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AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

PROJECT PAPER

EGYPT: Public Finance Administration  
(263-0209)

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<b>AGENCY FOR INTERNATIONAL DEVELOPMENT</b> <b>PROJECT DATA SHEET</b>		1. TRANSACTION CODE <b>A</b> A = Add C = Change D = Delete		Amendment Number _____	DOCUMENT CODE <b>3</b>
2. COUNTRY/ENTITY <b>Egypt</b>		3. PROJECT NUMBER <b>263-0209</b>		5. PROJECT TITLE (maximum 60 characters) <b>Public Finance Administration</b>	
4. BUREAU/OFFICE <b>USAID/Cairo</b>		<b>03</b>			
6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY <b>11 30 93</b>		7. ESTIMATED DATE OF OBLIGATION (Under 'B' below, enter 1, 2, 3, or 4) A. Initial FY <b>88</b> B. Quarter <input type="checkbox"/> C. Final FY <b>90</b>			

8. COSTS (\$000 OR EQUIVALENT \$1 = )

A. FUNDING SOURCE	FIRST FY <b>88</b>			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	( 6,236 )	( 665 )	( 6,901 )	( 14,696 )	( 1,504 )	( 16,200 )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S.						
1.						
2.						
Host Country (In Kind)		1,618	1,618		4,026	4,026
Other Donor(s)						
<b>TOTALS</b>	<b>6,236</b>	<b>2,283</b>	<b>8,519</b>	<b>14,696</b>	<b>5,530</b>	<b>20,226</b>

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1)	650					5,000		16,200	
(2)									
(3)									
(4)						5,000			
<b>TOTALS</b>								<b>16,200</b>	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)						11. SECONDARY PURPOSE CODE	
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)							
A. Code							
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To improve the efficiency of tax administration and equity in the incidence, assessment and collection of taxes.

14. SCHEDULED EVALUATIONS				15. SOURCE/ORIGIN OF GOODS AND SERVICES			
Interim	MM YY	MM YY	Final	MM YY	<input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify): _____		
	09 90			06 93			

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a \_\_\_\_\_ page PP Amendment)

USAID/Egypt Controller concurs in the Methods of Implementation and Financing Proposed herein.

William A. Miller, FM

17. APPROVED BY	Signature 	Date Signed MM DD YY <b>11 25 93</b>	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY 
	Title <b>Marshall D. Brown</b>		



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

November 10, 1987

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

FROM: J. Tarter, IS/IR *ST*  
THRU: E. BAKER, OD/IR *B*  
G. Huger, AD/IS *ghm*  
SUBJECT: Public Finance Administration Project Paper (263-0209)  
REFERENCE: Executive Committee Decision Memorandum of 9/27/1987 on Review of Public Finance Administration Project Paper

*Mg Jey*  
*Paper*  
*0209*  
*11/11*

Problem

The Public Finance Administration Project Paper Executive Committee review on 9-27-1987 resulted in the following decisions:

1. Approval of the Project Paper was deferred pending revision and review of the logframe. The revised logframe will include specific budgetary measures, not including revenue targets, and fiscal policy shifts that are the project's key objectives.
2. A budget line item will be included to provide funding for short term technical advisory services during the project mobilization phase.
3. In addition to the Project Paper changes identified above, scopes of work for the three project contracts (A US Customs Service PASA, an AID direct contract with a commercial contractor and two PSCs during project mobilization period) will be prepared.

Discussion

The project logframe (Annex B) has been rewritten. It now specifies types of changes expected to occur to basic tax structures and the expected impact of these changes. The Monitoring and Evaluation Plan (pp. 46-51) identifies the categories to be evaluated to assess impact. Neither document establishes absolute impact targets for the end of Phase I. This is because the precise policies and magnitude of change will be identified in greater detail by project technical assistance teams as the project progresses. The Project Grant Agreement (attached) formalizes this process by stating that the minimum conditions necessary to proceed to Phase II will be identified in subsequent Project Implementation Letters.

A budget line item has been added to finance short term technical assistance during the 12 month mobilization phase .

The three scopes of work are attached. They have been reviewed by the evaluation officer, chief economist and the office director who will be implementing the project (Education and Training). The clearly marked draft scopes of work for the two major project contractors were given to the Minister of Finance on October 29th for his review.

Budget authority will be requested following authorization.

Recommendation

Based on the revisions and additions identified in this memo, we recommend that you authorize the Public Finance Administration Project as attached. Project authorization will require your signature on the following documents:

- Tab 1 - Project Data Sheet
- Tab 2 - 611 (e) Certification
- Tab 3 - Project Authorization

**ATTACHMENTS**

- Tab 4 - Executive Committee Decision Memo
- Tab 5 - Scope of Work for the Public Finance Advisory Team Contract
- Tab 6 - Scope of Work for the Customs Tax Administration Advisory Team Contract
- Tab 7 - Scope of Work for the Project Mobilization Team
- Tab 8 - Draft Project Grant Agreement

**CLEARANCES:**

AD/FM: WMiller *Jan Charles*  
AD/LEG: KO'Donnell *KFM*  
AD/PPP: JPatterson *JP* 11/19  
DR/PS : FMiller *FMiller (next time please follow MC:3-30 procedure)*  
DD: G. Laudato *G*

IR:JTarter:rh:11/1/87(0448I)

PUBLIC FINANCE ADMINISTRATION PROJECT PAPER  
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SECTION I: Summary and Recommendations

A. SUMMARY AND RECOMMENDATIONS

1. Source of Funds: ESF

2. Total Project Amount:

AID--\$16,200,000

GOE--\$ 4,026,000 (LE 8,857,127)

Proposed AID FY 88 obligation: \$7.0 million

Proposed AID FY 90 obligation: \$9.2 million

3. Terms: Grant

4. Grantee: Ministry of Finance

5. Coordinating Agencies: USAID/Cairo  
Ministry of Finance

6. Implementing Agencies:

Ministry of Finance

- Financial Research and Statistics Department

- Income Tax Department

- Customs Administration

- Excise Tax Administration

7. Life of Project: Six years

8. Project Goal : To assist the MOF link the public more equitably with the GOE's expenditure program.

9. Project Purpose: To improve the efficiency of tax administration and equity in the incidence, assessment and collection of taxes.

10. Environmental Soundness: Negative Determination

## 11. Executive Summary

The recent achievements in the Tax Administration Project (TAP) have encouraged the Ministry of Finance (MOF) to request broad expansion of activities to include administrative policy and operational programs in the four major functional tax areas: (1) income, (2) customs, (3) excise and (4) special studies such as those on estate and property tax. In the context of efficiency and equity of taxation, and linking the public more directly with GOE expenditures for services including subsidies, the Public Finance Administration Project (263-0209) will assist in improving administration and taxation policies, operational methods, and procedures. The information pooled from both research and operational activities in the three major tax revenue departments will provide inputs for decision-making and improvements in overall Ministry of Finance fiscal and administrative policy and procedures. The beneficiaries will be the individual taxpayers and private sector commercial operations.

The project is organized into two phases and four functional components. Phase I will focus on developing a long term policy and administrative improvement plan. Phase II will implement the plan.

### a. Administration and Policy Analysis Component

The first functional area, the Administration and Policy Analysis Component (Policy Analysis Unit), has a staff and coordinating role. Its activities will center on monitoring, research, analysis of priority non-technical issues and the development of a central management information system. The Policy Analysis Unit will report directly to the Minister of Finance and will be staffed with experienced US and Egyptian tax analysts and public finance management specialists.

#### Summary Inputs

- Technical Assistance	\$4,573,000
- US Training	180,000
- Commodities	195,000
- Contingency	<u>318,000</u>
Total	\$5,266,000

### b. Income Tax Administration Component

The GOE Income Tax Department's business tax revenue collections provide a significant part of government revenue, estimated in 1986 at 43 percent of all tax collections. The concern for equity and administrative efficiency are highlighted in all reports and complaints by the business sector. The Income Tax Administration Component will act on various recommendations made for improvements by the current TAP technical advisors (IRS) in areas of functional taxation systems, legislation, data processing and human resource development.

Summary Inputs

- Technical Assistance	\$2,860,000
- US Training	230,000
- Commodities	925,000
- Contingency	<u>305,000</u>
Total	\$4,320,000

c. Customs Administration Component

In 1986, customs revenues were estimated at 29 percent of all tax collections. The GOE Customs Department also collects some 30 percent of all Excise Tax collections. The efficiency of customs operations as it relates to private sector operations is the priority concern for this component of the project.

Summary Inputs

- Technical Assistance	\$2,620,000
- US Training	180,000
- Commodities	725,000
- Contingency	<u>354,000</u>
Total	\$3,879,000

d. Excise Taxation Component

In 1986, excise revenues were estimated at 25 percent of all collections. As mentioned above, the GOE Customs Department collects about one-third of all excise taxes on business entities. This component is concerned with improved administration and efficiency of excise tax processes and procedures at customs and at the factory level.

Summary Inputs

- Technical Assistance	\$ 640,000
- US Training	150,000
- Commodities	180,000
- Contingency	<u>97,000</u>
Total	\$1,067,000

e. Mobilization

During the first 12 project months, a team of two individuals will begin project preparations for the arrival of the technical assistance teams assigned to work in the four functional areas. The scope of activities for the team will be to:

- a. secure office space;
- b. purchase office equipment and supplies;
- c. lease housing; and
- d. establish counterpart employee support personnel.

In addition to the mobilization team effort, three person months of technical assistance will be made available for use by project counterparts as the need arises.

Summary Inputs

- Administrative Personnel	\$48,000
- Technical Assistance	45,000
- Contingency	5,000
Total	<u>\$98,000</u>

In addition to the four functional project components and mobilization activity, the project will provide financing for project evaluations and related conferences and an overall project contingency. The summary project budget for the USAID contribution is as follows:

	\$	\$ (LE equivalent)	Total (in \$000)
1. Mobilization	45	53	98
2. Administrative & Policy Analysis Component	4,749	517	5,266
3. Income Tax Administration Component	4,024	296	4,320
4. Customs Administration Component	3,531	348	3,879
5. Excise Tax Administration Component	997	70	1,067
6. Evaluation and Conferences		220	220
7. Contingency	<u>1,350</u>		<u>1,350</u>
	<u>14,696</u>	<u>1,504</u>	<u>16,200</u>

12. Summary Findings

The project review committee has reviewed all aspects of the project and finds that it is administratively, economically, financially, technically and socially sound. The committee agrees that the project is consistent with the development objectives of the GOE and that it is consistent with the CDSS. The Ministry of Finance is capable of administering the project described in the project paper.

13. Recommendations

That USAID Cairo approve a Grant for \$ 16,200,000 for the Public Finance Administration Project (263-0209) to be funded beginning with \$7.0 million in FY 1988 and \$9,200,000 in FY 90.

That AID directly contract for all technical assistance, equipment and training. (See Section VII, Procurement Plan, Non-Preferred Methods of Procurement.)

D. DRAFT PROJECT AUTHORIZATION

Name of Country: Arab Republic of  
Egypt

Name of Project: Public Finance  
Administration

Number of Project: 263-0209

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended (the "Act"), I hereby authorize the Public Finance Administration Project (the "Project") involving planned obligations not to exceed sixteen million two hundred thousand United States Dollars (\$16,200,000) in grant funds over six years from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing the foreign exchange and local costs of goods and services required for the Project. The planned life of project is approximately six years from the date of initial obligation.
2. The Project will assist the Grantee to improve the administration of the public finances by improving, standardizing and computerizing the procedures and operations of the income tax, customs, and excise tax departments, as well as general management of the Ministry of Finance.
3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and delegations of authority, shall be subject to the following essential terms, covenants and major conditions, together with other such terms, covenants and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Project shall have their source and origin in the Cooperating Country or the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the Cooperating Country or the United States as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed on flag vessels of the United States.

b. Requirements Precedent to Disbursement

(i) General

Prior to any disbursement or to the issuance by AID of any documentation to which disbursement would be made under the Public Finance Administration Project, the Grantee shall, except as the Parties may otherwise agree in writing, furnish to AID, in form and substance satisfactory to AID:

A statement of the names and titles of the persons authorized as the representatives of the Grantee, together with a specimen signature of each person specified in such statement.

c. Covenants

(1) The Grant Agreement shall contain covenants in substance as follows:

- the Grantee shall undertake periodic discussions, not less than once a year, with A.I.D. and both public and private sector business groups, such as the Egyptian Businessmen's Association;
- to assess performance of the project components, especially the income tax awareness program, the simplification of customs import and export procedures, and operational aspects of the excise tax as it affects domestic producers; and
- to discuss further interventions that might be taken to improve the operations of the various tax departments as they have impact on the private sector.
- to provide timely information for tracking the GOE financial contributions to the project through a system to be identified in PIL number 1.

(2) Project Evaluation

A formal Assessment at the end of Phase I will review the Policy Agenda and GOE Commitment to proceed to Phase II. In addition, the parties agree to an evaluation program as part of the Project. Two overall project evaluations will be made. Except as the Parties otherwise agree in writing, the first evaluation will be finalized prior to mid-way through implementation in project year three and again in the final project year. The evaluation will include:

- (a) evaluation of progress toward attainment of the objectives of the Project;
- (b) identification and evaluation of problem areas or constraints, especially in policy and procedural areas, which may inhibit such attainment;
- (c) assessment of how such information may be used to help overcome such problems;
- (d) assessment of monitoring data and special surveys to determine, to the degree feasible, the overall development impact of the project; and
- (e) suggested changes which should be made to the Project's implementation plan in order to meet the project's overall objectives.

3. Salary Supplements and Incentives

At the present time, the Project does not provide for salary supplements or incentives to employees of the Grantee. If, at some future time, the parties agree that Grant proceeds or funds derived from the Special Account may be used to pay such supplements and incentives, such payments will be made only in accordance with mutually agreed guidelines.

4. Local Currency and In-Kind Contribution

The Grantee, through the implementing organization, will provide A.I.D., on a quarterly basis with reports on its local currency and in-kind contributions provided for the project. The format of such reports shall be described in a Project Implementation Letter.

5. Ratification

The Grantee will take all necessary action to complete all legal procedures necessary for ratification of the Grant Agreement and will notify AID as promptly as possible of the achievement of such ratification.

\_\_\_\_\_  
Marshall Brown, Director  
USAID/Egypt

\_\_\_\_\_  
Date

## SECTION II: Background and Problem Analysis

### A. BACKGROUND

#### 1. The Size and Finance of the Public Sector

The Government of Egypt is the largest and most important economic entity in the country. It dominates and pervades most areas of economic activity. In addition to setting national monetary and fiscal policies, the government directly invests in, owns and manages the production and distribution of a large number of goods and services. It imports and markets a wide variety of consumer goods as well as products used as industrial inputs. It sets prices and other controls in many commodity markets. Finally, it is heavily involved in the approval and control of private sector investment decisions.

The growth in government expenditures over the past three decades has depended heavily on non-tax revenues and borrowing. This growth has been abetted by heavy implicit taxation imposed through the control of the production and pricing of a wide variety of products and services. The principal non-tax revenues during the period have included donor assistance, revenues from the Suez Canal, oil exports, and revenues generated by government-owned enterprises. From 1981 to 1985, non-tax revenues and borrowing financed, on average, 66 percent of public sector expenditures. Reaching a peak of 68 percent of expenditures in 1983, the GOE's dependence on non-tax revenues and borrowing has declined slightly to 65 percent in 1985. During the period from 1981 to 1985, non-tax revenue grew by only 3 percent annually while overall government expenditures grew by 10 percent.

The use of non-tax revenues, borrowing and implicit taxes to support the growth of the government has brought with it a number of serious problems. First, non-tax sources introduced an important element of instability in the GOE's growth and equity programs since much of these revenues depend on decisions or conditions beyond Egypt's control. Consequently, the level of financial inflows from any single source is subject to rapid and dramatic change.

A second and perhaps more important public finance problem is that the heavy reliance on non-tax revenues, borrowing and implicit taxes has insulated the vast majority of Egyptian citizens from government expenditures. Few citizens know the real cost of government production of goods and services or the cost of subsidies. Few are involved in the finance of government expenditures through the payment of direct taxes. The reliance on non-tax revenue, implicit taxes and borrowing has created the great popular illusion that government programs do not burden the citizens or the economy. Consequently, popular demand for price controls and subsidized government programs continues at a high level.

From the average citizen's perspective, even explicit taxes are not a perceived burden. The vast majority of taxes are felt indirectly by the people and collected as corporate profits, customs duties and excise taxes hidden in the final product price. Their price impacts are not visible. These three sources represented 85 percent of taxes collected in 1985. Direct taxes on income and property amounted to only 3 percent of tax revenues in the same year.

## 2. Incidence of Explicit Taxes in the Tax System

### (a) Business Income Taxes

The incidence of explicit taxes on the population at large varies by type of tax. The largest source of tax revenue to the GOE in 1985 was taxes on the income and profit of companies. This source constituted 46 percent of all MOF tax collections. It has grown to its present preeminence as a result of the strong growth of the private sector since the mid 1970's, the growth of the oil industry and the increasing profits of the public sector owned Suez Canal operations.

It is difficult to identify the exact incidence and economic impact of this tax. In the case of the public sector companies, the oil companies and the Suez Canal, the collection of revenue through the tax system is only part of the total transfer of resources from these entities to the GOE. Because of their public ownership, the GOE also transfers after-tax profits and losses to the Treasury. Consequently, the incidence of the income tax on companies must be considered in terms of GOE pricing and subsidy policy. For the population at large, GOE pricing and subsidy policy is slightly progressive to income.

The incidence and effect of taxes on the income and profits of private firms is not clear because of great variation in the veracity of company books and tax assessment practices. It is likely that company books and tax assessments are more accurate for the larger, more organized firms. Their size makes it difficult to maintain separate books for tax assessment purposes which are consistent and believable. Also, these firms are assessed by the Tax Department's most experienced assessors. In general, however, corporate income tax assessment and payment is a lengthy negotiation process between the Tax Department and the firms. Most income tax assessments are appealed and ultimately settled by a lengthy process of litigation. Consequently, there is little uniformity in the actual rate paid by companies.

### (b) Personal Income Tax

Personal income taxes and property taxes constitute a very minor portion of tax collection -- 3 percent in 1985. Personal income taxes are paid according to rates which vary by type of income -- i.e., professional income, wages and salaries. A sizable percentage of the population is exempted by the minimum taxable income level. In 1985 approximately two million tax returns were filed out of an employed workforce of twelve million. Of those subject to the tax, outright evasion and gross under-reporting is considered widespread. Consequently, the tax falls most heavily on wages of employees in the public sector.

(c) Customs

Customs duties are the second largest source of tax revenue. In 1985 customs collections reached 29 percent of all collections, a decrease from 33 percent in 1984. In August 1986, a new customs tariff system was introduced. Its rate schedule suggests that it is progressive to income as more luxurious items are charged a higher duty. However, it is too early in its implementation to determine its actual incidence. It is also too early to determine the effects of the new customs reform on company behavior and production.

(d) Excise Taxes

Taxes on goods and services are the third largest component of tax revenue, constituting 25 percent in 1985. Since 1981, this tax is supposed to be a consolidated excise tax, but not all aspects of the law have been implemented. In fact, the tax is essentially a consumption tax levied at the factory level or as a duty surcharge on slightly over 150 commodities.

3. Tax Administration and Related Policies

The tax system in Egypt has a number of important administrative inefficiencies arising from its size and structure, employee training and pay, and national tax policy and law. Examples of these problems follow. They add to the complexity of the current tax systems and result in substantial tax avoidance and evasion. They also allow those responsible for assessment a substantial degree of discretion in setting an individual's or firm's tax liability. Simplification of the tax systems should eliminate these abuses and clarify the law and procedures for the taxpayers as well as the Ministry personnel.

(a) Size and Structure

The various tax departments -- i.e., income, customs, excise -- constitute separate entities within the Ministry of Finance. Each reports to the Minister through the Undersecretary for Revenue. The taxation side of the Ministry is large, employing over 50,000 persons. Responsibility to assess and collect the principal taxes is generally decentralized in branch offices or at ports of entry.

The present tax departments have grown physically and geographically without commensurate changes in management structures, communications systems and management information systems. Rules and directives flow from the center with the expectation that they shortly will be heard, understood and followed at the far reaches of the system. In fact, the communication system is more closely analogous to a chain letter moving down a bureaucratic pyramid. The chain is prone to breakage and those below the break never hear the orders.

Management's system of internal control and follow-up is not well developed so that information gaps and misunderstandings at branch offices are not quickly spotted and corrected. This situation also permits those who disagree with an order to ignore it with impunity for long periods of time.

There is virtually no management information system on the activities and performance of the tax system and its employees. Information provided to senior officials comes up through the chain of command and from periodic site inspections. Consequently, it is relatively easy to control senior management's knowledge of the system's performance.

(D) Employee Training and Pay

The Income Tax Department has made significant progress in providing its employees with orientation and in-service training. However, there is still a need for more training. Branch offices, which are remote from existing training facilities, have few opportunities to have their personnel properly trained. In addition, there is a need to deepen the training particularly on topics related to new tax policy and procedures. Finally, management training curriculum needs to be further developed so that courses can be given to supervisors at all levels.

The incentive pay system is now based on the quantity of paperwork processed by the tax agent. (N.B.: Incentive pay is paid entirely by the GOE. Although incentive pay schemes may arise from this project, all incentive pay would have to be paid by the GOE, not from project funds.) Consequently, the speed of processing a tax file is more important than the accuracy of the analysis. More importantly, there is a bias in the system toward the processing of the easy tax cases which generally have little revenue yield compared with the audit effort. The larger and more difficult cases which could identify substantial under-reporting receive no special priority in scheduling audits.

(c) National Tax Policy and Law

Many of the most serious inefficiencies in the tax system arise from tax administration policy and law. For example, the Income Tax Department is required to audit 100 percent of the returns. Since the process is still done entirely manually, the workload is impossible to complete. Examiners are typically four to five years behind. Without a system to prioritize audits, the government denies itself the timely payment of taxes by the high income earners who may have filed an erroneous return.

The income tax law specifies separate tax schedules for income derived from professional services, from wages and from other sources. On professional income, the rates vary from 18 percent to 30 percent. On wages, the rates are from 2 percent to 22 percent. On other income, the rates are from 8 percent to 50 percent. A taxpayer who may have earned income from each source is faced with a very complicated task when he or she fills out a tax return. The auditing tax agent is faced with an impossible problem when trying to verify the accuracy of the return. With poor taxpayer records and accounting standards, errors in classifying income and identifying under-reporting are almost impossible to detect.

In customs, there is considerable disagreement between the Customs officials and importers over the classification of goods which are not precisely described on the list of permissible imports. There is also considerable argument over the exact procedures for processing re-exports. The Customs Department has also been saddled with procedures related more to currency control than import control. Consequently, a good deal of effort is spent reviewing a variety of bank documents which trace the movement of the currency which paid for the imports. Similarly, the importer spends a good deal of time arranging for the proper documents and clearing them through the right personnel.

In excise taxes, the procedures require a weekly visit to a company by the tax assessor or actual stationing of a person at the site. There has been no automation of the assessment and collection process. The start demands of this effort have forced the Department to delay implementing a comprehensive sales tax and has restricted the base of the current Excise Tax on slightly over 150 items.

## B. PROBLEM ANALYSIS

The Ministry of Finance (MOF) has a key role in establishing policies and procedures which directly affect the activities and actions of individuals and both public and private sector operations. There is recognition by the MOF of the need for better administrative policy and operational procedures in all functional tax departments to improve taxpayer confidence in the tax system. This confidence will only be brought about with equity and efficiency of tax operations and better information programs which link public expenditures with the cost of services including subsidies. The problems and issues are complex. This requires a well coordinated research and field testing program which will open the way to better public finance and operational policies, and improved methods and procedures.

There is a real opportunity at this time for improvement of MOF functions. This is driven by: (a) key individuals now in government who understand the issues and are keenly interested in improvements in all functional taxation departments; (b) the economic environment itself (e.g., pressures for economic reforms, efficiency and equity, and budgetary controls) in which the MOF plays a key role; and (c) momentum from the ongoing Tax Administration Project and completed Tax Modernization Program studies which offer a significant base to quickly move into an expanded policy and administration program.

### 1. Pressure for Reforms

The state of the Egyptian economy, including its serious budgetary deficits, requires immediate attention to control public expenditures and increase efficiency in tax administration. In this regard, the Minister of Finance's interest is in developing improved systems in major tax departments and a strong public information and awareness program which will educate government officials and the public of the cost of government services including subsidies. The MOF has the significant role and control over strategic

functions (e.g., budget and treasury) and can positively influence the future complementarity between the public and private sectors. The pressure to reduce public sector subsidies will directly benefit the private sector in the form of leveling the playing field between public sector and private sector operations.

There is recognition of the complexity of public finance administration and operational issues involving changes in personnel assignments, relationships, and the introduction of modern sub-sector specific programs and approaches. The sensitivity is particularly critical in relation to business income and customs taxation where there have been informal "administrative costs" involved. It is also recognized that administrative policy improvements call for strong political will and commitment by the government. Recent economic reforms in exchange rate unification indicate that there is a will for bold improvements and the environment is now more conducive to change. However, there is still need for preparatory measures, including research plus strengthening of the various departments, to provide the required support for change.

## 2. Operations and Coordination

In each tax department there are organizational, procedural and technical weaknesses to address. The need for a strong coordinating mechanism will be important as the project expands into the two new tax departments (customs and excise) which are of particular concern to private sector imports and taxation on production. The coordination between the two departments is weak in regard to reporting and sharing of information. As an example, Customs and Excise Tax Departments each impose separate taxes on business imports which could result in duplication of taxes. Again, the Tax Administration Project was never fully coordinated with the Tax Modernization Program's legislation studies. The original assumption was that they could develop in tandem. However, the dedicated and trained staff resources to: (a) analyze the results of the studies and ongoing pilot income tax, and (b) recommend appropriate administrative policy changes were not there. The 1983 evaluation of the TAP discussed this as an issue but no decisions or organizational changes or additions in technical assistance were made. As a result, neither project achieved optimum results.

## 3. MOF Commitment to Change

As noted above, there is interest at the highest level of the MOF for administrative, operational and procedural improvements conducive to improved efficiency, equity of taxation and tax modernization in general. The current Prime Minister and the Minister of Finance were personally involved in the planning and implementation of the Tax Modernization Program studies which focused on legislative improvements. Most of the work done in this program is still at the recommendation stage. The Ministry of Finance generally sees the United States as having the needed experience and technical expertise to assist in developing improved administrative and operational systems.

#### 4. Ministry of Finance Interests

In the context of efficiency and equity of taxation, and linking the public more directly with GOE expenditures for services and subsidies, the Ministry of Finance (MOF) has requested assistance in improving public finance administration and taxation policies, operational methods, and procedures. The information pooled from both research and operational activities in three major tax revenue departments will provide inputs to relevant decision-making and improvements in overall MOF public finance and administration. The beneficiaries will be the individual taxpayers and private sector commercial operations. This is the first such attempt to provide the MOF comprehensive public finance and administration assistance by a foreign donor.

#### C. PRIOR AID EXPERIENCE

Ad hoc technical assistance to the GOE Income Tax Department by the Internal Revenue Service (IRS) began in 1975, and a formalized Tax Administration Project (263-0115) was initiated in 1980. The ongoing Tax Administration Project focus is limited to income tax (business and personal) activities including: (1) developing a network of tax training institutes; (2) initiating automatic data processing (ADP) planning; (3) pilot operations in examination and (4) reorganization of the income tax department. In addition to technical assistance, other USAID inputs that have been provided include commodities (primarily ADP equipment) and U.S. - based training. Parallel and separate from the income tax assistance, a local-cost (LE) financed Tax Modernization Program was undertaken in 1980-84 to review legislation through local university contracts.

The Tax Administration Project (TAP) experienced serious delays in the initial years. This is attributed in great part to inadequate staffing by both the US contractor and the MOF. In 1983 a mid-term evaluation was conducted and several staffing and procedural recommendations were made. Changes in focus and staff were made and over the last two years there has been good progress. Achievements under the Tax Administration Project have been more in institution building and application of improved processes as well as in increase in revenue, one of the original objectives of the project. Four areas of success can be identified:

1. the income tax department has been reorganized along functional lines and responsibilities are better defined;
2. the income Tax Training Institute (TTI) has been developed, and facilities and course materials have become a functioning model for other departments;
3. the ADP division has been created and staffed with an initial cadre of trained programmers and systems analysts, basic ADP entry equipment has been installed and data is being inputted and analyzed; and
4. an improved examination system has been tested and is being introduced in pilot areas.

These recent achievements in income tax (business and personal) have encouraged the MOF to request the broad expansion of activities to include administrative policy and operational programs in the four major functional Tax Department areas: (1) income, (2) customs, (3) excise, and (4) special studies such as on estate and property tax.

#### D. OTHER DONORS

There are no other donors currently working specifically in the area of taxation policy or administration reform. However, all donors, but especially the International Monetary Fund and World Bank, are working to influence necessary monetary and fiscal policy changes. This project will support the efforts directed at policy change.

#### E. RELATIONSHIP OF PROJECT TO CDSS

This Public Finance Administration Project supports the Mission's overall strategy as described in the CDSS. It complements the Mission policy dialogue efforts and will focus on tax simplification and equity as a complement to the policy objective of reducing the relative size of the government within the economy.

The policy dialogue between the GOE and USAID aims at shifting the reliance of the GOE away from non-tax revenues, borrowing and implicit taxes. Better tax administration and better information links between the public and the government's expenditure programs are important element in this process. Such exposure and public awareness is a prerequisite to greater accountability and greater public interest in fiscal restraint.

However, the improvement in tax administration and the resultant public awareness of the cost of government are not sufficient to effect a relative reduction in government expenditures. Two other essential conditions must prevail. One is that a mechanism must exist for the public's interest in controlling expenditures (and therefore taxes) to be translated into government policy and law.

The other is that structural reforms must be introduced to redirect the economy toward market pricing and private enterprise. This project is proposed now because these two complementary conditions are being fulfilled.

### SECTION III: PROJECT DESCRIPTION

The Project is divided into four components and two implementation phases. The four components, the Administrative and Policy Analysis Component, the Income Tax Administration Component, the Customs Administration Component and the Excise Taxation Component, will be described in detail below. Each component will be divided into Phase I and II inputs and outputs.

The Project is being phased in order to allow both a planning and an implementation phase for the major policy reforms expected to be produced. During Phase I, the Administration and Policy Analysis Component will produce a comprehensive policy reform agenda. At the same time, the operational and procedural programs necessary to implement a tax reform package, if enacted, will have been pilot tested in the Income Tax Administration Component, the Customs Administration Component and the Excise Taxation Component. This field testing will concentrate on:

- a. standardization of processes;
- b. improved management information; and
- c. expanded training capacity.

The phasing of the project will give the GOE counterparts added practical leverage to argue for acceptance of proposed tax policy and administrative reforms because administrative methods necessary to implement proposed reforms will have been pilot tested and ready for implementation if reforms are adopted.

#### A. PROJECT GOAL AND PURPOSE

The Goal of the project is to assist the Ministry of Finance link the public more equitably with the GOE's expenditure program.

The Purpose of the project is to improve the efficiency of tax administration and equity in the incidence, assessment and collection of taxes.

The result of this project can be summarized as follows. Revenues to the government are expected to rise in the short term as the tax base is broadened to include individuals and firms now exempt or evading. Tax rates are expected to fall generally as the base expands and in particular for those categories of firms and individuals who face marginal rates which distort their behavior. Over the longer run, tax rates and revenue will reflect public awareness of expenditures and public choice in GOE programs. The strong government commitment to social equity is expected to remain so that the incidence of total tax (positive and negative taxes) is progressive to individual income.

Economic efficiency with regard to the taxation of business implies that taxes be neutral in terms of investment choices and input mix. However, the GOE's increasing desire to stimulate exports for foreign exchange will likely result in some degree of favorable tax treatment for firms producing for export. Similarly in the context of Egypt, an important element of tax equity is tax simplification which will be achieved by this project.

#### B. PROJECT DESCRIPTION

1. Project Components
  - a. Administration and Policy Analysis Component
    - (1) Background

The centerpiece of the new project is the Administration and Policy Analysis Component. This component will be staffed by a coordinating Administration and

Policy Analysis Unit (to be located in the Financial Research, Statistics and Administrative Development Office of Minister of Finance). The unit will report directly to the Minister of Finance and will be staffed with experienced US and Egyptian tax analysts and public finance management specialists. As appropriate, research requirements on administrative, operational and procedural problems will feed into this staff office for analysis and policy or administrative action by the Minister. In addition, this key staff office will be responsible for developing information and education programs on tax issues for government officials and the public. The office will also be responsible for special studies such as on property and estate taxes. For its part, the Ministry of Finance will have to prepare itself for its expanded role in analysis and pressures for efficiency and equity as a result of research, pilot program recommendations and enhanced awareness of the public and the private sector of potentials for improved public finance policies and operational improvements. This will call for adoption of modern administrative practices and strengthening of management.

## (2) Component Objectives

This component provides the resources for administration and policy analysis. The final Phase I objective is to prepare a comprehensive tax administrative policy reform agenda and a plan to address the priority issues. The component will coordinate the Ministry's central Management Information System (MIS) -- linking the MIS of each of the principal tax and revenue departments for internal management and coordination of public information. Finally, the component will conduct special studies and pilot activities on property taxes and estate tax.

The applied research and pilot operational programs in the three major tax departments will provide recommendations for standardization of methods and procedures, many of which can be implemented immediately. This should result in increased efficiency and equity, e.g., reduce tax distortions which adversely influence private sector decisions and actions. Other issues that cannot be resolved at the Department level will be elevated to the Administration and Policy Analysis Unit for analysis and action or preparation for Phase II implementation.

The MIS will provide timely information to senior ministry management on the status of key revenue, expenditure and personnel variables. This system will draw on and integrate data generated by and maintained in the individual tax and revenue MIS. Examples of variables to be included in this MIS are performance of each tax instrument, expenditure disbursement rates, budget deficits and personnel utilization.

The Special Studies and Pilot Activities on property and estate taxation will identify the problems with current policy and administration in those areas. Should pilot activity indicate that these tax instruments have important revenue and equity potential, further resource assistance to these areas may be undertaken.

## (3) Phase I Outputs

At the end of Phase I, the Administration and Policy Analysis Component will have produced the following:

- (a) a tax reform policy package that includes a set of coordinated tax policies and draft legislation in income tax policy, customs tax policy and excise tax policy;
- (b) a coordinated administrative, operational and procedural reform package for the offices of Income Tax Administration, Customs Tax Administration and Excise Tax Administration;
- (c) a prioritized implementation plan for the above policy and administrative reform packages;
- (d) a public awareness campaign to inform the tax payers of the benefits of the reforms;
- (e) the design of an integrated Management Information System including at least the Office of the Minister of Finance, the Income Tax Administration, the Customs Administration and the Excise Tax Administration; and
- (f) a series of special studies on problems of property and estate taxes.

#### (4) Phase II Outputs

The package of reforms, i.e., policy, administrative, legislative and operational improvements identified in Phase I for action, will be implemented during Phase II. In addition to assisting to explain the reforms to the Peoples Assembly, the public and the implementing authority, this phase of the project will monitor progress and study areas of the reform which may need to be fine tuned. As new tax measures come into force, special emphasis will be given to the analysis of actual incidence in terms of business behavior and distributive equity.

At the end of Phase II, Component I will have produced the following outputs:

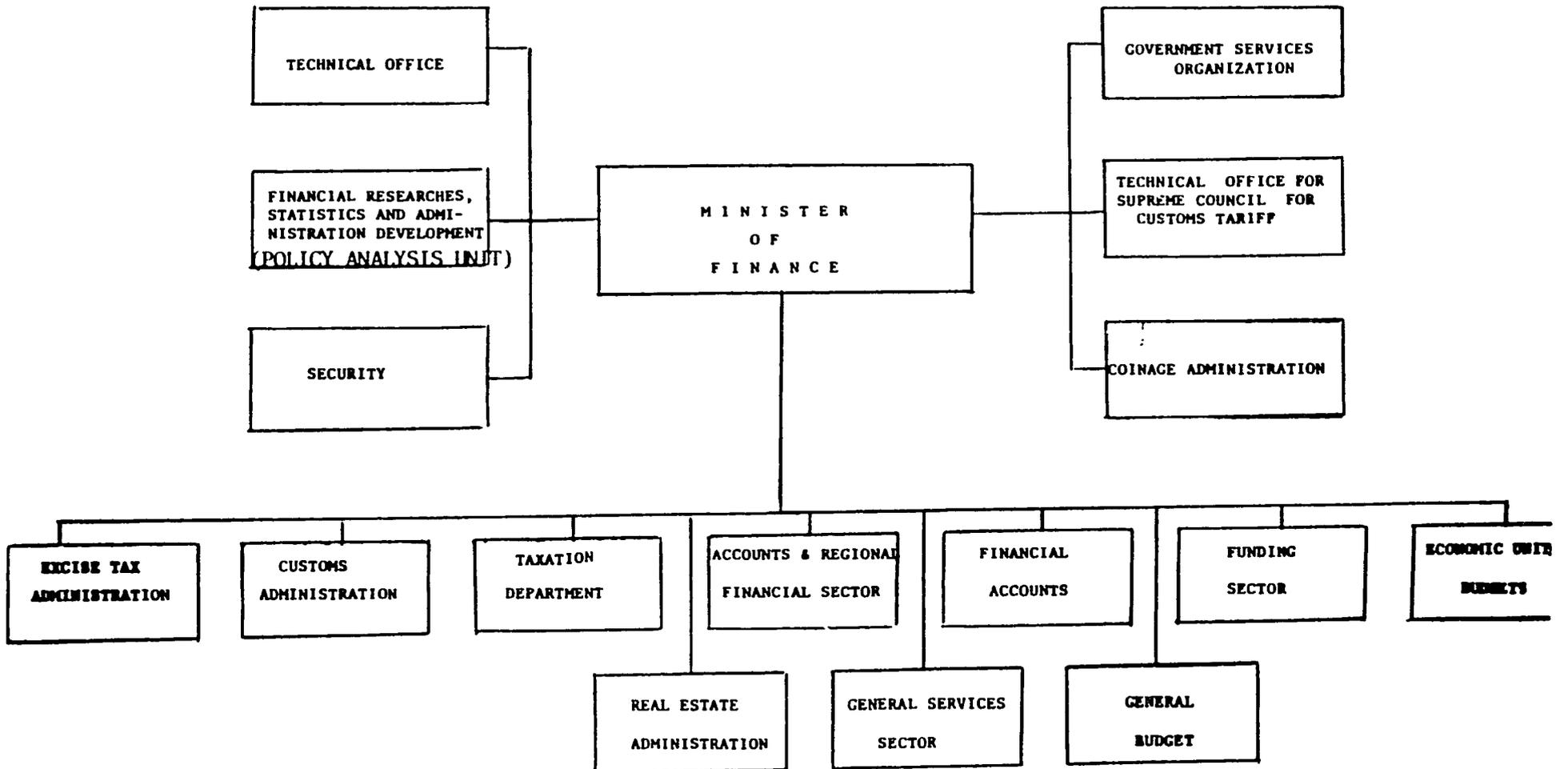
- (a) implementation of the tax policy reform package;
- (b) implementation of the administrative, operational and procedural reform packages;
- (c) implementation of the public awareness campaign;
- (d) implementation of a Ministry coordinated MIS and data transfer system among the various tax department's Management Information Systems so that information collected by each can be automatically shared with the others; and
- (e) implementation of special studies and pilot activities resulting from the studies.

The special studies element will first investigate the various problems surrounding the property and estate taxation. If this inquiry suggests that these taxes can be modified to perform efficiently and equitably, further study will be undertaken to identify appropriate mechanisms for encouraging policy and administration improvements. In property taxation, which is likely to be more promising, special emphasis will be given to the problems of tax mapping, assessment practices, the effects of rent control and property exemptions, the potential for special assessments (road/sewer improvement) and administration.

(5) Phase I and II Inputs

	( \$ )				
	Phase I		Phase II		Total
1. Technical Assistance					
US Long Term	78PM	1,482,000	117PM	2,223,000	195PM 3,705,000
US Short Term	27PM	270,000	24PM	240,000	51PM 510,000
EGY Short Term	69PM	138,000	75PM	150,000	144PM 288,000
EGY Staff	15PM	30,000	20PM	40,000	35PM 70,000
2. US Training	12.5PM	125,000	5.5PM	55,000	18PM 180,000
3. Commodities		50,000		145,000	195,000
4. Contingency		42,000		276,000	318,000
		<u>2,137,000</u>		<u>3,129,000</u>	<u>5,266,000</u>

PM = Person Months



## b. Income Tax Administration Component

### (1) Background

USAID has provided technical assistance to the Ministry of Finance's Income Tax Department (ITD) under a Participating Agency Service Agreement (PASA) with the US Internal Revenue Service (IRS). Assistance was initiated in 1975 with short-term advisors working in various operational areas. In 1980 the Tax Administration Project (TAP) was organized to provide structured technical assistance through the IRS. The goal of the TAP was to assist in the mobilization of domestic resources for development, with a secondary goal to improve taxpayer equity and to enhance efficiency with the ITD. Four specific interventions were planned to achieve the objectives: (a) reorganization of the ITD; (b) development of an income tax training capacity; (c) computerization of tax functions; and (d) streamlining of collections and examination functions.

There have been delays in implementation. The delays are attributed in great part to inappropriate staffing by both parties. As a result of the 1983 evaluation, several changes were made. Key middle management staff were trained and exposed to new concepts and significant results have been achieved over the last two years. For example, a National Tax Training Institute (TTI) has been established in Cairo and is now conducting more than 100 courses per year. More than 120 trainers are skilled in various areas as diverse as preparation of training materials and philosophy of training.

Regional TTIs have also been established at Alexandria, Tanta, Shedin El Kom, Beni Suef, Aswan and Ismailia. TTI's in Luxor, Mansoura and Assiyut are scheduled to open later this year, with another three added by the end of 1988. The new regional Tax Training Institutes will not be fully functional by the end of the TAP in 1988, therefore, the training of staff and procurement of training equipment will continue under the new project. The TAP has been extended through September 1988 to provide a bridge with the new Public Finance Administration Project. The results to date of the training activities are obvious in terms of relative efficiency of Income Tax Department organization and operations.

The 1983 evaluation recognized that institution building would be a long term undertaking and suggested that technical assistance and training programs be expanded. In other areas of institutional development the important constraints have been identified and interventions are incorporated into the new project. The institutional base has been established for future expansion and there are "lessons learned" for integration into initial work with the Customs and Excise Departments.

### (2) Component Objectives

The objectives of this component (which builds on the ongoing TAP activities) are:

1. efficiency in the administration of the Egyptian Income Taxation Department's (ITD) personal and business income tax systems; and
2. improvement of income taxation equity.

As a result of improved efficiency and policy, it is expected that appropriate levels of revenue for development and operation of essential government services will be maintained.

(3) Phase I Outputs

The Income Tax Administration Component will concentrate on administrative, operational and procedural improvements in the Income Taxation Department's internal operations. As a corollary to this, it will also focus on increased training and increased training capacity.

We will continue the initiatives begun in the TAP and field test both TAP proposed changes and those proposed by the Public Finance Administration Project. The outputs at the end of Phase I will be recommendations resulting from a series of pilot studies in the following areas:

- uniform tax enforcement policy;
- interrelationship to other taxes;
- cost and collectability of income taxes;
- income taxation's effect on private sector development;
- rationalization of income tax rates;
- simplification and clarification of taxation code; and
- unification of income taxation schedules into a global system.

(4) Phase II Outputs

The basic Income Tax Department (ITD) organizational planning work has been completed under the ongoing TAP. Additional long term assistance is needed in strengthening staff capacities including management, improvement/standardization of methods and procedures and ADP operations. There are four priority outputs that will be achieved in the area of Income Taxation and Administration.

Output 1: Improved and Expanded Training

The MOF effort to develop a solid cadre of trained personnel and managers at all levels will continue and be expanded to handle the 17,000 Income Tax Department employees. A system for the identification, selection and training of new managers will be expanded and improved with a goal of improving overall management efficiency. In addition to technical and management course work, training will also focus on new policies and procedures developed and tested under the "Policy and Administrative Analysis" component and the standardization of procedures and regulations nationwide. By the end of the project ten fully functional and operating TTIs will exist throughout Egypt with the capacity to train on average 3,000 personnel each year.

## Output 2: Improved and Standardized Methods and Procedures

### (a) Examination

Currently all income tax returns in Egypt are individually audited creating a large unworkable backlog of cases. Service to the taxpayer will be improved if returns are categorized and efficiently processed. The pilot examination processes will be further refined by: (a) statistical data collection and analysis; (b) implementation of a technical time and reporting system in the districts for examination personnel; and (c) implementation of classification procedures using guidelines established by the ITD. Examination administration and operational systems will also be computerized by incorporating appropriate ADP equipment, e.g., microcomputers at the regional and district level.

### (b) Collection

One of the greatest impediments facing improved collection is the lack of policy, uniform practices and delegated authority in this critical and sensitive area. As a result of the TAP, there is some operational experience to improve policy and to create a field test of a more efficient and uniform (equitable) collection system. The Collection Sector will be given full operational authority and a collections procedure manual will be prepared.

## Output 3: Management Information System

The MIS is an important general support system aimed at (1) standardizing procedures, (2) improving communication and information flows within ITD and to the public, and (3) analysis of revenue variables. As implementation proceeds and lessons from the pilot programs in collection and examination are learned, additional management support procedures and operations will be created and/or up-dated. The system's initial focus will include but not be limited to the following areas:

### (a) Data Information Center

Currently a compilation of taxation documents does not exist outside of the main Ministry of Finance building. A modern central Data Information Center will be established that will allow quick access to important items such as all current taxation laws, Ministerial decrees, technical procedure manuals, and relevant Egyptian and foreign periodicals, books, and other papers relating to income taxation.

### (b) Automated Data Processing

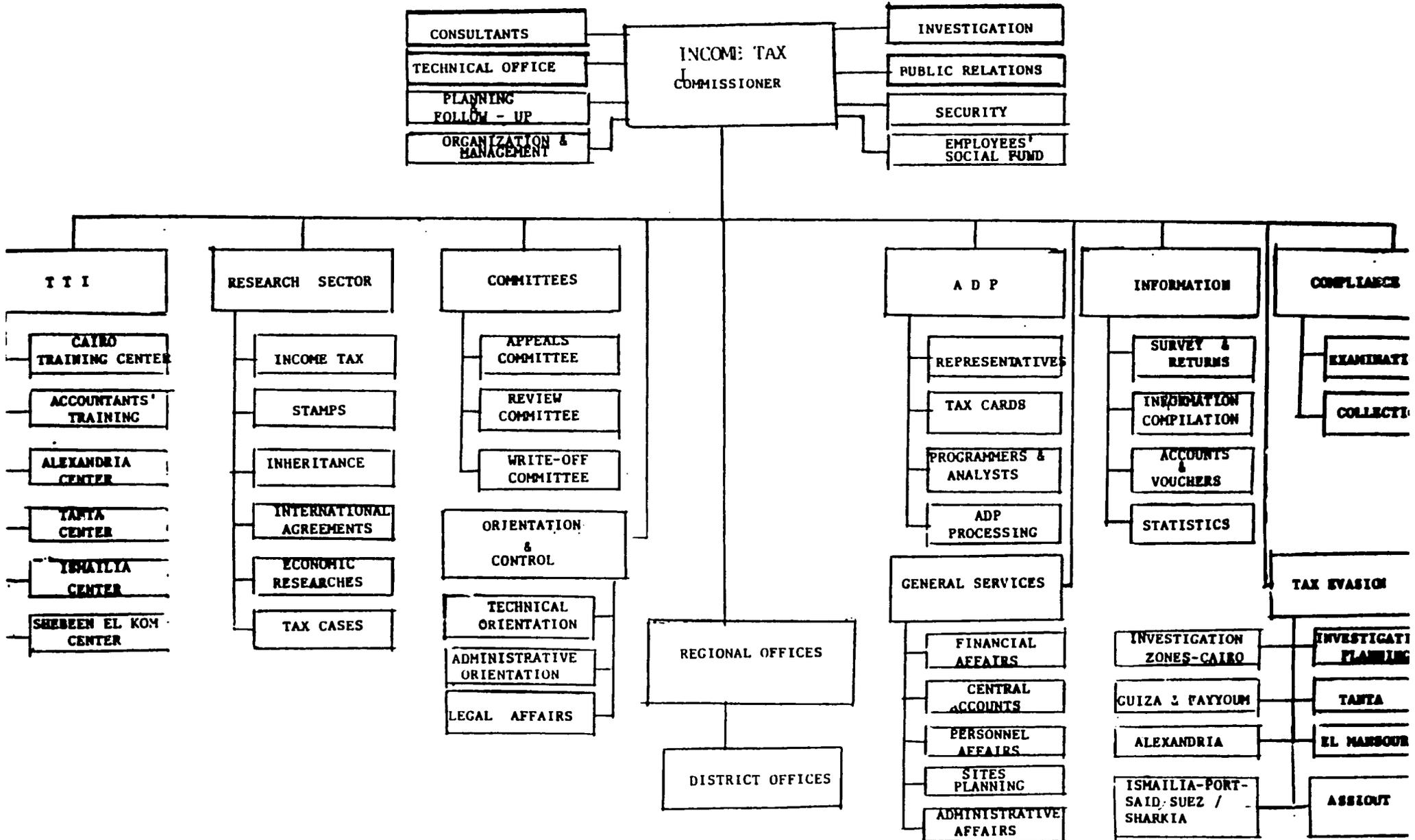
The initial planning and training for an automated data processing (ADP) unit has been initiated. A core unit is now operating within the Income Tax Department and must be expanded. Establishment of a full service ADP unit has been delayed mainly due to the lack of a computer facility in the Ministry of Finance. This necessitates the purchase of computer time from another organization. An expanded computer system will be developed to handle the

recording of withholding taxes from sales and purchases, the preparation of taxpayers' returns and various reporting and auditing functions to support the management information and procedure effort (Output 3 above). Careful systems and procurement planning will be necessary to organize computer facilities outside of Cairo and design an interdepartmental management information system that provides appropriate data for analysis.

(5) Phase I and II Inputs

			(\$)		
	Phase I		Phase II		Total
1. Technical Assistance					
US Long Term	52PM	988,000	78PM	1,482,000	130PM 2,470,000
US Short Term	9PM	90,000	15PM	150,000	24PM 240,000
EGY Short Term	24PM	48,000	51PM	102,000	75PM 150,000
2. US Training	8PM	80,000	15PM	150,000	23PM 230,000
3. Commodities		450,000		475,000	925,000
4. Contingency		43,000		262,000	305,000
		<u>1,699,000</u>		<u>2,621,000</u>	<u>4,320,000</u>

PM = Person Months



### c. Customs Administration Component

#### (1) Background and Issues

A U.S. Customs Service (USCS) survey team reviewed the operations of the Egyptian Customs Department in January 1987. Several policy and operational issues were identified and the team's input has provided many of the details in the design of this component's activities.

#### (2) Component Objectives

The objective of this component is to improve the efficiency and equity in the incidence, assessment and collection of customs duties. Improved customs policies, regulations and administrative procedures are of critical importance to the private sector. Efficiency and predictability of customs tax application on imports and exports has direct impact on business expansion and overall productivity.

#### (3) Phase I Outputs

At the end of Phase I, the following areas will have been analyzed for possible administrative change and pilot programs will have been conducted where appropriate:

- uniform tax enforcement policy;
- development of standardized administrative policies and operating procedures;
- improvements in administrative controls;
- improvements in systems for information flows; and
- simplification and clarification of customs laws and procedures.

Other priority issues will be identified for analysis as a result of operational experience and pilot activities.

#### (4) Phase II Outputs

The principal outputs will be improvements in all major functions in the Egyptian Customs Department:

##### Output 1: Improved Management Systems and Procedures

In general, emphasis will be on improved efficiency and improved procedures for both import and export processing. Management and procedural systems will be introduced to: (1) reduce the average time for customs clearance; (2) improve the consistency and reliability of customs classification and valuation; (3) improve the efficiency in handling of perishable export items; and (4) improve procedures for expeditious release of critical imports for industry. The USCS survey team also identified specific operational areas for immediate work (systems and procedures): automation of entry records in Alexandria; elimination of certain steps in the export process; and the improvement of duty collection systems.

**Output 2: Automated Data Processing**

The project will assist the Customs Department to strengthen their automated data processing (ADP) systems for: administration, (e.g., personnel, budget and logistics); warehouse inventory and cargo controls; and finance and accounting, (e.g., entry declarations, cargo clearance and tax collection).

**Output 3: National Customs Training Center**

The project will develop a National Customs Taxation Training Institute. The Institute could be modeled after the Income Tax Department's training program and, to the extent possible, generic type training, e.g., general management training, will be coordinated with the Income Tax Department as a cost saving measure. Technical assistance will be provided in the development of standardized training curricula and course materials as well as assistance in the management operations of the Institute. Training courses will be constantly up-dated and be based on lessons learned and changes made during pilot efforts and policy changes. Although it must still be investigated, it is intended that the National Customs Training Center will undertake its activities within the physical facilities of the Tax Training Institutes.

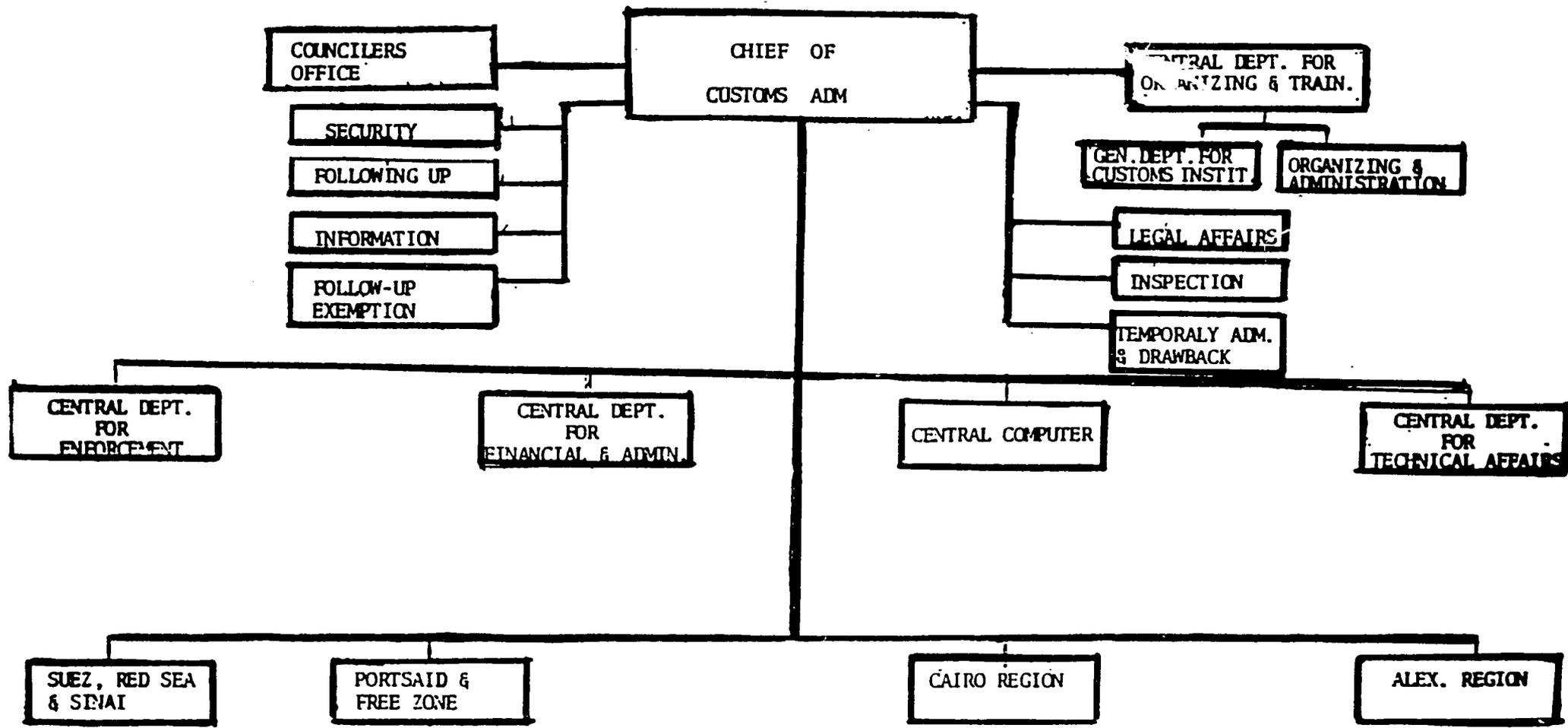
**Output 4: Public Information System**

In cooperation with the Administration and Policy Analysis unit, a public relations and information program will be developed in the Customs Taxation Department which will educate the Egyptian public on customs taxation policy and procedures. This program will inform the public and business community on how tax rates are determined, assessed and collected. The program will develop information programs using television, radio and print media.

(5) Phase I and II Inputs

	Phase I		Phase II		Total
		(\$)		(\$)	
1. Technical Assistance					
US Long Term	54PM	904,000	78PM	1,306,000	132PM 2,210,000
US Short Term	9PM	90,000	18PM	180,000	27PM 270,000
EGY Short Term	19PM	38,000	51PM	102,000	70PM 140,000
2. US Training	6PM	60,000	12PM	120,000	18PM 180,000
3. Commodities		307,000		418,000	725,000
4. Contingency		136,000		218,000	354,000
		<hr/>		<hr/>	<hr/>
		1,535,000		2,344,000	3,879,000

PM = Person Months



#### d. Excise Tax Administration Component

##### (1) Background

Efficient and equitable excise tax administration is of considerable importance to both private and public sector enterprise. Excise tax is levied when goods are transferred from the producer to the retailer or when goods are imported. The tax is legally incident on producers. However, ultimately the tax is passed on to the consumer in the price of the end product.

Excise taxes are levied on approximately 155 items, about 74 of which are significant in terms of revenue. Of the 155 tax levies, 65 are imposed on imports. Another 12 are incident on domestic products, the most important being petroleum products which represent about 25 percent of revenues collected and soft drinks which represent about 10 percent of revenues collected. Annual taxes on 33 items are less than LE 100,000 each. Taxes on sugar and tea are the other large excise tax sources.

The excise tax revenues generated increased from 17 percent to 24 percent over the last five years as a percentage of total tax. The actual increase was from LE 400 million to LE 2,400 million. The increase is attributed in great part to the addition of items subject to the tax. This has offset the relative reduction in revenues from customs tax collections as a result of recent import restrictions. Some 30 percent of the excise taxes are collected by the Customs Department. Much of the excise tax is collected from public sector companies, but growing private sector production will become an increasingly large source of revenue.

Some excise tax rate adjustments were imposed in April 1986, and others were enacted in August 1986 when the customs tax reform occurred. Several general trends have emerged from the recent changes in excise taxation. First, there is a tendency toward ad valorem and away from unit tax rates. Second, many rates were reduced on imported goods to reflect the increase in the exchange rate. Finally, there is general trend toward increase in rates, particularly on luxury items.

##### (2) Component Objectives

The objective is to improve the efficiency of the tax administration and equity in the incidence, assessment and collection of excise taxes.

This objective is consistent with the project goal of supporting the development and expansion of a simplified, equitable and more neutral tax system in Egypt. Improved policy and systems should assist in efforts to encourage private sector investment in productive areas by insuring equity and predictability of excise tax application.

##### (3) Phase I Outputs

Growth and changes in excise taxation and the lack of efficiency, consistency and equity in collection has led to conflicts between clients and the Excise Department collectors. A serious operational weakness is the lack of taxpayer numbers or mechanisms for passing information about taxpayers across revenue departments. This is especially critical for excise since the Customs Department collects such a large portion of the taxes.

The continuous monitoring and controls imposed by the Excise Tax Department on companies are a large and growing administrative inconvenience and cost burden for both. Presently, taxes are collected every ten days from each firm, plus there is a month-end clearing of all tax liabilities. More efficient procedures are needed.

An initial agenda has been developed which includes analysis of key issues including the following:

- development of standardized administrative policies and operating procedures;
- improvements in administrative controls;
- improvements in systems for information flows; and
- simplification and clarification of excise laws and procedures.

Other priority issues will be identified for analysis as a result of operational experience and pilot activities.

#### (4) Phase II Outputs

##### Output 1: Management and Operations Systems Design

Technical advisors will conduct an in-depth analysis of the current excise taxation system. The analysis will document: current operation environment from the perspective of the client and the Excise Tax Department; formal and informal systems employed; and the process of administration. Based on the analysis, improved processes and procedures will be recommended to reduce the number of steps and reporting burdens of the private and public sector firms and to improve the consistency and reliability of excise tax rules and regulations and their administration.

Functional improvements to be implemented in this area would be developed and tested in a series of pilot activities. Successful pilot activities would be expanded nationwide as appropriate through training and preparation of manuals of operation. As a result of field operations and pilot testing, issues of a policy nature would be channeled to the Policy and Administrative Analysis unit for their action and review with the Minister of Finance and other GOE officials as appropriate. It is anticipated that existing legislation will need to be revised to adjust the fee structure. Such legislation would be a part of the Policy Agenda developed by the project by year two.

##### Output 2: Automated Data Processing Unit

The project will assist the Excise Department to develop expertise in the operation of automated data processing (ADP) systems to improve both its administrative procedures (personnel, budget and logistics) as well as systems to enhance the processing of duty collection and data sharing with other revenue departments (Customs). The ADP unit will be critical as the Department increases its scope of operations to cover new enterprises and as more efficient billing procedures are developed. Over time, the ADP unit would be important as pilot activities explore opportunities of developing a sales tax collected at the retail unit on certain luxury items. Other efficiencies in processing will serve to eliminate existing irritants now experienced in working with private enterprise.

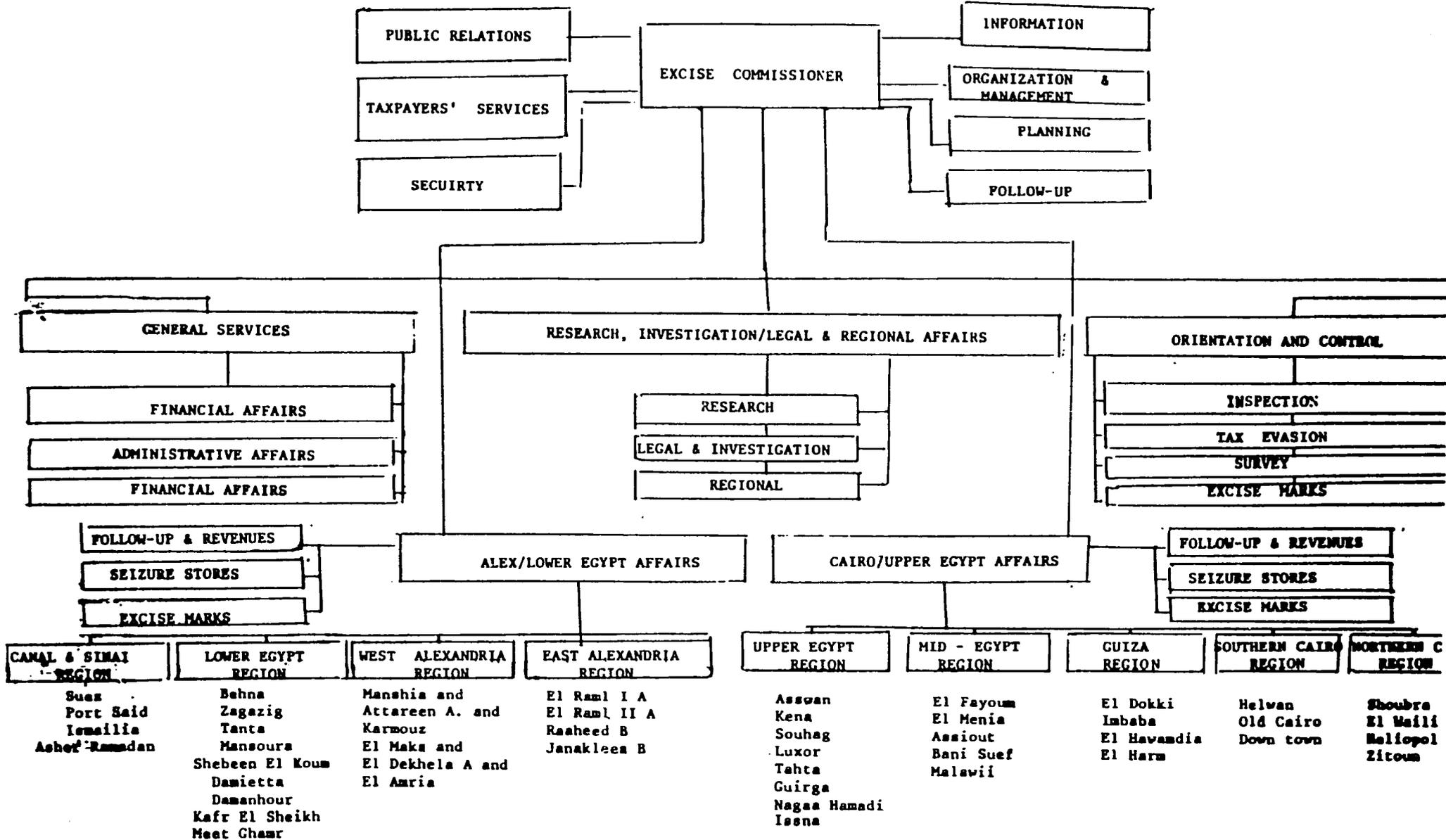
**Output 3: Excise Taxation Training Center**

The project will explore the request for establishment of a National Excise Taxation Training Institute. To the extent possible, this training should be undertaken or coordinated through the sister Institutes in the Income and Customs Departments, e.g., computer training, management audit, cost accounting and valuation among others. If the viability of a separate facility is determined, the training facility would be provided by the GOE Excise Department and equipment and materials procured under project funding and specialized courses would be developed. In the more specialized areas instructors would be trained to conduct training to the more than 4,000 employees assigned to various offices throughout Egypt. Training courses will be continually up-dated based on lessons learned and changes in policy and procedures.

(5) Phase I and II Inputs

	(\$)		
	Phase I	Phase II	Total
1. Technical Assistance			
US Long Term	18PM 315,000	6PM 111,000	24PM 426,000
US Short Term	6PM 60,000	12PM 120,000	18PM 180,000
EGY Short Term	8PM 16,000	9PM 18,000	17PM 34,000
2. US Training	7PM 70,000	8PM 80,000	15PM 150,000
3. Commodities	105,000	75,000	180,000
4. Contingency	56,000	41,000	97,000
	622,000	445,000	1,067,000

PM = Person Months



## C. PROJECT MANAGEMENT

### 1. USAID Project Management

The Office of Education and Training (ET) of the Human Resources and Development Cooperation Directorate is responsible for project management. A professional Foreign Service National (FSN) project officer with considerable management experience will be assigned as project officer. The project officer will be assisted by a second full-time FSN assigned as an administrative liaison officer coordinating with each Department at the Ministry of Finance.

### 2. GOE Management

The principal counterpart officials are the Minister and Commissioners for Income Tax, Customs and Excise. The Minister will appoint a project policy committee composed of the Minister and representatives of the Income Tax Administration, the Customs Administration and the Excise Tax Administration. The policy committee will meet at least quarterly. It will be responsible for overall project direction and for the policy dialogue process with AID. Other operational counterparts in each functional area will be named by the Commissioners and the Minister, and a project steering committee will be appointed that will include representatives of the Minister, the Income Tax Administration, the Customs Administration, the Excise Tax Administration and AID. The steering committee will meet at least monthly and will be responsible for administrative and financial decisions that do not change overall policy and project objectives. The steering committee will also be responsible for monthly project monitoring reports. The format and categories of these reports will be developed by the steering committee no later than the end of the third month following the appointment of the committee.

## SECTION IV: FINANCIAL PLAN

### Source of Funds

The proposed six year project has an estimated life of project funding of \$20,226,000. USAID's contribution will be grant funded for a total of \$16,200,000, which represents 80% of total estimated project costs. The GOE will contribute an estimated LE 8,857,127 (\$4,025,966 at the current exchange rate of 2.20), which represents 20% of total project costs.

The USAID/Cairo Mission plans to authorize the entire USAID portion of the estimated project costs (\$16,200,000) in the project authorization document but only obligate \$7,000,000 of that in FY 88. If a decision is made at the end of Phase I to continue into Phase II, the additional \$9,200,000 will be obligated, subject to the availability of funds, by Grant Agreement amendment in FY 90.

The following tables detail the US dollar and Egyptian pound totals for both USAID and the GOE contributions. All GOE contributions will be in kind contributions.

Because of the division of the project into four components and two phases, a line item flexibility of 20% will be included in the Project Grant Agreement.

TABLE I  
SUMMARY COST ESTIMATES  
(US\$ 000)

PHASE I

COMPONENTS	AID			HOST COUNTRY		Component Total
	LC	FX	Subtotal	LC	Subtotal	
1. Mobilization	53	45	98	-0-	-0-	
Subtotal	53	45	98	-0-	-0-	98
2. Administration & Policy Analysis						
a. TA						
(1) US Long Term		1482	1482			1482
(2) US Short Term		270	270			270
(3) EG Short Term	138		138			138
(4) EG Staff	30		30	49	49	79
b. Training						
(1) US		125	125			125
(2) EG				53	53	53
c. Commodities	50		50			50
d. Office Renovation & Supplies				33	33	33
e. Publications & Misc. Support				11	11	11
f. Contingency	8	34	42	13	13	55
Subtotal	226	1911	2137	159	159	2296
Totals						
Phase I	53	45	98			
Phase II	-0-	-0-	-0-			
	53	45	98			

TABLE I  
SUMMARY COST ESTIMATES  
(US\$ 000)

PHASE II

COMPONENTS	AID			HOST COUNTRY		
	LC	FX	Subtotal	LC	Subtotal	Component Total
1. Mobilization						
Subtotal						
2. Administration & Policy Analysis						
a. TA						
(1) US Long Term		2223	2223			2223
(2) US Short Term		240	240			240
(3) EG Short Term	150		150			150
(4) EG Staff	40		40	96	96	136
b. Training						
(1) US		55	55			55
(2) EG				82	82	82
c. Commodities	75	75	145			145
d. Office Renovation & Supplies				37	37	37
e. Publications & Misc. Support				15	15	15
f. Contingency	26	250	276	20	20	296
Subtotal	291	2838	3129	250	250	3379
Totals						
Phase I	226	1911	2137	159	159	2296
Phase II	291	2838	3129	250	250	3379
	<u>517</u>	<u>4749</u>	<u>5266</u>	<u>409</u>	<u>409</u>	<u>5675</u>

TABLE III  
SUMMARY COST ESTIMATES  
(US\$ 000)

PHASE I

COMPONENTS	AID			HOST COUNTRY		
	LC	FX	Subtotal	LC	Subtotal	Component Total
<b>3. Income Tax Administration</b>						
Component						
a. TA						
(1) US Long Term		988	988			988
(2) US Short Term		90	90			90
(3) EG Short Term	48		48			48
(4) EG Staff				263	263	263
b. Training						
(1) US		80	80			80
(2) EG				235	235	235
c. Commodities	50	400	450			450
d. Office Renovation & Supplies				146	146	146
e. Publications & Misc. Support				49	49	49
f. Contingency		43	43	56	56	99
Subtotal	98	1601	1699	749	749	2448

TABLE IV  
SUMMARY COST ESTIMATES  
(US\$ 000)

PHASE II

COMPONENTS	AID			HOST COUNTRY		
	LC	FX	Subtotal	LC	Subtotal	Component Total
<b>3. Income Tax Administration</b>						
Component						
a. TA						
(1) US Long Term		1482	1482			1482
(2) US Short Term		150	150			150
(3) EG Short Term	102		102			102
(4) EG Staff				364	364	364
b. Training						
(1) US		150	150			150
(2) EG				359	359	359
c. Commodities						
	75	400	475			475
d. Office Renovation & Supplies						
				163	163	163
e. Publications & Misc. Support						
				68	68	68
f. Contingency						
	21	241	262	87	87	349
Subtotal	198	2423	2621	1041	1041	3662
Totals						
Phase I	98	1601	1699	749	749	2448
Phase II	198	2423	2621	1041	1041	3662
	<u>296</u>	<u>4024</u>	<u>4320</u>	<u>1790</u>	<u>1790</u>	<u>6110</u>

TABLE V  
SUMMARY COST ESTIMATES  
(US\$ 000)

PHASE I

COMPONENTS	AID			HOST COUNTRY		
	LC	FX	Subtotal	LC	Subtotal	Component Total
4. Customs Administration						
Component						
a. TA						
(1) US Long Term		904	904			904
(2) US Short Term		90	90			90
(3) EG Short Term	38		38			38
(4) EG Staff				165	165	165
b. Training						
(1) US		60	60			60
(2) EG				181	181	181
c. Commodities	95	212	307			307
d. Office Renovation & Supplies				112	112	112
e. Publications & Misc. Support				38	38	38
f. Contingency	14	122	136	43	43	179
Subtotal	147	1388	1535	539	539	2074

TABLE VI  
SUMMARY COST ESTIMATES  
(US\$ 000)

PHASE II

COMPONENTS	AID			HOST COUNTRY		Component Total
	LC	FX	Subtotal	LC	Subtotal	
<b>4. Customs Administration</b>						
Component						
a. TA						
(1) US Long Term		1306	1306			1306
(2) US Short Term		180	180			180
(3) EG Short Term	102		102			102
(4) EG Staff				318	318	318
b. Training						
(1) US		120	120			120
(2) EG				278	278	278
c. Commodities	80	338	418			418
d. Office Renovation & Supplies				126	126	126
e. Publications & Misc. Support				53	53	53
f. Contingency	19	199	218	67	67	285
Subtotal	201	2143	2344	842	842	3186
Totals						
Phase I	147	1388	1535	539	539	2074
Phase II	201	2143	2344	842	842	3186
	<u>348</u>	<u>3531</u>	<u>3879</u>	<u>1381</u>	<u>1381</u>	<u>5260</u>

TABLE VII  
SUMMARY COST ESTIMATES  
(US\$ 000)

PHASE I

COMPONENTS	AID			HOST COUNTRY		Component Total
	LC	FX	Subtotal	LC	Subtotal	
5. Excise Tax						
Administration Component						
a. TA						
(1) US Long Term		315	315			315
(2) US Short Term		60	60			60
(3) EG Short Term	16		16			16
(4) EG Staff				50	50	50
b. Training						
(1) US		70	70			70
(2) EG				59	59	59
c. Commodities	15	90	105			105
d. Office Renovation & Supplies				36	36	36
e. Publications & Misc. Support				12	12	12
f. Contingency		56	56	14	14	70
Subtotal	31	591	622	171	171	793

TABLE VIII  
SUMMARY COST ESTIMATES  
(US\$ 000)

PHASE II

COMPONENTS	AID			HOST COUNTRY		Component Total
	LC	FX	Subtotal	LC	Subtotal	
5. Excise Tax						
Administration Component						
a. TA						
(1) US Long Term		111	111			111
(2) US Short Term		120	120			120
(3) EG Short Term	18		18			18
(4) EG Staff				107	107	107
b. Training						
(1) US		80	80			80
(2) EG				90	90	90
c. Commodities	15	60	75			75
d. Office Renovation & Supplies				41	41	41
e. Publications & Misc. Support				17	17	17
f. Contingency	6	35	41	22	22	63
Subtotal	39	406	445	277	277	722
Totals						
Phase I	31	591	622	171	111	793
Phase II	39	406	445	277	277	722
	<u>70</u>	<u>997</u>	<u>1067</u>	<u>448</u>	<u>448</u>	<u>1515</u>

TABLE IX  
SUMMARY OF TOTAL PROJECT COST ESTIMATES  
(US\$ 000)

COMPONENTS	AID			HOST COUNTRY		Component Total
	LC	FX	Subtotal	LC	Subtotal	
1. Mobilization						
	53	45	98			98
2. Administration & Policy Analysis Component	517	4,749	5,266	409		5,675
3. Income Tax Administration Component	296	4,024	4,320	1,790		6,11037
4. Customs Administration Component	348	3,531	3,879	1,381		5,260
5. Excise Tax Administration Component	70	997	1,067	448		1,515
6. Evaluation & Conferences	220		220			220
7. Overall Project Contingency		1,350	1,350			1,350
	<u>1,504</u>	<u>14,696</u>	<u>16,200</u>	<u>4,028*</u>	Project Total	<u>20,228</u>

\*The 2,000 above estimated 4,026 is due to rounding.

SUMMARY OF PHASE I AND PHASE II COST ESTIMATES  
(US\$000)

COMPONENT	AID				HOST COUNTRY		TOTALS
	PHASE I		PHASE II		PHASE I	PHASE II	
	LC	FX	LC	FX	LC	LC	
1. Mobilization	53	45	0	0	0	0	98
2. Administration & Policy Analysis Component	226	1911	291	2838	159	250	5675
3. Income Tax Administration Component	98	1601	198	2423	749	1041	6110
4. Customs Administra- tion component	147	1388	201	2143	539	842	5260
5. Excise Tax Administration Component	31	591	39	406	171	277	1515
6. Evaluation & conferences	110		110				220
7. Overall Project Contingency		700		650			1350
	665	6236	839	8460	1618	2410	20228
TOTALS: LC	1504				4028		5532
FX		14696					14696
		16200					20228

## SECTION V: IMPLEMENTATION PLAN BY COMPONENT

### A. ADMINISTRATION AND POLICY ANALYSIS COMPONENT

During Phase I, the "Policy Analysis Unit" will undertake activities related to: (1) both revenue and expenditure sides of MOF operations; (2) analysis of issues of an administration and policy nature, and (3) information systems required to link a public information program to the GOE's expenditure program. Efforts on the expenditure side will build on current limited assistance being provided by USAID's Economic Section of the Program, Policy and Planning Division.

#### 1. Technical Assistance

A three-person resident technical assistance team composed of 1) the Senior Public Finance Advisor, 2) the Public Finance Advisor and 3) the Management Information System Advisor will work in this component in cooperation with a group of short term Egyptian public finance specialists and economists. The Senior Public Finance Advisor will oversee and direct the development of the policy agenda, coordinate with other technical assistance components including the advisors provided to the income, customs and excise departments, and develop the training plan for the Administrative and Policy Analysis unit. The Public Finance Advisor will be a specialist in tax policy development. The Management Information System Advisory will be responsible for the development and initial operation of the new Ministry of Finance MIS and the development of the overall project procurement plan. All three long term advisors are scheduled to arrive at the beginning of May 1988 and depart at the end of September 1993. A total of 195 person months of long term technical assistance will be provided. Both US and Egyptian short term advisor needs will be planned and implemented as the project progresses. There will be a total of 51 person months of US and 144 person months of Egyptian short term TA provided.

#### 2. Training

A training plan for all project components will be produced by the Senior Public Finance Advisor, with appropriate inputs from other members of the TA teams, during June through September of 1988. The 18 person months of short term US training will then be planned and implemented by the Senior Public Finance Advisor.

#### 3. Commodities

For all project components except the Customs Administration Component, project vehicles and all computer and ancillary equipment will be procured through the Public Finance Advisory Team contract. The prime contractor may, if he wishes, use the services of a Purchasing Services Agent under subcontract. The Management Information System Advisor will be responsible for coordinating inputs and production of a computer procurement plan for all four project components. Actual procurement under the Customs Administration Component will be done by USAID/Cairo. The plan will be completed no later than the end of the third month after the arrival of all long term consultant teams and will be updated and submitted for approval to USAID and the GOE yearly.

IMPLEMENTATION SCHEDULE

Administration and Policy Analysis Unit

Element Description	Mobilization ONDJFMAMJJAS	Phase I ONDJFMAMJJASONDJFMAMJJAS	Phase II ONDJFMAMJJASONDJFMAMJJASONDJFMAMJJAS
<b>Technical Assistance</b>			
Long Term Advisors (3)	I-----		-----I
Short Term Advisors		I-----	-----I
By Short Term Advisors	I-----		-----I
<b>Administration and Policy</b>			
Plans, Tests, Analyses	I-----	-----I	
Policy and Reform Agenda			I-----
Reform Implementation		I-----	-----I
<b>Management Information Systems</b>		I-----	-----I
<b>Training Procurement Plan</b>			
Training Needs Assessment	I--I		
Training Implementation		I-----	-----I
<b>Procurements</b>			
Offices, Furnishings, misc	I-----		-----I
Microcomputers		I-----	-----I
Vehicle		I-----	-----I

Administrative and Policy Analysis Unit - Pertinent Events

Mobilization Phase:	10/87 to 9/88	(offices, furnishings, start-up agenda for project)
Phase I:	10/88 to 9/90	(Planning and analyses for reform agenda)
Phase II:	10/90 to 9/93	(Implementation of agreed upon reform agenda)
Three long term advisors:	5/88 to 9/93	
ADP short term advisor:	Fiscal Year 1988	
Other short term advisors:	39 months per annum	
	for project duration	
Training U.S.:	3.5 months per annum	
	for project duration	
Administrative Policy and Reform Agenda Agreement:	7/90 to 9/90	
<b>Procurements</b>		
Microcomputers	10/88 to 5/89	
Offices, furnishings	10/87 to 9/93	
Vehicle	10/88 to 3/89	

## B. INCOME TAXATION COMPONENT

The Tax Administration Project (TAP) was extended through September 30, 1988 to provide a bridge to and to facilitate the new Public Finance Administration Project. To a great extent, this is a follow on phase to the TAP. The expansion will be greatly facilitated by the existing systems and experience in training, pilot programs in examination, and ADP.

### 1. Technical Assistance

This component will have a resident advisory team composed of 1) the Senior Tax Advisor and 2) the Technical Advisor. A total of 130 person months of long term technical assistance will be provided. The Senior Tax Advisor will focus primary attention to overall planning, policy analysis in cooperation with the Analysis Unit, development of the Management Information System and the expansion of the Training Institute.

The Technical Advisor will provide technical expertise in methods and procedures in the pilot examination expansion program and will assist in the planning and programming of other functional areas including collections, training, and the development of operational manuals and handbooks.

Short-term technicians will advise in the following areas: training, 6 person months (PMS); ADP, 4PMS; collection, 2 PMS; tax evasion, 2 PMS; and examination, 2PMS. Short-term advisors will assist in appropriate on-site training programs as necessary. The project will include funding for an operational support staff consisting of an interpreter/liaison officer and a bilingual secretary to facilitate the work of advisors. Additional US and Egyptian short term advisory needs will be planned and implemented as the project progresses. A total of 24 person months of US and 75 person months of Egyptian short term technical assistance will be provided.

When the IRS PASA terminates in September 1988 it will not be extended. Instead, the two advisors will have been replaced by two advisors provided under the PFAT contract. These two new advisors will continue to work in the same areas as the IRS advisors.

### 2. Training

A training plan will be produced by the Senior Tax Advisor during June through September 1988. The 23 person months of short term US training will be planned and implemented by the Senior Tax Advisor.

### 3. Commodities

Component commodities will be procured through the prime contractor following approval of the procurement plan.

IMPLEMENTATION SCHEDULE

Income Taxation Implementation Planning

Element Description	Mobilization	Phase I				Phase II			
	ONDJFMAMJJAS								
Technical Assistance	-----I								
IRS PASA		I-----						I-----	
Long Term Advisors (2)		I-----						I-----	
Short Term Advisors		I-I							
Management Information Systems									
Data Information Center		I-----						I-----	
Automated Data Processing									
Training									
TTI Expansion	-----I								
Training Implementation		I-----						I-----	
Procurements									
Offices, Furnishings, misc	I-----							I-----	
Microcomputers			I-----	I-----		I-----	I-----		
Audio/Visual Equipment		I-----							
Vehicle			I-----	I-----					

Income Taxation Implementation Planning - Pertinent Events

Mobilization Phase:	10/87 to 9/88	(offices, furnishings, coordination with IRS)
Phase I:	10/88 to 9/90	(Examination pilot expansion, collection)
Phase II:	10/90 to 9/93	(Codification of policy and procedures, expansion of exam and collection)
IRS PASA (2 advisors)	leave 9/88	
Two long term advisors	5/88 to 9/93	
Short term advisors	20 months per annum from 10/88 to 9/93	
Training U.S.	3 months from 5/88 to 9/88	
	4 months per annum from 10/88 to 9/93	
Procurements		
Microcomputers	10/88 to 5/11	
Vehicle	10/88 to 3/89	

### C. CUSTOMS ADMINISTRATION COMPONENT

Assistance to the Customs Administration represents a major expansion of assistance to the Ministry of Finance. The project will focus on improved administration, including inspection and collections, classification and valuation (C&V), operations including warehouse and cargo management and controls, and strengthening of the ADP capacities in support of administration and operations.

#### 1. Technical Assistance

The technical assistance team will be contracted through a PASA from the US Customs Administration. A total of 132 person months of long term technical assistance will be provided. The team will be composed of two resident advisors, the Senior Customs Advisor and the Technical Customs Advisor. The Senior Customs Advisor will have primary responsibility for providing advice on administrative, public finance policy and related issues. The advisor will also be responsible for organization of the management information system, strengthening of the ADP capabilities, and development of the National Customs Training Institute.

The Technical Advisor will have primary responsibility for coordination of activities with the Alexandria Customs site, developing pilot activities, and testing of improved methods and procedures. As the testing is completed and directives issued for standardization, the technical advisor will assist in the development of operational manuals and handbooks incorporating new policies and procedures.

Short-term technical advisors will work in the areas of customs warehouse administration 2 person months (PM), internal control systems 6 (PM), cargo processing 2 (PM), ADP 2 (PM), passenger processing 1 (PM), and training 7 (PM). Additional US and Egyptian short term advisory needs will be planned and implemented as the project progresses. A total of 27 person months of US and 70 person months of Egyptian short term technical assistance will be provided.

#### 2. Training

The project will develop a National Customs Training Institute (NCTI) modeled after the Income Tax Training Institutes to provide both technical and customs-specific management training. To the extent possible, 'generic' training will be coordinated with the Income Tax Training Institutes for efficiency and cost savings. Also, if feasible, the NCTI will be located within the facilities of the TTIs.

The Institute will be staffed with experienced customs officers trained as instructors under the project. Training courses will be continually updated to integrate new policy and improve procedures developed through the pilot programs. The physical facility will be provided by the GOE Customs Department or be within the TTIs. Project advisors will determine equipment requirements to be financed under the project.

Management training will be an important area of focus in the interest of increased efficiency. Training courses will be developed and/or expanded which concentrate on such critical issues as delegation of authority and accountability at both the managerial and executive levels. This will help address the identified problem of multiple checks and balances which cause serious delays in all areas including assessment, collection and release of cargo.

A training plan will be developed during the period June through September 88 to cover both (in-country), U.S., and third country training. The Tax Training Institute administrators will undergo technical and observation training in the U.S. and with international organizations. The 18 person months of US short term training will be planned and implemented by the Senior Customs Advisor.

### 3. Commodities

Component commodities will be procured through the US Customs Service PASA and will be contracted by the USAID/Cairo Office of Contract Services following approved commodity procurement plans.

IMPLEMENTATION SCHEDULE

Customs Administration Implementation Planning

Element Description	Mobilization ONDJFMAMJJAS	Phase I ONDJFMAMJJASONDJFMAMJJAS	Phase II ONDJFMAMJJASONDJFMAMJJASONDJFMAMJJAS
Technical Assistance	I-----I		
Customs PASA (2)		I-----I	I-----I
Short Term Advisors		I-----I	I-----I
Management Information Systems			
Customs System Evaluation		I-----I	
Microcomputer Implement.	I-----I		
ADP Systems Planning		I-----I	I-----I
Training			
Needs Assessment	I--I		
Training Implementation		I-----I	
Procurements			
Microcomputers		I-----I	
Vehicles		I-----I	

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Customs Administration Implementation Planning - Pertinent Events

Mobilization Phase:	10/87 to 9/88	(offices, furnishings, start-up agenda for project)
Phase I:	10/88 to 9/90	(Evaluation of systems, analyses and planning)
Phase II:	10/90 to 9/93	(Implementation of plans and further refinements)
Customs PASA (2 Advisors)	4/88 to 9/93	
Short term advisors	6 months per annum from 10/88 to 9/91	
Training U.S.:	3 months per annum from 4/88 to 9/93	
Procurements		
Microcomputers	10/88 to 10/89	
Vehicles	10/88 to 3/89	

#### D. EXCISE TAXATION COMPONENT

Although of equal importance to income and customs operations, the technical assistance and other inputs planned for the Excise Department will be of a more modest nature. Excise taxation's interest and focus is exclusively with public and private sector operations. As such, the scope of assistance can be more directed and planned improvements are targeted at systems planning and training.

##### 1. Technical Assistance

The Policy and Administrative Analysis advisors will coordinate policy studies, research and analysis for the excise component. The resident Systems Advisor will conduct operational studies to determine areas for improvement. The interest is to outline the problems in rules, regulations and operations affecting commercial taxation and suggest alternative mechanisms for improvements that also provide for efficiency and equity.

Technical assistance will consist of one long term Systems Advisor. He will arrive in April of 1989 and remain until April of 1991. A total of 24 person months of long term technical assistance will be provided.

Short-term technical assistance will be provided in training and ADP. It is anticipated that very specialized short-term technical assistance will be required to develop facilities and testing methods for significant imports including chemicals and materials subject to evasion. US and Egyptian short term technical assistance will be planned and implemented as the project progresses. A total of 18 person months of US and 17 person months of Egyptian short term technical assistance will be provided.

##### 2. Training

The 15 person months of US short term training will be planned and contracted by the System Advisor, once the training plan is approved.

##### 3. Commodities

All commodities will be procured through the prime contractor following approval of the commodity procurement plan.

IMPLEMENTATION SCHEDULE

Excise Taxation Implementation Planning

Element Description	Mobilization ONDJFMAMJJAS	Phase I ONDJFMAMJJASONDJFMAMJJAS	Phase II ONDJFMAMJJASONDJFMAMJJASONDJFMAMJJAS
Technical Assistance			
Long Term Advisor (1)		I-----I	
Short Term Advisors		I-I I---I	I-I I-I I-I
Egyptian Advisors		I---I I---I	I-I I-I I-I
Management Information Systems		I-----I	I-----I
Training		I-----I	I-----I
Procurements			
Microcomputers		I-----I	

Excise Taxation Implementation Planning - Pertinent Events

Mobilization Phase:	10/87 to 9/88	(offices, furnishings, start-up agenda for project)
Phase I:	10/88 to 9/90	(advisors planning, analyzing and training)
Phase II:	10/90 to 9/93	(implementation)
One long term advisor	4/89 to 4/91	
Short term advisors:	3 months for fiscal year 1989	
	6 months for fiscal year 1990	
	3 months per annum from 10/90 to 9/93	
Training U.S.	5 months per annum from 10/88 to 9/91	
Procurements		
Microcomputers	10/89 to 10/90	

## SECTION VI: DATA COLLECTION, IMPACT MONITORING AND EVALUATION PLAN

### A. SUMMARY

The primary focus of the data collection, impact monitoring and evaluation plan of the Public Finance Administration Project will be to provide better information to GOE managers. Their willingness to proceed with administrative policy reforms as well as implement operational and procedural changes will depend on adequate information indicating a positive goal and purpose level impact. The goal is to assist the Ministry of Finance to link the public more equitably with the GOE's expenditure program. The purpose is to improve the efficiency of tax administration and equity in the assessment, collection and incidence of taxes. Unlike many USAID projects, the success in meeting this project's purpose can be measured quantitatively. Baseline and performance monitoring data, supplemented with qualitative survey results, should provide better than average information on project achievements. The major evaluation tools will be:

- performance monitoring systems incorporated in the management information system and supported by automated data processing,
- analyses, and
- focused taxpayer surveys.

Collection of baseline data, development and implementation of the performance monitoring system, analyses and surveys of taxpayers will be the responsibility of the technical assistance team in the functional tax departments and the Policy and Administrative Analysis Unit. Together this information will provide GOE and USAID managers with data for evaluation of project progress on an ongoing basis, at the end of Phase I, and at the project's conclusion.

### B. PHASE I

#### 1. Data Collection and Evaluation in the Functional Tax Departments

During Phase I, development of data collection, monitoring and evaluation systems for the three functional departments of the Ministry of Finance will be critical to the long term success of the project. A primary objective of the technical assistance team will be **problem identification**. Issues that cannot be resolved through operational and internal administrative changes will become part of the policy reform agenda developed by the Policy and Administrative Analysis Unit. Careful analysis of both the formal and informal operating procedures of the individual tax departments will be needed to develop more efficient, effective systems. The technical assistance team will carefully document problems identified as this will provide baseline data against which to measure the increased efficiency of systems undergoing field testing. Under the Tax Administration Project, a number of **baseline indicators** have been identified for the Income Tax Department. For example:

- Examiners typically have a four to five year backlog of files to audit.
- Only two million of the estimated twelve million workforce file income tax returns.
- The GOE incentive system is counterproductive because it encourages employees to focus on quantities of forms processed rather than accuracy and revenue yield.

The implication exists that complicated audits of high income taxpayers are postponed and that tax burden falls on most immediately on those with lower income, salaried class. These issues relate directly to the project's purpose of tax administration efficiency, equity in assessment, collection and incidence. Resolution through administrative and operational changes should have a direct relationship to achievement of the project's goal and purpose. Preliminary key performance indicators for which baseline and ongoing performance data will be collected are shown in a matrix format on page \_\_\_\_.

Once key indicators of unit performance are identified, an evaluation system applicable to all similar units should be developed and implemented. This will help GOE managers to spot poorly performing units, provide feedback to field staff, and measure the effects of training and other discrete interventions. GOE managers will need good evidence about the value of project inputs if these represent a long term recurring cost. For example, many managers view training as a discretionary cost. The Tax Administration Project has invested heavily in training centers and more training is planned for that unit as well as Customs and Excise Department personnel. Unless the benefits of an ongoing training program are demonstrated, funding for training will probably drop off dramatically after project completion. Problems such as non-standardized enforcement of tax code revisions could rapidly reappear.

The technical assistance team will also assist individual departments in developing and field testing improved procedures and systems. The term "testing" implies comparison of actual results against past and expected performance. Documentation will undoubtedly be difficult as piecemeal development of systems, delays in training, late arrival of commodities, and other factors mitigate against a "scientific approach". The evaluation system described above should facilitate comparison between units participating in the project and those unaffected. Still, solid evidence that new systems are significantly more efficient and effective will be invaluable in persuading senior managers and policy makers to rapidly expand pilot efforts. As systems are tested, rapid low cost studies should be carried out to assess taxpayer reaction.

Quality control systems will need thorough demonstration to persuade GOE managers that alternative procedures are more cost effective than current procedures. For example, preliminary work has identified the 100% auditing of income taxes and inspection of goods processed through customs as a major bottleneck. GOE policy makers and managers will undoubtedly want clear, convincing data that sampling or classification procedures are cost effective and will continue to function as intended, particularly if legislative change is required. Although this project is small in comparison with other USAID Cairo projects, the potential for widespread impact is substantial.

The technical assistance team with their GOE counterparts will have the responsibility of identifying a final list of a few key performance indicators to be tracked and implementing a performance monitoring system as well as analyzing data collected on a periodic basis. New procedures will include quality control systems discussed above to assure GOE managers that the new approaches are functioning as anticipated. In addition, the technical assistance team will assist the functional tax departments in conducting taxpayer surveys to determine taxpayer perception of the current system, reaction to pilot changes implemented in test areas and proposed major reforms.

## 2. The Role of the Administration and Policy Analysis Unit

The Administration and Policy Analysis Unit (APAU) has the responsibility for collecting information on the progress of project components and maintaining a regular review process of priority operational and policy issues with the project steering committee and the Minister of Finance. Although the advisors within the functional tax departments will report directly to their department heads, they will also provide information to and collaborate with the Senior Finance Advisor in the APAU. Dual reporting will ensure that the APAU has necessary information and data to advise the steering committee and the Minister of Finance.

The APAU will also undertake analyses using data from the various functional departments, particularly relating to the issues of incidence and equity of the taxes. These issues have always been an area of particular concern to Egyptian policy makers. Careful study will be needed to assess the combined impact of proposed changes. The APAU should undertake rapid, low cost taxpayer surveys to provide qualitative data on taxpayers reaction to implemented and proposed changes in tax administration and to the public information program to ensure that project activities are having the impact intended. Public opinion is very important to Egyptian policy makers. Reluctance to change policies and procedures is often reinforced by the absence of information about possible negative effects and public reaction. Additional taxpayer feedback will be obtained through discussion periodic discussions with business groups, such as the Egyptian Businessmen's Association. An indicator of this unit's success will be the willingness of the GOE to adopt and implement the policy and administrative reform agenda at the end of Phase I.

## C. MID TERM EVALUATION

A normal external evaluation at the end of Phase I will review implementation progress, the Policy Agenda, project impact to date, and actions indicating GOE commitment to proceed with Phase II. The evaluation team will also recommend whether or not to proceed with obligation of additional funds. This evaluation team will review:

SECTION VII: DATA COLLECTION, MONITORING AND EVALUATION PLAN -- QUESTIONS TO BE ADDRESSED.

GOAL/PURPOSE	INCOME TAX DEPARTMENT	CUSTOMS DEPARTMENT	EXCISE DEPARTMENT	POLICY & ADMINISTRATIVE ANALYSIS UNIT
<b>EFFICIENCY:</b>				
<b>Performance Monitoring</b>	1. What is the backlog of unaudited forms? 2. What is the ratio of collections to number of employees? 3. How many returns fall into the various prioritization categories? over time? 4. What is the percentage of cases proceeding to negotiation/litigation?	1. What is the time required to clear goods (imports & exports)? 2. Has pilferage decreased? 3. What is the ratio of the volume, value of goods, and collections to employees? 4. What are the volume & value of each category of imported/exported goods, revenues and level of effort per category?	1. What is the number of items/firms covered and collections per employee? 2. Has the excise tax base expanded? Has the sales tax been implemented? for which items? 3. What are collections by area & level of effort by employees? 4. Have number of disputes resulting from Customs collection of Excise taxes decreased?	1. Which departments are most efficient based on performance monitoring data? 2. Which tax areas show most revenue growth per level of effort and resources?
<b>Analyses</b>	1. How much effort is spent on lower/higher priority returns? Has the prioritization system increased collections & efficiency? 2. What is the most efficient/effective way to simplify code? unify income tax into global system?	1. Which customs categories take the longest to clear? What are priorities for clarification? 2. Are customs tariffs targeted for efficiency & return?	1. Are collection efforts concentrated on high return areas? 2. Is the expansion of the excise tax base/sales tax the result of more efficient systems or additional resources?	1. What combination of taxes would be most efficient? 2. Which new areas (property/estate taxes) show greatest potential/level of effort required?
<b>Taxpayer Feedback: Surveys &amp; Meetings with Business Groups</b>	1. What is the taxpayers' perception of current procedures & knowledge of regulations? 2. Is tax processing faster? 3. Do tax payers believe proposed changes will be simpler?	1. Has customs clearance been simplified/expedited? 2. Are classifications clearer? 3. What are the informal costs? 4. Are procedures for preprocessing exports clearer?	1. Are new procedures for assessment fair? less cumbersome? predictable? 2. Has ADP improved coordination between Customs & Excise?	1. Has the taxation process become less cumbersome? Which departments improved most? 2. Which types of taxes are perceived as less cumbersome?

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SECTION VII: DATA COLLECTION, MONITORING AND EVALUATION PLAN -- QUESTIONS TO BE ADDRESSED.

GOAL/PURPOSE	INCOME TAX DEPARTMENT	CUSTOMS DEPARTMENT	EXCISE DEPARTMENT	POLICY & ADMINISTRATIVE ANALYSIS UNIT
<b>EQUITY IN ASSESSMENT, COLLECTION, &amp; INCIDENCE</b> Performance Monitoring	<ul style="list-style-type: none"> <li>1. Have number of filers increased? in which sectors?</li> <li>2. What is the distribution (location, number) of firms &amp; individuals filing?</li> </ul>	<ul style="list-style-type: none"> <li>1. What are broad classifications of imported/exported goods by volume and value?</li> </ul>	<ul style="list-style-type: none"> <li>1. What percentage of eligible producers pay excise taxes?</li> <li>2. Has the number of items effectively subject to excise or ad valorem taxes increased?</li> </ul>	<ul style="list-style-type: none"> <li>1. Which tax departments are most fair in assessments &amp; collection?</li> </ul>
<b>Quality Control Mechanisms</b>	<ul style="list-style-type: none"> <li>1. What percentage of sampled audits are of "acceptable" quality?</li> </ul>	<ul style="list-style-type: none"> <li>1. With what frequency are similar goods assessed at different rates?</li> </ul>		
<b>Analyses/Studies</b>	<ul style="list-style-type: none"> <li>1. What is the distribution of tax return filers by income, location, profession, etc?</li> <li>2. What is the effect of negotiation &amp; litigation on actual tax rate paid?</li> <li>3. What is the effect of income taxes on private sector development?</li> </ul>	<ul style="list-style-type: none"> <li>1. Who are the tax exempt importers? Are GOE owned firms/ministries bringing in tax exempt goods for sale/distribution in competition with private firms?</li> <li>2. Which groups of producers/consumers are most affected by tariffs?</li> </ul>	<ul style="list-style-type: none"> <li>1. What is the distribution of firms paying excise/ad valorem taxes? Does collection discriminate against by size, ownership, location, etc.?</li> <li>2. Which groups of consumers are most affected by excise/ad valorem taxes?</li> </ul>	<ul style="list-style-type: none"> <li>1. Which groups pay the most combined taxes?</li> <li>2. Which groups will be most affected by new taxes?</li> <li>3. Which groups will be most affected by administrative &amp; legislative?</li> <li>4. What is the combined impact of taxes on private sector investment?</li> </ul>
<b>Taxpayer Feedback: Surveys &amp; Meetings with Business Groups</b>	<ul style="list-style-type: none"> <li>1. Do taxpayers regard the business &amp; income tax regulations &amp; procedures as equitable?</li> <li>2. Do private businessmen regard tax department regulations, personnel, and procedures as fair?</li> </ul>	<ul style="list-style-type: none"> <li>1. Do informal administrative charges affect classification?</li> <li>2. Has classification become more uniform/predictable?</li> </ul>	<ul style="list-style-type: none"> <li>1. Are procedures for excise collection fair?</li> <li>2. Is rate predictable?</li> </ul>	<ul style="list-style-type: none"> <li>1. What is the taxpayer view of taxation policies? Fair? Consistent? Tax incidence?</li> <li>2. Which taxes/mechanisms are less onerous/more acceptable?</li> <li>2. What is taxpayer reaction to proposed legislative changes?</li> <li>3. What are taxpayer concerns about proposed reforms? Can concerns be addressed?</li> <li>4. What has been taxpayer reaction to public information program?</li> </ul>

## SECTION VII: PROCUREMENT PLAN

As justified in Annex I. 2, Financial Analysis and Payment Verification Policy-Implementation Guidance Statement, under this project all procurements will be conducted through the use of AID-direct contracting procedures. The responsible offices for contracting will be USAID/Cairo's Contract Services Office or AID/Washington's Office of Procurement. The AID Project Officer will be responsible for coordinating procurement requests with appropriate contractors and AID offices.

### Mobilization

Prior to the arrival of the technical assistance teams, a two member project mobilization team will be hired from the local Cairo market. The period of performance will be the first twelve project months. The team will have the following scope of activities; (1) secure office space for the technical assistance teams, (2) purchase office equipment and supplies, (3) arrange for leasing of contractor housing, and (4) coordinate with counterparts to organize counterpart staff. The USAID Office of Contract Services will negotiate and contract both the Personal Services Contracts for the two member project mobilization team and will issue project funded purchase orders for procurement of office supplies and equipment.

### Technical Assistance

Technical assistance will be procured from two sources. One source will be the United States Customs Service (USCS). The USCS will provide 132 person months of long term, technical assistance and 27 person months of short term technical assistance for the Customs Administration Component through a Participating Agency Service Agreement (PASA). The Ministry of Finance has specifically requested USCS services because there are no private sources providing technical assistance in the area of operations or customs taxation systems. The limited demand for such technical services has not generated sufficient interest by private firms to create consulting capabilities in this area. Therefore, for this project USCS can provide specialized and integrated customs taxation advisory capabilities (e.g., functional expertise, training programs including observational visits, and the development of operational systems) that cannot be found from other possible sources. A PASA justification in Annex G discusses in detail the reasons for the procurement of USCS assistance.

The second technical assistance source will be provided under the Public Finance Advisory Team Contract. This team will be responsible for providing technical assistance for the Administration and Policy Analysis Component, the Income Tax Administration Component and Excise Tax Administration Component. This contract will be with either a U.S. university or a management consulting firm. Under the Public Finance Advisory Contract, 349 person months of long term technical and 43 person months of short term technical assistance will be provided. Both contracts will be written to correspond to project phases and the availability of funds: there will be an initial 24 month performance period with the option to renew for an additional 36 months if the project continues.

Procurement of required short term technical assistance will be determined based on the various needs of the components. The USCS will provide short term technical assistance in the areas of training and management system through the anticipated PASA. The Public Finance Advisory Team Contractor will be responsible for contractings both US and Egyptian short term assistance in the areas of policy analysis, ADP, management systems and tax examination.

### Commodities

The Public Finance Advisory Team Contactor will be responsible for all procurement, except for the Customs Administration Component, under the PFAT contract. The team will identify appropriate commodity requirements and specifications for the two basis computer systems identified below. It will also develop specifications for procurement of four project vehicles, one for each component. These two computer systems will be designed to meet the needs of all four project components. The commodity procurement component may be sub-contracted to a PSA by the prime contractor or the prime contractor may undertake the procurement itself. In either case, required commodities will be procured using appropriate AID regulations.

Commodity procurement under the Customs Administration Component will be procured through AID direct contracts. The Federal Acquisition Regulations and AID Acquisition Regulations will be followed.

All commodity procurements will be made based on an annual plan that will be jointly approved by the Ministry of Finance and AID. The first plan will be presented for consideration no later than three months after the arrival of the Public Finance Advisory Team Contract and the US Customs Service Team. The preparation of the plan will be the responsibility of the MIS advisor under the PFAT contract. Procurement of commodities will be subject to U.S. source/origin requirements. Source/Origin/Nationality waivers will be granted in the event no suppliers complying with the AID regulations are available. All local procurement will be subject to Handbook I-B, Chapter 18 regulations.

All computer hardware will have the following minimum specifications:

#### Hardware:

System "A" Microcomputer with at least 1 mg RAM, 20 mg Hard disk and 1 800 kb Floppy Disk, equivalent to an Apple MacIntosh SE.

System "B" Microcomputer with at least 1 mg RAM, and 2 800 kb Floppy disks, equivalent to an Apple MacIntosh SE.

#### Printers:

Printer "A" Dot Matrix, 120 character capability for spreadsheets, equivalent to Epson LQ-800.

Printer "B" Laser, high resolution for creating training documents and forms, equivalent to an Apple Laserwriter.

Although precise numbers for computers, printers and ancillary equipment cannot be calculated at this time, for budgeting purposes we have made the following assumptions.

Component	Type of Commodities				Car
	Computers		Printers		
	A	B	A	B	
Policy Analysis	1	3	2	0	1
Income Tax	200	392	178	140	1
Customs	2	12	8		1
Excise					1
	203	407	188	140	4

Estimated Unit Costs  
(\$)

Computer	Printer	Car
A = 3000	A = 500	15,000
B = 4000	B = 1000	

203 A	x 3,000	=	609,000
407 B	x 4,000	=	1,628,000
188 A	x 500	=	94,000
140 B	x 1,000	=	140,000
4 Cars	x 15,000	=	60,000
			<u>2,531,000</u>

Training

The project will run 74 person months of short term training. Fifty-nine person months will be contracted through the Public Finance Advisory Team contract and 15 person months will be contracted through the USCS/PASA contract. A training plan for all project training will be developed by the PFAT contract team head, the Senior Public Finance Advisor, and presented for approval within six months of the arrival of all project component technical assistance teams.

[Note: Because specific commodities and training requirements for each of the four components will not be known until approved commodity procurement and training plans are in place, precise budgeting for these activities cannot be calculated. Therefore, there will be a 20% budget line item flexibility in the budget in order to facilitate any required shifts.]

A) Administration and Policy Analysis

1. Technical Assistance

Technical Assistance will be provided through the Public Finance Advisory Team (PFAT) through either a university or consulting firm contract.

a. <u>Long Term</u>	<u>Arrive</u>	<u>Depart</u>	<u>Person Months</u>
(1) Senior Public Finance Advisor	May 88	Oct 93	65
(2) Public Finance Advisor	May 88	Oct 93	65
(3) Management Information System Advisor	May 88	Oct 93	65
			<hr/> 195

b. Short Term

US short-term TA will be provided in the areas of policy analysis, ADP, management systems, excise taxes and tax examination for a total of 51 person months. Egyptian short term TA will be provided for a total of 144 person months and Egyptian staff for a total of 35 person months.

The project officer will be responsible for preparing the scope of work. The contracting process will commence immediately after the signing of the Grant Agreement. This team will coordinate all components except the Custom Administration Component.

2. Commodity Procurement

Commodities will be procured by the Public Finance Advisory Contractor based on the approved commodity procurement plan.

3. Training

Short term US training will be computer and management related. The timing of the 18 person months will be established by the approved training plan to be prepared by the Senior Public Finance Advisor no later than the end of the sixth month following the arrival of all project technical assistance teams.

B. Income Tax Administration

1. Technical Assistance

Technical Assistance will be administered under the overall Public Finance Advisory Team Contract. The advisory team for the Income Tax Administration Component will include:

a. <u>Long Term</u>	<u>Arrive</u>	<u>Depart</u>	<u>Person Months</u>
(1) Tax Administration and Training Advisor	May 88	Oct 93	65
(2) Tax Examination Advisor	May 88	Oct 93	65

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Short Term

US short-term TA will also be provided in the areas of policy analysis, ADP, management systems, excise taxes and tax examination for a total of 24 person months. Egyptian short term TA will be provided for a total of 75 person months.

2. Commodity Procurement

Commodity procurement will focus on the training and ADP areas. The exact items and timing will be established by the approved commodity procurement plan mentioned earlier.

3. Training

Short term US training will be computer and management related. The timing of the 23 person months will be established by the approved training plan to be prepared by the Senior Public Finance Advisor no later than the end of the sixth month following the arrival of all project technical assistance teams.

Customs Administration Component

1. Technical Assistance

Technical assistance will be provided under a PASA with the US Customs Service. Under the PASA, the U.S. Customs Service will provide both long term and short term technical assistance. Two long term advisors will be provided for a total of 132 person months of assistance. Short term assistance will be provided for about 27 person months. Contracting will be initiated immediately after the project Grant Agreement is signed.

The scope of work for the PASA will be developed by the project officer. The contract will be negotiated and signed by the AID/Washington Office of Procurement.

a. Long-Term TA	<u>Arrive</u>	<u>Depart</u>	<u>Person Months</u>
(1) Senior Customs Advisor	Apr 88	Oct 93	66
(2) Customs Advisor	Apr 88	Oct 93	66
			<u>132</u>

US short-term assistance in training and management systems will be provided for a total of 27 person months. Egyptian short term TA will be provided for a total of 70 person months.

2. Commodities

Commodities under this component will be procured by USAID/Cairo's Contract Services Office. The commodities for this component will be established and updated annually by the approved commodity procurement plan mentioned earlier.

3. Training

Short term US training will be computer and management related. The timing of the 18 person months will be established by the approved training plan to be prepared by the Senior Public Finance Advisor no later than the end of the sixth month following the arrival of the technical assistance team for this project component.

D. Excise Tax Administration

1. Technical Assistance

Technical Assistance will be procured under the Public Finance Advisory Team contract. The advisory team will include:

a. Long-Term	<u>Arrive</u>	<u>Depart</u>	<u>Person Months</u>
Excise Tax Advisor	Apr 89	Apr 91	24

b. Short Term

US short-term TA will also be provided in the area of excise tax administration for a total of 18 person months. Egyptian short term TA will be provided for a total of 18 person months.

2. Commodities

Commodities under this component will be procured under the Public Finance Advisory Team Contract and will be included in its required commodity procurement plan. Commodities to be procured will be established and updated by the commodity procurement plan mentioned earlier.

3. Training

Short term US training will be computer and management related. The timing of the 15 person months will be established by the approved training plan to be prepared by the Senior Public Finance Advisor no later than the end of the sixth month following the arrival of the technical assistance team for this project component.

Section VIII: TRAINING NEEDS ASSESSMENT AND PLAN

Training needs for the Tax Department have already been assessed under the Tax Administration Project (TAP) and training has been on-going for the past seven years. There will be no need to formally reassess training needs at this point. Training for the Tax Department has already been budgeted for and approved. However, the other components of this project, which represent new activities, will need to be assessed before training is provided in these areas.

1. Policy Analysis

Training needs for the Administration and Policy Analysis Unit (APAU) will be assessed upon the initial organization of this unit. It is not expected that there will be more than ten Egyptians assigned to the unit; however, by necessity, the skill needs of the unit will be varied. It is anticipated that the project will not be developing the human resource base from scratch but instead some of the requisite skills will already be resident in the MOF and available for the APAU. It is expected that ministry employees possessing at least BA degrees will be available. Nonetheless, short-term training, both

in-country as well as in the U.S., will be needed to strengthen these employees' monitoring, analytical and presentation skills. Short-term training is anticipated in the following areas: statistical analysis; public finance economics; public administration; microeconomics; ADP, etc. (see following table ILLUSTRATIVE TRAINING PLAN)

## 2. Income Tax

Training in the area of income tax administration has been ongoing under the Tax Administration Project (TAP) and will continue under this project. Aside from occasional observation tours in the U.S. by mid- to upper management ministry employees, the project does not envision significant and formal training in the U.S. The Egyptian Tax Training Institute (TTI) should continue to provide training in the areas of management, examination, and, possibly, ADP. Other sources of in-country ADP training, in the private sector, exist and will be utilized.

## 3. Customs

Under the customs portion of the project, only limited observational tours of U.S. Customs facilities is anticipated, and that only for mid- to upper-management level employees. Other training in the areas of ADP and management will be provided in Egypt, perhaps at the TTI. Training in Classification and Valuation (C&V) will take place both on-the-job as well as perhaps at the TTI. Import specialists are also to receive in-country training. However, at this juncture it is not clear exactly what the training needs of the Egyptian Customs Service are. To address this the USCS advisors will undertake, as part of their initial work in Egypt, a training needs assessment. No training of Customs officers will take place until this assessment has been completed.

## 4. Excise Tax

The Senior Public Finance Advisor will be responsible for preparing a training needs assessment in the first six months following arrival of all project component long term technical assistance teams. To the extent possible the training will be coordinated with Income Tax and Customs.

## 5. Training of Trainers

Training of trainers will be needed and will be provided through TDY assistance in Egypt. Such training may be provided for TTI instructors, but may also be provided at Customs, Cairo or Customs, Alexandria. The need for this training will be assessed by both the Senior Customs Advisor and the Senior Public Finance Advisor, prior to any such training.

The following illustrative plan is provided merely as an initial estimate of the training to be provided under this project. It must be kept in mind that the training needs assessments will override this illustrative plan and that, except in the area of income tax administration, no training will be provided until thorough training needs assessments have been completed.

ILLUSTRATIVE TRAINING PLAN

Type of training	-----number of trainees 1/-----					<u>Total US</u>
	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>	<u>92/93</u>	
1. <u>Public Policy:</u>						
in country	4	4	4	4	4	
U.S.		2	2	2	1	7
2. <u>ADP:</u>						
Tax						
in country	60	70	90	110	130	
in U.S.	1	2	2	2	2	9
Customs						
in country	25	50	50	50	50	
in U.S.	1	2	2	2	2	9
Policy Analysis						
in country	4	4	4	4	4	
in U.S.		1	1	1	1	4
3. <u>Management:</u>						
Policy Analysis		2	2	2	2	
in country	5	5	5	5	5	8
Tax:						
in country	60	40	30	30	30	
(observation) in U.S.	3	3	3	3	3	15
Customs						
in country	15	20	30	30	40	
(observation) in U.S.	2	2	2	2	2	10
4. <u>C&amp; V procedures:</u>						
in country	25	45	65	65	65	
5. <u>Import Specialists:</u>						
in country	25	45	45	45	35	
6. <u>Tax examination:</u>						
in country	45	60	90	110	130	
7. <u>Training of trainers:</u>						
Tax						
in country	12	12	12	12	12	
Customs						
in country	6	6	15	15	10	

1/ training on average will consist of one month concentrated effort

AGENCY FOR INTERNATIONAL DEVELOPMENT  
**PROJECT IDENTIFICATION DOCUMENT  
 FACESHEET (PID)**

SECTION IX: ANNEX A

1. TRANSACTION CODE  
 A = Add  
 C = Change  
 D = Delete  
 Revision No. \_\_\_\_\_  
 DOCUMENT CODE 1

2. COUNTRY/ENTITY  
 Egypt

3. PROJECT NUMBER  
 263-0209

4. BUREAU/OFFICE  
 USAID/Cairo  
 A. Symbol [ ] B. Code [ ]

5. PROJECT TITLE (maximum 40 characters)  
 Fiscal Administration & Policy

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION  
 A. Initial FY 87  
 B. Final FY 89  
 C. PACD 92

7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$) =

FUNDING SOURCE		LIFE OF PROJECT
A. AID		19,500
B. Other U.S.	1.	
	2.	
C. Host Country		8,000
D. Other Donor(s)		
TOTAL		27,500

8. PROPOSED BUDGET AID FUNDS (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. 1ST FY 87		E. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF		5,000		5,000			
(2)						19,500	
(3)							
(4)							
TOTALS				5,000			19,500

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) 5,000

10. SECONDARY PURPOSE CODE

11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)  
 A. Code  
 B. Amount

12. PROJECT PURPOSE (maximum 480 characters)  
 Improve the efficiency of tax administration and equity in the incidence, assessment and collection of taxes.

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT  
 Staff: Two Mission staff, one contractor from Syracuse Univ., two IRS advisors and two US Customs advisors.

Funds: \$85,000 total (\$51,000 from Project 263-0115 and up to \$34,000 from PD & S funds.)

14. ORIGINATING OFFICE CLEARANCE  
 Signature: *Paul O'Farrell*  
 Title: Acting Assoc. Director, Industry & Support  
 Date Signed: MM DD YY 06 02 87

15. DATE DOCUMENT RECEIVED IN AID/W. OR FOR AID/W. DOCUMENTS, DATE OF DISTRIBUTION  
 MM DD YY

16. PROJECT DOCUMENT ACTION TAKEN  
 A = Approved  
 S = Suspended  
 D = Disapproved  
 CA = Conditionally Approved  
 DD = Decision Deferred

17. COMMENTS

18. ACTION APPROVED BY  
 Signature: *[Signature]*  
 Title: Acting Mission Director

19. ACTION REFERENCE

20. ACTION DATE  
 MM DD YY 05 14 87

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program Goal or Sector	Measures of Goal Achievement		Assumptions for Achievement of Goal
Increased public exposures to GOE expenditures through efficient & equitable taxation.	<ol style="list-style-type: none"> <li>1. Taxpayer awareness indicated by                             <ul style="list-style-type: none"> <li>- Taxpayer willingness to file</li> <li>- Decline in tax return protests.</li> <li>- Taxpayer awareness that level of taxes relates to level of GOE expenditures.</li> </ul> </li> <li>2. Ministry awareness measured by                             <ul style="list-style-type: none"> <li>- Willingness to publish comprehensive budget (including subsidies and deficit).</li> <li>- Willingness to permit public opinion to shape the size and form of the budget.</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>1. Taxpayer Awareness:                             <ul style="list-style-type: none"> <li>- IMF data on number of new filings, tax protests, and cases proceeding to litigation.</li> <li>- Taxpayer surveys.</li> </ul> </li> <li>2. Ministry awareness:                             <ul style="list-style-type: none"> <li>- Copy of published budget.</li> <li>- Discussion of budgetary issues in print media.</li> <li>- Taxpayer Surveys.</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>1. Implicit taxation is reduced or made explicit.</li> <li>2. Implicit tax revenues are made explicit in the budget.</li> <li>3. Taxpayers prefer a cut in expenditures rather than a rise in taxes.</li> </ol>

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PUBLIC FINANCE ADMINISTRATION PROJECT (263-0209): Project Design Summary, Logical Framework.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose	Measures of Purpose Achievement		Assumption Related to Purpose
Improved efficiency of tax administration and equity in the incidence, assessment and collection of taxes.	<ol style="list-style-type: none"> <li>1. Principal tax instruments conform to generally recognized standards in the following categories:                             <ol style="list-style-type: none"> <li>a. Efficiency:                                     <ul style="list-style-type: none"> <li>- Tax collection compared to the cost of collection.</li> <li>- Reduction in document processing time.</li> </ul> </li> <li>b. Equity:                                     <ul style="list-style-type: none"> <li>- Equal treatment of individuals and firms equally circumstanced.</li> <li>- Improved tax incidence.</li> </ul> </li> <li>c. Elasticity:                                     <ul style="list-style-type: none"> <li>- Responsiveness of tax revenue to changes in tax base. (Tax elasticity should be greater than zero.)</li> </ul> </li> <li>d. Neutrality:                                     <ul style="list-style-type: none"> <li>- Tax instruments should have minimum unintended distortion on individual and corporate behavior.</li> </ul> </li> </ol> </li> <li>2. MOF willingness and capability to seek and correct inefficiencies, inequities and distortions as they arise due to changes in the Egyptian economy.</li> </ol>	<ol style="list-style-type: none"> <li>1.                             <ol style="list-style-type: none"> <li>a. Efficiency:                                     <ol style="list-style-type: none"> <li>(1) MOF Monitoring &amp; Evaluation System Data on:   <ul style="list-style-type: none"> <li>- expenditures &amp; collections by department &amp; office.</li> <li>- document processing time by department &amp; office.</li> </ul> </li> <li>(2) Income Tax Department &amp; APAU analyses of effect of priority review systems.</li> </ol> </li> <li>b. Equity:                                     <ul style="list-style-type: none"> <li>- Taxpayer surveys.</li> <li>- Analyses by APAU &amp; Departments of tax incidence.</li> </ul> </li> <li>c. Elasticity:                                     <ul style="list-style-type: none"> <li>- Analyses by APAU &amp; Departments on effect of increased number of income tax filers, companies paying excise tax, and effect of sales taxes as well as potential of proposed additional taxes (property, estate, sales).</li> </ul> </li> <li>d. Neutrality:                                     <ul style="list-style-type: none"> <li>- APAU analyses on tax incidence.</li> <li>- Taxpayer surveys.</li> </ul> </li> </ol> </li> <li>2. MOF and USAID documentation on administrative changes made to increase efficiency, progress on implementing new systems, progress on public awareness campaign, and proposals made within GOE and to People's Assembly.</li> </ol>	<ol style="list-style-type: none"> <li>1. Consensus can be reached on the operational definition of efficiency, equity and neutrality.</li> <li>2. The GOE will balance its need for revenue against the other principles of taxation.</li> <li>3. Necessary policy, legal and administrative changes will be enacted in a timely manner.</li> <li>4. The demand for greater tax revenues will be reduced by expenditure cuts and use of user fees where appropriate.</li> <li>5. The GOE will continue its emphasis on the growth of the private sector.</li> </ol>

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PUBLIC FINANCE ADMINISTRATION PROJECT (263-0209): Project Design Summary, Logical Framework.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs	Measures of Outputs Achievement		Assumptions Related to Output
1. An enacted body of legislation, policy statement and administrative procedures which structures an efficient and equitable tax system.	1. Revised tax laws, MOF decrees and tax department's operations procedures manuals.	1. Policy Reform: - USAID and MOF documentation on administrative changes & GDE tax code. - Taxpayer Surveys.	1. Adequate GDE Budget as needed to implement changes on schedule. 2. Legislation necessary to change tax law can be processed through the People's Assembly.
2. Performance Monitoring System which permits ongoing evaluation of the relative efficiency and performance at each level (Department and Office).	2. Performance Monitoring System used for: - Evaluation of the relative efficiency and performance at each level (Dept. & Office), and - Identification of problems for analysis.	2. MOF Performance Monitoring System: - Reports, - Analyses.	3. No exogeneous factors upset People's Assembly. 4. No exogeneous factors upset procurement, TA and training schedule required to implement changes according to the project's design.
3. Comprehensive in-service training systems in each of the principal tax departments.	3. Adequate staff and facilities to train all new employees immediately upon entry. - Proper in-service training of all employees on new procedures within the schedule set for public implementation of the new procedures. - Adequate in-service skills upgrading courses to support the tax systems' responsibilities and employee career development needs.	3. Performance Monitoring System reports indicating that employees are following new procedures and that efficiency has improved.	
4. MIS Systems - MIS's functioning in each of the principal tax departments. - A ministry wide MIS which links the tax departments MIS's and the expenditures side of the ministry.	4. MIS's capable of responding to analytical and organizational management needs.	4. MIS reports available on a timely basis.	
5. An operational national information campaign related to taxes, expenditures and the budget.	5. Public information readily available.	5. Taxpayer Surveys.	

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VEHICLE PROCUREMENT JUSTIFICATION

SUBJECT

Justification: Project Funded Vehicle Procurement

REQUIRMENTS

M.O. 5-8 requires that all proposed project-funded vehicle procurements be approved by IS/CMT in the project planning stage as required in M.O. 5-4.

The Public Finance Administration Project (PFAP) (USAID Project No. 263-0209) requires procurement from U.S. sources of the following vehicles:

QUANTITY, TYPE AND PRICE

4 utility vehicles similar or equivalent to Jeep Wagoneers, at an estimated cost of \$15,000 each, or a total of \$60,000.

PROPOSED USE

The four vehicles will only be used by the contract teams providing technical services to the project. One vehicle will be used for the U.S. Customs team as it is imperative that the team travel often between Cairo and Alexandria, as well as to various outstations and ports around the country. The U.S. Customs team will also need the vehicle for travel within the Port of Alexandria, which is quite large, not well paved and does not provide adequate internal transportation.

The second vehicle will be used by the Public Finance Advisory Team for visiting income tax and, later, excise tax sites around Egypt. The Tax Training Institutes are scattered around Egypt and will also be visited by these advisors.

The third vehicle will be used by the Income Tax Advisory Team, which will need the vehicle for arranging conferences and for visiting outstations of income tax offices.

The fourth vehicle will be used by the Excise Tax Advisor for visiting excise and customs offices throughout Egypt.

VEHICLE TYPE JUSTIFICATION

All of the vehicles must be large enough to carry passengers but sturdy enough to operate in poorly paved port areas and travel on unpaved or very rough roads in the hinter reaches of Egypt, where many of the income tax, excise tax and customs operations are located.

PUBLIC FINANCE ADMINISTRATION PROJECT (263-0209): Project Design Summary, Logical Framework.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<b>Inputs</b>			
	AID: (\$16,200)	AID:	
1. TA	\$10,741 (913 PH)	Project files, site visits.	
2. Commodities	2,025 (ADP and other related equipment)		
3. Training	740 (U.S. Training)		
4. Evaluation/Conferences	200		
5. Other	2,494 (inflation and other misc. contingencies)		
	GOE: (In-kind contribution estimated at LE 8,857,127)	GOE:	GOE:
1. Counterpart Staff	400 ADP and other staff directly working on project elements (est. LE 3,106,640)	Site visits.	Funding commitments maintained.
2. Facilities/Logistics	Office space, training centers, ADP, furnishings, utilities, etc. (est. LE 1,540,000)		
3. Training	In-house training, support for ADP, MIS, other (est. LE 2,970,000)		
4. Publications	Printing of manuals, MIS information, etc. (est. LE 586,000)		
5. Other	Inflation, misc. (est. LE 654,487)		

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PUBLIC FINANCE ADMINISTRATION PROJECT (263-0209): Project Design Summary, Logical Framework.

STATUS OF OBJECTIVELY VERIFIABLE INDICATORS AT THE END OF PHASE I:

GOAL:	PURPOSE:	OUTPUTS:	Inputs (AID)	(000)
Taxpayer awareness will be measured through surveys by - Response to field testing of more efficient systems. - Reaction to proposed tax policy reforms.	<b>Efficiency:</b> The Performance Monitoring System will increase departments' awareness of their efficiency measured by the ratio of collections to costs. The system will provide a baseline, track improvements, and allow comparison of standard and new procedures being field tested.	1. Proposed body of legislation, policy and administrative changes to be enacted with a prioritized implementation plan.  2. Functioning Performance Monitoring System that provides baseline information and documents progress to date.	- Technical Assistance	94,567
			- Commodities	912
Ministry awareness will be measured by willingness to publish budget.	<b>Equity:</b> Analyses of equity and tax incidence will reveal biases in current system and provide basis proposed policy reforms.  Additional measureable outputs will depend on administrative reforms implemented during Phase I.	3. Completion of needs assessment and training plans. Design and implementation of initial program. System for evaluating training impact and annual plan up-date in place.  4. Design of MIS system completed. Testing and training of personnel underway.	- Training	335
			- Conferences and Evaluation	110
			- Contingency	977
			-----	
			Inputs (GOE)	
			- Staff	LE 527
			- Training	528
			- Logistics	437
			- Contingency	126
			-----	
				LE 1,618
	No measureable results are expected in the areas of elasticity and neutrality until the full package of administrative and policy reforms are implemented during Phase II.	5. Public awareness campaign designed, field tested and recommended.  6. Special studies on estate and property taxes completed.		

Public Finance Administration II  
Project (263-0209)

## 5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A includes criteria applicable to all projects. Part B applies to projects funded from specific sources only: B(1) applies to all projects funded with Development Assistance; B(2) applies to projects funded from Development Assistance loans; and B(3) applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1987 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project. Congressional committees will be notified in accordance with regular Agency procedures. No funds will be obligated for the Project until AID/W notifies USAID/Egypt that the CN waiting period has expired.
2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance. (a) Yes and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? (b) Yes
3. FAA Sec. 611(a)(2). If legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? All international agreements must be ratified by the People's Assembly. In the past, the Assembly has ratified all grant agreements in a timely manner.
4. FAA Sec. 611(b); FY 1987 Continuing Resolution Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.) N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? Yes; see Annex VII
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. The Project is not susceptible to execution as a regional multilateral project.
7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to:  
(a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.  
(a) Yes  
(b) Yes  
(c) Yes  
(d) Yes  
(e) Yes  
(f) Yes; the relevance of this project to the foregoing issues is indicated in the Project Paper
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). Private enterprise in the United States will obtain increased export and investment opportunities as a result of the Project.
9. FAA Secs. 612(b), 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. GOE-provided local currency will be utilized for domestic training and development of operational facilities. Where AID is financing local currency costs, AID-owned local currency will be used in lieu of dollars.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No.

11. FY 1987 Continuing Resolution Sec. 521. N/A  
If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?
12. FY 1987 Continuing Resolution Sec. 558 N/A  
(as interpreted by conference report).  
If assistance is for agricultural development activities (specifically, any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training), are such activities (a) specifically and principally designed to increase agricultural exports by the host country to a country other than the United States, where the export would lead to direct competition in that third country with exports of a similar commodity grown or produced in the United States, and can the activities reasonably be expected to cause substantial injury to U.S. exporters of a similar agricultural commodity; or (b) in support of research that is intended primarily to benefit U.S. producers?
13. FY 1987 Continuing Resolution Sec. 559. N/A  
Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

14. FAA Sec. 118(c). Does the assistance comply with the environmental procedures set forth in A.I.D. Regulation 16? Does the assistance place a high priority on conservation and sustainable management of tropical forests? Specifically, does the assistance, to the fullest extent feasible: (a) stress the importance of conserving and sustainably managing forest resources; (b) support activities which offer employment and income alternatives to those who otherwise would cause destruction and loss of forests, and help countries identify and implement alternatives to colonizing forested areas; (c) support training programs, educational efforts, and the establishment or strengthening of institutions to improve forest management; (d) help end destructive slash-and-burn agriculture by supporting stable and productive farming practices; (e) help conserve forests which have not yet been degraded, by helping to increase production on lands already cleared or degraded; (f) conserve forested watersheds and rehabilitate those which have been deforested; (g) support training, research, and other actions which lead to sustainable and more environmentally sound practices for timber harvesting, removal, and processing; (h) support research to expand knowledge of tropical forests and identify alternatives which will prevent forest destruction, loss, or degradation; (i) conserve biological diversity in forest areas by supporting efforts to identify, establish, and maintain a representative network of protected tropical forest ecosystems on a worldwide basis, by making the establishment of protected areas a condition of support for activities involving forest clearance or degradation, and by helping to identify tropical forest ecosystems and species in need of protection and establish and maintain appropriate protected areas; (j) seek to increase the awareness of

Yes, see Project Paper - Environmental Analysis Section. Since the purpose of this project is to provide technical assistance in the area of fiscal administration and policy, none of its activities relate to management of tropical forests.

U.S. government agencies and other donors of the immediate and long-term value of tropical forests; and (k) utilize the resources and abilities of all relevant U.S. government agencies?

15. FAA Sec. 119(q)(4)-(6). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas? Since the purpose of this project is to provide technical assistance in the area of fiscal administration and policy, none of the issues referred to are addressed by this project.
16. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)? N/A
17. FY 1987 Continuing Resolution Sec. 532. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? No.

## B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria
- a. FAA Secs. 102(b), 111, 113, 281(a). Describe extent to which activity will (a) effectively involve the poor in development by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, dispersing investment from cities to small towns and rural areas, and N/A

insuring wide participation of the poor in the benefits of development on a sustained basis, using appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries.

- b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Does the project fit the criteria for the source of funds (functional account) being used? N/A
- c. FAA Sec. 107. Is emphasis placed on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? N/A
- d. FAA Secs. 110, 124(d). Will the recipient country provide at least 25 percent of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)? N/A
- e. FAA Sec. 128(b). If the activity attempts to increase the institutional capabilities of private organizations or the government of the country, or if it attempts to stimulate scientific and technological research, has it been designed and will it be monitored to ensure that the ultimate beneficiaries are the poor majority? N/A

f. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government. N/A

g. FY 1987 Continuing Resolution Sec. 540. Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions? N/A

Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?

Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

h. FY 1987 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined to support or participate in the management of a program of coercive abortion or involuntary sterilization? N/A

If assistance is from the population functional account, are any of the funds to be made available to voluntary family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services?

i. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? N/A

- j. FY 1987 Continuing Resolution. How much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)? N/A
- k. FAA Sec. 118(c)(13). If the assistance will support a program or project significantly affecting tropical forests (including projects involving the planting of exotic plant species), will the program or project (a) be based upon careful analysis of the alternatives available to achieve the best sustainable use of the land, and (b) take full account of the environmental impacts of the proposed activities on biological diversity? N/A
- l. FAA Sec. 118(c)(14). Will assistance be used for (a) the procurement or use of logging equipment, unless an environmental assessment indicates that all timber harvesting operations involved will be conducted in an environmentally sound manner and that the proposed activity will produce positive economic benefits and sustainable forest management systems; or (b) actions which significantly degrade national parks or similar protected areas which contain tropical forests, or introduce exotic plants or animals into such areas? N/A
- m. FAA Sec. 118(c)(15). Will assistance be used for (a) activities which would result in the conversion of forest lands to the rearing of livestock; (b) the construction, upgrading, or maintenance of roads (including temporary haul roads for logging or other extractive industries) which pass through relatively undegraded forest lands; (c) the colonization of forest lands; or (d) the construction of dams or other water N/A

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control structures which flood relatively undegraded forest lands, unless with respect to each such activity an environmental assessment indicates that the activity will contribute significantly and directly to improving the livelihood of the rural poor and will be conducted in an environmentally sound manner which supports sustainable development?

2. Development Assistance Project Criteria  
(Loans Only)

- a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan at a reasonable rate of interest. N/A
  
- b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20 percent of the enterprise's annual production during the life of the loan, or has the requirement to enter into such an agreement been waived by the President because of a national security interest? N/A
  
- c. FY 1987 Continuing Resolution. If for a loan to a private sector institution from funds made available to carry out the provisions of FAA Sections 103 through 106, will loan be provided, to the maximum extent practicable, at or near the prevailing interest rate paid on Treasury obligations of similar maturity at the time of obligating such funds? N/A
  
- d. FAA Sec. 122(b). Does the activity give reasonable promise of assisting long-range plans and programs designed to develop economic resources and increase productive capacities? N/A

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3. Economic Support Fund Project Criteria

- a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? Yes.
- b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes? No.
- c. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction, operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States? No.
- d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

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5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes; announcements of procurements will be published in the AID Bulletin and the CBD and awarded competitively.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? Yes.
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? N/A
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) N/A
5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those N/A

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countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

6. FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? No.
7. FAA Sec. 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? Yes.  
Yes.
8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? Yes.
9. FY 1987 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? Such a provision will be included in any direct AID contract.
10. FY 1987 Continuing Resolution Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? Yes.

B. CONSTRUCTION

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? N/A; this is not a construction project.
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? N/A
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress? N/A

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? N/A
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes; procurements will be limited to authorized source countries and commingling will not be permitted.

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4. Will arrangements preclude use of financing:

- a. FAA Sec. 104(f); FY 1987 Continuing Resolution Secs. 525, 540. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion?
- b. FAA Sec. 483. To make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?
- c. FAA Sec. 620(g). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?
- d. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?
- e. FAA Sec. 662. For CIA activities?
- f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained?
- g. FY 1987 Continuing Resolution Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?

The Grant Agreement will provide that funds provided by such agreement can only be used for the specific purposes set forth in the Grant Agreement. The prohibited uses listed in paragraphs a through l will not be permitted by the Grant Agreement.

- h. FY 1987 Continuing Resolution Sec. 505.  
To pay U.N. assessments, arrearages or dues?
- i. FY 1987 Continuing Resolution Sec. 506.  
To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)?
- j. FY 1987 Continuing Resolution Sec. 510.  
To finance the export of nuclear equipment, fuel, or technology?
- k. FY 1987 Continuing Resolution Sec. 511.  
For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?
- l. FY 1986 Continuing Resolution Sec. 516.  
To be used for publicity or propaganda purposes within U.S. not authorized by Congress?



ANNEX D

027

ARAB REPUBLIC OF EGYPT  
MINISTRY OF INTERNATIONAL COOPERATION  
DEPARTMENT FOR ECONOMIC COOPERATION  
WITH U. S. A

ACTION TO	PPP	FM
ACTION TAKEN		IS
DATE		DD
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Mr. George Laudato  
Acting Director  
USAID / C

Nov. 15, 1987  
NOV 19 1987

Sub. Public Finance Administration  
Project Paper ( 263-0209 ).

Dear Mr. Laudato:

We are writing this letter to request USAID's assistance in the amount of \$16.2 million to start our mutual financing of the Public Finance Administration Project. This amount covers life of project obligations. The GOE contribution is the equivalent of \$4,026,000 over life of project.

The purpose of the project is to improve the efficiency of tax administration and to maintain equity in the assessment and collection of taxes.

The project will be implemented in 2 phases and is divided into 4 Components - Administrative and Policy Analysis component, the Income Tax Administration Component, the Customs Administration Component and the Excise Taxation Component.

Your assistance in obtaining the amount requested to start this important activity will be greatly appreciated.

Best regards.

Sincerely yours,

Ahmad Abdel Salam Zaki  
Ahmad Abdel Salam Zaki  
Administrator.

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MINORITY CONTRACTING ASSESSMENT

Procurement under the project will consist of technical services, training and commodities. Part of the project's technical services and training will be provided under a PASA with the U.S. Customs Service. The balance of technical services, training and commodities will be provided by a separate contractor (the "prime" contractor), probably a university or private consulting firm.

The technical services and training that will be provided by the prime contractor will be of a very complicated nature, requiring experience in research, overseas training, management specialties, public finance, ADP and MIS. The technical services and training capacity may not be of a nature that can readily be provided by an 8(a) firm: however, the prime contractor will be encouraged to sub-contract to target groups.

Commodities under the project, procured by the prime contractor, will be procured by a Purchasing Service Agent (PSA) as a sub-contractor to the prime contractor. There are 8(a) firms that could possibly provide this service. We intend to recommend that the prime contractor award the PSA sub-contract to a qualified Gray Amendment firm.

## PASA JUSTIFICATION

The following discussion justifies A.I.D. procurement of technical services and training under the Public Finance Administration Project (PFAP) through a PASA with the U.S. Customs Service (USCS).

Discussion

The technical services and training that USCS will provide under the project include two long-term resident advisors and observational training tours at USCS sites and facilities in the U.S. The technical services will be in the areas of classification and valuation of imported goods subject to duty, streamlining of Egyptian Customs procedures and operations, preparation of a national customs procedures manual, and assistance in the establishment of a National Customs Training Institute.

Training that the resident advisors and short-term advisors will impart to Egyptian Customs officials will include in-country training in the areas of classification and valuation, import specialties, and customs procedures and operations. U.S. training provided by USCS will mostly consist of observational tours for mid- to upper management Egyptian Customs officials at USCS facilities and operations.

USCS is uniquely qualified to provide the above discussed technical services and training. The area of customs operations is not sufficiently attractive that private sector firms have developed any expertise in this area. Training facilities in the U.S., especially those that will serve for observation tour sites, are run by USCS and will prove very worthwhile in meeting project objectives.

USCS has an international program that specializes in this type of technical assistance and training. Currently USCS provides similar assistance in other countries, such as Saudi Arabia and Liberia. Discussions with USCS indicate that this PASA would not interfere with its abilities to carry out its domestic programs.

In sum: keeping within the guidelines of FAA Section 621(a), which authorizes an exception to OMB Circular A-76, a PASA with USCS is justified based on the following considerations:

- The services desired mostly consist of technical assistance, and only to a limited degree do they consist of U.S. training.
- USCS is uniquely qualified to carry out the technical assistance and training activities.
- The furnishing by USCS of its services to the Project will not unduly interfere with USCS's domestic program.
- If use of the USCS under a PASA is approved, a PIO/T will be prepared, in accordance with the provisions of Handbook 12, Section 1B2c, for signature by the Mission Director.

CERTIFICATION

According to USAID Mission Order 5-8 the GOE must certify that it is able to fully support, monitor and control the vehicles. However, since the vehicles will only be used by the contract teams the need for GOE certification is obviated.

The maintenance and repair for each of the vehicles will be the responsibility of each of the team leaders. Such a requirement will be incorporated directly in their individual scopes of work. Maintenance facilities are available in the country at privately owned service and repair stations. Only licensed drivers on the contract teams will be permitted to drive the vehicles.

**Certification Pursuant to Section  
611 (e) of FAA 1961 as Amended**

**Background**

This project is being authorized with the goal of improving the Egyptian Government's public finance administration and policy analysis so as to ensure greater equity without creating undue economic disincentives. The purpose of the project is to institutionalize policy analysis and upgrade administrative capacity of the Income Tax, Customs and Excise Tax Departments, through technical assistance, training and commodities.

By far the principal component is policy analysis and its institutionalization within the Ministry of Finance. Of secondary importance is the ADP systems and other administrative improvements, brought about through technical assistance and training in the Tax, Excise and Customs Departments.

The physical capital assistance provided by the project will be primarily computers and computer peripherals.

Under the lead-on project, Tax Administration Project (TAP), computers and peripherals were installed in the Ministry of Finance for use of the Income Tax Department. These computers are being maintained, are operating on double shifts, and represent a very valuable contribution of the TAP.

**Certification**

Consequently, I, Marshall Brown, Director, the principal officer of the Agency for International Development in Egypt, having taken into account, among other things, the maintenance and utilization of projects in Egypt previously financed or assisted by the United States and technical assistance and training planned under this project do hereby certify that in my judgement Egypt has both the financial capability and human resources to effectively install, maintain and utilize the capital assistance to be provided to the Ministry of Finance under the Public Finance Administration Project.

\_\_\_\_\_  
Marshall Brown

Date: \_\_\_\_\_

TECHNICAL AND ADMINISTRATIVE ANALYSIS1. General Issues

The various tax departments -- i.e., income, customs, excise and real estate -- constitute separate entities within the Ministry of Finance. Each reports to the Minister through its Commissioner or Undersecretary. The taxation side of the Ministry is large, employing over 50,000 individuals. Responsibility to assess and collect the principal taxes is generally decentralized in branch offices or at ports of entry.

The key technical and management issues relate to weaknesses in the flow of information, standardization of procedures, internal monitoring and controls, and delegation of authority. Another serious barrier in the system is the lack of salary/incentives to encourage improved performance.

The present tax departments have grown physically and geographically without commensurate changes in management structures, communication systems and management information systems. As noted in the discussion on Policy and Administrative Analysis (Component A above) generally:

- directives flow from the center with the expectation that they will be understood and followed at the far reaches of the system.
- The information chain is prone to breakage and those below the break never hear the orders.
- Internal controls and follow-up are not well developed, information gaps and misunderstandings at branch offices are not quickly spotted and corrected.
- Those who disagree with an order ignore it with impunity for long periods of time.
- There is virtually no management information on the activities and performance of the tax system and its employees.
- Information provided to senior officials through the chain of command can be managed, limiting management's knowledge of the system's performance.
- Department-specific technical and management concerns to be addressed by the project include:

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The Customs Department has also been saddled with procedures related more to currency control than import control. Consequently, a good deal of effort is spent reviewing a variety of bank documents which trace the movement of the currency which paid for the imports. Similarly, the importer spends a good deal of time arranging for the proper documents and clearing them through the right personnel.

c. Excise Tax Administration

In Excise Taxation, the procedures require a weekly visit to a company by the excise tax assessor. There has been no automation of the assessment and collection process. The staff demands of this effort has forced the department to delay implementing a comprehensive sales tax and has restricted the base of the current excise tax to slightly over 150 items.

2. Interventions Planned to Address Issues

The project will address the management and administrative weaknesses through extensive training, development of manuals and handbooks and very importantly coordinated management information systems linking all departments to the central administration. The project structure also provides for management and operational issues to be analyzed by the Policy and Administrative Analysis unit and research and studies undertaken leading to new directives, training and revised handbook information disseminated to all offices. Standardization and simplification of the tax systems should provide for efficiencies, elimination of abuses and clarification of the law and procedures for taxpayers as well as the Ministry personnel. Planned technical assistance, training and other support provided under the program are all appropriate to address the major issues already identified. The Policy and Administrative Analysis Unit early-on will need to develop a revised policy to address the important issue of salary incentives for performance.

## FINANCIAL ANALYSIS

The project life is proposed for six years. Total funding is budgeted at \$22,226,000. USAID's grant-funded contributions will be \$16,200,000, of which an estimated \$1,504,000 will be in local currency costs; the GOE's in kind contribution is \$4,025,000 (LE equivalent). Project elements for financial reporting under Mission Accounting and Control System (MACS) will be four elements: Mobilization Team, Prime Contractor Technical Services; PASA Services; and Evaluation.

A. GOE CONTRIBUTION

The GOE counterpart contribution is made up of project-related operations, support, staff, facilities, commodities, and office and secretarial support for the technical advisory teams. The GOE's in-kind contribution represents 20 percent of total project costs. There is no cash contribution. Other indirect in kind GOE support, e.g., support personnel, facilities and logistical support can only be estimated at \$6,000,000 (LE equivalent).

GOE contributions as discussed above are summarized in the attached table. Although the project design has not devised a method for tracking GOE contributions this will be a concern of the project officer. Details of A.I.D. requirements for tracking of GOE counterpart contributions will be included in PIL #1, and reference to the tracking of these contributions will be made as a covenant in the project agreement.

Recurrent Costs

Support and recurrent costs of the project are primarily in the establishment and maintenance of training and computer facilities. These costs will be offset by increased efficiency of tax administration which will also impact on revenues. The ADP and National Tax Training Institutes now have their own annual operating budgets and are independently responsible for budgeting and expenditures subject to an annual review by the Ministry.

No additional personnel are to be added to the MDF organizations. New positions created in policy, ADP, MIS and training areas will be recruited from internal staff. The added burden of promotions will be nominal.

The recurrent costs that the GOE will face in maintaining these systems will be relatively high. However, substantial benefits are expected to accrue as a result of greater administrative efficiency gained through improved training, management and ADP systems. The Monitoring and Evaluation Plan establishes a mechanism for testing the relative efficiency and cost effectiveness of project policy and administrative changes. The GOE will, it is assumed, make decisions for change based on the likelihood of increased efficiency. Because of the establishment of the basis for an informed, efficiency-oriented decision making process, it is assumed that only policy changes that are more efficient and therefore greater revenue producers will be implemented. Therefore, after termination of AID's project funding it is anticipated that the Ministry of Finance will need no further outside financing beyond normal GOE budget appropriations. Estimated annual post-project recurrent costs that this the GOE will incur are:

1. Training of 200 employees per year	LE	400,000.00
2. TTIs, NCTI, facilities(O&M)		350,000.00
3. ADP training of 50 employees p.a.		150,000.00
4. ADP general maintenance (4 systems)		100,000.00
5. ADP systems maintenance contractors		400,000.00
6. ADP incentive pay (180 workers @ LE 300.00 p.m.)		648,000.00
7. other (warehousing, supplies, etc)		200,000.00
	TOTAL	LE 2,248,000.00

#### B. AID CONTRIBUTION

(see attached budget tables for A.I.D. contributions)

Financing will provide for: technical assistance (66 percent), commodities ( 12 percent), U.S. training ( 4 percent), evaluation ( 1 percent), support and miscellaneous costs (estimated at 7 percent) and inflation (9 percent). The AID contribution represents 80 percent of the total project costs.

##### 1. ADMINISTRATION AND POLICY ANALYSIS COMPONENT

The project component total costs amount to \$5,998,000 including contingencies and miscellaneous of approximately 10%. Approximately \$730,000 equivalent will be provided by the GOE in the form of in-kind counterpart support, facilities, personnel and office space. Of the \$5,266,000 provided by AID, \$4,749,000 will be for dollar costs and \$517,000 for local currency costs.

##### 2. INCOME TAXATION COMPONENT

The project component total costs amount to \$5,520,000 including approximately 10% for miscellaneous and contingencies. Approximately \$1,200,000 equivalent will be provided by the GOE in-kind in the form of counterpart support, facilities, personnel and office space. Of the \$4,320,000 provided by AID, \$4,024,000 will be for dollar costs and \$296,000 for local currency costs.

##### 3. CUSTOMS ADMINISTRATION COMPONENT

The project component total costs amount to \$5,000,000 including approximately 10% for miscellaneous and contingencies. Approximately \$1,060,000 equivalent in-kind will be provided by the GOE in the form of counterpart support, facilities, personnel and office space. Of the \$3,879,000 provided by AID, \$3,531,000 will be for dollar costs and \$348,000 for local currency costs.

4. EXCISE TAXATION COMPONENT

The project component total costs amount to \$1,900,000 plus approximately 10% for miscellaneous and contingencies. Approximately \$735,000 equivalent will be provided by the GOE in-kind in the form of counterpart support, facilities, personnel and office space. Of the \$1,067,000 will be provided by AID \$997,000 will be for dollar costs and \$70,000 for local currency costs.

Summary

	<u>AID</u>		<u>GOE</u>	<u>TOTAL</u>
	<u>FX</u>	<u>LE Equiv.</u>	<u>\$Equiv.</u>	
Mobilization Team	-	\$ 53	-	53
Administration & Policy Analysis	\$ 4,749	517	\$ 732	\$ 5,998
Income Tax Component	4,024	296	1,200	5,520
Customs Administration Component	3,530	348	1,058	4,936
Excise Tax Component	998	70	735	1,803
Evaluation and related Conferences	-	220	-	220
Other (Inflation)	1,395	-	300	1,695
	<u>\$14,696</u>	<u>\$1,504</u>	<u>\$4,025</u>	<u>\$20,225</u>

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ITEM	FUND CONTINGENCY PLAN																				
	11/88 - 12/89)			11/89 - 12/89)			11/90 - 12/90)			11/91 - 12/91)			11/92 - 12/92)			11/93 - 12/93)			TOTALS		
	MOBILIZATION			CY 1			CY 2			CY 3			CY 4			CY 5					
	(PR)	0	LE eqs	(PR)	0	LE eqs	(PR)	0	LE eqs	(PR)	0	LE eqs	(PR)	0	LE eqs	(PR)	0	LE eqs	(PR)	0	LE eqs
<b>A.</b>																					
<b>MOBILIZATION</b>																					
Mobilization Team	24	0	48	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Risc.&Contingency	0	0	5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5
<b>TOTAL A.</b>	<b>24</b>	<b>0</b>	<b>53</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5</b>												
<b>B.</b>																					
<b>Policy &amp; Analysis</b>																					
<b>1. Technical Assist.</b>																					
- Senior Advisor	5	85	0	12	204	0	12	216	0	12	229	0	12	243	0	12	258	0	45	1,235	0
- P.F. Advisor	5	85	0	12	204	0	12	216	0	12	229	0	12	243	0	12	258	0	45	1,235	0
- NIS/AMP	5	85	0	12	204	0	12	216	0	12	229	0	12	243	0	12	258	0	45	1,235	0
- AMP S/T	3	30	0	12	120	0	12	120	0	3	30	0	3	30	0	3	30	0	36	360	0
- other S/T	0	0	0	3	30	0	3	30	0	3	30	0	3	30	0	3	30	0	15	150	0
- Egypt. Advisors	24	0	48	24	0	48	24	0	48	24	0	48	24	0	48	24	0	48	144	0	288
- support staff	5	0	10	5	0	10	5	0	10	20	0	40	0	0	0	0	0	0	35	0	70
<b>TA Subtotal</b>	<b>47</b>	<b>285</b>	<b>58</b>	<b>80</b>	<b>762</b>	<b>58</b>	<b>80</b>	<b>799</b>	<b>58</b>	<b>86</b>	<b>748</b>	<b>88</b>	<b>66</b>	<b>789</b>	<b>48</b>	<b>66</b>	<b>853</b>	<b>48</b>	<b>625</b>	<b>4,215</b>	<b>358</b>
2. U.S. Training	5	50	0	5	50	0	5	50	0	1	10	0	1	10	0	1	10	0	10	100	0
3. Commodities	0	0	25	0	0	25	0	0	25	20	25	0	25	25	0	25	25	0	0	70	125
4. Risc.&Contingency	34	0	0	0	0	0	85	0	0	70	11	0	0	0	0	87	7	0	0	284	34
<b>TOTAL B.</b>	<b>369</b>	<b>91</b>	<b>0</b>	<b>812</b>	<b>50</b>	<b>0</b>	<b>934</b>	<b>91</b>	<b>0</b>	<b>856</b>	<b>124</b>	<b>0</b>	<b>824</b>	<b>73</b>	<b>0</b>	<b>955</b>	<b>80</b>	<b>0</b>	<b>4,749</b>	<b>517</b>	
<b>C.</b>																					
<b>Income Tax</b>																					
<b>1. Technical Assist.</b>																					
- Tax Adv & Trainin	5	85	0	12	204	0	12	216	0	12	229	0	12	243	0	12	258	0	45	1,235	0
- Tax Examination	5	85	0	12	204	0	12	216	0	12	229	0	12	243	0	12	258	0	45	1,235	0
- S/T	0	0	0	6	60	0	6	60	0	6	60	0	3	30	0	3	30	0	24	240	0
- Egypt. Advisors	0	0	0	12	0	24	15	0	30	15	0	30	16	6	32	17	0	34	75	0	150
<b>TA Subtotal</b>	<b>10</b>	<b>170</b>	<b>0</b>	<b>42</b>	<b>468</b>	<b>24</b>	<b>45</b>	<b>492</b>	<b>30</b>	<b>45</b>	<b>518</b>	<b>30</b>	<b>43</b>	<b>516</b>	<b>32</b>	<b>44</b>	<b>545</b>	<b>34</b>	<b>229</b>	<b>2,710</b>	<b>150</b>
2. U.S. Training	3	30	0	4	40	0	4	40	0	4	40	0	4	40	0	4	40	0	23	230	0
3. Commodities	0	0	0	100	50	0	0	0	0	150	25	0	150	25	0	100	25	0	0	800	125
4. Risc.&Contingency	20	0	0	0	0	0	53	3	0	71	6	0	71	6	0	69	6	0	0	264	21
<b>TOTAL C.</b>	<b>220</b>	<b>0</b>	<b>0</b>	<b>988</b>	<b>74</b>	<b>0</b>	<b>595</b>	<b>33</b>	<b>0</b>	<b>779</b>	<b>61</b>	<b>0</b>	<b>777</b>	<b>63</b>	<b>0</b>	<b>754</b>	<b>65</b>	<b>0</b>	<b>4,824</b>	<b>296</b>	
<b>D.</b>																					
<b>Customs</b>																					
<b>1. Technical Assist.</b>																					
- Senior Advisor	6	90	0	12	180	0	12	191	0	12	202	0	12	214	0	12	227	0	66	1,105	0
- Oper. Advisor	6	90	0	12	180	0	12	191	0	12	202	0	12	214	0	12	227	0	66	1,105	0
- S/T	0	0	0	6	60	0	6	60	0	6	60	0	6	60	0	3	30	0	27	270	0
- Egypt. Advisors	5	0	10	5	0	10	12	0	24	15	0	30	16	0	32	17	0	34	70	0	140

TABLE 1

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TA Subtotal	17	182	10	35	420	10	42	442	24	45	464	30	46	499	32	44	484	34	229	2,479	140
2.U.S.Training	3	30	0	3	30	0	3	30	0	3	30	0	3	30	0	3	30	0	18	180	0
3.Commodities	0	25	0	100	50	0	150	25	0	150	25	0	150	25	0	0	25	0	0	350	175
4.Misc.&Contingency	21	0	0	55	6	0	42	5	0	45	6	0	47	6	0	51	6	0	0	321	33
TOTAL D.	231	39	0	605	66	0	681	54	0	709	61	0	736	63	0	565	65	0	0	3,530	340

E.  
Excise Tax

1.Technical Assst.	0	0	0	9	153	0	12	216	0	3	57	0	0	0	0	0	0	0	24	427	0
- Tax Advisor	0	0	0	3	30	0	6	60	0	3	30	0	3	30	0	3	30	0	18	180	0
- S/T	0	0	0	5	10	0	6	0	12	0	0	0	3	0	6	3	0	6	17	0	34
- Egypt. Advisors	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TA Subtotal	0	0	0	17	183	10	24	276	12	6	87	0	6	30	6	6	30	6	59	607	34
2.U.S.Training	0	0	0	5	50	0	5	50	0	5	50	0	0	0	0	0	0	0	15	150	0
3.Commodities	0	0	0	50	10	0	50	10	0	50	10	0	0	0	0	0	0	0	0	150	30
4.Misc.&Contingency	0	0	0	20	1	0	30	2	0	19	1	0	3	1	0	3	1	0	0	91	6
TOTAL E.	0	0	0	311	21	0	414	24	0	206	11	0	33	7	0	33	7	0	0	998	70

F.  
Evaluation & Conferences

Evaluation & Conferences	0	25	0	0	50	0	0	50	0	0	25	0	0	25	0	0	25	0	0	0	200
Misc.&Contingency	0	3	0	0	5	0	0	5	0	0	3	0	0	2	0	0	2	0	0	0	20
TOTAL F.	0	29	0	0	55	0	0	55	0	0	28	0	0	27	0	0	27	0	0	0	220

SUMMARY BUDGET TABLE

ITEM	11/88 - 12/88)			11/89 - 12/89)			11/90 - 12/90)			11/91 - 12/91)			11/92 - 12/92)			11/93 - 12/93)			TOTAL		
	(PR)	0	0 LE eqs	(PR)	0	0 LE eqs	(PR)	0	0 LE eqs	(PR)	0	0 LE eqs	(PR)	0	0 LE eqs	(PR)	0	0 LE eqs	(PR)	0	0 LE eqs
MOBILIZATION	24	0	48	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	48
1.Technical Assst.	74	625	68	174	1,833	102	191	2,009	124	162	1,818	148	161	1,824	118	168	1,992	122			10,693
2.U.S.Training	11	110	0	17	170	0	17	170	0	13	130	0	0	80	0	0	80	0			740
3.Commodities	0	50	0	550	110	0	200	60	0	370	85	0	325	75	0	125	75	0			2,025
Evail&Conf.	0	25	0	0	50	0	0	50	0	0	25	0	0	25	0	0	25	0			200
Misc.&Contingencies	75	20	0	85	12	0	238	23	0	233	27	0	141	15	0	210	22	0			1,099
TOTALS	109	820	211	191	2,636	274	208	2,617	257	195	2,551	285	169	2,378	233	168	2,307	244			14,805
inflation @ 22 p.a.	0	0	0	0	0	0	151	13	0	261	29	0	374	37	0	497	53	0			1,395
SUB-TOTALS	109	820	211	191	2,636	274	208	2,768	270	195	2,812	314	169	2,743	270	168	2,804	297			16,200

TABLE 1

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GOE ESTIMATED  
IN-IND COUNTERPART BUDGET  
MAJOR CATEGORIES  
ALL FIGURES ARE IN L.E.  
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ITEM	(1/88-12/88)	(1/89-12/89)	(1/90-12/90)	(1/91-12/91)	(1/92-12/92)	(1/93-12/93)	TOTAL
	LE	CY1 LE	CY2 LE	CY3 LE	CY4 LE	CY5 LE	
<b>A. PERSONNEL</b>							
POLICY ANALYSIS UNIT STAFF (10)	20,520	34,200	68,400	68,400	68,400	54,720	314,640
CUSTOMS ADMIN/SUPPORT (150)	68,400	176,800	205,200	239,400	239,400	163,800	1,053,000
INCOME TAX ADMIN/SUPPORT (200)	136,800	205,200	307,300	307,300	205,200	205,200	1,367,000
EXCISE TAX ADMIN/SUPPORT (50)	27,360	41,040	54,720	82,080	68,400	68,400	342,000
OTHER SUPPORT	5,000	5,000	5,000	5,000	5,000	5,000	30,000
<b>SUBTOTAL</b>	<b>258,080</b>	<b>422,240</b>	<b>640,620</b>	<b>702,180</b>	<b>586,400</b>	<b>497,120</b>	<b>3,106,640</b>
<b>B. FACILITIES/LOGISTICS</b>							
OFFICE/LOGISTICS	200,000	200,000	200,000	200,000	200,000	200,000	1,200,000
OFFICE/LOGISTICS	100,000	40,000	50,000	60,000	50,000	40,000	340,000
<b>SUBTOTAL</b>	<b>300,000</b>	<b>240,000</b>	<b>250,000</b>	<b>260,000</b>	<b>250,000</b>	<b>240,000</b>	<b>1,540,000</b>
<b>C. TRAINING</b>							
COMPUTER ASSESSMENT	120,000	160,000	200,000	200,000	200,000	200,000	1,080,000
OTHER MIS	40,000	50,000	60,000	70,000	80,000	70,000	370,000
<b>SUBTOTAL</b>	<b>160,000</b>	<b>210,000</b>	<b>260,000</b>	<b>270,000</b>	<b>280,000</b>	<b>270,000</b>	<b>1,450,000</b>
<b>PUBLICATIONS MIS</b>	<b>70,000</b>	<b>90,000</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>	<b>560,000</b>
<b>MISC. SUPPORT</b>	<b>5,000</b>	<b>4,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>4,000</b>	<b>26,000</b>
<b>SUBTOTAL</b>	<b>75,000</b>	<b>94,000</b>	<b>105,000</b>	<b>105,000</b>	<b>105,000</b>	<b>104,000</b>	<b>586,000</b>
<b>TOTAL</b>	<b>991,080</b>	<b>1,186,240</b>	<b>1,505,620</b>	<b>1,507,180</b>	<b>1,501,400</b>	<b>1,411,120</b>	<b>8,202,640</b>
<b>E. IMPLIATION</b>	<b>0</b>	<b>142,347</b>	<b>150,562</b>	<b>128,574</b>	<b>120,112</b>	<b>112,890</b>	<b>654,487</b>
<b>GRAND TOTAL</b>	<b>991,080</b>	<b>1,328,587</b>	<b>1,656,182</b>	<b>1,735,754</b>	<b>1,621,512</b>	<b>1,524,010</b>	<b>8,857,127</b>

NOT INCLUDE COST OF INDIRECT SUPPORT SUCH AS ADMINISTRATIVE AND OVERHEAD COST  
MAINTAINING UNITS, STAFF, FACILITIES, AND LOGISTICS.  
TOTAL AMOUNT FOR CONTRIBUTION OF EQUIVALENT TO US\$4,025,966,310  
NOTE THAT THE...

TABLE 2

RT

C. METHODS OF IMPLEMENTATION AND FINANCING

1. Chart of Methods of Implementation and Financing

Payment Verficiation Policy Implementation Guidance (PVPIG) Statement 5.B.2.a. requires an assessment by the Mission Controller of the proposed methods implementation and financing. The assessment should justify the use of methods differing from AID's preferred methods. The chart on the following page lists the current and proposed methods for the entire project. Narrative justification is provided where required, and explanations are given where necessary.

2. Narrative on Methods of Implementation and Financing

All financing methods are AID-preferred.

The implementation methods proposed for this project are exclusively AID direct contract instruments. USAID/Cairo policy states that Host Country Contracting is the preferred mode for procurement. An analysis has determined that the project undertake direct contract procurement based on the following considerations:

- a. Within the MOF there will be a number of agencies involved in implementation, none of which has experience in procurement with regard to AID procurement requirements. The only foreign donor financed project with which the MOF has had a long term relationship is the TAP with the IRS under a PASA. The PASA was directly arranged by AID. The new PASA with the U.S. Customs Service will also be arranged directly by AID. The second contract under this project will be with either a U.S. university or a public administration/consulting contractor, which will be responsible for providing services to three departments of the MOF. The one time procurement of technical services for the PASA and the umbrella contractor would be outside of MOF experience and abilities and there is no programmatic need for the MOF to develop an expertise in undertaking contracting under AID regulations.
- b. During the life of the project it is planned that all major planning activities, including local technical assistance, equipment, and training will be through two U.S. institutions. The numerous small contracts for local studies, technical assistance, evaluation conferences and seminars must be handled expeditiously and in a timely manner to be effective. The equipment procurement will be through PSA utilizing plans and specifications developed by the umbrella contractor. Accordingly, this major contractor will be given the responsibility for coordinating the procurement activities of the entire project.

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In summary, it is recommended that AID;

- contract directly with the USCS
- contract directly with one institution for all other services, including the coordination of equipment procurement by a PSA, local technical assistance, training and services.

3. Detailed Assessments

PVPIG 5.G.2.c requires a detailed assessment of the host country implementing agency's specific procedures for contracting, commodity procurement and payment verification. However, since no host country contracting is proposed for this project, such an assessment is not necessary.

4. Audit Coverage

PVPIG 6. requires an evaluation of the need for audit coverage, and a description of planned contract and project audit coverage by the host government, AID, and/or independent public accountants. Project funds should be budgeted for independent audits unless adequate coverage by the host country is reasonably assured, or unless audits by third parties are not warranted as, for example, in the case of direct AID contracts or direct placement of participants by AID.

No project funds need be budgeted for audit because the AID direct contracts, and the project itself, are auditable by the AID Inspector General's Office.

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CHART ON METHODS OF IMPLEMENTATION AND FINANCING IN THE  
PUBLIC FINANCE ADMINISTRATION PROJECT  
LIFE OF PROJECT AID FUNDS ONLY  
SEPTEMBER 15, 1987

ITEM NO.	ACTIVITY	METHOD OF IMPLEMENTATION	METHOD OF FINANCING	APPROXIMATE COST (\$000)	HC OR AID
<hr/>					
<u>Mobilization</u>					
1.	Mobilization Team	AID Direct Contract	Direct Pay	53	AID
<u>Policy and Administration, Income Tax, Excise Tax Activities, and Customs Taxation (commodities only)</u>					
2. a)	Public Fin. Admin. Team (Technical Assistance, Training)	AID Direct Contract to prime contractor	Direct Pay--ir private firm Treasury LOC if university	10,044	AID
b)	Local T.A.	Subcontract to prime	Direct Reimbursement to to prime contractors	542	AID
c)	PSA	Subcontract to prime	same as item #2	162	AID

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d)	PSA Commodities	Subcontracted to prime	Bank L/Com if private prime contractor, otherwise included in Treasury LOC of prime contractor.	2,025	AID
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Customs Taxation

3.	Technical Assistance, Training & Commodities	PASA	Direct Pay	3,154	AID
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Evaluation & Mobilization

4.	Technical Services	AID Direct Contract	Direct Pay	220	AID
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5.	Overall Project Contingency				
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Economic Analysis of the Public  
Finance Administration Project

This annex will present an analysis of GOE tax revenue performance, the role this project will play in furthering policy reform in Egypt, and an illustration of some direct benefits and areas where this project can be expected to have impact.

Tax Revenue Performance

In nominal terms GOE total revenues, as well as tax revenues, have increased consistently between 1981/82 and 1985/86. Unfortunately, in real terms tax revenues declined over this period except in 1985/86 when they increased by slightly more than five percent, as presented in tables I, II and III. In terms of share of GNP, tax revenues declined from 22.3% of GNP in 1981/82 to only 18.2% in 1984/85, and recovered slightly in 1985/86 to 19.4%, as illustrated in table IV.

The biggest loser was the company profit tax on the oil sector and Suez canal, which declined from 3.5% of GNP in 1981/81 to only 1.9% in 1985/86. Another loser was taxes on international trade, or import duties, which declined from 7.8% of GNP in 1981/82 to 5% in 1985/86, during which period imports fluctuated from \$10.9 billion and \$12.6 billion, but declined about 7% in 1985/86. As we see in table III, import duties have dropped at an alarming rate, averaging an annual decline in real terms of more than 10 percent. This is about double the rate of decline for total tax revenue overall.

As illustrated in table V, the most important tax earners have been the company profit tax, import duties, although declining in relative importance, and taxes on goods and services, which increased in share from 12% to 17% of total revenues from 1981/82 to 1984/85, but declined again in 1985/86 to only 16%. The least important taxes in terms of relative share in total revenues are taxes on property (including real estate) which amount to a less than one percent share, and the personal income tax which came to only a 3% share in 1985/86.

As we see from table I personal income tax has grown phenomenally, albeit from a small base, with an average growth rate of 35% p.a. Personal income tax receipts have increased from L.E. 85.5 million in 1981/82 to L.E. 303.2 million in 1985/86. In the two years from 1983/84 to 1985/86 personal income tax receipts more than doubled. During this period there was little growth in real terms in incomes and tax rates were not raised. Indeed, this increase is most likely due to broadening of the tax base through improved information, and tighter management.

### Support for Policy Reform

The USAID mission along with the IMF has been actively engaged in a policy reform dialogue with the GOE. The point of policy reform is to return Egypt to a stabilized position in its balance of payments and to reduce the government's budget deficit. Other aspects of the reform program are designed to address the concerns of structural adjustment and return the country to a basis for renewed economic growth.

Among other things, the policy reform agenda in Egypt includes:

- reduction of the budget deficit to 13% of GNP
- exchange rate reform, unification and devaluation
- higher interest rates
- raising energy prices
- raising farm producer prices for various products.

Although the GOE has not been wholly successful in following this reform program through, there have been significant policy measures taken. The Egyptian pound has been devalued for many transactions. Some prices have been raised and there is indication that the budget deficit target may be met. These reforms, it is hoped, will help return Egypt to a growth path that it will be able to sustain without again unavailingly resorting to foreign financing or domestic consumption.

Our reform program includes providing Egypt with foreign exchange resources to help meet short term needs, offering technical assistance in assessing the agricultural and energy sectors, and providing commodity and financial aid that will help in stabilizing the current account.

It is within this context that the Public Finance Administration Project will provide technical assistance and policy advice. As the GOE attempts to meet its deficit targets it is likely to exert greater effort on tax collections that will bear revenue fruit in the short run with less concern for the longer run economic effects such policies will have. This project will provide resources to the GOE that will help in addressing these concerns, help the GOE meet its legitimate revenue needs without increasing economic disincentives (i.e., excess burden) or treating economic agents in an inequitable manner. In a sense, the project can be expected to play another role, too. That is, this project is seen by the GOE as an important display of support for the reform program and will help the GOE take other hard and politically unpopular decisions in order to effect stabilization and structural adjustment.

### Project Benefits

In developing countries, such as Egypt, it is much more difficult to impose and collect many forms of taxes than in more developed countries. Not only are the skills and facilities of tax administration, as well as internal control and systems of accountability, less developed, but the structure of the economy is such that it affords fewer and less adequate "tax handles". Aside from public sector production, most other income is derived from self-employment, including small farmers, and most wage earnings come from small establishments. This makes income taxation much more difficult, although we must acknowledge the rapid growth in income taxes in Egypt over

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the recent past. To make matters worse, accounting practices are not well developed nor standardized to permit effective and equitable taxation of income and efficient auditing procedures. As pressures persist to generate more tax revenues, greater effort in income tax collection, left unchecked, would likely impose a greater and greater burden on public sector employees, public corporations, and businesses and employees in the modern sector. Assistance in tax examination along with a broadening of public knowledge about the system is likely to help mitigate these burdens.

Training, ADP equipment and systems improvement, prioritization of examination and management systems improvement in general, have led to greatly broadened personal income tax base. While the objective of this project is not to expand revenues, per se, we do hope to achieve this through a greater tax sharing, i.e., by expanding the tax base rather than through higher tax rates.

The legal basis for taxation of income follows a two-tier system. There is a progressive income tax and a global income tax. The progressive income tax was established by law no. 14 of 1939, while the global tax was established by law no. 63 in 1949. The progressive taxes are levied on four types of income: dividends and interest, profits, professional income, and wages and salaries. The global income tax is levied on income of individuals only. The tax laws have undergone frequent changes. The latest modification was made in 1981. The objective was to move gradually from the two-tier system to a unified system of general income tax.

By expanding the activities of the current Tax Administration Project in the areas of personal income tax, and further into the area of business income tax, along the same lines of training, prioritization and ADP systems improvement, this project component will continue to yield high returns, both in terms of greater government revenues, and in terms of expanding the base and improving the equitable enforcement of the law.

A sales tax would be even more difficult to administer than the income tax. Retail taxes are made difficult by the existence of small and nonpermanent retail outlets. Although in the absence of the income tax a very broad sales tax would cause minimal economic distortion and reduce excessive tax burden, such a tax is not yet feasible in Egypt. Consumption (excise) taxes at the producers' level generally are not broadly applied in LDCs due to the large number of small producers usually involved as well as the underdeveloped state of accounting practices mentioned previously. However, in Egypt, where approximately two-thirds of industrial production takes place in the public sector this problem is in large part mitigated.

Another obvious and ready "tax handle" is imports which come to about one-third of GNP. Import duties are imposed at a limited number of sites and therefore they yield high revenues at a low administrative cost.

A plethora of amendments, decrees and regulations have been annexed to the customs code. In addition, there are separate laws governing areas such as free zones, tourism and energy sectors, and foreign joint ventures. The Ministry of Economy issues decrees that Customs must implement. In general, many of the laws, regulations and decrees are very vague and therefore subject to a wide variety of interpretations, from site to site and time to time.

This multiplicity of decrees and regulations, coupled with the latitude in interpretation create enormous difficulties for the private sector, ranging from delays in clearing goods to inappropriate assessments. Businesses not only suffer losses due to long drawn out procedures but are subject to unnecessary uncertainties with regard to how customs duties will be assessed at any particular time. The classification and valuation of imports is not standardized and leads to assessments that often appear to be arbitrary. The high costs involved and the uncertainty that arises make it very difficult to undertake long range business planning and undertake investment. Considering the importance of customs duties and the burden the customs system place on private importer, project attention to this area can be expected to yield high returns.

This project will provide technical assistance, training and equipment in order to help standardize and improve customs procedures, especially classification and valuation, and identify further bottlenecks in the system. On the policy side, the project will address issues relating to tariffs, code simplification, coordination of customs duties with the rest of the tax system, especially the consumption (excise) tax, and administrative changes that must take place at the policy level.

In this sense, the project will most directly benefit private sector importers by one, reducing the administrative and financial burdens imposed by the confusing, non-standardized and haphazardly enforced customs system, and two, reducing the degree of uncertainty facing private importers.

Consumption (excise) taxes are imposed on approximately 150 products. This tax coupled with import duties probably cover most consumer products, aside from agricultural goods, and together can be considered a broad based tax. In order to make sure that economic distortions and excessive burden are minimized, excise and tariff rates will need to be examined and coordinated.

The excise code is simpler and therefore easier to administer than is the customs code. Nonetheless, there are management improvements that could be made and have significant cost savings impact on the private sector. For instance, the excise tax authority directly observes and checks the quantities produced and withdrawn at the point of origin of such commodities as are subject to the tax. The excise tax authorities place seals on production lines, packages, machinery, and the like, at the end of each business day, and must then take them off at the beginning of each day. As a result, production at these facilities depends on the presence of the tax authority. This can often lead to early shut downs and late start ups. An improved system for monitoring commodities production, based on audit, spot checks, and other controls would reduce the unnecessary burdens this tax imposes.

In sum, it is anticipated that this project will yield, inter alia, the following benefits:

1. Support for the policy dialogue process.
2. Greater attention of the GOE and ability to address matters concerning economic efficiency and social equity with regard to tax revenues.
3. Coordination of the three major taxes: income; consumption; and customs, so as to minimize the negative effects on economic incentives that could arise from greater tax effort.
4. Lower costs to the GOE in financial terms with regard to greater efficiencies and improved management and information the administration of taxation.
5. - Lower costs of doing business and reduced uncertainty facing private sector importers, due to standardization of procedures and improvements in classification and valuation.
  - Improvements in customs classification and valuation procedures which will better ensure more equitable, and consistent, treatment under the law.
  - Management improvements in the excise departments will help reduce shut down time at the plants of domestic producers arising from the excise tax.
  - A broadened income tax base will ensure fairer treatment of economic agents and reduce economic disincentives.

ATTACHED TABLES

- I. Egypt: Central Government Revenue, 1981/82 - 1985/86
- II. Egypt: Central Government Revenue, 1981/82 - 1985/86  
deflated by CPI
- III. Egypt: Central Government Revenue, 1982/83 - 1985/86  
percentage change over previous year
- IV. Egypt: Central Government Revenue, 1981/82 - 1985/86  
as percentage of GNP
- V. Egypt: Central Government Revenue, 1981/82 - 1985/86  
as percentage of total revenue

TABLE I

Central Government Revenue, 1981/82 - 1985/86 1/  
(in millions of Egyptian Pounds)

	1981/82	1982/83	1983/84	1984/85	1985/86*	1986/87**	1987/88***
Total Government tax revenue	4522.4	5200.4	5767.1	5922.6	6984.1	9,126.0	11,020.0
Taxes on net income and profits	1,663.2	1,917.2	1,634.8	1,977.8	2,705.5	2,967****	4,250****
Company profit tax:	(1,577.7)	(1,806.4)	(1,506.0)	(1,800.4)	(2,402.3)		
of which: oil sector and Suez Canal	(703.3)	(873.0)	(511.6)	(584.4)	(689.7)		
Personal Income Tax:	(85.5)	(110.8)	(128.8)	(177.4)	(303.2)		
Taxes on property	38.2	11.8	14.4	16.0	12.0		
State taxes	(8.4)	(11.8)	(14.4)	(16.0)	(12.0)		
Taxes on immovable property	(29.8)	--	--	--	--		
Taxes on goods and services	812.6	1,195.4	1,302.1	1,443.7	1,650.0	2,135.0	2,755.0
Consumption tax:	(812.6)	(1,195.4)	(1,302.1)	(1,443.7)	(1,650.0)		
of which: imports	--	(297.8)	(341.8)	--	--		
Taxes on international trade	1,573.3	1,644.3	1,920.3	1,906.6	1,800.0	2,640.0	3,040.0
Import duties	(1,573.3)	(1,644.3)	(1,920.3)	(1,906.6)	(1,800.0)		
Excise taxes	435.1	431.7	491.5	578.5	816.6		
Stamp taxes	(239.1)	(254.4)	(308.1)	(344.5)	(380.0)		
Other	(196.0)	(177.5)	(182.4)	(234.0)	(436.6)		
Total Government nontax revenue	2,070.6	2,600.4	2,829.7	2,740.2	3,019.7	3,604.0	4,002.0
Deferred profits	1,537.7	2,045.5	2,074.8	1,943.5	2,021.4	2,834.0	2,452.0
of which: Oil sector and Suez Canal	(1,330.2)	(1,212.0)	(1,350.9)	(1,162.3)	(1,217.5)		
Others	127.2	185.7	162.9	182.2	206.4	260.0	372.0
Miscellaneous	309.9	392.2	591.0	614.5	791.9		
Total Central Government revenue	6,593.0	7,800.8	8,596.8	8,662.8	10,003.8	12,730.0	15,022.0

Source: IMF Article IV Consultations, Recent Economic Developments, 1986  
 \*Under 1985 mid-year projections with some update  
 \*\*Estimated  
 \*\*\*Projected  
 \*\*\*\*Probably includes Taxes on Property

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TABLE II

Egypt: Central Government Revenue, 1981/82 - 1985/86 1/					
deflated by CPI					
	1981/82	1982/83	1983/84	1984/85	1985/86
CPI 1966/67 = 100.1	307.0	356.0	419.0	501.3	560.8
(in 1966/67 millions of Egyptian Pounds)					
Central Government tax revenue	14.731	14.608	12.800	11.814	12.454
Taxes on net income and profits	5.418	5.385	3.902	3.945	4.824
Company profit tax	(5.139)	(5.074)	(3.594)	(3.591)	(4.284)
of which: oil sector and					
Suez Canal	(2.291)	(2.452)	(1.221)	(1.166)	(1.230)
Personal Income Tax	(0.279)	(0.311)	(0.307)	(0.354)	(0.541)
Taxes on property	0.124	0.033	0.034	0.032	0.021
Estate taxes	(0.027)	(0.033)	(0.034)	(0.032)	(0.021)
Taxes on immovable property	(0.097)	0.000	0.000	0.000	0.000
Taxes on goods and services	2.647	3.358	3.108	2.880	2.942
Consumption tax	(2.647)	(3.358)	(3.108)	(2.880)	(2.942)
of which: imports	0.000	(0.825)	(0.816)	0.000	0.000
Taxes on international trade	5.125	4.619	4.583	3.803	3.210
Import duties	(5.125)	(4.619)	(4.583)	(3.803)	(3.210)
Other taxes	1.417	1.213	1.173	1.154	1.456
Stamp taxes	(0.779)	(0.715)	(0.735)	(0.687)	(0.678)
Other	(0.638)	(0.498)	(0.438)	(0.467)	(0.779)
Central Government nontax revenue	6.745	7.313	6.753	5.466	5.385
Transferred profits	5.321	5.746	4.952	3.877	3.604
of which: Oil sector and					
Suez Canal	(4.333)	(3.404)	(3.224)	(2.319)	(2.171)
Fees	0.414	0.465	0.391	0.363	0.368
Miscellaneous	1.009	1.102	1.411	1.226	1.412
Total Central Government revenue	21.476	21.921	19.553	17.281	17.838

TABLE III

Egypt: Central Government Revenue, 1982/83 - 1985/86  
percent change over previous year

	1982/83	1983/84	1984/85	1985/86	1982/83	1983/84	1984/85	1985/86
	nominal				real			
Central Government tax revenue	15.0%	3.1%	10.4%	17.9%	-0.8%	-12.4%	-7.7%	5.4%
Taxes on net income and profits	15.3%	-14.7%	21.0%	36.8%	-0.6%	-27.6%	1.1%	22.3%
Company profit tax	14.5%	-16.6%	19.5%	33.4%	-1.3%	-29.2%	-0.1%	19.3%
of which: oil sector and Suez Canal	24.1%	-41.4%	14.2%	18.0%	7.0%	-50.2%	-4.5%	5.5%
Personal Income Tax	29.6%	16.2%	37.7%	70.9%	11.8%	-1.2%	15.1%	52.8%
Taxes on property	-69.1%	22.0%	11.1%	-25.0%	-73.4%	3.7%	-7.1%	-33.0%
Estate taxes	40.5%	22.0%	11.1%	-25.0%	21.1%	3.7%	-7.1%	-33.0%
Taxes on immovable property								
Taxes on goods and services	47.1%	8.9%	10.9%	14.3%	26.9%	-7.5%	-7.3%	2.2%
Consumption tax	47.1%	8.9%	10.9%	14.3%	26.9%	-7.5%	-7.3%	2.2%
of which: imports		16.3%	-100.0%			-1.2%	-100.0%	
Taxes on international trade	4.5%	16.8%	-0.7%	-5.6%	-9.9%	-0.8%	-17.0%	-15.6%
Import duties	4.5%	16.8%	-0.7%	-5.6%	-9.9%	-0.8%	-17.0%	-15.6%
Other taxes	-0.8%	13.9%	17.7%	41.2%	-14.4%	-3.3%	-1.6%	26.2%
Stamp taxes	6.4%	21.1%	11.8%	10.3%	-8.2%	2.9%	-6.5%	-1.4%
Other	-9.5%	3.4%	27.6%	86.6%	-22.0%	-12.1%	6.6%	66.8%
Central Government nontax revenue	25.7%	8.7%	-3.2%	10.2%	8.4%	-7.7%	-19.1%	-1.5%
Transferred profits	25.2%	1.4%	-6.3%	4.0%	8.0%	-13.8%	-21.7%	-7.0%
of which: Oil sector and Suez Canal	-8.9%	11.5%	-14.0%	4.7%	-21.4%	-5.3%	-28.1%	-6.4%
Fees	30.3%	-1.1%	11.2%	13.3%	12.3%	-16.0%	-7.1%	1.3%
Miscellaneous	26.6%	50.7%	4.0%	28.9%	9.1%	28.0%	-13.1%	15.2%
Total Central Government revenue	18.4%	5.0%	5.7%	15.5%	2.1%	-10.8%	-11.6%	3.2%

TABLE IV

Egypt: Central Government Revenue, 1981/82 - 1985/86 1/					
as percentage of GNP					
NP	1981/82	1982/83	1983/84	1984/85	1985/86
	20,290	24,802	27,886	32,516	36,039
Central Government tax revenue	22.3%	21.0%	19.2%	18.2%	19.4%
Taxes on net income and profits	8.2%	7.7%	5.9%	6.1%	7.5%
Company profit tax	7.8%	7.3%	5.4%	5.5%	6.7%
of which: oil sector and Suez Canal	3.5%	3.5%	1.8%	1.8%	1.9%
Personal Income Tax	0.4%	0.4%	0.5%	0.5%	0.8%
Taxes on property	0.2%	.0%	0.1%	.0%	.0%
Estate taxes	.0%	.0%	0.1%	.0%	.0%
Taxes on immovable property	0.1%	0.0%	0.0%	0.0%	0.0%
Taxes on goods and services	4.0%	4.8%	4.7%	4.4%	4.6%
Consumption tax	4.0%	4.8%	4.7%	4.4%	4.6%
of which: imports	0.0%	1.2%	1.2%	0.0%	0.0%
Taxes on international trade	7.8%	6.6%	6.9%	5.9%	5.0%
Import duties	7.8%	6.6%	6.9%	5.9%	5.0%
Other taxes	2.1%	1.7%	1.8%	1.8%	2.3%
Stamp taxes	1.2%	1.0%	1.1%	1.1%	1.1%
Other	1.0%	0.7%	0.7%	0.7%	1.2%
Central Government nontax revenue	10.2%	10.5%	10.1%	8.4%	8.4%
Transferred profits	8.1%	8.2%	7.4%	6.0%	5.6%
of which: Oil sector and Suez Canal	6.6%	4.9%	4.8%	3.6%	3.4%
Fees	0.6%	0.7%	0.6%	0.6%	0.6%
Miscellaneous	1.5%	1.6%	2.1%	1.9%	2.2%
Total Central Government revenue	32.5%	31.5%	29.4%	26.6%	27.8%

TABLE V

Egypt: Central Government Revenue, 1981/82 - 1985/86 1/  
as percentage of total revenue

	1981/82	1982/83	1983/84	1984/85	1985/86
Central Government tax revenue	69%	67%	65%	68%	70%
Taxes on net income and profits	25%	25%	20%	23%	27%
Company profit tax	24%	23%	19%	23%	-24%
of which: oil sector and Suez Canal	11%	11%	-6%	-7%	-7%
Personal Income Tax	1%	1%	-2%	-2%	-3%
Taxes on property	1%	0%	0%	0%	0%
Estate taxes	0%	0%	0%	0%	0%
Taxes on immovable property	0%	0%	0%	0%	0%
Taxes on goods and services	12%	15%	16%	17%	16%
Consumption tax	12%	15%	16%	17%	16%
of which: imports	0%	4%	4%	0%	0%
Taxes on international trade	24%	21%	23%	22%	18%
Import duties	24%	21%	23%	22%	18%
Other taxes	7%	6%	6%	7%	8%
Stamp taxes	4%	3%	4%	4%	4%
Other	3%	2%	2%	3%	4%
Central Government nontax revenue	31%	33%	35%	32%	30%
Transferred profits	25%	26%	25%	22%	20%
of which: Oil sector and Suez Canal	20%	16%	16%	13%	12%
Fees	2%	2%	2%	2%	2%
Miscellaneous	5%	5%	7%	7%	8%
Total Central Government revenue	100%	100%	100%	100%	100%

SOCIAL SOUNDNESS ANALYSIS1. Social Considerations

The payment of taxes is never a desired feature of life in any society. Research in developed countries shows that there is fundamental divergence between the demand for public goods and society's willingness to pay for them. Consequently, efforts to improve the efficiency of taxes are generally not welcomed by the taxpayers. However, in a society such as Egypt, with wide disparities in tax assessment and collection, efforts to improve equity in the incidence of taxation are valued by those groups who are paying more than they should.

Egyptian preoccupation with tax avoidance results from the legacy of inequity in rates and assessments. There are a number of contributing factors. First, the variety and progressiveness of the current tax rates on income could be considered intrinsically inequitable. Tax avoidance is particularly important for those individuals and firms at the upper income levels.

Second, the complexity of the system results in great confusion even if both the tax department and the taxpayer are seriously trying to follow the rules. The third reason for tax avoidance is the belief that one must do it because everyone else is doing it. The taxation policy component of the project, supported by the technical advisers in the operational component areas, will directly work to assist the GOE to rationalize its taxation system with its current inequities in taxation rates and assessments.

The project has several important socio-economic long-term effects. First, the efficiency and competitiveness of the private sector should improve as the tax distortions are reduced. The project has a private sector orientation in its equity consideration. Concerning tax questions, the priority given by Egyptian private sector enterprises interested in expansion of operations is equal income, customs and excise taxation policies and procedures. The improvement of the competitive environment of the market and encouragement of expansion of private sector enterprise is important in terms of service and employment. Private sector enterprise has been shown to be the most efficient utilizers of resources; the most productive employment generator per investment dollar; and the most willing to provide the public with better goods and services at the most competitive prices. Therefore, efforts to improve the investment climate through tax efficiency and equitable treatment will result in important benefits to Egyptians.

Second, popular interest in controlling government fiscal behavior should increase as the real costs of current government programs become clarified by the individual's tax bill. If public awareness rises and translates into restraints on government expenditure programs, an environment more conducive to private sector provision of goods and services will emerge. While a dramatic taxpayers' revolt such as has happened in a number of U.S. states is

not expected in Egypt, heightened and visible public interest in controlling expenditures and reducing taxes could occur. Finally, with improved public finance administrative systems the GOE will be better able to manage the nation's revenue and expenditures with increased accuracy and efficiency.

## 2. Beneficiary Analysis

The beneficiaries of the project are the private sector and the public at large. The project's inputs will also benefit the staff of the various tax departments of the GOE Ministry of Finance. The Income Tax Department has approximately 19,000 employees; the Customs Department 13,000; the Excise Tax Department 4000; and the Real Estate Tax Department 7000. Through the training, advisory services and MIS equipment, the performance of all of these officials will be improved. With the institution of improved tax law and policy, simplified procedures and more appropriate administrative structures, the tax departments' overall performance and service to the public will be improved.

## 3. The Role of Women

The GOE does not discriminate in appointing women to important technical and managerial positions such as the Minister of Finance's senior advisor/assistants. The effort to train women to assume technical positions, started under the Tax Administration Project (263-0115), will continue. Women will especially take an active role in the expansion of ADP services in the Ministry.

ENVIRONMENTAL ANALYSIS

The project provides resources of a technical advisory nature aimed at developing efficient and equitable tax departments in the Ministry of Finance. There are no environmental considerations in the activities to be financed since the primary concern of the project is the upgrading of public finance administration systems through improving managerial and technical capabilities of institutions. Accordingly, the project qualifies for a categorical exclusion under AID Environmental Procedures from performing an Initial Environmental Examination, an Environmental Assessment, and an Environmental Impact Statement. 22 CFR 216.2 (c) (2) (i) excludes "technical assistance" projects except to the extent that such projects directly affect the environment.

The Mission Environmental Officer has reviewed the Project Paper and concurs with the decision that this project qualifies for a categorical exclusion.