detection of Nonfilers

The detection of nonfilers traditionally has been accomplished through inspections and random walks through business establishments and offices by tax agents, who request RUC numbers and tax payment receipts. In 1991, the Computer and Information Center (CIO) of the GDR produced a well-designed program to more easily identify VAT evaders, stop-filers and nonfilers. According to the director of the CIO, the program was not implemented because it was assumed that ARCOE would be operating shortly with a similar program. As of today, that has not been implemented.

In 1991, the implementation of several inspection plans was suspended in order to give priority to the large taxpayers pilot program. However, by 1992 this program had not produced any results, and apparently inspections were neither undertaken nor new taxpayers registered.

Revenues generated from inspections for 1990 and 1991 were insignificant, representing, respectively, 2.9 and 1.0 percent of total revenues from income tax and VAT. Nevertheless, the number of inspections undertaken was high. Under the impact program, 55,133 taxpayers were visited and S/.2,122 million in revenues was collected. This represents an average revenue collection of S/.38,491 per taxpayer, or US$47 (at the exchange rate prevailing in the free market in 1990).

Audits

In 1992, when the effects of some of the activities undertaken to improve the auditing process should have produced results, in reality

- The quality of audits had declined, as indicated by the increased ratio of value of contested audits to value of total audits;
- Both the total value of audits and productivity per auditor, as represented by the amounts audited in real terms (in 1983 sucres), had decreased; and
- The intensity of the audit drive, as represented by the number of audits undertaken, had declined. The number of audits conducted per auditor had also declined.

In 1991 and preceding years, when most of the activities to achieve the goal had not yet been implemented, the figures show better results.

Conclusions

Final project results indicate that the last two objectives—detection of nonfilers and strengthened audit program—were not achieved. In some instances, this failure resulted from forces beyond the control of CIAT. Enforcement of audits requires government commitment and an appropriate legal and regulatory framework to enforce notifications and collections.

Regarding inspections to catch nonfilers, the revenue productivity per taxpayer visited is too low. In the case of audits, productivity has declined since the project started. Both programs should have concentrated on audit visits and on taxpayers with larger revenue potential. Identification methods were available but were not used.

The purpose of the ARCOE program was to concentrate on high-income brackets. However, at the end of the project in July 1992, this program was not yet operational.

Computer equipment was provided by several donors, but there was no coordination among donors to ensure that the equipment was compatible. In fact, we found instances in which lack of compatibility meant that some equipment either was not used at all or not used to its full capacity. There has been no government commitment to keeping the equipment running with even basic maintenance or supplies such as paper. The Ministry of Finance mainframe, on which GDR relies heavily for processing tax data, is operational only 8 hours a day, 5 days a week in spite of heavy demand. In addition, there are several unused microcomputers, mid-sized computers, and printers literally lying around GDR offices.

USAID–IDB PARTNERSHIP

Two international donors—USAID and IDB—participated jointly during Phase II of the project. The evaluation team could find no stated rationale for this partnership: it was intended to increase either the intensity or the scope of the project, or both. It is also not clear what increased benefits and synergies this joint effort produced. To the contrary, it seems the effect of the partnership has been to dilute the accountability of the main contractor.

ACHIEVEMENT OF PROJECT PURPOSE

The small increase in revenues to GDP seems to have been more a result of changes introduced in the system by the tax reform and other measures that were unrelated to the project. By the end of the project, the goal of increasing revenues through a better-run, better-equipped and more efficient institution has not been achieved.

The project was overly ambitious in coverage but not very flexible to changing circumstances. It insisted on covering all aspects of institution building when work progress and political environments would have suggested dropping some programs, concentrating efforts on some achievable and very targeted goals, or suspending the project altogether. The contractor concentrated efforts on classroom training and published many manuals but did not pay enough attention to on-the-job implementation. The outcome was relatively little transfer of new technology or practices to the workplace, and few practical results. At this stage, it is important to emphasize that Phase II was not an isolated effort. Rather, it was a continuous flow fully supported by Phase I and backed by more than 4 years of work and experience in basically the same issues and goals.

The failures resulted from a combination of internal resistance to change within the GDR, lack of leadership at high levels of the GDR (during Phase II it had an interim director for 18 months and the Office of Internal Audits and Control had no director or deputy director for more than 5 months), highly inconsistent government commitment, deficient technical assistance from the contractor, and a lack of project design flexibility to adjust to changing circumstances.

The reasons cited for the failure of Phase II are found almost verbatim in the evaluation report prepared at the end of Phase I in 1989.

IMPROVING TAX ADMINISTRATION

Recommendations to the Government of Ecuador are in two areas: tax management and tax structure to facilitate management.

Tax Management

The Government of Ecuador should concentrate on strengthening the audit and inspections department. A smaller but more efficient, motivated, well-trained, well-paid team of young professionals in accounting and business administration should form the core of this effort. The team should be staffed by personnel hired from the private sector. The tax administration system in Colombia has profited from this approach with an excellent cost-to-increased-revenues ratio.

Tax Structure

The government should continue along the path of administratively simple taxes. The following steps will be necessary:

- Eliminate the SEOG and replace it with a presumptive tax based either on assets or on turnover value. As indicated earlier, the SEOG yields relatively low revenue returns and has a high ratio of cost to revenue. It is not only complicated and costly to administer, but has also provided new ways for individuals or businesses to evade taxes.
- Eliminate exemptions and exonerations from income taxation and VAT. This would not only bring more revenues, but also would simplify tax administration by making evasion more difficult.
- Make ARCOE operational as soon as possible so that audit and inspection resources are directed at large taxpayers, where returns on investment are potentially the greatest.

6. Lessons Learned

Following are the most important lessons learned from both phases of the project.

JOINT FINANCING WITH OTHER DONORS

In some instances it is not clear whether some of the unmet targets of the A.I.D. project were used as leverage to obtain financing from the IDB, or vice versa. The tax administration targets of the project for IDB and USAID were identical, but by the end of the USAID project the targets had not been achieved. The contractor's progress reports, sent to USAID and the IDB, were identical, and it was not clear which donor was responsible for controlling which activity.

> ***Lesson Learned***: To avoid wasting resources, donors who act as joint partners in monitoring the common project should coordinate more closely.

In general, the lack of coordination between donors simultaneously providing technical assistance has led to waste and has generated internal conflict regarding GDR's organization and operations.

GOVERNMENT COMMITMENT TO THE PROJECT

The commitment of the government was inconsistent and, in some cases, contrary to the objectives of the project.

> ***Lesson Learned***: Ongoing government commitment throughout the project is essential for success. Unless the president of Ecuador and his administration place a high priority on tax collection and enforcement, donor funds for tax administration and reform will likely be underused by the Government of Ecuador.

Stated commitment should be evidenced by action in the following areas, which are critical to successful project outcome:

- Enforcing tax laws and implementing basic administrative reforms;
- Providing incentives to tax administration staff through increased benefits, particularly to those employees receiving training through the project;
- Maintaining a nomination and promotion policy that is based on professional ability and experience and free of political influence; and
- Maintaining donated equipment and providing its operations supplies.

A lack of sustained government action in any of the above areas should be grounds for ending the project. The contract should be monitored and implemented with conditionalities similar to those for World Bank loans or International Monetary Fund stand-by agreements.

PROJECT SCOPE AND OBJECTIVES

The Fiscal Administration Development Project, in both phases, was overly ambitious and too broadly defined. It did not provide for analysis of the results from different components of the tax structure. There is no way of either knowing or measuring results or progress of operations for different components of the tax administration program—for example, determining the value of deductions, exemptions, evasion, or the classification of taxpayers by income levels. Such disaggregated data do not seem to be available.

Lessons Learned: Institution building for a large body such as the GDR should be done in progressive stages targeting very specific areas.

Institution building should be approached precisely, targeting only basic, key issues and widening the coverage only when specific, planned improvements are achieved to the satisfaction of those involved in the project.

USAID should establish a closer, more continuous system of monitoring government support and the performance and effectiveness of individual contractors in the project.

Appendix A

PERSONS INTERVIEWED

USAID/QUITO

Edgar Guillen	Project Officer (last 7 months)
Jaime Vaca	Financial Analyst
Guillermo Jauregui	Program Economist

CIAT/QUITO

Carlos Davalos	Mission Coordinator, 1990–1991
Hugo Hanisch	Mission Coordinator, 1991–1992
Jimmy Molina	Consultant

MINISTRY OF FINANCE AND CREDIT, GENERAL DIRECTORATE OF REVENUES

—	General Director, GDR
Patricio Peña	Undersecretary of Revenues, Ministry of Finance
Carlos Velasco	GDR National Project Coordinator
Fernando Pineda	General Deputy Director, Collection and Data Processing
Aida Villacres	Deputy General Director, Assessment and Control
Jeanette Brito	Director, Data Processing
Nelson Andrade	Planning Office
Dante Charpentier	Planning Office
Fanny Valencia	Planning Office
Edison Mosquero	Systems Analyst
José Almeida	Systems Analyst
Paola Olmedo	Systems Analyst
Melido Ramos	Director, Tax Expert
Rubén Darío Vera	Undersecretary, Revenues
María Eugenia Sierra	Director of Planning, GDR
Héctor López	Auditor
Augusto Día	Auditor VI
Carlos Banchón	Auditor VI
Alberto Nacer	Reviewer
Carlos Moreno	Reviewer
Perfecto Romero	Supervisor
Raúl Carrión	Supervisor
José Bermeo Pacheco	Supervisor
Guillermo Pardo	Director, Tax Determination
Kleber Izquierdo	Tax Auditor
Salón Bayas	Revenue Delegate
Rosa Ardino	Director, Financial Administration and Training
Horacio Barberán	Adviser, Undersecretary of Revenues

INTER-AMERICAN DEVELOPMENT BANK

Edgard Carvajal	Project Supervisor

PRIVATE SECTOR

Jorge Gallardo	Consultant (Minister of Finance during project implementation)
Jorge Ernesto Intriago	Price Waterhouse-Quito
Juan B. Acosta	Under-secretary of Revenues during project implementation
Pedro Aguayo Cubillo	Executive Director, Fundación Ecuador, Quito
Tony Shiels	Director, Fundación Ecuador, Guayaquil
Edison Ortiz	President, Quito Stock Exchange; former member, Comisión Permanente de Reforma Tributaria
Diego Almeida	Former member, Comisión Permanente de Reforma Tributaria
Carlos Dávalos	Consultant; formerly CIAT Project Coordinator

Appendix B

DOCUMENTS CONSULTED

Project Paper: Fiscal Administration Development Project, 518-0042, Loan-V-061, 12-84.

Loan agreement between United States of America and Government of Ecuador, Fiscal Administration Development Project, March 29, 1985.

First modification to the Fiscal Administration Development Project and project extension from March 19, 1990 to July 31, 1991.

Second modification to the Fiscal Administration Development Project and project extension from August 1991 to July 1992.

Midterm Evaluation, Ecuador Fiscal Administration Development Project by Patrick F. Morris, Jorge Martinez, and Hernando Garzón, August 1987.

Final Report on the Fiscal Administration Development Project, Development Associates, Inc, August 1989.

Audit of USAID/Ecuador's Fiscal Administration Development Project, March 29 to December 31, 1990, Regional Inspector General for Audit, Tegucipalpa, January 20, 1993.

Final Report, USAID/OMNIMAX, Fiscal Administration Development Project, OMNIMAX International, Inc, April 27, 1990.

Segundo Informe de Progreso (Consolidado), Fiscal Administration Development Project, Inter-American Center for Tax Administration (CIAT), May 1991.

Informe de Progreso Semestral del Proyecto-Area de Administracion Tributaria, 3 vols., Fiscal Administration Development Project, December 1991.

Primer Informe de Progreso.

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Informe de Progreso del Proyecto, 3 vols., Fiscal Administration Development Project, July 1992.

Sensitivity Analysis and Evaluation of the Ecuadorian Personal Income Tax, Syracuse University, May 1986.

Convenio Interinstitucional, Sistema Integrado de Administración de Personal y Subsistema de Clasificación de Puestos para la Dirección General de Rentas, November 1989.

Convenio de Cooperación Técnica BID/AID/CIAT/Rentas, Alternativas de Infraestructura de Informática, Dirección General de Rentas, Ministry of Finance, July 1990.

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Plan de Operaciones, Agosto 1991–Julio 1992, Fiscal Administration Development Project, CIAT.

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Report on the Evaluation of the Ecuadorian General Revenues, Directorate of the Ministry of Finance's Management Capability To Administer the Procurement Process, September 1991.

Sistema de Informaciòn, Area de Administraciòn Tributaria, CIAT.

Doing Business In Ecuador, Price Waterhouse, Quito, February 1981 and December 1992.

Reforma Estructural del Sistema Tributario Ecuatoriano, 1989, Ministry of Finance, July 1989.

Appendix C

DOCUMENTS PRODUCED BY INTER-AMERICAN CENTER FOR TAX ADMINISTRATION, FISCAL ADMINISTRATION DEVELOPMENT PROJECT-PHASE II

The following documents were produced by Inter-American Center for Tax Administration (CIAT) under the terms of Phase I of the Fiscal Administration Development Project. These documents were designed to be used by appropriate staff of the GDR to implement tax reform.

A. Project Manual

B. Tax Administration Documents

1. ARCOE Manual Version 2.1
2. Focused Audit Manual Version 1.0
3. TARIF Manual Version 1.0
4. CAPAC Manual Version 1.0
5. SIAT Manual Version 1.0
6. Design and Final Report on Income Tax Forms
7. Design and Final Report on Forms RT3, RT4, RT5, RT6
8. Design and Final report on RUC formulation
9. Basic Audits Guide Version 2.0
10. Income Tax Guide
11. Economic Activities Classification
12. Taxpayer Type Classification
13. Summary of Supreme Court Tax Decisions
14. Audit Forms for Fiscal Years 1992 and 1993
15. ARCOE System Documentation Version 1.0
16. CAPAC System Documentation Version 1.0
17. TARIF System Documentation version 1
18. Operations Manual and Forms for (a) Pilot Plan, (b) Resale Plan, (c) Suppliers Cross-Check Plan and (d) Non-Filers Plan
19. Design and Final Report of Mass Notification Publications
20. Report and General Diagnosis on Tax Administration
21. Report and Forms for BIValidation System, Tax Forms Nos. RT3, RT4, and RT5

C. Information Systems and Design

1. Ecuadorian Tax Administration System
2. Operation Document for Bank Tax Collection Contract
3. Technical Document for Bank Tax Collection System
4. Systems Development Norms, Standards and Recommendations
5. Support and Production Norms, Standards and Recommendations
6. Systems Development Methodology
7. Taxpayers Registry (RUC) Systems Design
8. Administrative Procedures for Current Account Collection Entities
9. Conceptual Model for Taxpayers Current Account System
10. System Design for Taxpayers Current Account System
11. Design Concepts for Main Computer System

12. Alternative Information Infrastructure for DGR
13. Proposal for Study and Evaluation of Data Base Driving System
14. Technical Evaluation of Data Base Driving System
15. Quality Control For On-Line Production Services
16. Alternative Hardware and Software Configuration for the IBM 390/150
17. Report on VSE/ESA configuration
18. Information Systems Environment Evaluation Proposal
19. Equipment Evaluation-Purchases With USAID Funds
20. Implementation Plan For Users Support Center

D. Training and Organization Development

1. Legal Proposal for Creating Internal Revenue Superintendency
2. Legal Proposal for DGR Organization-Comprehensive Version
3. Reform Agreement and Projects for Tax Administration Structural Reform
4. Functional Reform Project for (a) Tax Determination and (b) Tax Control and Internal Inspection Areas
5. Project for the Functional Structure of Global Assessment System
6. Job Structure Proposal for Tax Determination and Control and Regional Tax Delegations
7. Basis for a Decentralized Human Resources System
8. Basis for a Financial Management System
9. Administrative Manuals for (a) RUC, (b) SEOS, (c) Global Assessment System, and (d) Delivery Guide for Delivery/Reception of Regional Offices Collection
10. Methodological Guidelines for Elaborating Administrative Procedures for Structural Functional Analysis

Appendix D

CONSULTANT SERVICES PROVIDED UNDER FISCAL ADMINISTRATION DEVELOPMENT PROJECT-PHASE II

Table D-1. Consultant Services Provided Under Fiscal Administration Development Project-Phase II

Area of Expertise	Number of Consultants	Date
Long-Term Consultants		
1. Tax audits	2	4/91 to 7/92
2. Organization and methods	1	12/90 to 7/92
3. Computer systems	1	NA
4. Systems support	1	8/92
5. Systems development	1	12/91
6. Bank collections	1	11/91
7. Training	1	7/92
8. Organization and management	1	7/91
9. Training and organizational development	1	12/92
10. Organizational development	1	7/91 to 7/92
Short-Term Consultants		
1. Large Taxpayers	1	7/91
2. Global Object Assessment	1	7/91 to 7/92
3. VAT	2	NA
4. Training and Auditing Techniques	1	3/91
5. Regulations for Institutionalization of Tax Reform	2	8/91 and 2/92
6. Systems Development Methods	1	7/90
7. Systems Development	2	4/92
8. Information Systems	1	8/92
9. Systems Support	1	9/92
10. Collection Systems	1	7/92
11. Financial Management	1	1/93

Appendix E

STUDY ISSUES UNDER FISCAL ADMINISTRATION DEVELOPMENT PROJECT–PHASE II

The following twelve issues were identified in the first extension of the Fiscal Administration Development Project to be addressed during Phase II. The evaluation team found no evidence that they were conducted under the project. The second extension of the project indicated that this project activity has been dropped.

ISSUES TO BE STUDIED

1. Incentives and disincentives to domestic savings
2. Incentives and disincentives to capital flight or repatriation
3. Disincentives to foreign investment
4. Incentives and disincentives to employment generation
5. Potential effects on firm size and ownership structure
6. Incentives and disincentives to increased productivity
7. Incentives and disincentives to financial and physical assets
8. Bias in favor of domestic or imported productive inputs
9. Potential effects on income distribution
10. Effects on macroeconomic management
11. Short- and medium-term effects of proposed reforms on aggregate tax revenues
12. Elasticity of proposed tax structure with regard to GDP

Appendix F

AUTOMATED DATA PROCESSING EQUIPMENT PURCHASED UNDER THE FISCAL ADMINISTRATION DEVELOPMENT PROJECT–PHASE II

Table F-1. Automated Data Processing Equipment Purchased Under the Fiscal Administration Development Project–Phase II

No.	Equipment and Systems	Location	Purposes
23	30 MB hard disk and control systems for installation of Epson Equity microcomputer	Quito Guayaquil Ambato Cuenca Portoviejo	Upgrade microcomputer utilization for processing tax returns
20 3	Video terminals and connections to the controller for IBM 3174 Printers for the IBM 3174	Quito	Support 1. RUC 2. Estimacion Objectiva Global 3. Tax declaration validation
15 2 1 1 2 2 6 6	Epson LX-1050 printers HP LaserJet III printers Intelligent card computone w/8 ports Intelligent card computone w/16 ports 150 MB back-up tapes and software for Xenix and DOS Color VGA monitor Microsoft compatible mouse IRMA-compatible emulation cards	Quito Guayaquil	Upgrade microcomputers used for administrative processing. To augment microcomputer utilization to support networking capability.
 1 1 1 13 1 2 2 1 1	Local Ethernet Network made up of Netware software 3.11 (10 users) LanSchool Software NE-2000 compatible network card NE-1000 compatible network card Infrastructure to support the network including cables, access points, box, terminals gateway connections and controllers Microcomputer network servers to connect to IBM 3174 w/386 20 MHz 2MB RAM, 80 MB hard disk, 5.25 and 3.5 inch diskettes and 1 black and white and 1 color monitor IRMA 3 emulation cards for Gateway Netware SNA Gateway Netware Software ELS 3270 LAN Workstation netware software	Quito Guayaquil	For training centers at Quito and Guayaquil
6 4	1800-VA voltage regulators 1200-VA voltage regulators	Quito	Protect training center equipment

Table F-1 *(continued)*

No.	Equipment and Systems	Location	Purposes
1	Remote control terminal with 32 ports and 8 ASCII ports IBM 3174 compatible	Guayaquil	Support information system for the coastal delegation
1 2 2 300	Remote control terminal with 8 ports IBM 3174 compatible Synchronous 9600-bps modems IBM 3299-compatible terminal multiplexes Meters coaxial cable	Quito	For development of the GDR central system
20 30	Tape cartridges Tape reels for IBM mainframe	Quito	Backup for databases
1	Video protector for VGA/NSTC interface	Quito	For training center
1 2	External, removable optical disk drive to use with Epson Equity 386/20 and Fox/Pro Clipper software Optic disk cartridges	Quito	To support ARCOE system
1 1	380 MB hard disk for NCR/Tower 600 8 MB RAM memory for NCR/Tower 600	Quito	
3	386 30-MHz microcomputers w/80 MB hard disk and 3.5" and 5.25" diskettes	Quito	To support GDR central administrative activities
	Exterior software to replace stolen software		

Appendix G

FADP PHASE II ACTIVITIES, BY YEAR

Table G-1. FADP Phase II Activities, by Year

TASK	1990 ACTIVITY	1991 ACTIVITY	1992 ACTIVITY	UNCOMPLETED PROJECT'S END
Estimation of income by trade and profession (SEOG)	Implementation started 4 Joint User's Boards established 47,542 collection orders issued.	Only 1,326 paid tax out of registered tax base of 13,432 Tax base equivalent to 0.03% of GDP established; only 0.002% of GDP in revenue collected Several professional & commercial activities unaudited, including transportation. So about 45,000 potential taxpayers didn't pay taxes in 1991.	No activity reported.	System for detecting (a) taxpayers which should not be in SEOG and (b) non-filing taxpayers not completed.
Withholding at the source bringing income tax collections closer to a pay-as-you go system.		Planned design for visits to public and private entities to inspect withholding system. 1,038 withholding agents inspected to potential revenues of S./ million. This represented only 4.5% of planned 22,450 visits.	No activity indicated.	

Table G-1 (*continued*)

Tax collection and filing done through the banking system instead of through GOE.	(System started in 1989)	Electronically processed 98% of tax returns	Process for GDR to receive data from banks on magnetic tape implemented. GDR can use data within 30 days after received by banks	Technical printing problems continue to exist in Guayaquil.
Data Processing for VAT		Made part of integrated information system	No activity indicated	Taxpayer current accounts not yet in RUC. Pilot system is underway.

Table G-1 (*continued*)

Office/field audits of major taxpayers	Visited 53,1333 taxpayers of which 33,256 were delinquent and 8,685 had no RUC number. Produced 2.1 S/. billion Rescue Plan failed because priority given to implementing plan for controlling big business and due to general amnesty.	No activity reported	New RUC regional system implemented in GDR regional offices.	
Establish permanent inspections plan/program.	Functioned during 1st quarter, but had serious limitations for remainder of year due to priority given to Impact Plan in Quito, Guayaquil, Cuenca 14,722 taxpayers visited w S./ 1.9 million collected (or about $47 per visit). 4231 non-filers detected	No activity reported	No activity	

Table G-1 (*continued*)

Implement general plan to non-filers and forme filers who have stopped ("stop-filers")	Implementation delayed from May 1990 to September 1990. 792 taxpayers assessed out of 3,685 potential violators unidentified. Collections S./ 3.0 billion.	Plan for 1991 started in May. From May to November, 647 non-filers detected and assess S./1.8 billion.	24,962 taxpayers visited in 1992, 24% more than 19 91. Represents 7.3% of 342,115 taxpayers in RUC as of 12-92. No report of additional revenue collected.	Annual revenue production for the plans has been about 20% of projections and covered about 15% of that were to be reached. There has been no coordination between non-filers detection, programming, and control staff. Plan also did not cover entire activity. Inspections made outside the plan resulted in additional S./3.7 billion
VAT auditing project	No activity reported	Started in 1991. auditing VAT taxpayers in Assembling activities. 7 investigations ordered. Project suspended by high ranking authorities because, it was said, of pending elections.	No activity reported	
Implement plan for cross-checking certain employer records to identify employees not filing/paying taxes.	155 potential taxpayers identified, 45 assessed for S/.36 million.	176 taxpayers identified, 22 of which were assessed S/. million. Rest were not inspected because regional GDR delegate didn't provide auditors necessary documents.	No activity reported	

Table G-1 (*continued*)

Audit ICE taxpayers For 1992, initiate the following programs: Consistency of income tax returns. Automatic tax reassessment. Collection of accounts payable.		(Note: This activity was not part of CIAT contract. Six liquor and soda bottlers targeted. In addition, 3,611 visits made to sugarcane growers of which 2,110 were not in RUC and 947 non-filers. Potential collection of S./ million which is 1% of the total revenues potential from ICE according to Tax Activity Plan. Manual for auditing non-filers issued for general audits, ICE and VAT. Action plan indicates that these targets were not met.	No activity reported	

Table G-1 (*continued*)

Initiate ARCOE in 1992 by: Identifying and auditing 500 large tax payers by cross-checking suppliers and purchasers. Identifying and auditing 5,000 medium income taxpayers based on consistency in income tax returns and on other information. Checking 3,500 taxpayers through income tax audit and cross-checks.			ARCOE did not become operational as planned. However, following traditional auditing practices, 3,364 taxpayers were audited with potential revenues of S./21.3 billion.	ARCOE continues not to be operational.
Implement planned management actions and information including Establish in 1990 internal control for GDR, for the legal unit and for the income tax processing unit and publish internal control manual	Not accomplished but the following units were created: 1.Training Unit. 2.Collection Supervision Unit. 3.Data processing and Collection operation Units. Public relations plan for tax reform initiated.	Internal audits stared in claims unit, tax control and GDR secretariat. System for production control (SATE) established	Internal control manual is scheduled for completion by second semester of 1993.	Internal control manual not completed.

Table G-1 (*continued*)

Management Actions (cond.)				
In 1990, design and implement computerized human resources system	Design completed, but not implemented because of information loss on hard disc.			Computerized human resources system not in place.
During 1990, improve tax statistics	Not completed.			No improved statistics program established because of the lack of computer time.
Train 50% of GDR staff.	Training targets exceeded. Over 4,600 staff were trained during by Phases I and II of Project.			