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Report R - 15,

Afghanistan Project
Financial Administration Improvement
(Revenue) AID/nesa-548

Final Report

CM/ROD/NE-ASIA, Mercer W. Crafford 3/26/76

NE/TECH, William J. Richter

Public Administration Service, AID/nesa-548

I have reviewed the final report submitted by the Public Administration Service under the subject contract and find it to be comprehensive, well prepared and wholly acceptable.

cc: Gladys Frazier, NE/NENA

29 February 1976

Mr. Vincent Brown, Director
U.S. Agency for International Development
Kabul, Afghanistan

Dear Mr. Brown:

Public Administration Service takes pleasure in submitting the final report of the Financial Improvement (Revenue) Project in Afghanistan. The project began September 1, 1971 and was completed December 31, 1975.

PAS considers it a privilege to have been able to continue our program of service to the Ministry of Finance of the Government of Afghanistan. This project has been a particular source of satisfaction because it has offered a unique opportunity for evaluation of effectiveness in quantifiable terms, the collection of revenues. We believe that the evaluation, even though necessarily incomplete at this time, demonstrates the effectiveness of the project. It is for this reason that the final report has discussed in detail the activities of the project and the methods by which the project goals have been obtained.

Yours very truly,

Julian Orr

Julian H. Orr
Principal Associate and
Chief of Party

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INTRODUCTION

Improved management of public affairs in order to accomplish development objectives is an essential need in all developing countries. Management ability is one of the most fundamental and essential human resources. Throughout history, the ability to manage human and physical resources to achieve large and complex goals has been the mark of success in human affairs. Whether the goal is to irrigate a desert, distribute food to the famine stricken, educate the masses, or to provide them with the incentive and the means to control family size, the missing ingredient, the absence of which causes these well-intentioned efforts to fail, is most frequently identified as management ability.

In developing countries, the programs that have been described are largely, if not entirely, public programs. Therefore, the management we are discussing is public management, which is simply another term for public administration.

Can technical assistance projects improve public administration in a developing country? To improve is to modify performance in a way so that it becomes relatively better. To install a governmental accounting system or a budget system in a primitive society rarely achieves a complete degree of success. It is only fair to point out, however, that there are also many governmental jurisdictions in the USA and other developed countries that have failed to achieve complete success in these areas. In a developing country, however, if at the completion of such a project there has been significant improvement in ability to account for and report income and expense, or to budget scarce resources among competing needs, then the project has succeeded in developing an essential human resource, an improved ability to manage these financial complexities.

Unfortunately, the judgment of success is usually a subjective one. In such projects, it is generally difficult to demonstrate objectively or quantitatively that an improvement has taken place.

The techniques in improving any particular phase of management are the familiar ones. The objectives of management are defined. The resources for achieving the objectives are identified. A logical system for using those resources is developed and committed to writing in the form of laws, regulations, manuals, or standard instructions and procedures. The persons who must administer the new system are trained in its use and application, and as a follow-up to the training, they should be directly assisted in the early stages of application.

It is a rare management project that has available to it objective and quantifiable measurements of the degree to which the kind of techniques just described have succeeded in achieving the project goals. A recently completed project to improve revenue collections in Afghanistan, one of the least advanced of the developing nations, offers an unusual opportunity to judge whether these techniques for improving management really work. The purpose of the project was simple - to assist the Government of Afghanistan to increase its collections from existing taxes through improvements in administration. The causal relationship between project activities and increases in collections of specific taxes can be reasonably well established. If measurements of increased revenue indicate that the techniques employed on the project have improved the abilities of the Afghan officials to administer their tax system, it is reasonable to conclude that similar techniques can be successful in other public administration areas where the effects are not so easily quantified.

Unfortunately, the project was terminated before the conclusion of the training program, so that a complete and final evaluation could not be made. Nevertheless, during the more than four years that the project continued, there were sufficient increases in revenue that could be ascribed to the project to support a judgment that it had been successful.

This report is intended to outline the methodology of the project and to identify both the problems that it faced and the factors contributing to its success.

Afghanistan, Its Government and Its Tax Structure

Afghanistan is one of the least advanced of the developing countries. A recent study of 102 developing countries published by USAID ranked Afghanistan in 86th position with an estimated per capita GNP of $90. There is no reliable figure as to population and estimates range from 10 million to 18 million. The literacy rate is less than 10 percent. For its population, the country is relatively large, 264,000 square miles, or about the same size as Texas. It is primarily an agricultural country, but much of its area is barren mountain or desert and only about 8 percent of the area is cultivated.

When the revenue project began in 1971, the government was a constitutional monarchy established under a constitution adopted in 1965. However, in 1973, there was a change to the present republican form of government and the monarchy was abolished as well as the parliament. Since that time, the government has been headed by Mohammed Daoud, President and Prime Minister, assisted by a Council of Ministers. Under the new government, laws are issued by the Council of Ministers and the President.

The Ministry of Finance is a major instrument of government with responsibility for treasury, budget, accounting, customs administration, tax collections, and other functions. The country is divided into 26 provinces which are administrative sub-divisions of the central government. In each province, there is a Mustofi who is the chief financial officer and is responsible to the Ministry of Finance. He is also responsible to the governor of the province and is second in authority to the governor. Almost all taxes are assessed and collected by the provincial finance offices (Mustofiats).

The government has traditionally relied primarily upon customs duties and various forms of taxes upon imports and exports for its revenues.

The following table shows a summary of the domestic revenues (excluding loans and grants) for the year of 1349 (1970-71), the year before the project began, and 1353 (1974-75), the last completed fiscal year. Figures are millions of Afghanis. (U.S. $1 = Afs. 57)

	1349	%	1353	%
Direct Taxes	469	8	1,022	10
Customs House Revenues	2,351	41	4,272	42
Other Domestic Revenue	2,899	51	4,955	48
Total Domestic Revenues	5,719	100	10,249	100

(The current rate of exchange is U.S. $1 equals Afs. 57)

Direct taxes include the land tax, corporate income tax, business transactions tax (a flat gross receipts tax on incorporated business), registration taxes on vehicles, and taxes on individual income. Schedular taxes on income include a tax on shopkeepers based upon the rental paid, a tax on contractors based upon contract amounts, a tax on persons engaged in the transport business based upon the number and size of vehicles, a tax on operators of cinemas and theaters based upon gross admissions, and a one percent tax on the sale value of real estate transferred. All of these schedular taxes are in lieu of other taxes upon that income.

In addition, there is provision in the law for filing of returns by individuals. The intent is that all persons subject to the law will file returns reporting all of their taxable income. The tax is progressive and generous family exemptions are allowed.

In practice to date, very few persons have filed returns reporting their income and have paid a tax based upon those returns. Among those who have been forced to file are the licensed traders, who cannot obtain their import-export licenses until they have paid their taxes, and foreigners who are unable to get a visa to leave the country until they have paid their taxes. Taxes are collected by withholding from the relatively small number of government employees whose salaries are high enough to exceed their personal exemptions, by withholding at the source from dividend payments by corporations, and by withholding from rents paid by the government. In these instances, however, the returns submitted by these persons have generally reported only the income already known to the government.

The most important exclusion from income for tax purposes is income from agriculture, including rental income from agricultural land. It has been estimated that 85 percent of the population is directly engaged in and supported by agriculture. Their income from agriculture is almost completely tax free. The land tax, which applies only to agricultural land, is extremely small, amounting to about one percent of all domestic revenues and little more than one-tenth of one percent of gross agricultural income. Until 1344 (1965-66), there was also a per capita livestock tax which produced about 10 percent more income than the land tax. It was abolished in that year, however, and although there have been numerous proposals to reinstate it, the government has apparently been unwilling to do so.

Project Background

The history of developments leading up to this project extends over a period of 14 years. In 1957, Public Administration Service (PAS) was awarded a contract by the International Cooperation Administration (USA) to provide technical assistance to the Ministry of Finance of Afghanistan. The project then and during subsequent years and subsequent contracts involved assistance in a number of fields including accounting, budgeting, supply management, customs administration, and cadastral survey. During most of this period, the contract also provided for advice and assistance in revenue administration.

In 1956, one year before the beginning of the first PAS contract, the Government of Afghanistan approved its first five-year plan. The financial section of the plan emphasized the need to increase revenue from direct taxation and proposed higher rates for the schedular taxes on income that then existed. The first task of the revenue advisor when he appeared on the scene in 1957 was to draft a comprehensive income tax law.

In the next five years, the proposed income tax law went through six drafts as a succession of committees reviewed and revised the proposed law. In 1963, it appeared that the law would have a greater chance of acceptance if it were revised in style to conform with other Afghan legislation and modified in content to incorporate existing schedular taxes as an alternative to taxes on declared income. The advisor who ultimately succeeded in developing an acceptable law has stated that the USAID objective was the enactment of a progressive global income tax law while the main purpose of the Afghans was the incorporation of their existing taxes and a workable income tax in a general tax law. The law as approved attempted to include both objectives.

The new law was enacted in 1965, and the PAS advisor began work on a manual that would incorporate tax regulations, explanations of the law and regulations, and examples of their application. While this manual was in preparation, the Ministry decided that a number of changes in the law would be desirable and directed that the manual should be based upon the proposed amendments in anticipation of their adoption. The parliament, however, failed to act upon the proposed amendments. Nevertheless, the manual was duplicated and widely distributed by the Ministry to its tax offices even though it had not been officially approved and in many places was at variance with the existing law.

From October 1968 to August 1970, the project did not include a full-time revenue advisor, although the advisor who had been successful in producing an acceptable income tax law was able to return for two brief periods, one of two months and one of four.

The same advisor returned to the project in August 1970 and undertook a complete revision of the manual to bring it into accord with the law. During the following year, it was decided by USAID to make an all-out effort to improve tax administration to enable the Government to increase its domestic revenues. As the project developed, it was designed to provide a team of four advisors: Party Chief, Revenue Administration Advisor, Tax Enforcement Advisor, and Training Advisor.

Although the Ministry of Finance and the USAID Mission in Kabul made strong representations to USAID Washington in favor of continuing with PAS as contractor, it was decided by Washington to take bids from a number of contractors for the project. Nevertheless, after a delay of several months, PAS was selected as the contractor for the new project, and the team of advisors began work in September 1971.

Initiation of Project

Two of the four advisors selected to staff the project had previous experience as members of the PAS team in Afghanistan. The Revenue Administration Advisor had served in a similar capacity for 28 months in 1963-65 and had been responsible for preparing the final draft of the income tax law. He had returned to Kabul twice for two periods of TDY totalling five months to work on the income tax manual. For a year prior to the beginning of the project, he had been serving officially as supervisor of the cadastral survey/land inventory project but had actually been devoting a large part of his time to revenue matters and the writing of the income tax manual.

The Chief of Party had served in Afghanistan in the same capacity for 34 months in 1962-64.

Both of the other members of the team, the Tax Enforcement Advisor and the Training Advisor had had extensive experience on overseas projects, but not in Afghanistan. The project officially began on August 1, 1971, and by the end of September all four members of the team were at work in Kabul.

The first step in the project was the development of a work plan which was completed and had received the approval of the Minister of Finance by the end of November 1971. In simplified form, the work plan established the following tasks and dates for completion:

Develop improved system for recording and reporting revenue collections	1/31/72
Complete the revision of the income tax manual	3/31/72
Complete field training in improved system of recording and reporting	10/31/72
Prepare recommended system for referral of substantive questions to the Tax Board and for codification and dissemination of Board decisions	12/31/72
Identification of existing taxes and field examination of collection practices	12/31/72
Prepare recommended systems for administrative review of tax appeals	6/30/73
Develop comprehensive systems for enforcement and collection of all taxes	9/30/73
Complete field training in new systems	3/31/75

In reviewing the progress of the project, a choice must be made between a chronological account of the entire project or an account of the developments related to each of the major tasks. The second approach has been chosen.

Income Tax Manual

It has been mentioned above that the preparation of a manual to include tax regulations as well as explanations and examples of application of the new income tax law was begun shortly after the enactment of the new law in 1965. The manual was based upon the law as it was proposed to be amended and was duplicated and distributed within the Ministry and its tax offices even though it was at variance with the existing law. Nevertheless, in many tax offices the manual was the only source of information and was frequently referred to by tax officials. The disparities between the manual and the law as published in the official gazette became the subject of many letters, disputes, and general confusion.

Before the beginning of this project in August 1971, the manual had been revised to conform to the law and had been translated. The Ministry had appointed a three-man committee to work with the Revenue Administration Advisor and the translator to be sure that the language was suitable and clear. There were many difficulties in the translation of the manual due both to lack of understanding of the English text and inadequate Dari (Afghan Persian) vocabulary for translation of many of the technical terms. The committee reviewed the text word by word and spent many hours searching for language adequate to convey the meaning. At the end of the first three months of the project, three of the twelve chapters had been reviewed.

The length of time that would be required for this review of the Dari version of the manual had not been anticipated. The English version of the manual contained 249 pages while the Dari version had 279 pages. The use of a committee for the review process was inherently time consuming. All of the members of the committee had other duties, and it was difficult to convene them for sufficient periods of time or with sufficient frequency. However, previous experience had proven that complex and lengthy drafts of material had little chance of acceptance by higher authorities on the basis of translation of the English draft by a professional translator. Only when they could be assured that the material had been reviewed in complete detail, actually word by work, by a committee of officials in whom they had confidence, would the top level officials give their approval. It was not until January 1973 that the working committee finally completed its review. The duplication of the final version in both English and Dari was time consuming, and it was not until April 1973 that the Income Tax Manual was submitted to the Minister for official approval.

The Minister decided that the manual should be reviewed again in detail by the Tax Board but directed that body to meet frequently and in long sessions to accomplish the task. The Minister personally chaired many of these meetings and the manual was approved by the Tax Board within a month. The second review by the Minister and the Tax Board paid off when the manual was submitted to the Cabinet, for approval was immediately given on the day of its submission.

A number of stencils required changes as a result of the review by the Tax Board, and it was necessary to incorporate these changes in the final version. Before this could be done, the coup of July 17, 1973, occurred and the new republican government was in power. Nevertheless, as soon as the final copies had been duplicated, the Ministry proceeded to distribute them to all tax offices with instructions to adhere to the manual in all tax decisions. For the first time, the tax offices of the Ministry had available to them an accurate statement of the law and related regulations together with detailed explanations and examples.

Subsequent to the issuance of the manual, the Ministry decided to have it officially approved by the new government. This was done by decree on March 9, 1974. At that time, there was a radio broadcast describing the new manual and stressing its significance for improving revenue collection for the government's development programs.

Systems Development

It was recognized at the outset of the project that the development of improved systems for the enforcement and collection of the various kinds of taxes would be a lengthy process.

The required steps were to:

- Identify existing taxes
- Conduct field examination of current practices
- Identify weaknesses and develop improved methods
- Prepare written procedures and instructions for new systems of collection and enforcement
- Secure formal approval of new systems by the Ministry
- Train tax collection employees in the new systems
- Provide follow-up assistance in implementation

Because of the amount of time that would be required for this process, it was decided to give first attention to the system for recording and reporting collections. There were several reasons for this decision. First, a system of accounting for revenues had been promulgated by the Ministry in 1965; the system was basically sound, but there had been no training and little implementation. Second, revenue administration cannot be effective without adequate, timely, and accurate information about collections. Third, the program of training could begin quickly and would provide good experience for the training office.

A relatively brief period of field investigation revealed that the revenue accounting system issued by the Ministry had not been implemented. While the system was basically sound, it appeared that chances for successful implementation could be improved by some minor modifications in the system and by the preparation of more detailed instructions. A report containing these recommendations was submitted to the Ministry in January 1972. While it was undergoing review, detailed new procedures and instructions were prepared. These had been completed by the time the report was accepted in April 1972. The detailed system was explained to Ministry officials on July 1 and approval obtained for beginning the training and implementation.

During the period when the revised system was in preparation, the Ministry was persuaded to assign four officials to work with the advisors in drafting the procedures and in their translation. It was planned to use this "operations and methods" group to provide follow-up assistance in implementation of the new system after the training had been conducted.

An important part of the improved system was the use of a number of standardized forms. In August, the Ministry accepted the recommendation that these standard forms should be purchased by the Ministry and distributed free of charge to the provincial tax offices. At the time the decision was hailed as a major breakthrough. Although the Ministry had from time to time made some standard forms available to its provincial offices, it had always required payment. Because the provincial finance offices rarely had sufficient funds to cover such payment, most provinces used forms drawn by hand or printed by local printers. This practice obviously soon led to lack of standardization. A requisition for printing the required forms was prepared for the Ministry in August. At the same time, the trainers from the new training office began to receive instruction in the new system to prepare them for giving the field training.

The first classes in the application of the new system for recording and reporting revenue collections were held in December 1972 in Kabul. Field training of provincial personnel on a full scale began in February 1973 and continued until the end of the year.

After the training was completed in a province, a member of the "O+M" team would make a visit to assist in the installation of the new system. It was frequently found that although the instruction had been understood, no actual changeover to the new system would occur until the province received the additional impetus provided by this visit. The effectiveness of the program of training and installation for the improved system of recording and reporting revenue collections will be discussed below in the section on evaluation.

While the training described above was being carried out, the preparation of standard instructions for the assessment and collection of taxes was begun.

The following list shows the taxes for which instructions were prepared and approved and the training cycle in which each tax was included.

	Instructions Completed	Approved by Ministry	Training 1974-75	Conducted 1975-76
Cinema Tax	6/73	7/73	x	
Shopkeepers Tax	2/74	3/74	x	
1% Transfer Tax	11/73	2/74	x	
Tax on Contractors	7/73	1/74	x	
Tax on Rents Paid by Government	9/73	2/74	x	
Tax on Transportation	8/73	2/74	x	
Sale of Priced Documents	11/73	3/74	x	
Tax on Consumer Goods	5/74	5/74	x	
Road Use Tax	5/74	5/74	x	
Tax on Licensed Merchants	7/74	10/74		x
Individual Income Tax Returns	6/74	10/74		x
Corporate Income Tax	6/74	8/74		x
Withholding Tax from Salaries	8/73	3/74		x
Withholding Tax from Dividends	8/73	3/74		x

Standard instructions were finally approved for fourteen different taxes. The property tax was not included because there was no decision by the Ministry to modify the traditional system although the intent to do so was restated annually. A standard instruction for collecting delinquent revenue was prepared and submitted. During the review by the Ministry, however, all proposed changes were eliminated and the instructions as approved were merely a restatement of current practice. Instructions were prepared for improvements in collection of road tolls and for the collection of the exit tax at the land borders, but the extent of their application could not be determined. An attempt was made to prepare instructions for the stamp (sokuk) tax, but there appeared to be no legal authority for the tax and it was impossible to develop standard instructions without it. A proposed law for the imposition of fines and penalties for all types of taxes was prepared and submitted but not acted upon. In the absence of a legal basis, no instructions for collection could be prepared.

Training Program

Training was recognized as an essential part of the project from its inception. It was hoped that the conduct of an extensive training program would institutionalize the training process. Earlier projects in the Ministry of Finance had attempted to achieve this goal, but without lasting success. A training office had been created in 1963, but it failed to extend its activities beyond English language training and some typing classes and the office no longer existed at the time this project began.

In the first discussion of the project work plan with the Ministry, it was decided that a training office should be established to serve the entire Ministry and not just the Revenue Department. It was agreed that approximately six officials would be assigned as trainers and that office space and classrooms would be provided.

The decision to give first attention to the system for recording and reporting revenue collections was partly based upon the desire to find an area where training activities could begin at an early date.

The Ministry in January 1972, selected as the director of the training office the same individual who had held that position eight years before. He had been sent to the USA as a participant trainee in 1965 for a program in the conduct of in-service training operations but upon his return he had been assigned to other duties. Also in January, the Ministry agreed to assign six officials as trainers.

Unfortunately, there was no budget authorization for a training office and staff. As a consequence, all the persons assigned to that function were actually on loan from other offices of the Ministry. Their loss was resented by their supervisors, and this method of staffing was a cause of conflict and difficulty until it was finally resolved in 1974 when the office was officially established in the budget.

It was not until June 1972 that the trainers, seven in number, actually reported to the training office and began to receive their basic training. After about one month, they began to receive instruction in the new system for recording and reporting revenue collections.

It had been hoped that the trainers, with guidance and assistance, would be able to prepare lesson plans and training materials. After several weeks of effort, it appeared that this was expecting too much of them and the training advisor, with the participation of some of the O+M team, had to take over this task. The initiation of training was delayed in any event by the delay in obtaining the printed forms, and it was not until December that the first classes were held in Kabul.

During this period, the director of the training office was transferred to another post and was replaced. The new director had no previous experience in training activities but was diligent and cooperative.

The training in the provinces began in February 1973 and continued for the rest of the year. There were interruptions at the end of the fiscal year and for the holy month of Ramazan. In all, 823 employees received 4 - 5 days of instruction in groups of about 15 each. Two instructors were used for each class and three classes ran concurrently.

Because of the problems of finding suitable classroom facilities and accommodations for the officials, it was necessary to hold the classes in the larger provincial centers and to have the officials from the neighboring smaller provinces travel to the centers. Several classes were required at each location. This permitted the officials to attend on a staggered basis that avoided having to close down the operations of the revenue offices.

By May 1973, the training staff had lost three of its seven members, but the Minister then assigned four more trainers to bring the total up to eight. The four new trainers were paired with the experienced men, and the training classes were continued by four two-man teams.

Other personnel problems arose because the trainers were officials of relatively low rank with low pay and minimum subsistence allowances while in the field. They were required to work much harder than many of their colleagues and to be away from their families for weeks at a time. These problems were presented to the Minister, who authorized them to be paid an additional "counterpart" salary equal to their base pay and to be reimbursed for the cost of hotel rooms. This resolved the problem at the time, but after the change of government in July 1973, the authority to pay counterpart pay was rescinded. In the aftermath of the coup, however, the trainers accepted the decision without further protest.

The original project agreement had stated that the host government would provide vehicles for transporting trainers and their supplies. When the time came that the vehicles were needed, the Ministry stated that it was unable to provide vehicles and requested the USAID Mission to provide transportation for the teams, which it did.

Personnel problems continued. By the time the training was concluded in December, only five trainers were left. Others had been transferred or recalled to their regular assignments and by June 1974, only one trainer remained. In that month, however, a new director was appointed who seemed to have the full confidence of the Minister. Within a very short time, the number of trainers had been increased to nine, three of whom had been trainers in the previous year's program. Because the office had by now been established in the budget, the new men could be officially appointed to their positions as trainers, and this greatly reduced the problems that had previously interfered with the training program.

It had originally been thought that the standard instructions for all of the taxes would, together with the income tax manual, be incorporated in the next phase of the training program. However, when it appeared that a course designed to cover that much material would be about six weeks in length, it was decided to divide the remaining training in two phases. It was believed that such a long course would be difficult for both trainers and trainees. Also, it was recognized that the administrative problems of taking revenue officials away from their jobs for such an extended period would be severe. The slowness with which the Ministry moved to review and approve the instructions was an additional factor that forced the revision in the work plan.

The new trainers were given six weeks of training in their new duties and in the material to be presented in the training course. The material to be covered consisted of standard instructions for the assessment and collection of nine different kinds of fixed taxes, including a tax on consumer goods that was being imposed for the first time.

In August 1974, a special three-week class was given in Kabul to 17 officials from 12 of the larger provinces. It had been planned to use eight trainers, each teamed with one of the people who attended this three-week course, to conduct eight classes simultaneously in different locations about the country. The classes were to be kept at the same size as the previous year, approximately 13 - 15 trainees. Since there were about 400 officials to be trained, it was estimated that four two-week training sessions would be sufficient to cover the material.

The three-week training class provided an opportunity to observe the new trainers. The class ended just before the beginning of the holy month of Ramazan. Previous experience had shown that during this month, which is observed by total fasting from dawn to dusk, no training can be done. Before beginning the program after the conclusion of Ramazan, the training director expressed his conviction that the training would not be successful if the eight trainers were used separately, each teamed with one of the provincial officials who had attended the three-week class. He believed that some of the new men were too inexperienced to be sent out the the provinces alone. He proposed that four teams of two trainers should be used with classes twice as large as originally planned. This would accomplish the program in the same amount of time. The material to be covered was largely to be presented in lecture form, and there was much less class participation in preparing sample forms and sample entries than in the previous year.

When the program got under way in November, it appeared that his judgment was sound. Some of the new men were clearly not ready to handle classes on their own and the larger classes - most of them were in the 28 - 30 range - were in fact found to be quite suitable for the material that was being presented. Because of official holidays and problems of scheduling, the program was not completed until January 1975. The training was given to 371 provincial revenue officials.

As soon as this phase of the training program was completed, the trainers began their preparation for the next phase. The material to be covered in the final phase of training consisted of the standard instructions for the five remaining taxes and the Income Tax Manual. Because 11 out of the 12 chapters in the Income Tax Manual were devoted to these taxes, the amount of material to be covered was more complex and extensive than in the previous year. It was also planned to give a course on the Tax Audit Manual. The latter was intended to be used in training about 50 - 60 officials from the larger provinces and from the Ministry itself.

It had been estimated that approximately three months of preparation would be required for each of the tax audit manual and the tax instructions. Because of this, it had been thought unnecessary to prepare all of the trainers to give the training in the tax audit manual. The plan had been to use one trainer as a counterpart for the tax enforcement advisor, who had written the manual, in teaching a series of small classes in its use. It was estimated that each class would require about six weeks to cover the material.

The training director felt very strongly, however, that all of the trainers should be fully prepared in all of the material while the foreign advisors were on hand to give the instruction. Even though it appeared that this might delay the beginning of the field training until mid-summer, he obtained the support of the Ministry for this change in the work plan and in mid-February 1975, the instruction of the trainers began. The program of instruction called for two hours each morning on the Tax Audit Manual and two hours each afternoon on the Income Tax Manual and the remaining standard tax instructions. Following this schedule, the training in the Tax Audit Manual was completed by the end of May, after which the training instructors spent an additional three weeks observing the work of Ministry audit teams. The training in the income tax material was completed by July 1.

The first classes in the Tax Audit Manual began later in July. Two classes were organized, each on a half-time basis in order to minimize the interruption of work. One class was for twelve officials of the Tax Audit Division of the Revenue Department and the other was for eight officials from the Kabul Mustofiat. On the half-time basis, the classes continued for seven weeks.

The first class in the application of the standard tax instructions and the Income Tax Manual began early in August. This class was intended to provide practice teaching and all of the training instructors participated. There were twelve officials in the class from the Kabul Mustofiat. The class was completed in four weeks.

The holy month of Ramazan in 1975 was from September 6 to October 5. The classes in the Tax Audit Manual continued for part of this time on a limited basis while the field training in the Income Tax Manual and tax instructions was scheduled to begin after the Eid holiday following Ramazan.

It was hoped that four teams of two instructors each would be available for the field training. The transfer of two instructors reduced the number of teams to three. Consideration had also been given to a plan that would provide four weeks of training for the officials of the larger Mustofiats and a shorter course of two weeks for officials from the smaller provinces and the woleswalis. However, because of difficulties in scheduling and because of the Ministry's preference that all revenue officials receive the same training, the program was arranged to give four weeks of instruction to all provincial revenue employees, estimated to be about 375. On this basis, it was expected that the training would continue until late May or early June 1976.

The field training actually began in mid-October with teams in Mazar-e-Sharif, Herat, and Kabul. Two courses of four weeks each were conducted in each location and included the revenue officials of 14 provinces. These classes were completed in December just before the Eid holiday. After the holiday and just before the completion of the project, three teams went out to Kandahar, Kunduz, and Jalalabad to begin the classes for 11 additional provinces. These classes were also to consist of two four-week courses. At their conclusion, the only remaining province would be Kabul. The training program called for four classes to be held in Kabul from March to June.

Another class in the Tax Audit Manual began in mid-October. This class was also on a half-time basis and was conducted for three officials from the Tax Audit Division of the Revenue Department and seven from the Kabul Mustofiat. This class was completed by the end of November. As the project closed in December, another class had been authorized by the Deputy Minister to include tax audit officials from some of the larger outlying provinces.

Participant Training

When the project was initiated, it was decided to use it as a vehicle for a much expanded program of participant training in the USA and in Iran. The agreement called for ten participants to be sent each year to the USA for masters degrees in public administration and for two persons to be sent each year to Tehran where the use of a common language eliminates one of the serious difficulties in participant selection.

For the graduate level program in the USA, at the request of the Ministry, a preliminary English language screening test was prepared and administered to 46 officials of the Ministry in January 1972. The 20 officials who scored highest on this preliminary test were sent in February to the USIS English Language Training Center to be officially tested. In

March, nine persons began English language training at the Center. The project advisors also provided three hours of instruction each week in public administration vocabulary in order to better prepare the participants for their graduate level studies. In addition, two Peace Corps Volunteers, who were giving English classes in the Ministry, devised a course for three hours a week for orientation in American campus culture. Three of the nine candidates had sufficiently improved their English language ability to be called forward in September 1972, and five more were admitted to American universities in January 1973. Two of the eight developed emotional and physical problems and were returned to Afghanistan after a very short time. Of the remaining six, one completed his masters degree requirements by the spring of 1974, and was admitted to a special six-month program in tax administration at the University of Southern California. He and three others returned to the Ministry early in 1975, while the other two returned shortly thereafter.

In the fall of 1972, a similar process of selection was carried out and another nine candidates were selected for intensive English language training. Of these, three had sufficiently improved their English to be called forward in September 1973 and one was called forward in November. In December of that year, the Ministry withdrew the other five candidates from the program; after eleven months of full-time intensive English language training, they had not yet qualified to be called forward.

At the same time, in December 1973, the new Minister stated that there would be no additional nominations for graduate level training in the USA f the year 1974.

USAID was reluctant to authorize additional participant scholarships to begin in 1975 because of the scheduled completion of the project in December of that year. Finally, however, it was decided to offer five participant scholarships on the condition that the participants could become qualified to begin their studies before the end of February 1975. The Ministry submitted the names of 36 officials for the English language test in October 1974, but only three were found qualified. Two of these were nominated by the Ministry and departed in January 1975. Both of these participants were among the five who had been withdrawn from the program the year before.

In all, fouteen persons were sent to the USA to study for masters degrees in public administration. As mentioned above, two were returned after only a short stay. Of the balance, ten have successfully obtained their degrees and the other two are continuing their studies. Two have completed the six-month course in tax administration given by USC. Two of the participant candidates were women.

The ten who have returned to the Ministry of Finance after successfully obtaining their degrees have received the following assignments:

Revenue Department	-	Tax Audit Division	4
		Land Tax Division	1
Accounting Department	-	Systems and Procedures Office	1
		Counterpart to Indian Advisors	2
Treasury Department	-		1
Customs Department	-	Kandahar Customs House	1

The development of a program for training in Iran took almost two years. It was decided that the major emphasis should be on auditing and that on-the-job training would be more productive than academic study. The training advisor visited Tehran in February 1973 and arranged with several chartered accounting firms to accept officials from the Ministry as trainees. The training was to extend for two years and was to be primarily on-the-job with some part-time academic work. The firms agreed to give the Afghan officials the same training afforded their own regular employees. It later developed, however, that the Iranian government would not accept a training program for government officials of a neighboring country unless it was supervised by their own government. A program was finally developed to be supervised by the Ministry of Finance of Iran to include a combination of academic training in basic accounting and on-the-job training both in the tax audit section of the Ministry and in the offices of chartered accounting firms.

The first group of four trainees departed at the end of 1973 and returned in July 1975. All of them were immediately assigned to positions as tax auditors. Several more trainees began a similar program in February 1975. It is expected that they will return in mid 1976.

The problem of finding candidates for academic study whose English language ability was sufficient to permit them to study in the USA led to an attempt in 1973 to find an alternative degree program at the University of Tehran. This failed, however, when it was found that the English language requirement for admission to the graduate program there was even higher than for state-side study.

Opportunities for travel and observation of revenue administration in other countries were also afforded to the President of the Revenue Department. In 1972, he visited Beirut to observe revenue practices in the government of Lebanon for a period of four weeks. In 1973, he made brief visits to Thailand, Philippines, South Korea, and Japan for the same purpose. In 1974, he went to the USA to attend the annual conference of the National Tax Association. At the same time, he visited tax offices in California, Colorado, and Illinois to obtain information about tax administration practices in several areas related to Afghanistan tax structure. Any benefit from this travel that might have accrued to the project and to the government was lost when he was removed from office for cause in December 1974.

Tax Board

In January 1971, before the beginning of the project, the Minister of Finance appointed a Tax Board to study all tax questions coming before the Ministry and to issue rulings in conformity with the law. The Board was also to prepare manuals and instructions for the tax offices. The Board was to consist of several experienced and senior officials of the Ministry and included the Revenue Administration Advisor as a full member. It was hoped that the creation of the Board would avoid the problems that had resulted from the issuance of conflicting rulings and instructions from various sources within the Ministry.

One of the project tasks was to prepare recommendations for improving the work of the Board. Particular emphasis was to be given to developing a system for codifying and disseminating all rulings of the Board to avoid duplication and conflict.

The Tax Board became the major instrument of the Ministry for the detailed review of the Tax Manual and subsequent manuals and instructions. The membership changed from time to time but continued to include senior officials of the Ministry and the Revenue Administration Advisor up until the overthrow of the monarchy in July 1973. Under the new government, the advisor ceased to function as a member of the Board, although he was occasionally invited to participate in the discussion of specific tax problems.

A report containing recommendations for improving the work of the Tax Board was completed in April of 1973, but the translation was not finished until August 1973 after the change of government. For a period of about two months, the Board did not meet. When it did resume meetings, the advisor was not invited to participate as a member. It does not appear that the report on the functioning of the Board was ever given any serious consideration. One of the recommendations of the report, that the size of the Board be reduced, was implemented, but this may have been coincidence rather than a result of the recommendations contained in the report.

Provincial Revenue Advisor

Early in 1972, the USAID Assistant Director for HAVR (Helmand-Arghandab Valley Region) requested the project staff to prepare a report on possible steps to increase revenues from the two provinces in HAVR, Helmand and Kandahar. The Assistant Director pointed out that in that region there had been a very heavy investment of both foreign assistance and local resources. As a result, the economic productivity of the region had been greatly increased but this had not been reflected in the tax collections of the two provinces. The concern was to find ways to increase collections quickly rather than to wait for the longer-run impact of the total project.

The report suggested that the only way to secure a quick increase in the tax collections of the two provinces would be to provide a resident advisor to work directly with the provincial revenue offices. As this proposal was discussed between the team and the USAID Mission, it began to appear that there would be substantial advantages to the project in having an advisor working directly in the provinces. As field visits for the purpose of gathering information progressed, it became apparent that frequently the information obtained was incorrect or superficial.

When the additional advisor was finally approved, the scope of work stated that the primary responsibility was to provide information to the overall revenue project. He was to provide direct assistance to the revenue officials of Kandahar and Helmand Provinces in improving the application of present systems, in devising new procedures and methods of collection, and also in the implementation of the new systems developed by the overall project. The objective of bringing about an increase in the revenues of the two provinces had become secondary.

The advisor was to be resident in Kandahar, which is the second largest province in terms of revenue collections. It was expected that he would spend about three-fourths of his time there and about one-fourth in Helmand Province. The two provincial capitals are about two hours apart. Helmand Province is an average province in terms of revenue collections.

The Provincial Revenue Advisor arrived at the beginning of April 1973. He had previously served two years in Afghanistan as a Peace Corps Volunteer and at that time had worked at the Ministry of Finance on the installation of the accounting system. He had a sufficiently good command of Dari to be able to work without an interpreter. After a few weeks in Kabul to get acquainted with the project, the new advisor established residence in Kandahar.

The provincial advisor developed a close personal relationship with the revenue officials of the two provinces. In his final report, he stated that "Most of what I know about the working of the finance office was gleaned while drinking tea".

It would have been more useful to the project if this position had been established at the beginning. In this way, the in-depth knowledge of the revenue functions of the two provinces would have been of maximum value in the development of tax collection procedures. As it was, most of the procedures for the fixed taxes, where information about current practices was most needed, had been drafted before the provincial advisor had been on post long enough to be able to contribute much information.

In some of the later procedures for the application of the income tax, his knowledge of provincial conditions was useful. Because of his experience in working with the Mustofi of Helmand Province in the collection of back taxes, the standard instructions for the collection of back taxes were largely prepared by him.

He also was responsible for preparing a report on the staffing pattern of provincial revenue offices. The report emphasized the weaknesses of present personnel practices and recommended staffing arrangements that would be directly related to the volume of revenue collections. The translation of the report was not completed until after his departure. There was no official reaction to the proposals contained in the report. If the report does influence staffing patterns in these offices, it will only become apparent in future budgets.

Because of the timing of his two-year tour of duty, the accomplishments of this position must largely be evaluated in terms of the original objective, to bring about a significant increase in the revenue collections of the two provinces. It is, of course, impossible to know the extent to which revenues would have increased had the advisor not been present. In certain instances, revenue collection increases can be ascribed to his work.

When the new procedure for assessing and collecting the cinema tax was issued, the provincial advisor was asked by the director of revenue of Kandahar Province to assist in its implementation. As a result, the revenue from the one cinema in Kandahar increased from 67,000 Afghanis per year to 360,000.

In Helmand Province, a new Mustofi was appointed June 1973. The provincial advisor was able to show him that the province had a very large backlog of uncollected taxes, equal to 2-1/2 times the amount assessed in 1350 (1971 - 72). Collections of back taxes were increased from 3.4

million Afghanis in 1351 (1972 - 73) to 6.6 million Afghanis in the following year. This can be directly attributed to a vigorous campaign conducted at the direction of the Mustofi. Collection of tax fines and penalties increased in the same year from 193,000 to 787,000 Afghanis. A new Mustofi was appointed in the following year. He became heavily involved in the land distribution program and did not give the same attention to increasing the collection of back taxes. However, the collections were held at 6.5 million, and the collections of tax fines and penalties increased to 902,000.

In attempting to quantify the results of the Provincial Revenue Advisor, the following comparisons can be made with respect to the increases in revenue for Kandahar Province, which was the focus of most of his efforts.

Collections for the individual income tax increased by 177 percent from 1351, the year before his arrival, to 1353, the final year of his tour. This compares with a 120 percent increase in that source for all provinces. It is also a higher percentage than for any of the other five major provinces.

Kandahar collection of tax fines and penalties increased 209 percent in the same period. This rate compares with 178 percent for all provinces and was also higher than the five other major provinces. The collection of back taxes increased from 5.9 million to 7.6 million. The percentage of this increase was less than the average, but this is because Kandahar has consistently had a better record of collection of back taxes than any of the other major provinces except Kunduz.

If Kandahar had increased its collection from these three sources by the same percentage as the average of the other provinces, the total collections would have been only 29.3 million, whereas in fact the total was 53.9 million.

At the time of his departure, the Kandahar Revenue Director said that the presence of the Provincial Revenue Advisor had been of major benefit in increasing revenue collections. The figures cited above would appear to support this claim.

Tax Auditing

With the completion of the standard instructions for assessing and collecting the various taxes, attention was turned to the question of improving tax auditing. The second Tax Enforcement Advisor had had extensive experience in tax auditing. After several months of reviewing tax laws and procedures and field trips for observation of provincial tax operations, it was decided that a tax audit manual should be prepared.

The Tax Audit Manual was completed and submitted to the Ministry in October 1974. The manual was developed to be used as a basic text in conducting training sessions in tax auditing and as a guide for tax auditors in their field assignments.

Because the persons assigned to tax auditing had no previous instruction in even the simplest of accounting principles and practices, it was necessary to include in the manual the basic concepts involved in double entry bookkeeping. For this purpose, the system of accounting for individuals engaged in the import-export business that had been incorporated in the tax procedures for licensed merchants was used in the tax audit manual.

In addition, the manual included step by step procedures for making an audit, basic sampling procedures, and simple forms for controlling and reporting the audit process.

The Ministry of Finance officially approved the new manual in July 1975. In the meantime, the instructors of the training office were given instruction in the use of the manual for training tax auditors. Three classes were held for tax audit officials of the Revenue Department in the Ministry and the revenue office of the Kabul Mustofiat in 1975, and a fourth class was scheduled to begin at the end of the year.

The Tax Enforcement Advisor was requested by the Deputy Minister to accompany the audit teams from the Revenue Department in some of their audits of foreign firms. Based upon his observations, a report, Tax Auditing in the Revenue Department, was prepared and submitted to the Deputy Minister in December 1975. The report described the weaknesses that had been observed and recommended ten specific steps to be taken in order to increase the effectiveness of tax auditing. The Deputy Minister approved the report and directed the Revenue President to carry out the recommended actions.

Tax Appeal Procedure

One of the objectives of the project at the time of its inception was the development of a system for the administrative review of tax appeals. In the original work plan, the completion of the system was scheduled for June 1973, but when the work plan was revised, the target date for approval of the system by the government was March 1974.

There is no formal system by which a taxpayer can appeal from the assessment of a tax by an official of the government. In practice, the taxpayers in Afghanistan present their protests to provincial officials or to officials within the Ministry at Kabul according to their own estimate of the best place to obtain relief. Their choices of officials are generally based upon the importance of the matter, their own degree of sophistication, and their personal status and influence.

Frequently, tax appeals are referred to the Tax Board for consideration and recommendation. Because of the lack of system for reviewing tax appeals, it is impossible to obtain information as to their number or disposition.

At no time did the absence of an appeal procedure appear to be of real interest to the officials of the Ministry. Its inclusion in the project agreement and in the work plan was accepted but without any comment. Before the report recommending a system for administrative review of tax appeals had been completed, the 1973 revolution had occurred. In the uncertainty that followed, it seemed unlikely that serious consideration would be given to a proposal that would involve such an abrupt departure from traditional practice. Before the completion of the project, a copy of the proposal was submitted informally to the Revenue President to obtain his judgment about the wisdom and desirability of seeking official consideration. In the absence of any positive reaction on his part, no further action was taken.

Commodities

The project included a modest sum, $15,000, to be used for purchase of training supplies and hand operated calculators or adding machines. Hand operated machines were specified because many of the provincial revenue offices have no electricity during working hours.

Most training supplies could be locally procured, and it was decided to use as much of the available funds as possible for the purchase of adding machines. An order for 56 manual adding machines was placed in August 1972 and the machines were finally delivered to the Ministry in December 1975, just before the close of the project. The history of this purchase may be worth repeating as an illustration of the difficulties that can beset what appears to be a simple procurement action.

National Cash Register Co. machines were selected because they were of American origin, the company had a Kabul representative and service facilities, and it was the only company that could provide a full keyboard manual machine in an extra heavy dust-proof case. Experience with previous purchases of adding machines dictated the choice of the simplest and sturdiest machine available. The total price was $14,480 c.i.f. Kabul.

The local representative of the company insisted upon a 50 percent down payment. As this is customary in Kabul, it was paid when the order was placed. An essential feature of the specifications was that the keyboards and printing keys were to be in Persian numerals and the keyboards were to be arranged in columns of three digits with no decimals.

The machines finally arrived in Kabul in August 1973 and were cleared through customs by the Mission and taken to the USAID warehouse. When the machines were examined, it was discovered that the specifications as to numerals and keyboards had not been met. It was found that when the order was forwarded to the company by the local representative, this essential specification had been omitted. By the time the failure to meet the specifications had been discovered, the manager of the local representative agency had fled the country, absconding with funds that included the 50 percent down payment.

In March 1974, the regional director for NCR visited Kabul and after some negotiation with the owner of the local representative agency, agreed to have the machines modified to meet the specifications. At the same time, it was discovered that the bill for air freight of the machines had not been paid. PAS agreed to pay the air freight, the payment to be credited against the balance owed.

In April 1975, it was discovered that the parts sent to modify the machines had been sitting in the customs house for two months. They had been misaddressed. When they were obtained from the customs house and examined, it turned out that another error had been made. The keys and type bars that had been sent were again in English numerals.

Once again, the NCR Company agreed to obtain the Persian numerals and to modify the machines to meet the specifications. Again a shipment of keys and type bars was received in the customs house. This time they were addressed to the local company that had been the NCR representative, but by this time the relationship had been severed. The local company refused to clear the parts from the customs house except upon payment of a fee that NCR Company refused to pay.

Under the circumstances, there was no alternative to using the machines as they were. Accordingly, they were turned over to the Ministry in December 1975 and were distributed by the training instructors to the provincial revenue offices. Payment of the balance was refused because of the failure of the machines to meet the specifications.

Two vehicles were also authorized in January 1973 after the Ministry of Finance said they were unable to provide transportation for the training instructors. The Mission also undertook to provide needed transportation until the new vehicles arrived. When they did finally arrive in the fall of 1974, it was decided that the vehicles would be kept in the Mission fleet and that the transportation needs of the project would continue to be provided by the Mission.

Evaluation of Project

The avowed purpose of the project was to increase the collection of direct taxes and especially the individual and corporate income taxes. This evaluation cannot be complete at the time the project is terminating. The training program in the use of the Income Tax Manual and the application of related procedures has not been completed in all provinces. The latest figures available are those for the fiscal year 1353 which ended in March 1975 before the last training cycle had ever begun. Nevertheless, an examination of the tax collections for 1353 as compared with the last year before the project began shows that there were significant increases in the areas affected by the project, and it seems apparent that the issuance of the Income Tax Manual and the training that had been given in 1352 and 1353 had produced results that reflected a favorable cost/benefit ratio.

The following four revenue accounts can be said to be directly affected by this project through the development of the Income Tax Manual and the standard instructions for the assessment and collection of taxes. Figures are shown in millions of Afghanis for the year 1353 (1974-75), which is the last complete fiscal year, the year 1350 (1971-72), which was the year in which the project began and before there was any project impact, and, for comparing the rate of increase, the year 1346 (1967-68).

	1346	1350	%change 46 - 50	1353	%change 50 - 53
Individual Income Tax	284.6	195.3	- 31%	459.7	+ 135%
Corporate Income Tax	144.1	129.1	- 10	383.9	+ 197
Tax Fines and Penalties	4.4	4.5	+ 2	15.9	+ 253
Collection of Back Revenues	42.6	58.9	+ 38	126.9	+ 115
Total	475.7	387.8	- 18.5%	986.4	+ 154%

It can be seen that from 1350, the year in which the project began to 1353, there was a very large increase in these four sources, amounting to 599 million Afghanis. This is in striking contrast to the decrease that occurred from 1346 to 1350. An obvious question, and one which is impossible to answer with precision, is the extent to which the project can take credit for these increased collections. During this time, a revolution occurred and the new Republic of Afghanistan has obviously imposed new standards of performance upon revenue collection officials.

An answer may be sought by making a comparison with the collection of import duties which has also shown a substantial increase in the same years and which has frequently been cited as an indicator of the new policies with respect to the assessment and collection of revenues. The figures are as follows: (millions of Afghanis)

1346	1,353.2	
1350	1,609.4	19% increase over 1346
1353	3,157.8	96% increase over 1350

The percentage increase from 1350 to 1353 is substantially less than that in the four tax sources shown above. Also, some of the increase should be attributed to the natural growth of imports, as this source showed an increase of 19 percent from 1346 to 1350 when the tax collections showed a decrease of the same percentage.

Furthermore, the introduction of a new customs tariff schedule must be credited with a part of this increase. For this reason, the fixed tax on imports may be a better indicator of the effect of the new regime on revenue collections. For the four years ending in 1350, the increase was 33.5 percent. For the four years 1350 - 1353, the increase was 76.5 percent (after adjusting the 1353 figure to eliminate the effect of the 50 percent increase in the rate of the fixed tax). Considering the rate of increase of 33 percent from 1347 to 1350, it would appear that a little more than half of the increase from 1350 to 1353 might be attributed to the impact of the new regime. The increase in receipts from the four tax sources directly affected by the project is remarkable by comparison. It must be concluded that a substantial part of the increased collections in these four taxes can be attributed to the project.

In the case of two other taxes, the road use tax and the consumer goods tax, the laws were rewritten by project staff to broaden the tax base and increase the collections. The old road use tax had produced 11.1 million in 1351, its best year, but had then been discarded by the old parliament. The new law produced 19.3 million in 1353.

The old consumer goods tax law had proved ineffective with collections dropping each year from 1346 when they were 62.5 million to 1351 when they reached a low of 18.8 million. With the introduction of the new law, the first full year of its operation, 1353, produced collections of 63 million.

There are still other tax areas where project recommendations were adopted, but it is not possible to separately identify the resulting increased revenues. These included the following changes:

- In the administration of the business transactions (gross receipts) tax, it had been the practice to allow a tax credit for the payment of the fixed tax on imports and exports. This credit was discontinued.
- In assessing income taxes against merchants licensed to import or export goods, it had been the practice in those cases where the merchants did not keep adequate records, to impute a profit of 7 percent on the total volume of business. This was increased to 10 percent both as a revenue measure and as an incentive to keep better accounts. In the first year after this change, the collections from licensed merchants increased from Afs. 87 million to 185 million.
- The airport tax was doubled from 100 Afs. to 200, but the income from this source is not segregated.
- A new land border exit tax was imposed upon all persons leaving the country by land. The exact amount collected from this new tax has not been segregated. Based upon sample counts at the land border exit points, it would appear to produce approximately 30 million Afs. per year.

Although it appears that the project has been effective in increasing tax collections, it cannot be said to have been completely successful in the application of the new standardized procedures that it introduced. Initially, it appeared that the new system for recording and reporting revenues was a success. At the end of 1973 when the training in the new system had been completed, a survey disclosed that the new system had been implemented in 12 of the 26 provinces.

The purpose of the new system was to increase the accuracy and speed of revenue reporting. A comparison was made of the time in which the monthly revenue collection reports were completed in the Mustofiats during the eight months after the beginning of the installation with the following results:

	Submission of Monthly Report	
Provinces where:	15 days or less	More than 15 days
Training was implemented	72%	28%
Training was not implemented	32%	68%

An analysis was also made of errors in the monthly reports. In a period of five months, a total of 73 errors aggregating 54 million Afghanis were found. However, it was also found that none of these errors had been made by provinces where the system had been installed.

The comparison seems to demonstrate that the training coupled with follow-up visits to assist in implementation had been effective and the provincial revenue employees were capable of understanding and applying the new instructions. However, the failure of the Ministry to follow through on its promise to provide the required forms defeated the installation. As the initial supply of forms became exhausted, many provinces abandoned their use. As a result, it cannot be said that the system for recording and reporting revenue collections has been improved in any substantial way.

The time allowed for the project does not provide any opportunity to follow up the training in the standard instructions for assessing and collecting taxes to determine the extent of their application or to provide assistance in implementation. Without such follow up, it is unlikely that there will be any general implementation. It is apparent, however, that partial implementation is taking place and is producing results. The increased revenue from the implementation of the cinema tax instructions could be identified in some specific cases as has been mentioned above.

In the case of the shopkeepers tax, the new system was more complex and reports indicated that it was not being fully applied. However, the attempts made did lead to a substantial increase in the shops registered, and the revenues from this source increased from 38 million to 58 million in the first year after the introduction of the new system.

It is unfortunate that the project does not include time for follow up and assistance in implementation. However, it seems evident that the introduction of standard written procedures has been beneficial; their utility has been demonstrated to the Ministry and their very existence provides for the first time a continuing source of guidance for the four hundred provincial employees engaged in tax collection.

The training program has demonstrated to the Ministry that on-the-job training can be given to large numbers of employees at a relatively low cost. The exposure that these employees have had to a well-organized on-the-job training program cannot [illegible] have had some effect in broadening their horizons.

The project can also be said to have benefitted the taxpayers of Afghanistan as well. The introduction of manuals and standard written procedures has helped to reduce arbitrary interpretations of the law.

The reduction of such arbitrary actions also limits the opportunity for corruption. To the extent that methods of assessment and collection become standardized and more certain, the taxpayer can also become more certain in his anticipation of the amount of tax he must pay.

In summary, it can be said that the objective of increasing revenue collections through improved tax administration has been realized. The increase in revenues for the year 1353 over 1350 that can be ascribed to project activities can be conservatively estimated at 600 million Afghanis or more than $10 million. For a project that has cost USAID less than $1 million, this would appear to be a very good rate of return for even this one year. When it is considered that the full impact of the project will not be felt for two or three years to come, the ratio of benefit to cost is even more striking.

Essential features of the project that contributed to this success may be summarized as follows:

- The contractor's staff was located within the Ministry of Finance and worked directly with Ministry officials at all stages.
- The contractor and the staff were thoroughly familiar with the practices of administration in the Ministry.
- At every step, all proposals for change and improvement were worked out in close collaboration with Ministry officials.
- All of the implementation of proposals was done by Ministry officials, but with active support and assistance from the contractor's staff.
- Finally, the contractor's staff was a team in the true sense of the word with institutional loyalty, institutional support and a common institutional goal.

APPENDIX A

Reports Issued

1/72	Organization of Ministry of Finance
2/72	Review of the Revenue Accounting System
6/72	Semi Annual Report
8/72	A Survey of Sample Villages to Estimate Changes in Land Tax Revenues if Cadastral Survey Results Are Used for Tax Purposes
12/72	Semi Annual Report
2/73	Approved Work Plan (Revised)
2/73	Procedures for Recording and Reporting Revenue Collections
5/73	Income Tax Manual
6/73	Semi Annual Report
7/73	Procedures for Cinema Tax
8/73	Special Project Report to the Minister
8/73	Making and Disseminating Tax Rules
12/73	Semi Annual Report
1/74	Procedures for the Tax on Contractors
2/74	Procedures for Collecting Taxes on Rents Paid by Government
2/74	Procedures for the 1% Transfer Tax
3/74	Procedures for Withholding Income Tax from Salaries
3/74	Procedures for Withholding Income Tax from Dividends
3/74	Procedures for the Tax on Fixed Business Establishments
3/74	Procedures for the Sale of Priced Documents
3/74	Procedures for the Sale of Priced Documents by Other Agencies
3/74	Procedures for Administration of Road Toll Charges
4/74	Procedures for the Proposed Tax on Livestock
5/74	Procedures for the Road Use Tax
5/74	Procedures for the Consumers Goods Tax

6/74	Semi Annual Report
7/74	Procedures for Corporate Income Tax
9/74	Procedures for Tax on Individual Licensed Merchants
9/74	Standard Cash Accounting System for Licensed Merchants
10/74	Procedures for Collecting Income Tax from Individual Returns
11/74	Tax Audit Manual
12/74	Semi Annual Report
12/74	Procedures for Collecting Land Border Exit Tax
1/75	Procedures for Collecting Delinquent Revenues
5/75	Staffing of Provincial Revenue Offices
6/75	Semi Annual Report
11/75	Tax Auditing in the Revenue Department
12/75	Improved Tax Collection in Afghanistan (final report)

APPENDIX B

Project Staff

Chief of Party	Julian Orr	Sept. 71	-	Dec. 75
Revenue Administration Advisor	Irving J. Olson	August 71	-	Dec. 74
Tax Enforcement Advisor	Karol R. Stewart	August 71	-	Nov. 73
	Anthony Falzone	Jan. 74	-	Dec. 75
Revenue Training Advisor	Michael J. Aylward	Sept. 71	-	Dec. 75
Provincial Revenue Advisor	John Soden	March 73	-	March 75
Project Secretary	Amelia Ali	August 71	-	Dec. 75

APPENDIX C

CONTRACT EXPENDITURES

(through December 31, 1975)

	Category	Budget	Expenditures
1.	Salaries	$407,201	$ 395,374.02
2.	Allowances	82,349	77,889.64
3.	Travel and transportation	94,571	87,963.74
4.	Other direct costs	54,216	49,889.99
5.	Overhead	227,221	235,369.71
6.	Equipment and materials	14,660	8,484.71
	Grand Total	$880,218	$ 854,971.81