

**INTERAGENCY COLLABORATION
IN
U.S. TECHNICAL ASSISTANCE
ON
REVENUE SYSTEMS**

*An Evaluation Report to the Agency for International
Development and the Treasury Department*

By: **Alvin Roseman
Sol Luis Descartes
Ronald B. Welch**

August, 1969

BEST AVAILABLE COPY

INTERAGENCY COLLABORATION

in

U.S. TECHNICAL ASSISTANCE

on

REVENUE SYSTEMS

An Evaluation Report to the Agency for International
Development and the Treasury Department

By: Alvin Roseman
Sol Luis Descartes
Ronald B. Welch

July, 1969

TABLE OF CONTENTS

I.	<u>Introduction</u>	1
	1. Objectives of the study.....	1
	2. Methodology.....	2
II.	<u>Summary of Findings and Recommendations</u>	4
III.	<u>General Aspects of U.S. Technical Assistance in Revenue Systems</u>	23
	1. Significance for AID's basic objectives.....	23
	2. The technical assistance process.....	24
	3. AID's organization and methods of operation.....	26
	4. Treasury's organization and methods of operation.....	32
	5. Recruitment and training of U.S. personnel.....	33
	6. Participant training.....	49
	7. Multilateral and bilateral assistance.....	56
IV.	<u>Assistance in Tax Administration</u>	61
	1. Nature and growth of activities.....	61
	2. Measurement of accomplishments.....	62
	3. AID missions' appraisals of IRS projects.....	63
	4. IRS teams' approach to technical assistance.....	64
	5. Tax administration and tax policy.....	69
	6. Specialized competence of IRS.....	72
	7. Program and project planning.....	74
	8. Adequacy of goals.....	76
	9. IRS teams' relationships.....	77
	10. Reporting systems.....	82
V.	<u>Assistance in Customs Administration</u>	85
	1. The Foreign Customs Advisory Service.....	85
	2. Growth of the program.....	86

3.	Programming and project planning.....	86
4.	AID missions' appraisal of technical assistance on customs administration.....	88
5.	Customs administration and tariff policy.....	90
6.	Relationships of customs teams.....	91
7.	Reporting systems.....	91
8.	Relations with other donors.....	92
9.	Commodity inputs.....	92
VI.	<u>Tax Policy Assistance</u>	95
1.	For internal AID use.....	95
2.	Tax policy and the IRS preliminary country survey.....	97
3.	The AID/Treasury PASA on tax policy.....	98
4.	An open policy on tax policy assistance.....	101
VII.	<u>Financing Treasury Technical Assistance</u>	103
1.	AID Reimbursement Methods.....	104
2.	Adequacy of Overhead Charges.....	107

I. INTRODUCTION

1. Objectives of the Study

In February, 1966, the Agency for International Development and the Treasury Department entered into a General Agreement concerning the relationships between the two agencies in the provision of U.S. technical assistance to less developed countries. This agreement specified that Treasury would furnish assistance to AID in the planning, execution and evaluation of those aspects of the foreign assistance program in which the Department has special competence. It also stipulated that, within three years of the date of the agreement, the two agencies would conduct a joint review of the activities carried on under it to determine whether the relationship should continue or be modified.

After a series of discussions during the winter of 1968/69, AID and Treasury agreed that a panel of three individuals, not connected with either agency, should make a study of the substantive and administrative aspects of the relationships between the two agencies in the provision of technical assistance. The study was to focus on technical assistance in three fields: tax policy, tax administration, and customs administration.

In March, 1969, the following Evaluation Panel was appointed to conduct this study:

Dr. Alvin Roseman (Associate Dean, Graduate School of Public and International Affairs, University of Pittsburgh)

Dr. Sol Luis Descartes (President-designate, InterAmerican University, Puerto Rico)

Dr. Ronald B. Welch (Assistant Executive Secretary, California State Board of Equalization)

The Panel began its work on March 10, 1969, with the following objectives, as proposed by the interagency steering committee which had been established to make the initial plans for this study.

1. To appraise progress being made to help developing nations achieve modern revenue institutions and improved revenue efforts.
2. To appraise technical assistance achievements, objectives, approaches and techniques, and the attitudes of the host countries toward the results being achieved, in order to strengthen future efforts and develop possible new directions in program emphasis.
3. To review the effectiveness of management techniques and procedures.
4. To study the relationships between Treasury and AID organizations and personnel in Washington and overseas.
5. To recommend whether the General Agreement should remain in force, or in what respects, if any, it should be modified.

This report focuses primarily upon the administrative and operational relationships between AID and Treasury. Limitations of the Panel's time and of the data available in Washington and the small number of overseas installations recently visited by panel members precluded any attempt to evaluate systematically and on a first-hand basis the extent to which American technical assistance in the revenue field has been successful in achieving its purpose. Nevertheless, largely on the basis of secondary sources, the Panel has reached some general conclusions concerning the effectiveness of this aspect of the U.S. foreign aid program.

2. Methodology of the Study

This study is intended to provide AID and Treasury with an evaluation based upon the informed judgment of a panel of individuals

experienced in technical assistance in foreign revenue systems, in revenue administration and in interagency relations.

In arriving at its findings and recommendations the Panel placed primary reliance upon its review of Project Appraisal Reports (PARs) prepared by AID field missions for 24 current projects in tax administration and customs administration in 19 countries. It also examined related documentation available in agency files in Washington and interviewed AID and Treasury headquarters staff members, returned field personnel, international agency officials and other persons involved in technical assistance in revenue systems. These interviews dealt with the planning, execution and evaluation of U.S. and multilateral assistance in this field; substantive and procedural instructions; organizational structure and relationships; recruitment, training and assignment of staff; utilization of non-governmental personnel and institutions; and training of foreign participants. This information was supplemented by the Panel's brief field trip to Bogota, Colombia, where discussions were held with American and Colombian officials concerned with improvement of the revenue system of that country, and by the visit of Messrs. Descartes and Welch to the General Assembly of the InterAmerican Center of Tax Administrators in Mexico City. The Panel was also able to draw upon the recent contacts of two of its members with AID and Treasury collaboration in technical assistance activities in India, Korea, the Philippines and the Dominican Republic.

The Panel especially wishes to express its appreciation to Mr. Edward Kastorf of the Treasury Department who served as the Panel's Administrative Officer, assembled essential background documentation and other data, and made all the arrangements which enabled the group to complete its work expeditiously.

II. SUMMARY OF FINDINGS AND RECOMMENDATIONS

A. Relationship of Technical Assistance in Revenue Systems to AID's Objectives

Findings

1. Improved mobilization of local resources for financing the local currency costs of the expanded facilities and services required in economic and social development on a non-inflationary basis is a high priority problem in low-income countries. In many nations increased local revenue is a pre-condition to progress in other aspects of development.
2. The need for improvement of revenue systems to meet the local currency costs of new investment and expanding public services is accentuated, in several important countries, by the prospective exhaustion of the large accumulations of local currencies generated through PL 480 and similar programs. In the past, these "counterpart" funds have provided a large share of the local currency required for development projects.
3. Revenue policy is one of the basic self-help elements in low-income countries' development planning and in decisions by donor nations and international organizations concerning external aid to such countries.
4. Popular confidence in the equity of the system of taxation and in the integrity of its administration is an important factor in nation-building and in the willingness of citizens to sacrifice present consumption in favor of investment for development.

5. Technical assistance from bilateral and multilateral sources can help low-income countries develop improved revenue policy and legislation and more effective collection of revenue. An obvious prerequisite to the success of such technical assistance is the desire of a country's government for external aid in these fields and its ability to utilize it.
6. The United States has devoted less attention to improving revenue policy and revenue systems in countries receiving American economic aid than it has to bringing about advances in development planning and development administration in such fields as agriculture, health and education. Mission personnel and U.S. economic consultants have necessarily dealt with broad questions of public finance on a macro level in their work with national planning agencies and in their negotiations on program loans. Where the U.S. has provided technical assistance in revenue systems, it generally has dealt only with limited aspects of tax or customs administration rather than with the system as a whole. Technical assistance has also been provided in budget techniques, public accounting and expenditure control, but these activities usually have touched only tangentially upon the administration of revenue systems.
7. Too often, revenue administration projects have been planned on the unrealistic expectation that basic improvements could be achieved in a relatively short time. Institutionalization of the process of change is not accomplished as quickly as AID appears to have assumed.

Recommendations

1. Improvement in national revenue systems is essential in LDCs if the objectives of AID's specific priority areas—education,

agriculture, health and population policy—are to be achieved and its broader nation-building aims are to be successful. Consequently, consideration of revenue systems should be an integral part of AID's planning and programming processes, and the Agency should direct the same level of attention to this field as it does to the specific priority areas.

2. In countries in which the U.S. has a major commitment to assist in national development, technical assistance in revenue systems should be regarded as a high-priority AID activity.
3. In other countries in which, for political, security, or other reasons, the U.S. has significant interest in national development, technical assistance in revenue systems may be an important contribution to the achievement of U.S. objectives.
4. In countries in which the U.S. has only a limited concern in the national development, U.S. technical assistance in revenue systems should be provided on a very selective basis, emphasizing those countries in which the use of the scarce U.S. resources required for this type of assistance are likely to produce a relatively high return in terms of economic growth.

B. Scope of Technical Assistance on Revenue Systems

Findings

1. Early in the history of the Alliance for Progress, an informal understanding was reached that, in general, the Organization of American States should provide technical advice on revenue policy to Latin American countries, while the U.S. would specialize on tax and customs administration. A similar bilateral-multilateral division

of field has characterized the AID program in other regions; with a few exceptions, U.S. technical assistance on revenue matters has predominantly been concerned with administration rather than substantive policy.

2. The practice of avoiding U.S. technical assistance in revenue policy reflects the widely held view of AID and Treasury officials that such assistance should be furnished by multilateral agencies rather than by the U.S. Government. In some instances national officials have not wished American assistance except in narrowly circumscribed aspects of tax administration. There are also indications that, in some countries, American officials' fears of local political criticism of American "intervention" have deterred AID's efforts to secure significant revenue policy improvements even when the United States is providing relatively massive economic assistance to the nation concerned. In a few countries, however, AID missions have initiated technical assistance on revenue policy, apparently without serious impairment of U.S.-host country relations.
3. It has been AID's assumption that, by focusing technical assistance upon the administration of the existing tax and customs systems, it is possible for the U.S. to achieve significant improvements without becoming involved in questions of revenue policy. Securing more effective revenue administration, however, inevitably involves policy choices, and American personnel will almost certainly be giving substantive advice to national officials. Conceptually, the idea that a clear line can be drawn between revenue administration and revenue policy is an illusion. Nevertheless, IRS and Customs Bureau personnel have been successful in bringing about operational

improvements in tax and customs administration without overt involvement in broad questions of revenue policy.

4. The Panel does not consider itself competent to judge the desirability or feasibility of utilizing, in any specific country, such influence as the United States may possess to persuade national officials to improve their revenue systems. In general, however, there seems to be greater reluctance on the part of American Embassy and AID officials to move vigorously in this direction than the situation in some countries would appear to justify.
5. Because of limitations in its schedule, the entire Panel was able to visit only one country (Colombia) in which a customs advisory team was in operation. The PARs for the customs field do not alone provide an adequate basis for evaluation of this activity. Recent BALPA reductions have resulted in very severe curtailments in customs technical advisory activity. Yet the heavy reliance of many LDCs upon customs revenue and the outmoded character of their tariff laws and customs administration would appear to justify substantial U.S. attention.
6. A major, and as yet largely unmet, need in almost all LDCs is a continuing flow of operationally useful research in the problems of revenue policy and tax administration related to the national development objectives. This requires an indigenous research institution with competent staff which can assemble data and carry on independent research. The development of such institutions represents an important long-range technical assistance objective to which AID has devoted relatively little attention.

Recommendations

1. AID should not be as reluctant as it has been in the past to become involved in U.S. technical assistance in revenue policy, but should use both bilateral and multilateral instrumentalities as may be appropriate under the varied circumstances in different countries. With careful individualization of each national situation and the flexible use of the various types of instruments through which technical assistance can be provided, the risk of untoward reactions can be minimized. AID's experience with the desensitization of technical assistance in public administration and in other fields such as development planning may provide some parallel.
2. AID should direct greater attention to the possibility of improving revenue policy and administration in fields of taxation other than income taxes, to which so much emphasis is currently devoted. Among the revenue sources which appear to be worthy of more attention in some countries are sales and consumption taxes, property taxes, business and related licenses, local government taxes in general, and interjurisdictional tax sharing.
3. AID should request its mission directors in countries where the U.S. has a major assistance commitment to make a new examination of the need for and acceptability of technical assistance in the customs field, the nature of the aid which should be provided and the mechanism—bilateral or multilateral—through which it might best be furnished.
4. AID should actively encourage countries, particularly those in which the U.S. has a major economic aid commitment, to establish

indigenous research centers in the field of revenue policy and tax administration. These centers might be within an appropriate governmental agency, within independent institutions, or attached to a university or an existing economic research organization. Their staffs should include economists and public administrators, as well as lawyers. Efforts should be made to enlist the participation of representatives of business, agriculture, labor and other important elements of the country's economy in the work of such centers. AID, and perhaps multilateral agencies, should provide high-quality technical assistance to these centers over a period of time sufficient to permit the institutions to establish a basis for self-maintenance and growth.

5. U.S. technical assistance on revenue systems should be furnished upon as comprehensive a basis as possible and should be planned to continue for a sufficient period of time to permit the development of indigenous institutional capabilities in the recipient country.

C. Program Planning and Coordination

Findings

1. One of the reasons for the limited attention AID has directed to the revenue field is the absence of staff at AID's Washington headquarters technically qualified to provide guidance to field missions on revenue systems. The program economists, desk officers and public administration specialists in AID's regional bureaus are aware of the importance of improvement of revenue policy and administration in the countries with which they are concerned. Generally, however, they lack both the specialized expertise and the time to assist field missions in this area.

2. In the present AID headquarters structure, there is no focus of responsibility for an overall review of AID's technical assistance activities in revenue systems, for identifying successful techniques that can be disseminated to all regions and field missions, for maintaining working relationships with multilateral agencies and other bilateral programs operating in this field and for coordinating AID's effort to mobilize the American personnel and institutional resources required for effective technical assistance in revenue systems.
3. Treasury's Office of International Tax Policy, under the Participating Agency Service Agreement, is to analyze Latin American countries' tax structures and their relation to economic development and foreign aid, recommend approaches to tax reform to AID and assist it in bringing about such reforms, keep in touch with multilateral and non-governmental institutions concerned with Latin American tax problems and provide training in tax analysis and drafting of tax legislation to Latin American officials. This small office, which is concerned with other important Treasury matters such as double taxation treaties, can devote only limited attention to AID's areas of interest. While it is able to provide a useful service to AID, quick expansion of the office to meet AID's needs for tax policy staff is probably not feasible.
4. There seems to be no clear U.S. policy concerning the types of technical assistance in the revenue field which should be carried out on a bilateral basis or on a multilateral one. Nor does there seem to be a clear American view as to the respective roles of the several multilateral agencies (such as the IMF, the OAS and the UN) that are

providing technical assistance in this area, or an active American role in evaluating their performance, in spite of the fact that the U.S. is the largest single contributor to their resources.

5. A major problem in the effectiveness of U.S. technical assistance is the lack of long-range planning based upon a mutual commitment that the project will continue for sufficient time to establish the basis for continuing self-improvement. Unplanned, unilateral reductions in technical assistance staffs, relatively unrelated to the effectiveness of the activity, have had a damaging effect upon progress already made. Perhaps the most serious result of these reductions (or eliminations) of American staff is the undercutting of those officials of the host government who had committed themselves to modernization and change on the assumption that they would continue to benefit from American advice and support until innovations had become reasonably well established.
6. The relations between AID and IRS at the Washington level have been much improved as a result of the resolution of some of the initial misunderstandings and personal incompatibilities of the earlier years. This, however, does not mean that the need for a point of contact between IRS and AID in an institution-wide sense has been met. Easier and more extensive communications between AID and IRS would be desirable. Lack of knowledge of the IRS program is still evident in AID, and some judgments and opinions expressed by AID personnel were based on previous conditions, long since changed.

Recommendations

1. Beyond the present emphasis on transfer of technology, more attention must be directed to the institutionalization of modernization in the revenue systems of LDCs, so that the process of improvement will carry on under indigenous impetus after American technical advisors have departed. This requires more concern with the problems of intercultural relations and the interacting societal and educational changes involved in the process of modernization. It demands a high sense of development strategy and timing and planned mobilization of the forces which support constructive change.
2. AID cannot adequately discharge its responsibilities for this assistance to LDCs on revenue systems unless it has, in its headquarters organization, staff competent to perform the functions that the headquarters must provide.
3. These headquarters' functions should include:
 - a. General policy guidance.
 - b. Assistance to, and review of, mission planning and programming.
 - c. Periodic technical consultation and evaluation in the field by headquarters representatives.
 - d. Arranging for the participation of other Federal departments, and of non-federal or non-governmental agencies where appropriate, in technical assistance activities financed by AID.
4. These headquarters functions may be performed in AID either by a specialized central staff or by a combination of a small central staff with technical staff in those regional bureaus in whose areas there is substantial program activity in revenue systems. Such a

central staff should be closely related to other central staff concerned substantively with the process of development planning and other aspects of development administration. In addition to one or more specialists in revenue administration, it should include at least one senior public finance specialist who would analyze the experience of the several geographic bureaus in the field of revenue policy, assure the interchange of experience among the regions, and maintain policy relations with other governmental, international and non-governmental agencies concerned with revenue policy and economic development.

5. A less desirable alternative to a central AID headquarters staff in the revenue systems field would be the establishment of a unit in the Treasury Department to perform these central functions. Such a unit might well be attached to the office of the Assistant Secretary for International Affairs, which is already deeply involved in U.S. policy in the IBRD, the IMF and the InterAmerican Bank. This staff might function somewhat like the counterpart units in the Department of Agriculture, the Department of Health, Education and Welfare, and other Federal agencies which now provide assistance to AID under Participating Agency Service Agreements. It would be necessary for Treasury to decide the extent to which such a unit should be interposed between AID and the subordinate Treasury services, such as the International Tax Office, the IRS and the Customs Bureau, on matters of day-to-day relationships. Perhaps the most important functions that such a unit could perform would be to view the revenue problems of countries receiving large-scale U.S. economic assistance as a whole.

6. AID should develop a more clearly defined policy concerning the relative roles of AID-financed bilateral technical assistance in revenue systems and the technical assistance which is or can be provided by multilateral agencies as an alternative to U.S. assistance or as a complement to it.

7. One possibility that seems worthy of AID exploration in some depth grows out of the increasing role of the IBRD as the chairman of formal consortia or informal consultative groups of aid donors. In a number of countries in which the U.S. has a large-scale aid commitment, American interest in improvement of revenue systems is shared by the Bank and by other donor governments. The Bank, both as the chairman of the consortium or consultative group and as a major source of economic aid, might well be in a position to maximize the influence of all the aid donors in persuading the recipient government to face up to its responsibilities for better revenue policy and more effective revenue administration and to take the action necessary to remedy its deficiencies. Some type of external technical assistance usually will be required to aid the government to accomplish these improvements. This assistance might be provided either from multilateral or from bilateral sources, as agreed upon between the consortium or consultative group and the host government.

8. If technical assistance is furnished from multilateral agencies in which the U.S. is a member, the U.S. should recognize that it has a responsibility for periodic evaluation of the effectiveness of the multilateral activity and of taking such steps as may be appropriate to assure that it is accomplishing its objective.

D. Program Implementation

Findings

1. By far the predominant part of AID's technical assistance in revenue systems has taken the form of tax administration projects carried out through the Internal Revenue Service. Despite limitations in technical competence in certain non-Federal fields of tax administration, the Service has done a creditable job in most countries. The Foreign Tax Advisory Service of IRS has able headquarters leadership and, in general, has provided staff with high—but sometimes unduly specialized—qualifications for overseas service. The Panel has not been able to compare the accomplishments of the IRS overseas staff with those of technical assistance staffs in other fields of AID activity. However, it has been impressed with the results obtained in a number of countries, even if it is not feasible to determine the extent to which improvements are attributable specifically to the work of IRS advisors.
2. Close monitoring and control of the IRS program in the field contributed substantially to the success of technical assistance in tax administration during the early stages of this program. One of the principal instruments for program control has been the IRS reporting system. The adoption in 1968 of a new AID management reporting system has introduced new elements and has resulted in some duplications. IRS is now considering a simplification of its reporting requirements.
3. The technical assistance experience of the Customs Bureau has differed in important respects from that of the IRS. The Bureau has had little more than three years of institutional responsibility

for technical assistance activity, whereas IRS has been working in its field for some six years. There are indications that, despite the fact that customs are a very important revenue source in LDCs, host country officials and AID personnel have been less interested in customs improvement than in improvement of other aspects of the revenue system. It is possible also that improvement of customs administration is inherently a more difficult task than parallel work in tax administration. Moreover, the educational backgrounds and levels of previous experience of Customs Bureau overseas technical advisors are, on the whole, somewhat lower than those of IRS personnel. This may not be a fair comparison, given the differences in the nature of the two areas of work, but the Panel's interviews and its examination of documentation indicate that the IRS staff generally has a broader view of the complexity of the technical assistance task than has the Customs Bureau staff. In general the PARs do not credit the Customs Bureau staff with the same level of accomplishment that they attribute to IRS. The Panel agrees with this view.

4. IRS and Customs Bureau personnel have developed and maintained effective professional and personal relationships with their indigenous "opposite numbers." The fact that these American advisors often have offices in the host government ministries adjoining the offices of senior national officials both contributes to and is an evidence of this relationship.
5. The greatest part of the attention of both the IRS and the Customs Bureau staffs appears to be devoted to aiding national officials to develop and put into effect specific administrative and procedural

improvements. This type of assistance is important in meeting the "felt needs" of the governmental personnel who have requested American help. At the same time, there is little evidence that in these fields the U.S. has been innovative in extending the concept of the technical assistance relationship beyond the conventional, relatively short-term advisory role. Insufficient attention has been directed to the institutionalization aspects of technical assistance. This reflects a deficiency in the approach as well as in the preparation of advisory personnel for the basic task of improving indigenous capabilities on a broader basis than the transfer of technology. The IRS seems to have begun to place more stress on this goal.

6. One of the promising developments which IRS has promoted, and AID has helped to finance, is the Center of InterAmerican Tax Administrators (CIAT), which brings together the directors of taxation of the Western Hemisphere countries for professional discussions of technical tax matters of common concern. This organization has facilitated the work of the IRS advisors in individual Latin American countries and has significant potential for the institutionalization of the movement for improvement of revenue systems. IRS is exploring the possibility of stimulating similar organizations of tax officials in other regions.
7. Participant training by both IRS and Customs Bureau has made important contributions to AID's technical assistance program, after correction of early weaknesses in the administration of the INTAX courses. This training has increased participants' technical knowledge and skills, improved their motivation, enhanced their prestige and their leadership potential, and strengthened U.S.-host

country relationships. The division of management responsibility between AID's Office of International Training and the IRS Training Division has occasioned some friction.

8. Treasury's Office of International Tax Policy provides a useful service to AID in making studies of revenue structure and policy, primarily with respect to Latin American countries. It seems to have done less in the recruitment of tax policy specialists and in following developments in multilateral technical assistance than would be anticipated from the language of the PASA.

Recommendations

1. AID should continue to rely upon the Treasury Department as its principal instrument for the provision of technical assistance in tax and customs administration.
2. The PASA covering Treasury assistance on tax policy should be continued at its present level or on a modestly expanded one for the next several years. At the same time, AID should utilize the "in-house" AID tax policy staff recommended by the Panel, as well as individual and institutional consultants in this field, for headquarters and field work in tax policy. The AID staff should direct special attention to the coordination and evaluation of the various U.S. elements concerned with tax policy and of multilateral activities in this field.
3. IRS and AID personnel should join in a project designed to simplify reports from the field and to eliminate duplications in reporting requirements. Greater reliance for monitoring mission activities should be placed on field visits by IRS regional desk officers and by parallel headquarters personnel of the Customs Bureau. In spite

of U.S. balance of payments restrictions, funds should be made available for the relatively minor travel costs involved.

4. To deal with the longer-range problems of personnel for overseas service, one possibility that should be explored, whether the Treasury assumes a greater departmental role in this field or not, is the creation over a period of time of a Foreign Revenue Systems Career Service. This would be built upon the FTAS experience but designed to provide a cadre of broadly experienced tax policy and tax administration advisors who would function on a foreign service career basis. It would differ from the present IRS arrangement in that members of the group would expect to spend most of their careers in revenue advisory work overseas but would return to the U.S. at regular intervals for assignments in domestic agencies and periods of in-service training and updating. This group presumably would be chosen primarily from among outstanding staff members of IRS and from State and local governmental personnel who have had successful experience in the administration of types of taxes not within IRS' ambit. A few might be selected from universities, economic consultant firms or other organizations to provide a group of middle-level tax policy advisors who could participate, along with senior experts selected from the outside on an ad hoc basis, in major projects of tax policy advice, and to assist in the policy aspects of projects in tax administration. If the current trend of severely curtailing or eliminating technical assistance in customs administration is reversed, a third group in such a service might consist of selected Customs Bureau personnel who are interested in a career in foreign advisory service. The creation of such a cadre would not preclude AID from directly employing revenue policy

specialists on its own headquarters or field staffs or contracting with individuals or organizations to provide technical advisory services in revenue policy.

5. The establishment of a career service would be predicated upon continuation of U.S. bilateral technical assistance in the revenue systems field on a long-range basis. The Panel believes that this is a sound assumption. If such a service is established, its IRS and Customs Bureau personnel will require broader training in substantive matters and in the techniques of intercultural operations and institutional reinforcement than they currently receive; members recruited from the outside will also need an extensive period of preparation. One aspect of the preparation in tax administration might be the use of outstanding State and local tax agencies as training centers for non-Federal types of taxation. This might take the form of short-term exchanges of Federal personnel and of State and local tax personnel for the purpose of giving each group broader understanding of the types of taxation employed in other jurisdictions. The Intergovernmental Personnel Act, currently before the Congress, could provide the basis for such a relationship, not only for initial training but also for periods of mid-career reorientation of personnel returning from overseas assignments. It could also provide a vehicle for the recruitment of State and local revenue personnel into the Foreign Revenue Systems Advisory Service on either a temporary or a longer-range basis.
6. AID and IRS should continue to provide financial support for CIAT on approximately the present level, but should press for increased contributions from the other participating countries. The two agencies

should encourage the development of similar organizations in other regions in which the U.S. has a substantial interest in the improvement of revenue systems. However the level of any U.S. financial contribution should be a lower percentage than for CIAT. Strong indigenous governmental and professional support for such an organization should be a prerequisite for U.S. participation.

7. Participant training centers should be established in competent State and local tax administration agencies for the training of foreign officials in subjects outside IRS' field of competence. These centers should receive AID payments for training services commensurate with those made to participating Federal agencies and educational institutions. Selected participants should be trained for work in revenue policy through placement in American universities offering academic studies in this field. The division of management responsibility between the training units in AID and in Treasury should be reexamined by the two agencies.

E. Implementation of this Report

The follow-up of this report will require AID to designate an official of relatively senior status to take the leadership in AID and inter-agency consideration of the recommendations. Some of these recommendations will primarily involve implementation by AID; others will require joint action by AID and the other agencies concerned. Improvement of program and administration will demand more effective interagency understandings, communications and monitoring than has been the case in the past.

III. GENERAL ASPECTS OF U.S. TECHNICAL ASSISTANCE
IN REVENUE SYSTEMS

1. Significance of Technical Assistance in Revenue Systems for AID's
Basic Objectives

The central purpose of the economic assistance program administered by AID is to promote the U.S. objective of a peaceful and increasingly prosperous world by helping low-income countries achieve more viable societies. The aid provided by the U.S. may be critical to a nation's political, economic and social development, but it is always marginal. The basic development task is an indigenous one; external assistance can only be supplementary to the nation's own effort.

One of the important self-help obligations of a country which seeks American assistance is that of mobilizing its own resources for the increased investments and augmented public services required for development. AID is currently placing priority emphasis upon technical assistance in three aspects of development: agriculture, education and family planning. Progress in each of these three fields will require the developing countries to expand and improve their facilities and services. Financing these increased local currency costs on a non-inflationary basis will require substantial increases in governmental revenues. Technical assistance in revenue systems—including tax policy, tax administration and customs administration—can significantly aid a government which is seeking to augment its income. It thus becomes an important element in a program to aid such countries to achieve their development objectives.

The need for improvement of revenue systems to meet the local currency costs of development activities is accentuated, in a number of countries, by the prospective exhaustion of large accumulations of local

currencies generated through sales of U.S. surplus agricultural commodities under P.L. 480 or through counterpart deposits resulting from U.S. financing of commodity imports. These accumulations have been used to meet a substantial share of the local costs of development programs, but changes in American economic assistance point to reductions in the rate of generation of local currency. If, as some have advocated, there is to be increased emphasis upon economic aid in the form of project loans through the IBRD and other lending institutions, which ordinarily provide only the foreign exchange components, the problem developing countries face in financing local currency costs will become even more acute and maximization of local revenues will become more urgent.

AID is also interested, particularly under Title IX of the Act for International Development, in assisting low-income countries to advance their political development. Progress on this front involves such problems as honesty and efficiency in public administration; popular participation in government, including both identification with national rather than local loyalties and the encouragement of democratic local government; and greater equity in the distribution of income, wealth and public services among various elements of the population. Revenue administration is one of the governmental activities that reaches almost all the people of a country. To the extent external technical assistance aids in the cultivation of popular confidence in the fairness and integrity of a nation's revenue system, it can make an important contribution to the country's political development.

2. The Technical Assistance Process

An evaluation of the provision of technical assistance in revenue systems must be predicated upon some assumption concerning the nature of the technical assistance process in general. In its early days, twenty

years ago, American technical assistance was conceived essentially as a process of transferring modern technology from an advanced nation to less developed ones. American technicians were sent overseas to advise foreign governments about the improvements they should institute. Foreign government personnel were brought to the United States for observation tours of technical training in specific subjects. In many cases technical assistance was "project-related," that is, the primary goal was to improve the competence of indigenous personnel to carry on a specific project or program for which the United States was also supplying other forms of aid.

In recent years the concept of transferring technology has been replaced by a broader view of the process of societal change which recognizes that new technologies may have wide and often disturbing implications for the country into which they are introduced. Technical assistance now emphasizes the development of indigenous institutions that can continuously adapt the technologies of advanced nations to the societal needs of their own countries. This shift does not alter the basic interpersonal character of the technical assistance relationship. The process is an educational one in which the foreign advisor works with individuals and groups in the host country to enhance their knowledge and their skills. His initial entree is usually based upon his technical competence in the subject matter in which assistance has been requested. But his success usually is determined by his understanding of, and competence in, developing indigenous leadership capable of bringing about change and of institutionalizing the process of adaptation and societal modernization.

This view of the technical assistance process requires a high level of intercultural sophistication on the part of the foreign technical advisor, beyond his proficiency in a specific technical field. It also necessitates an understanding by his headquarters organization of the

political, economic, social and cultural situations in which the technical advisors function. To the extent that foreign personnel are brought to the United States for observation or training, it also implies that the American orientation and training institutions will have similar levels of competence.

3. AID's Organization and Methods of Operation for Technical Assistance Activities

The basic functions that must be performed by an agency conducting an intergovernmental technical assistance program usually include: the negotiation of agreements with governments requesting assistance; provision of qualified technical advisory personnel overseas; issuance of program policies, technical guidance and other services to overseas personnel; approval and financing of programs and projects recommended by field staff; arrangements for technical training of foreign personnel in the donor country, and evaluation of progress.

Over the past 20 years, the United States has provided technical assistance through a series of foreign aid agencies. These agencies have had different patterns of organization, especially at the Washington headquarters level. They have also differed in the extent to which they have employed on their own staffs, as contrasted with financing on the staffs of other governmental and non-governmental agencies, the variety of specialized expertise necessary for the technical assistance aspects of a comprehensive foreign aid program.

At some stages of its organizational history, the U.S. foreign assistance agency has maintained a relatively self-contained type of headquarters. The Washington structure included substantial technical units in such fields as agriculture, education and industrial development whose staffs formulated technical guidelines and standards, reviewed programs and

projects, passed upon the qualifications of prospective field experts and performed general supervisory and "backstopping" functions for technical assistance activities in their respective subject-matter areas. However, even in their most halcyon days, these units were never large or comprehensive enough to provide all the knowledge required for the American technical assistance program. In many specialized fields the foreign aid agency relied upon technical advice and services provided by other Federal agencies or by private organizations.

In recent years AID has tended to limit its directly-employed technical personnel at headquarters and to rely heavily upon technical personnel employed, at AID's expense, by other Federal agencies and non-governmental organizations. These "outside" bodies have usually performed two types of services for AID and its predecessor agencies. They have provided technical advice to the central agency's headquarters and field staffs on subjects for which the central agency lacked its own specialists. They also have helped the central agency mobilize American resources by recruiting personnel for overseas assignments and by arranging for technical training in the United States in the fields of their competence. In the past the central agency has usually regarded the other agencies as ancillary to its own operations; it attempted to retain control over all significant decisions and delegated little authority to external bodies.

In part this stemmed from the concept that the central agency's own headquarters technical staff had the function of relating the technical advice of other U.S. institutions, which had little knowledge of overseas conditions, to the specific substantive and country requirements of the assistance program. It also involved a concern about the basic responsibility of the central agency for the funds appropriated to it by the

Congress and fear of legislative criticism if the agency should accept, without review by its own staff, technical recommendations from outside bodies that might not be sound or feasible.

Opposed to this view has been the attitude of some major Federal agencies which wished to play a fuller role in the provision of technical assistance in the areas of their competence. They have believed that the central agency's headquarters should perform only general programming, funding and monitoring functions. They wished to have greater responsibility for the determination of technical assistance policy and methods of operation in their own fields, including the selection and guidance of staff in the field missions and the planning and implementation of training programs in the U.S. for foreign nationals.

The Foreign Assistance Act of 1961 (Section 621) specified that AID should utilize the services of other Federal agencies to the maximum feasible extent. The headquarters structure established for AID in 1961 placed primary emphasis upon relatively self-contained geographic bureaus. It abolished the technical offices which had been maintained by the predecessor agencies and reduced the role of the technical staffs essentially to advisory functions to geographic units and liaison with outside organizations. Pressures upon AID's administrative budget and the imposition of personnel ceilings as a method of limiting Federal employment also motivated AID's administrators to reduce the number of technical personnel on the agency's own payroll and to rely more upon other Federal departments and non-governmental organizations to supply the technical advice and services required for the assistance program.^{1/}

^{1/}The general restrictions placed upon Federal agencies in fiscal year 1969 with respect to filling vacant positions are already tending to limit the technical assistance units of other departments, even though their funds are provided by AID rather than from their own departmental appropriations.

The arrangements between AID and other U.S. Government departments have been formalized in "general agreements" which outline the respective roles of the two agencies. The premise of a general agreement is that AID wishes to enlist the personnel resources, capabilities and experience of the other agency on a partnership basis for the task of technical assistance in the fields of its special competence. The other department, in turn, recognizes its responsibility to contribute towards the achievement of U.S. foreign policy objectives by providing technical leadership and guidance in the development and operation of technical assistance projects which it undertakes on behalf of AID. The agreement contemplates joint review of national development plans and U.S. assistance programs and joint consideration of activities which AID proposes that the department undertake.

The major types of service the department will provide to the U.S. technical assistance program are specified in the agreement. These may include (1) assumption by the department of operational responsibility for technical assistance projects overseas, (2) continuing technical advice and support services, such as the furnishing of technical information, "backstopping" of field projects or provision of training services and (3) assignment of department employees to fill AID staff positions overseas. An individual Participating Agency Service Agreement is entered into between AID and the department covering such matters as the scope and duration of the particular service, the costs and other questions of detail.

There are two types of relationship with respect to the personnel of other Federal departments who are sent overseas to serve as technical advisors in AID field missions. In one type the employee transfers from his normal agency to the AID rolls, retaining his right to reinstatement

in his previous post when his service with AID is completed. Under these circumstances, the employee's organizational relationship is essentially the same as it would have been had he been recruited initially by AID. The second arrangement, which is covered by the interdepartmental general agreement, involves the assignment of an employee of another agency to an overseas position in connection with the AID program; the employee remains on his own agency's rolls, and that agency, rather than AID, determines his technical qualifications for the assignment. This second type appears to be used when the other Federal agency undertakes institutional operating responsibility for a project, whereas the first is customary when only the services of an individual are involved.

Under its present organization, the relationship between AID and the Federal agencies which collaborate with it in the technical assistance program is primarily conducted through the five geographic AID offices. Each of these offices is responsible for the operation of AID's foreign assistance activities in the countries within its region, and each of them deals with other governmental agencies and private organizations that provide technical advice or services. Certain types of relationships with agencies external to AID are, however, conducted by central AID units. These include the negotiation of basic interagency agreements and budgetary arrangements for AID financing of the costs of services provided to AID. They also include the relationships involved in the placement of foreign participants in technical training programs in the United States.

While this study was in process, AID, under its new Administrator, concluded that its technical assistance activities should be reorganized and revitalized. A new Technical Assistance Bureau, headed by an Assistant Administrator, is to be established. It is the Panel's understanding that, while AID's geographic offices will continue to perform the

headquarters functions of guiding and backstopping the field missions and approving country programs, the new Bureau will have a staff of technical specialists in the major fields in which AID provides technical assistance. It is to develop policies and procedures to assure the desired program emphasis upon technical assistance. It will also undertake some innovative types of technical assistance activities and further develop AID's utilization of other U.S. governmental agencies and private institutions in the technical assistance program. The relationships between the geographic offices and the Technical Assistance Bureau are currently being worked out.

The field missions of AID in the countries receiving American economic assistance include three types of U.S. personnel. The "core" group is the directly-employed AID staff; its members ordinarily include the Mission Director and his immediate assistants, the Program Office, the Controller's Office, the Administrative Office and the heads of various technical divisions. The second group includes the employees of other U.S. government agencies who have been assigned to the mission to provide technical advice and services under a Participating Agency Service Agreement. In the third group are employees of non-governmental organizations that have entered into contractual arrangements with AID.

With AID's increasing emphasis upon the use of other Federal agencies and non-governmental organizations for technical assistance activities, many of the staff functioning in technical areas are employed by these external agencies but are subject to the policy guidance and coordination of the mission. This supervision is normally exercised either through an Assistant Mission Director or through the head of the appropriate technical division of the mission. The staffs of these other agencies usually receive administrative support from the mission.

4. Treasury's Organization and Methods of Operation

The Treasury Department is a large agency with a wide variety of fiscal, revenue and other functions. Traditionally its principal concerns relating to the development of low-income countries have involved the National Advisory Council on International Monetary and Financial Policy, of which the Secretary of the Treasury is Chairman, and which provides policy guidance to U.S. representatives to the International Bank for Reconstruction and Development, to the International Monetary Fund and to regional lending institutions such as the InterAmerican Development Bank. In recent years the Treasury has played a leadership role in dealing with U.S. balance of payments problems and in that connection has had a special concern with the American foreign assistance program and other U.S. expenditures overseas. However, as a Department, Treasury has not manifested great interest in the technical assistance aspects of U.S. Foreign aid; the Office of the Assistance Secretary for International Affairs, which has responsibility for U.S. relationships with the International Bank, the International Monetary Fund and the InterAmerican Development Bank, does not appear to have been concerned about the relationship of the multilateral technical assistance programs of these institutions to the bilateral activities of the United States.

Two subordinate Treasury units, the Internal Revenue Service and the Customs Bureau, have, however, played significant roles in the provision of American technical assistance. As might be anticipated from the diversified nature of the Treasury's functions and the decentralization that has characterized its administrative doctrine, the initiative for the development of the technical assistance activities of these bureaus has come primarily from within their own organizations rather than from higher levels of the Department. In recent years the Commissioner of Internal Revenue and the Commissioner of Customs have strongly supported

the participation of their units in technical assistance.

A third Treasury office—the Office of International Tax Policy—has played a more limited role in U.S. technical assistance. The initiative for its activities seems to have come primarily from the international interests of the Assistant Secretary for Tax Policy during the Kennedy and Johnson administrations.

Treasury's Office of Management and Organization has devoted attention to the relationship between Treasury's subordinate units and AID. It has been responsible for the coordination of the administrative aspects of Treasury's participation in U.S. technical assistance activities, but it has not dealt with the substantive phases of the work.

5. Recruitment and Training of American Technical Assistance Experts

(a) The qualifications required

Reference has already been made to the concept that technical assistance is not merely the transfer of technology from a more advanced country to a less developed one. The basic process, rather, is to assist indigenous personnel to create the climate and institutions through which the developing country may carry on its own processes of modernization.

A technical assistance expert must possess at least two major types of skills. He must, in the first place, have technical knowledge in his own field. This knowledge should include both the technology utilized in his home country and the technology employed in other nations and cultures.

Since his fundamental task is to help in the development of viable institutions in the low-income country that will carry on under their own impetus after he and his successors have departed, he must in addition have a deep understanding of the interacting societal and

educational changes involved in the process of modernization. As part of this understanding, he must have a sense of development strategy and timing and ability to mobilize indigenous support.

Interpersonal relations are a key element in any technical assistance program. The technical assistance expert must be highly sensitive to intercultural differences in institutions and in behavior patterns. He must also have flexibility, patience and skill in stimulating motivation for change.

Technical assistance projects often require several different types of specialists, working as a team. The leader of such a group, in addition to his technical and intercultural competence, must also be a skillful planner, negotiator and supervisor.

(b) The problem of securing these qualifications

Americans pride themselves upon their own country's technology but often have relatively little knowledge of other systems. Our past satisfaction with the success of the American economy and our relative isolation from other nations has tended to make us culture-bound. Moreover, the size and complexity of the American economic system tend to emphasize specialization, and we develop expertise in relatively narrow fields. Our processes of division of labor in industry and in government emphasize a career pattern in which an individual starts as a specialist and becomes a generalist only as he rises to senior levels. The size and capital-intensive nature of our economy increasingly prepare Americans for work in large-scale activities utilizing highly advanced technical equipment. Thus the U.S. tends to develop more and more individuals with high levels of skills in limited fields who are accustomed to dealing with higher levels of technology than many countries can hope to utilize in the near future.

Despite the diversity in the ethnic origins of the American population, we have developed remarkable homogeneity in value standards and norms of behavior. Most Americans have had little occasion to deal with individuals who do not share their own aspirations or standards. We seldom think consciously of the processes of developing our own societal institutions, although we know that they are in constant change and are willing to accept change as part of our daily life. Our strong ethnocentric tendencies not only limit our understanding of other people's methods and way of life, but they also limit our ability to communicate with individuals who use languages other than English.

There are other American characteristics which tend to offset these limitations. Over its history the United States has been oriented towards problem-solving through the use of new combinations of knowledge and skills. We have had an upwardly mobile, open society and have been eclectic and innovative rather than traditional. While we have not taken full advantage of the diversity of ethnic origins of our population, the fact that a substantial number of Americans have roots in other cultures provides us with an important technical assistance resource. We have been optimistic and energetic, with an underlying conviction that the application of sufficient attention and resources should enable us to overcome any difficulty.

The United States has only a limited supply of individuals with the breadth of technical knowledge and other competences necessary for successful work in the field of technical assistance. However, the requisite skills can be developed through a careful system of selection and training. While the U.S. has been engaged in large-scale governmental technical assistance activities for at least twenty years, it has paid little attention to the selection and training processes. Only within the past few years has AID begun to utilize the existing knowledge about

techniques for preparing individuals to deal with technical assistance. AID still provides little pre-departure training of its overseas personnel for the difficult and complex relationships they must maintain with individuals of a different culture. Nor does it furnish them with the understanding of the process of institution-building that is fundamental to the success of their work.

Part of the past neglect is attributable to a naive conviction that many of the interpersonal skills required can only be developed on the job. AID and other agencies have paid dearly for this assumption. Equally significant, however, has been the concept that U.S. foreign aid activities are only a transitory phenomenon and that the investment required in improving the selection process and in providing pre-assignment training was not justified for a "temporary" program.

AID also has only recently recognized the importance of mid-career training for its personnel who have been stationed overseas for a period of years. This change has come about as part of the realization that U.S. assistance to LDCs has become part of the basic foreign policy operations of the American Government. While elements of a specialized foreign service have been developing for AID personnel, severe staff reductions, both in Washington and in overseas missions, have created great insecurities and led to the departure from the aid program of many highly competent individuals.

With the prospective increased emphasis upon technical assistance, AID will be required to augment and rebuild its field staff for this type of work. Whether it relies upon directly recruited staff or upon staff supplied by other agencies through participating agency service agreements or contracts, AID will still be basically responsible for the quality of performance of its program. The selection and preparation of

personnel for overseas technical assistance assignments will require AID's intensive attention.

There are indications that desirable improvements in AID's personnel operations are already being initiated, in spite of the recurring reduction-in-force difficulties that have confronted the agency. A substantial infusion of new and often younger blood will, however, require positive recruitment from such sources as Peace Corps personnel returning from overseas, employees of Federal, State and local governments, staff members of universities and other non-governmental agencies with overseas experience and returning servicemen who have participated in the reconstruction of rural areas in Vietnam. In the selection of its technical assistance personnel, AID might well make greater use of the experience of the Peace Corps and other agencies in testing the probable adaptability of an applicant (and his dependents) to work in a culture other than his own.

Mention has already been made of recent improvements in AID's predeparture training of new staff members. These innovations should be carried farther, especially in giving such employees deeper understanding of interpersonal relationships in an intercultural context and of the complex tasks involved in the creation or reinforcement of institutions that will serve as viable instruments of societal change.

(c) Recruiting and training personnel for duty under the AID/Treasury Participating Agency Agreement

In two major fields covered by the AID/Treasury agreement—tax administration and customs administration—substantial numbers of individuals have been sent abroad for technical assistance activities under the auspices of the Foreign Tax Advisory Service of the Internal Revenue Service and the Foreign Customs Advisory Service of the Bureau of Customs. Thus far,

the field of tax policy has involved minimal recruitment of personnel by Treasury for overseas service.

(1) Characteristics of tax administration personnel. Since 1963, AID has looked to the Foreign Tax Advisory Service of the Internal Revenue Service as its principal source of technical guidance and technical assistance personnel in the field of tax administration. The inter-departmental agreement between the Treasury Department and AID contemplates that AID will rely upon the Internal Revenue Service for technical advice in the development and shaping of countries' programs and projects to modernize tax administration, and for consultants, advisors and technicians to serve as members of AID mission staffs in assisting governments to improve their tax administration. As visualized by both agencies, IRS personnel are to be concerned primarily with the administration of revenue systems rather than with advice on tax policy.

As of March 31, 1969, 64 members of the staff of IRS were engaged overseas on long-term assignments (two years) in this type of work in 21 countries. A random sample of 21 of these 64 individuals indicated the following characteristics.

- a. The age range was from 35 to 58, with a median of 47. Sixteen of the 21 had undergraduate degrees. Four of these also had law degrees. Six of the 21 had also qualified as certified public accountants.
- b. The length of their service with IRS ranged from 9 years to 28 years, with a median of 17 years; 14 of the 21 had reached executive or managerial levels in the IRS. Their civil service grades prior to foreign assignment ranged from GS-16 to GS-11. Two had been at GS-16, four at GS-15, six at GS-14, seven at GS-13 and three at GS-11.

- c. The number of years of overseas experience with the Foreign Tax Advisory Service ranged from 1/2 to 4 3/4 years. Nine of the 21 had been overseas more than two years as of April 15, 1969. (The program has been operating for six years.)

In general, these individuals tended to reflect the character of the IRS service from which they had been drawn. IRS is a large organization that has developed a high degree of skill and efficiency in the administration of the Federal income tax system. The normal career of its personnel involves an extended period of service in one of the specialized functional fields of IRS activities such as audit, collection, intelligence or the like. Only when IRS employees reach a relatively senior grade do they customarily secure experience of a generalized tax administration character. While IRS has one of the Federal Government's better in-service training programs and has endeavored in recent years to give its personnel wider varieties of experience, the typical IRS employee appears to have spent most of his career as a specialist in one of the major functional fields of IRS work. Not until he has reached middle age has he had managerial responsibility for an IRS district office. Thus he tends to be a specialist rather than a generalist.

IRS personnel has little opportunity to gain experience in the administration of real property or sales taxes or of customs duties, which are important in low-income countries. While American universities offer academic programs in the field of tax policy and tax law, they provide very little in the field of tax administration. Thus most training in the administration of non-Federal taxes is gained through in-service orientation or on-the-job experience in State or local revenue agencies, to which IRS personnel are not exposed.

(2) Recruitment of IRS personnel for overseas service. IRS

personnel are recruited for technical assistance work on the basis of the requirements of a technical assistance project as agreed upon by the host country and the AID mission. The customary procedure has been for a senior person from FTAS headquarters in Washington, or a senior advisor drawn from some other FTAS field operation, to make a reconnaissance survey of the country's tax administration under the auspices of the AID mission prior to the negotiation of a project agreement. The survey reports are reviewed in Washington by both FTAS and the regional bureau of AID in whose area the country is located, and decisions are reached concerning the number of tax administration advisors to be supplied and the qualifications they should possess.

FTAS has endeavored to identify in advance IRS personnel who are interested in and qualified for technical assistance assignments in tax administration. It has called upon management officials throughout IRS to identify potential candidates for these assignments and has requested interested employees to submit their candidacy. The Service requires that such candidates be strongly endorsed by their appropriate supervisors before they can be considered for overseas work.

In 1963, when the tax administration program in Latin America was in its early stages, a group of IRS employees were trained in advance prior to the development of specific assignments in order to create a Latin American Tax Assistance Reserve (LATAR). Because of the urgent need for their services the members of this group were assigned overseas shortly after their training was completed. The practice of training personnel before a specific duty post has been determined is still used by IRS to accelerate the staffing of positions in tax administration.

The selection of individual IRS employees for overseas positions is made by the headquarters staff of FTAS. The stated criteria for selection include not only technical competence but personal ability to deal with foreign officials. FTAS reviews the Employee's personnel history and the recommendation of his supervisor. The candidate ordinarily is interviewed by the FTAS officer concerned with the particular country, by other headquarters personnel and by the Director of FTAS. If an employee is being considered for an assignment of 2-years' duration, in which he would be accompanied by his dependents, his wife is also interviewed, and efforts are made to determine family suitability for overseas assignment.

When individuals with requisite technical qualifications are not available in the Internal Revenue Service, FTAS assists in locating and recruiting specialists from outside sources. This has been done primarily for specialists in such fields as real property and sales taxation. In the past, AID has also contracted with consulting firms and other institutional sources of personnel with tax administration experience to carry out technical assistance projects, but this practice seems to have been curtailed following the 1963 agreement under which IRS became AID's primary instrument for technical assistance in this field.

(3) Pre-departure training. Prior to their departure on an overseas assignment, IRS personnel usually receive technical orientation by FTAS and more generalized preparation for overseas service by the Foreign Service Institute of the State Department and the Training Branch of AID/Washington.

The technical orientation provided by FTAS primarily concerns the general policies of that Service, the specific tax administration problems of the country and the work plans for the project to which the employee is to be assigned. The assumption appears to be that the employee already has the basic technical competence required for the position he is to fill.

While he is provided with information about the national tax system and the history of any previous FTAS relationship with the country, there seems to be no organized program for developing expertise in the administration of types of taxes not within the jurisdiction of IRS.

Individuals scheduled for overseas assignments of 2-years' duration ordinarily receive six weeks of additional preparation. Three of these weeks involve area study in the Foreign Service Institute of the State Department and are designed to provide background about the history, culture and other general aspects of the country to which the employee has been assigned. AID provides a further three weeks of training concerning the process of economic and social development, overseas work and related matters. When language training is required for effective work in the country of assignment, employees may, in addition, be given up to 16 weeks of intensive language training through the Foreign Service Institute.

Employees selected for future technical assistance needs in Latin America under the LATAR program receive the same type of training as employees selected for immediate overseas assignments. However, if no immediate vacancy is available in Latin America, they are returned to their normal IRS positions pending a further call. Some of the IRS technical assistance personnel currently in the field in Latin America, were recruited and trained in LATAR, returned to their normal domestic assignments, and subsequently called on for overseas service. Because of uncertainty about the future size of AID's technical assistance program in tax administration, LATAR training currently has been curtailed.

Personnel selected for short-term assignments, usually involving one to three months of overseas duty on specific technical problems, ordinarily receive only the IRS orientation. They may also secure a

limited briefing from the AID Training Branch.

(4) Personnel for technical assistance in customs administration.

As is the case in tax administration, personnel requirements for technical assistance work in customs administration are determined through a previous agreement between the host country and the AID mission. In most cases this agreement is developed after a preliminary survey has been made by a Washington headquarters representative of the Bureau of Customs.

The technical duties involved in customs administration appear, on the whole, to be somewhat less complex than those required in the field of tax administration. With the development of the Brussels Customs Convention, very substantial progress has been made in the international standardization of customs nomenclature and terminology. Nevertheless, improvement in customs administration in most less developed countries requires substantial technical work in such fields as appraisement, as well as improvement in management and control of custom house operations, enforcement techniques and related activities. This involves the same understanding of societal change and institution-building and the same interpersonal and intercultural skills as are required in other fields of technical assistance.

Prior to 1966, AID and its predecessor agencies made relatively little use of the U.S. Bureau of Customs for technical assistance tasks. In several instances, countries desiring help in improving their customs operations were furnished assistance through AID-financed contracts with management firms. These firms sometimes employed retired U.S. Customs Bureau officials to provide the requisite technical capabilities. In other instances, AID directly engaged the services of retired customs officials or other personnel with technical knowledge. Since 1966, under

its agreement with Treasury, AID has looked to the Customs Bureau to provide the guidance and the personnel for technical assistance projects in this field. As of April 1969, 21 employees of the Bureau of Customs were engaged in this work in 8 countries. This represented a decrease of more than 50% from fiscal 1968, when a total of 44 such employees were assigned to 10 countries. Nine of the 21 presently overseas are located in Vietnam.

(5) Characteristics of customs bureau personnel. Biographical information obtained for 20 of the 21 Customs Advisors currently overseas indicates the following characteristics:

- a. The age range is from 30 to 64, with a median of slightly over 45 years. Eleven have undergraduate degrees; two hold law degrees.
- b. Their length of service in the Customs Bureau ranges from 3 to 33 years, with a median of 11 years. Seven of them had job titles in their previous Customs Bureau assignments denoting supervisory responsibility. Their civil service grades prior to foreign assignment ranged from GS-13 to GS-9. Two had been at GS-13, 9 at GS-12, two at GS-11, two at GS-10 and one at GS-9. One Customs employee had been hired in Saigon as a transfer from direct-hire status in the AID mission in that country.
- c. The number of years of overseas advisory experience ranged from 1 1/2 to 6 years. Twelve of the 20 had been overseas more than two years as of April 1969.

(6) Character of Customs Bureau careers. During recent years service in the U.S. Bureau of Customs has increasingly taken on the characteristics of a professionalized career. A new Customs Bureau staff member usually

enters as a Grade 7 in one of three main categories—examiner, inspector or agent. The typical customs technical assistance advisor had been in the U.S. Customs Bureau for his entire work experience prior to his overseas assignment.

It is noteworthy that, on the whole, the customs staff utilized for overseas technical assistance are of lesser grade and younger age than their IRS counterparts. This fact may reflect the lesser complexity of the customs task, but it also may indicate a willingness on the part of the Bureau of Customs to assign younger employees to overseas programs, as part of a staff overseas development concept. In the selection of personnel for technical assistance work, the Bureau has endeavored to take into account personal characteristics such as flexibility and capacity to adapt to new environments. The relative similarity in basic customs operations among almost all countries may make this course of action easier than it is in the field of tax administration.

In general, the recruitment methods utilized by the Customs Bureau for identifying personnel for overseas assignments are similar to those employed by IRS. The smaller size of the Customs Bureau (less than 10,000 employees as against almost 60,000 for IRS) means that the Bureau has a more limited group from which to draw and perhaps somewhat more difficulty in working out arrangements under which employees who have served overseas can return to their old jobs when their overseas assignments are completed.

The training pattern for Customs Bureau employees selected for overseas technical assistance duties follows that of IRS. While the Customs Bureau has developed plans for a reserve group comparable to LATAR, and has trained 19 officers in two classes, the curtailment of technical assistance work in its field for balance of payments reasons has resulted in a current surplus of customs officers prepared for or experienced in overseas advisory work. Consequently, the

plan for a ready reserve has been suspended. A substantial number of Customs Bureau employees who have lived and worked along the Mexican border or in Puerto Rico have Spanish language facility. This provides the service with a valuable resource for work in Latin America.

The typical assignment pattern of a Customs Bureau employee is to serve overseas for two years and then return to his old position or one of similar status. Since the Bureau's technical assistance activities were inaugurated only in 1966, the concept of a longer-range career pattern in foreign technical assistance work has not yet received management attention.

(7) Personnel for technical assistance in tax policy. To the extent that AID has provided technical assistance to countries in the field of revenue policy, it has relied primarily on temporarily engaged individual experts such as university professors, or upon economic consultant firms under AID contracts. As indicated elsewhere in this report, there has been an assumption that most technical advisory work in this field should be left to multilateral agencies, particularly the International Monetary Fund or the Organization of American States. There seems to be little indication that the relatively scarce skills required for advice to countries on matters of revenue policy can be made available to AID from the present staff in the Treasury Department or other U.S. Government agencies. In addition, there is a widespread belief among senior personnel in AID and in some of the international organizations that these Federal agencies are closely identified with the domestic aspects of U.S. economic policy and, in general, are not oriented to the development problems of low-income countries.

The number of advisors on tax policy required for overseas service under the AID program is not large. The most effective method of utilizing the service of such an expert is for the low-income country itself to select, recruit and pay him. The more he is identified with the country whose officials he is advising, the less will his advice be suspect of bias in favor of U.S. policy or of U.S. economic interests.^{1/} The most important function of the U.S. Government in facilitating this type of arrangement would be that of maintaining a roster of personnel whom it considers highly qualified for this type of assignment and of making the list available to countries requesting help in identifying American experts. There would be no formal U.S. Government preparation of such an individual, other than furnishing him with such information as he might request about the country that he is to advise and about past and current U.S. assistance to it.

Under some circumstances it may be appropriate for an American tax policy advisor to be sent to a country under the customary technical assistance arrangement, with his salary and allowances paid from the U.S. economic aid program. In such instances, the U.S. must recruit him and provide him with such training and orientation as he may require. It is possible that an individual with the necessary personal and professional qualifications can be located on the staff of one of the Federal agencies, but more frequently it will be necessary to recruit him from a non-governmental source. Recruitment of senior experts of this character can seldom be done by a central personnel office; instead, the task must usually be undertaken by a substantive specialist who knows the professional

^{1/}The Panel recognizes that even such an arrangement does not necessarily preclude criticism about United States influence, as experience in several countries demonstrates.

field and the professional networks through which qualified persons can be identified and their suitability evaluated.

Tax policy advisors must have had a substantial body of high-level technical experience to qualify for this type of position, and there would normally be no need for providing such an advisor with further technical training to equip him for his new task. However, he ordinarily will need a period of orientation about the country to which he is going (unless he is already familiar with it through previous work), the nature and extent of United States Government concern with the nation's development, the American aid organization and program, the interest and activities of other bilateral or multilateral sources of assistance and related matters. The Panel has been informed of instances in which little or no orientation of this character was provided prior to the departure of a senior specialist, on the assumption that he would be furnished with this information after his arrival at his field post. Even for an individual of outstanding professional qualifications and past familiarity with the country of his assignment, this is a dangerous and often wasteful practice. While much of the background he will need in his work can best be provided by the AID mission in the field, the senior personnel of these missions seldom have the time to provide a full orientation program for new members of their staffs. The missions are more knowledgeable than the Washington agencies about local problems, institutions and personalities, but they seldom are equipped to furnish the new recruit with comprehensive information about other relevant elements of his task.

Beyond this type of predeparture orientation is the question of whether senior personnel who are to engage in technical assistance work should be required to participate in any type of training designed to

help them develop their understanding of the process of societal change and their skills in intercultural relations. Most individuals recruited as tax policy advisors will have had periods of work or study abroad, and some will have previously served as fiscal advisors to foreign governments. Although there will obviously be exceptions, especially for persons who have had recent successful experience in this capacity, many individuals who have a high level of technical competence in tax policy or other specialized fields have had limited preparation for the societal change and intercultural relationship aspects of their work. They may not need as much exposure to such training as do less experienced persons, but most of them would benefit by personal experience in a series of well-developed training sessions.

6. Participant Training

Participant training over the years has accounted for 9 percent of the AID mission funds spent on Treasury Department projects, in countries where such projects are active. The cumulative dollar amount spent for training of nationals of these countries by the end of fiscal year 1968 was about \$1,300,000, and the proposed funding for fiscal year 1969 was approximately \$300,000.

The Panel was unable to secure a cumulative record of the number of participants or, better yet, a record of the man-days of participant training. According to OIT records for fiscal years 1966 through 1968 and Treasury Department records for 1969, Treasury has had primary training responsibility for the following numbers of participants in these years:

Fiscal year	Number of Participants			Total
	IRS	Customs Bureau	Other Treasury	
1966	76	10	-	86
1967	54	34	4	92
1968	100	76	8	184
1969	47	86	-	133
Total	277 ^{1/}	206	12	495

^{1/}This figure does not include participants enrolled in the Harvard Law School International Program in Taxation, who spend two weeks at IRS headquarters at the close of their academic work.

Not included in these figures are the many "casuals," or "non-scheduled visitors," as the IRS prefers to call them. A rough idea of the numbers of these visitors may be gained by subtracting the foregoing participant figures from those for the total of foreign visitors, as recorded by Treasury Department, as follows:

Fiscal	Total Number of Foreign Visitors		
	IRS	Customs Bureau	Other Treasury ^{1/}
1966	308	78	NA
1967	287	118	53
1968	298	134	54
1969 (1st 3/4)	140	58	43
Total	1,033	388	150

^{1/}Because of the large number of members of some delegations, this agency supplied data on the number of groups rather than the number of individuals.

Participant training serves four related purposes. It increases the participants' technical knowledge and skills. It increases their motivation to perform effectively. It enhances their prestige and thus helps them assume leadership roles. It improves international relations and increases the receptivity of host countries to U.S. technical assistance.

Each of these purposes is important and worthy of financial support.

The training provided by IRS and Customs Bureau has apparently been effective. The PARs contain numerous favorable comments. The exit interviews conducted by American University's Development Education and Training Research Institute (DETRI) rated the IRS courses below average in early months; but the faults that were disclosed were corrected, and recent interviews have rated these courses well above average. We found too few DETRI ratings of Customs Bureau courses to draw valid conclusions from them, but comments on the courses from responsible sources are favorable.

The PARs contain 18 factors on which mission directors were requested to rate participant training positive or negative. Nineteen PARs contain responses in this section, but many do not contain responses on every factor. The following tabulation identifies some of the areas of success and some of the problem areas.

<u>No.</u>	<u>Factor</u>	<u>No. of positive ratings</u>	<u>No. of negative ratings</u>	<u>Abstentions</u>	<u>Not applicable</u>
054	Appropriateness of post-training placements	20	1	-	-
053	Relevance of training for present project purposes	20	-	1	-
045	Technical/professional qualifications	20	-	1	-
057	Adequacy of performance	19	-	2	-
052	Appropriateness of original selection	18	-	3	-
058	Continuance on project	18	1	2	-
055	Utility of training regardless of changes in project	18	-	3	-
044	Host country operational considerations (e.g., selection procedures)	17	1	3	-
047	Quality of general orientation	17	-	4	-
043	Availability of host country funding	16	2	3	-
060	Mission or contractor follow-up activity	16	-	5	-
046	Quality of technical orientation	16	-	5	-
050	Participants' availability for training	15	3	3	-
056	Ability to get meritorious ideas accepted by supervisors	14	5	2	-

<u>No.</u>	<u>Factor</u>	<u>No. of positive ratings</u>	<u>No. of negative ratings</u>	<u>Abstentions</u>	<u>Not applicable</u>
049	Collaboration by participants' supervisors in planning training	10	3	8	-
059	Availability of necessary facilities and equipment	10	3	6	2
048	Participants' collaboration in planning content of program	10	2	8	1
042	English language ability	9	5	7	-

Every factor received at least nine positive ratings. If we assume that abstentions are mildly negative, we may conclude that there are only two areas in which a majority of the reporting mission directors give the participant training a negative rating—collaboration by participants' supervisors in planning training and English language ability of participants. In two other areas—availability of necessary facilities and equipment and participants' collaboration in planning content of program—the scales are almost evenly balanced if one counts an abstention as a negative rating. The next factor in order of negative ratings plus abstentions is ability to get meritorious ideas accepted by supervisors, a very important aspect. This is a problem that will undoubtedly persist and must be accepted as a challenge to be overcome by consistent effort on many fronts. No other factor received fewer than 15 positive ratings in the 21 PARs that contained useful responses.

We believe participant training is a valuable aspect of technical assistance and should be continued on something approximating its present scale. Consideration must be given, however, to the mechanics of the program. Several issues deserve attention.

1. Should third-country training be substituted for training in the United States?

Training in the host country should be—and has been—stressed very heavily by Treasury personnel. This is one of the most obvious devices by which to institutionalize technical assistance. Third-country

training has also been encouraged in the last few years by IRS and appears promising. It will greatly enhance the morale of the tax agencies of countries in which it is conducted and will probably be somewhat more relevant to the problems faced by participants than training in the United States. Care must be taken, however, to avoid training that reinforces the deficiencies in the countries from which the trainees come. In our opinion, third-country training should be a junior partner in the participant training program for tax and customs administration for several more years.

2. Should management of participant training programs in the United States be delegated to Treasury Department?

The arrangements for participant training in tax and customs administration, such as working out the specific training courses a foreign official will take and the observational visits to operating agencies he will make, are managed by AID's Office of International Training (OIT) whereas in most other fields this function is delegated to the participating agencies. This division of responsibility leads to frictions that would seem to be avoidable. Both OIT and Treasury profess to desire that this type of activity should be performed by the Treasury. We suggest that the feasibility of transferring this function be given early consideration.

3. Are IRS and Customs Bureau the most appropriate agencies to teach the management aspects of tax and customs administration?

In recent years the IRS courses have emphasized management principles as much as tax administrative techniques. This orientation has raised the question whether academic institutions or other agencies might be better qualified for management training. After examining several of the instructor guides prepared by the IRS Training Division, we are of the opinion that there is at least a slight advantage in using high-level IRS personnel rather than academic resources. The ability of IRS personnel to relate management principles to tax administration and to gain the

confidence and respect of participants by reason of their positions, in our opinion, outweighs the superior pedagogic and subject matter expertise of the academic personnel.

It is our impression that the Customs Bureau training courses are somewhat more task-oriented than those of IRS, and there is no question that the Bureau is uniquely qualified to conduct training in this field, including management techniques.

4. Should OIT or IRS arrange for training in property tax and sales tax administration?

IRS is relatively inexperienced in sales tax administration and totally inexperienced in real property tax administration. Sales tax administration is not so different from income tax administration that IRS' conduct of training in this area would be incongruous. But training in property taxation is a task for other agencies, and the use of other agencies for at least part of any course in sales tax administration is highly desirable.

If a participant or group of participants is concerned only with one or both of these types of taxes, the training could be arranged by OIT or by IRS. It is our very limited observation that creditable jobs have been done by both agencies. We believe, however, that there is much room for improvement and that the greater opportunity for success resides in IRS.

The main reason why we prefer to see this responsibility in IRS' hands is that IRS has cooperative exchange-of-information agreements with many state tax departments in which IRS gives more than it gets. The credit balances which arise from these agreements give IRS an advantage that OIT can hardly hope to overcome.

Whichever agency is given responsibility for training that draws upon state and/or local government resources, there are several avenues for improving upon this phase of participant training.

The state and local governments that are competent in the area of interest should be identified (the National Association of Tax Administrators can provide an excellent appraisal), and their tax or assessment departments should be formally approached by high-level U.S. Government personnel. Changes in administration should be noted, and contacts should be renewed whenever a new department head takes office. All requests for training aid should be directed to the department heads who have responded favorably. Requests for aid should be made at least two weeks in advance—preferably longer. Each request should identify as fully as possible the areas of interest and the backgrounds of the participants. State and local tax departments should not be expected to conduct long training programs unless they have at least a month's forewarning; courses in excess of a week become very burdensome to persons who have little time in which to prepare for them. State and local agencies should be reimbursed by AID for the costs they incur in providing training to foreign participants. Finally, the United States Government agency assuming responsibility for programming should bring to the attention of the state or local agency the existence of COSERV or other volunteer groups which provide hospitality to foreign visitors, tactfully suggest the opportunity to obtain favorable local publicity, and otherwise convey the message that participant training is an opportunity to better international relations as well as an educational experience.

5. Should AID finance academic training in tax policy?

A few American universities offer substantial programs of graduate study in the policy aspects of revenue systems. Of these, the Harvard International Tax Program is the most noteworthy. AID and OAS

have sponsored the participation of foreign officials in the Harvard program. The Panel suggests that, on a selective basis, this type of academic study can help in the development of a cadre of knowledgeable and sophisticated tax policy specialists in the governments and in non-governmental tax research institutions of low-income countries.

7. Multilateral and Bilateral Assistance

Three major international organizations in which the U.S. is a member also provide technical assistance to low-income countries in tax policy, tax administration and customs administration. These are the Organization of American States, the International Monetary Fund, and the United Nations.

(a) Organization of American States

Since the early days of the Alliance for Progress, an informal understanding has existed between the OAS and AID that technical advice to Latin American nations on tax policy would ordinarily be furnished by OAS and that AID would normally provide technical assistance to these countries on tax administration. While this has remained the customary division of labor between the two agencies, under mutually agreed ad hoc arrangements OAS has also provided some assistance in tax administration and AID has financed a few bilateral consultants in tax policy.

During the calendar year 1968, the OAS, with additional financial support from the InterAmerican Development Bank, provided tax missions to eight Latin American countries, involving 15 technical assistance experts. In addition, it supplied the part-time service of a tax technician to the regional organization of the Central American countries in connection with the problems of tax harmonization for the Central American Common Market.

The Panel did not attempt to compare the assistance provided by OAS and that provided by AID. Examination of OAS documentation and conversations with its staff gave the Panel an impression that OAS is at the stage of its development when primary emphasis is being placed upon the drafting of "model" tax legislation, which may or may not be appropriate to the circumstances in individual countries. The basic research that OAS is undertaking into existing tax legislation of Latin American countries represents a valuable contribution. In the field of administration, OAS appears to be able to provide some assistance on real property, sales and other taxes in which IRS, as AID's chosen instrument, lacks expertise. However, OAS does not have the ability to supply countries with teams of specialists with experience analogous to that of the IRS staff for work in the field of income tax administration. The Panel gained the impression that OAS is providing useful assistance, in a limited area.

(b) The International Monetary Fund

The IMF has, on a very selective basis, furnished advice on tax policy and, to a lesser extent, on tax and customs administration to low-income countries that have requested assistance from the Fund. The Fund's staff in this field is widely recognized for its high level of technical competence. Moreover, because of its ability to draw upon expertise from many developed countries, the Fund is able to provide expert assistance in a very wide spectrum of tax problems. On the other hand, some criticism of IMF was advanced by American officials in one Latin American country, who emphasized that the Fund was primarily interested in monetary stability rather than in development; they felt that IMF personnel tended to be extremely conservative in their advice to low-income countries.

(c) The United Nations

The Fiscal and Public Administration Divisions, of the United Nations have responded to requests for technical assistance on tax policy and tax and customs administration from a number of developing nations. This is a small-scale activity currently involving approximately a dozen tax experts in as many countries and a few customs administration specialists. American officials who have observed the operation of UN tax experts in low-income countries rate their work as of marginal effectiveness, partly because UN lacks "leverage" in its negotiations with its member states, partly because UN experts sometimes are less well-qualified than the task requires and partly because UN is not able to supply integrated teams which include the various types of skills often necessary for effective technical assistance in tax administration. The Fiscal Division of the UN has produced some useful research studies; the Manual of Land Tax Administration (ST/ECS/103), published in 1968, is a valuable tool for national officials concerned with this aspect of taxation. A very limited number of fellowships for studies in the field of fiscal policy were awarded by UN to officials of developing nations—usually in European institutions.

(d) Relation of bilateral and multilateral assistance

Officials of the State Department, the Treasury Department and AID have expressed the viewpoint that it usually is in the U.S. interest for advice to low-income countries on tax policy to be provided either by a multilateral agency or by some non-governmental source, rather than by U.S. Government personnel. They have stated that foreign governments often are suspicious that U.S. Government advice on fiscal policy may be influenced by U.S. economic interests. Some American officials also believe that the U.S. might be subject to charges of intervention if it became involved in sensitive internal questions of allocation of tax burdens among various groups in a foreign country. On a different note,

the suggestion has also been made that the U.S. should not provide technical assistance in any field that has a coercive implication, such as taxation, but rather should confine its effort to activities that have a more positive aura, such as agriculture, health and education.

The Panel's conclusion is that the U.S. cannot divorce itself from assistance on tax policy in countries in which the size and scope of American economic assistance requires the AID mission to be concerned with the total economy. This does not mean that the U.S. must always deal with the improvement of revenue systems on a bilateral basis. But it does signify that AID must use its influence to see that the national authorities secure whatever technical assistance they require to effect the necessary ameliorations.

The Panel has not attempted to assess the relative efficacy of multilateral and U.S. bilateral technical assistance in the fields with which this report is concerned. Each may have advantages in a given situation. The U.S. appears to be the only source of relatively large-scale technical assistance to nations which wish to undertake extensive modernization of their income tax administrations. On the other hand, the multilateral agencies are able to tap a wider variety of revenue experience and to provide staff with greater language ability. The Panel sees no valid reason why low-income countries desiring assistance in these areas should not have a choice of U.S. bilateral assistance (assuming that the U.S. is interested in providing it and able to do so), bilateral aid from another donor nation or assistance from one of the multilateral agencies.

If the U.S. is deeply involved in the economic viability of a low-income country, it may be very difficult to separate assistance in improving the revenue system from other aspects of U.S. economic aid. Experience in some countries, however, indicates that the U.S. mission and

technical assistance representatives of OAS and IMF have been able to develop collaborative relationships which may obviate conflicts in the advice they provide.

The Panel also believes that the growing role of the International Bank for Reconstruction and Development as the chairman of formal consortia or informal consultative groups of aid donors provides an opportunity for more effective work in improving revenue systems. Both the Bank and individual donor countries usually share a concern about the need for increasing governmental revenues of low-income countries to finance the local currency costs of development facilities and services. In its capacity as leader of these coordinative groups, the Bank is in a position to maximize the combined influence of the donors to persuade governments to take the actions necessary to improve both tax policy and revenue administration and to arrange for whatever external technical assistance may be required to aid national officials to accomplish this goal. As is true in other consortium operations, this technical assistance might be provided from multilateral sources, from bilateral sources or from a combination of the two.

The Panel suggests that the United States should explore with the IBRD the possibility that that institution might take greater leadership in urging developing countries to move ahead more rapidly with needed improvements in revenue systems.

IV. ASSISTANCE IN TAX ADMINISTRATION

1. Nature and Growth of Activities

The IRS technical assistance program in tax administration is a service rendered by the IRS to AID under the general agreement between AID and the Treasury Department covering technical assistance on tax administration, customs administration and tax policy advice. The specific projects for IRS assistance in each country are agreed upon through a Participating Agency Service Agreement (PASA) between IRS and AID. This arrangement originated in requests for technical assistance in tax administration by certain countries which were met by AID direct hire of IRS personnel. For example, a Chilean request of this nature in 1961 is one of the earliest, and AID directly hired IRS advisors in agreement with IRS. The demand for technical assistance in this field and the experience with ad hoc previous arrangements led to the conclusion of the general agreement between the Treasury and AID on May 28, 1963. The Foreign Tax Assistance Staff (FTAS) was created in the Washington headquarters of IRS to supervise and support tax teams that were sent to different countries, mostly, at the beginning, in Latin America. The number of teams operating in foreign countries, the number of advisors and the Washington FTAS staff grew as follows:

<u>Year ended June 30</u>	<u>No. of active teams</u>	<u>No. of long-term advisors on active teams</u>	<u>No. of persons on FTAS staff^{1/}</u>	<u>Total costs of program (thousands)</u>
1964	9	22	10	\$ 720
1966	19	70	20	2,295
1968	21	78	23	2,838
1969 (March 31)	21	64	24	1,961 ^{2/}

^{1/}Includes Treasury personnel concerned with training of foreign tax officials.

^{2/}To March 31 includes \$18 thousand reimbursed by Trinidad and Tobago.

Source: Internal Revenue Service, Foreign Tax Assistance Service.

The IRS tax administration program represents the oldest and largest of the three activities conducted by the Treasury Department for AID under PASA agreements as measured by number of teams, number of advisors involved and expenditures. It also has the largest, most autonomous and best-defined administrative set-up of the three. The director of FTAS reports directly to the Commissioner of Internal Revenue, and a tradition of considerable autonomy in the discharge of his duties is well established.

By and large, the IRS tax administration project appears to have been a successful technical assistance activity, with an above-average record of success in producing desirable changes in the administration of taxes in less developed countries. Although we have not had the means of comparing this program with AID activities in other fields, it is this Panel's impression that the IRS program has had a steadier record of success than many other technical assistance efforts.

2. Measurement of Accomplishments

There is, however, great difficulty in ascertaining the effects of IRS teams on revenue collections, which is the measure of results most frequently used. Some observers have pointed out that there has been too much of an inclination on the part of IRS, AID and the cooperating countries to assume, without adequate qualifications, that higher revenue collections resulted from the efforts of the tax teams. Higher revenues are, of course, the joint effect of many factors. It is not correct to assume that the total growth of a country's revenues between given years can be imputed solely to an IRS team's effort. Any attempt to make such a claim and to ascertain the attribution of the technical assistance should be carefully supported by detailed analysis. This is attempted in some of the internal IRS reports. To facilitate understanding, these qualifications are too often omitted in the briefer reports. Nevertheless, the frequency of the association between the two sets of conditions

and the supporting evidence of increases in collection from specific improvements in such fields as auditing, reduction of arrears, more complete taxpayer rolls, etc., point clearly to some—in most cases significant—increments in revenue due to tax administration reforms originating in the technical assistance given by the IRS teams.

The placing of too much emphasis on revenue increases is a two-edged sword of which all participants should be wary. It may distort the administrative appraisal of the project throughout the years. Much higher increases may occur at first as a result of the correction of the easiest, simplest and most fiscally significant defects, such, for example, as taxes in arrears, while the aspects that are more basic but less productive of quick revenues, such as those related to the adoption of self-perpetuating change and managerial improvement attitudes, may tend to be undervalued.

3. USAID Missions' Appraisals of the IRS Projects

In general, the Panel concludes that administrative improvements promoted by IRS teams have made significant contributions to tax revenue collection increases in most of the countries they have operated in.^{1/} This has been officially recognized by AID, as exemplified by the statements in the March, 1969 report entitled "A Review of Alliance for Progress Goals."

^{1/} There are countries in which the statistical measures of accomplishment to date have not revealed the effect of the administrative improvement fully, but which have produced what appear to be significant basic changes in attitudes toward administration. (S.L. Descartes, Report on Evaluation of the IRS Project in India, 1968.)

The general success of the IRS program is recognized by a majority of AID officials interviewed in Washington and the field. The over-all judgment of AID missions concerning the effectiveness of the projects in attaining their objectives, as given in the Program Appraisal Reports (PARs) which were supplied the Panel, is as follows:

Outstanding	1
Outstanding minus	5
Satisfactory plus	7
Satisfactory	5
Satisfactory minus	1
Unsatisfactory plus	0
Unsatisfactory	0
	<hr/>
	19

Thirteen out of 19 evaluations rated the projects better than satisfactory. This is in line with a 1966 evaluation report of the IRS teams' work in four countries in Latin America, which termed it very good in two countries and less successful in another two where host country receptivity had been poor.

4. The IRS Teams' Approach to Technical Assistance

One of the basic reasons for the over-all positive performance of the IRS teams has been the nature of their field of activity: tax administration. This is a subject that lends itself to rather specific approaches, designed to improve distinct procedures and specific aspects of organization. Each IRS team's work plan is developed and carried out very methodically and deals sequentially with specific procedures in detail. The process begins with a preliminary survey to ascertain the principal deficiencies of tax administration in a given country and suggest the general way to improve the process. After that, a resident team is sent, which, within the general framework of the survey, divides up the proposed action into more detailed component parts, proceeds to persuade the authorities to adopt the recommended procedures and helps to implement them. The long-range objective is always an

overall organizational and management reform.

This technique, in its broadest terms, means making accessible to the LDCs the experience of the largest and probably one of the most effective tax administration system in the world, with its proven capacity to handle overwhelmingly large numbers of tax returns. Its method is to aim, one by one, at rather small procedural improvements of some phases of the arduous task of tax administration. Each improvement of administration is usually limited in scope and objective; but the basic objectives are stated to be always the major terms of reference: overall reform of the organization, management and procedures for tax administration.

It is perhaps ironic that in this particularistic feature of its method lies both the origin of its success and the basic doubts about its efficacy. On the one hand, experience of most organizations engaged in technical assistance points out the rather discouraging results of the "general" or "overall" approaches. If the objective is to improve an entire activity or field, the obstacles multiply and little progress is achieved. For example, experienced technical assistance practitioners of other agencies confronted with field-wide problems of fiscal matters have chosen segments, and rather specific ones, such as those pertaining to budget administration, government accounting and tax administration, concentrated on these, and moved upward and outward from the narrower focus of activity in which success has been attained to the more general. A like trend in the IRS program is beginning to become evident. The Colombia PAR refers to it explicitly. The need for revision of the team composition and objectives was noted by the final IRS report on India and by the evaluation report.

The answer to the criticisms of the IRS approach seems to lie in a well-chosen, analytically rigorous determination of the broad, long-range

objectives. The breaking down of the assistance function at its initial stage into manageable, easily identified, easily highlighted improvements is the practical way. Whether this is clearly enough articulated in the IRS teams' terms of reference and is well understood by the AID missions is another question. For example, the preliminary surveys, which establish the broad terms of reference for the teams in the countries in which they are to serve, have not been as encompassing as would be desirable.

In some cases there have been no preliminary surveys. The ingredients of tax structure and a viable tax policy have not been a part or a background of the preliminary reports in most cases. These missing elements should usually be provided by AID. This need is discussed at greater length in the section on tax policy.

5. Other Critical Observations

On the other hand, the most cogent criticisms of the IRS teams' approach are based on what has thus far been learned about the socio-cultural base and processes for producing change and of establishing it on a self-perpetuating basis. To accept administrative revision and change as a continuing practice means changing people's attitudes and behavior. To make administrative improvement self-perpetuating, the process of change must in some way become institutionalized. But institutionalization is not a mere change in the organization chart. It is only meaningful when it becomes part of the officials' everyday way of doing things, when it becomes part of the way they act and think, preferably almost unconsciously. This objective of course, is to be achieved in a context of an understanding of change as a socio-cultural phenomenon.

Some persons have expressed doubts about the IRS teams' effectiveness in producing the desired changes in attitudes. These critics—and they constitute a respectable intellectual and often a widely experienced

group—consider that the effective approach should be more general, that it should aim at the institutionalization of an overall management philosophy and practice which will be accepted at the higher levels and then put into practice with even greater stress on training. With respect to this type of critical observation, it is necessary to call attention to the persistence in AID's headquarters of views about the IRS teams' approach that might have been corrected or modified by a better knowledge of the IRS program.

It appears to the Panel that the IRS assistance is not yet fully understood by some AID officials. We have found instances of incomplete comprehension of the role of in-country and U.S. training of national officials and of some other elements that contribute to institution building. Perhaps FTAS may have contributed to this deficiency by what might be an even unconscious resistance to face some AID observations. More candid exchanges between the contracting agencies would have been extremely useful in the past and would certainly be in the future.

But, however these exchanges may diminish the differences in viewpoint—which incidentally do not seem to have impeded the operational effectiveness of the program—it appears to the Panel that the basic lack of adequate communication between AID and IRS remains. It is clear that a contact point or points between AID and IRS for periodic intensive joint reviews of the program have been lacking.

But the basic questions remain clearly before us: Is a process of technical assistance relying on change in small doses in specific aspects of a much broader activity capable of producing changes in the foreign officials and agencies involved, thereby assuring its perpetuation, i.e., achieving solidly based institutionalization? If not, should drastic alterations in the approach to make it more effective and efficient in

securing basic institutional change be considered? Or are adjustments and supplementations of the already proved approach that would enhance its institution-building potential more promising of results?

First, there seems to be evidence that the present IRS approach is capable of inducing some attitudinal changes, a basic requirement to institution building. The case of India seems to point in that direction—at least provisionally—since the endurance of these changes after the departure of the team, which occurred in December 1968, has not yet been determined. The Chilean, Panamanian and Philippine experiences also point this way. On the other hand, the Colombia experience, as expressed in the PAR, though acknowledged as generally successful and satisfactory to the Mission, indicates skepticism about the survival of the reforms because the project has concentrated on development of things and processes. The AID/Colombia Mission advocates future concentration on more vital areas and on influential officials. The PAR points out that limitations of the basic approach of the IRS career employees toward advisory work has set, and will continue to set, upper limits to the potential achievement of the project. While the impression conveyed is that the limits are set by the approach of the IRS career employees, the Panel believes that a more complete interpretation would be to state that the approach—the program in its entirety, what AID contracted for—is responsible for its limited potential. Placing the responsibility on the "employees," therefore, does not seem adequate.

There are, however, valid reasons that point to the need for strengthening or altering the emphasis among the various components of the IRS approach, so as to stress those aspects related to the processes of inducing change, achieving attitudinal changes in the personnel involved and basically achieving institutionalization. In answer to

some of these types of questions, IRS points to its emphasis on training—on the job, in formal training facilities and in Washington under INTAX. FTAS' initiative in the creation of the InterAmerican Center of Tax Administrators and its interest in developing similar associations in other regions are also stressed as evidence of the agency's consciousness of the need for continuing intellectual stimulation in the institution-building process.

The Panel believes that it would be contrary to the interests of the United States either to abandon or to attempt to change drastically the character of the IRS program. Notwithstanding its limitations—and all programs have them—this is a tested approach. The Panel believes that a joint effort of AID/Washington and FTAS to review the experience of this program in detail, to vigorously and candidly exchange views and criticisms, to avoid dodging questions or glossing over differences, and to work toward adding to the existing, fruitful approach some additional elements would do much to make it even more useful than it now is.

This review endeavor should be approached modestly and patiently, aiming at gradual improvement rather than at drastic change (not even our U.S. institutions, through they may be better prepared for change, can ignore the time required to introduce change successfully). Doctrinaire, inflexible positions should be avoided, and care should be taken lest desirable aspects of the present arrangements (the relative autonomy of FTAS, for example) be sacrificed.

5. Tax Administration and Tax Policy

Another set of basic observations about the IRS assistance program deals with the implied distinction between it and tax policy. The clear, repetitive insistence in the Treasury/AID agreement of May 18,

1963 must be emphasized. The services of IRS were contracted to allow AID to..."draw on the resources of IRS and IRS agrees to make its resources available to assist in improving tax administration in cooperating countries." (Emphasis added) In its inquiry the Panel encountered criticisms of this dichotomy, ranging from mild questioning whether tax administration and tax policy assistance can be conducted as separate and even mutually exclusive activities in the milieu of LDCs, to the basic one as to whether the program can make valid contributions because of its lack of tax policy value judgments.

In conceptual terms, the statements about the inseparability of tax policy and tax administration are valid. Even the choice of the tax whose administrative procedures are to be improved first has tax policy connotations. The inseparability of these two elements in working with revenue systems in an intellectual sense is undeniable. But what AID accepted was the practical possibility of this separation in the general sense at the operational level in carrying out specific tax administration assistance. That assistance of this type can be provided at the operational level and can produce beneficial results, is borne out by the record. That the strict injunction to IRS teams to avoid all matters related to tax policy is unreal and cannot be observed at all times, though the teams exert great efforts to comply, is also true.

Whether such a separation between policy and administration is conducive to the most effective technical assistance in tax administration is another question. That this separation entails risks, costs, limitations—and serious ones at that—is a fact. These limitations, however, deal principally with such basic subjects as the choice of taxes whose administration is going to be improved and with the economic effects of better administration of undesirable taxes from an overall

socio-economic developmental standpoint. In brief, they deal principally with the broad frames of reference of the programs, with goals and choices of courses and their review over time, rather than with method by which the assistance work is carried out. It is clear that these limitations can be corrected. But the desirable improvements do not require fundamental changes in the character of the IRS program. The work of the IRS teams has in practice proved desirable. As an agency, IRS probably could not provide AID assistance basically different from what is being given. What is necessary is to supplement the IRS teams' work in the aspect which the separation from tax policy weakens it: programming and planning. This additional element should be furnished primarily by AID, in Washington and in the field.

The original policy to separate technical assistance on tax policy and on tax administration had a respectable rationale. The United States was to concentrate on tax administration and the OAS-IDB-ECLA group was to deal with tax policy. Thus the more politically sensitive tax policy issues would be left to multilateral, regional or international agencies, while the U.S. would tackle the less sensitive tax administration field. This arrangement has had only limited success. Sometimes it has tended to preclude the U.S. from moving ahead from one stage of technical assistance to the logical next step.

Initial success in tax administration often tends to lead the host country fiscal authorities to face up to tax policy questions—in a sense move into them and be ready to utilize tax policy inputs. This is a desirable development similar in nature to the need to be ready, even within the IRS program, to shift the emphasis more into the broader managerial philosophy aspects and training of higher-level officials as a next step, as specific and detailed improvements are

achieved in tax administration. What can be fairly expected of the IRS teams and of FTAS is to be sensitive to this type of evolution and to report to the AID missions when these stages are being reached. The extent to which tax policy assistance should be furnished, and the bilateral or multilateral channels which should be utilized, are matters for AID's decision. However, particularly in countries in which there is a substantial U.S. economic assistance program, AID should be prepared to take advantage of the momentum gained through progress in tax administration by helping with broader problems of tax policy.

6. Specialized Competence of IRS

The Panel encountered questions about the desirability of utilizing IRS, an agency which is predominantly and eminently competent in the income tax field, as the source of U.S. technical assistance to LDC's in tax administration.

This involves a question of development strategy. Should the income tax be chosen for administrative improvement in countries where generally it is less important, for example, than customs or excises and other indirect taxes? Goals of redistributive justice are held in high esteem and accorded high priority in most LDCs and in the developed countries offering international developmental assistance. That a better administered income tax contributes to the well-justified distributive goals is also generally accepted. Moreover, studies of taxation associated with the stages of economic development indicate a tendency toward a greater reliance on modern direct taxation—principally income tax—in developing countries as they progress toward more advanced stages. There is therefore the argument that income taxation is an increasingly important tax field in most LDCs. Customs and taxes on external trade

generally tend to decline as countries progress along the stages of development. Consequently there are valid reasons for developed countries to offer technical assistance on the income tax. These were some of the reasons that AID must have had when it decided to utilize IRS. The Panel considers that the choice was, in general, a correct one.

There are also valid reasons to question whether AID's exclusive reliance upon IRS provides the optimal inputs of technical assistance under the different tax mix found in LDCs. This is primarily a country programming issue, largely within the province of the AID field missions. IRS teams are made available in response to a request from the country for tax administration assistance, following discussions with the AID mission. While a preliminary survey is usually made by IRS personnel as the first step in meeting the cooperating country's request, most AID missions do not have the type of personnel necessary to participate in or to evaluate the preliminary survey. Neither are they equipped to appraise the Team's more detailed work plan from the standpoint of the comprehensive tax administration needs of the country. AID missions have substantial responsibility for evaluating the proposed IRS work plans, but they are not staffed for this function nor has provision been made for AID regional or agency-wide staff to perform this analytical function, which requires knowledge both of overall program considerations and of tax policy.

The experience of IRS tax administration assistance as evidenced from the PARs and the limited country visits made by the Panel, indicates that concentration on the income tax has not, in general, been inimical to the program. The possibility that alternative tax administration programs might have had higher cost-benefit ratios in specific countries cannot, however, be ruled out. In this connection it should be noted that the PARs and other project documents may not indicate the extent to which some IRS advisors actually have informally assisted national officials in

the administration of types of taxes which are not covered in the official scope of their work.

Clearly the easy accessibility of what can be termed IRS' "well-packaged, complete technical assistance service" with a good reputation, and offering relatively less administrative difficulties than private consultants has had something to do with IRS' popularity and acceptance by AID and by national authorities. This accessibility, combined with a forceful selling job on the part of IRS, has made it difficult for some missions to resist national requests for IRS teams, even though the mission personnel might have had reservations about the cost-benefit ratio of this activity. On the other hand, it is equally true that this program, especially in its first years, was one not easily understood, adequately evaluated or congenial to the professional point of view of many of the AID officials who had to deal with it. In some cases the program actually aroused antipathy. These attitudes now seem to have been modified; mission judgments on the teams are generally favorable; and a more relaxed, objective attitude toward the program is now prevalent. The attitude of some IRS teams' personnel in defense of their autonomy, and their insistence--in some cases--on dealing only with the top mission or embassy officials in the early years, was a traumatic experience for some missions. These relationship difficulties appear to have been largely resolved.

7. Program and Project Planning

The complete package of technical assistance and other economic aid activities make up the Country Assistance Program (CAP), also referred to as the Project Budget Submission. This document, setting forth the overall development program for the country, is prepared by the mission and sent to Washington for approval. Each one of the projects forms part

of a sector or broad program classification, which in the case of tax administration is the Public Administration Sector. The CAP explains briefly how each part of it—that is, how each project—is expected to contribute to the overall program objectives. A more general and detailed presentation, covering political considerations, is the Program Memorandum, a classified document.

The IRS preliminary survey provides a broad diagnosis of a country's tax administration problems and proposed guidelines for U.S. technical assistance to deal with them. After agreement is reached among the IRS group, the mission and the host country, a more specific project is developed, which when approved forms part of the Country Assistance Program. Some IRS team members, including the team leader in most cases, move to the country promptly. The full team is built up within a reasonable time, usually in about six months, though in some cases there have been observations of too slow a build-up.

The IRS expects a detailed work plan from each country team. These working documents generally follow the general guidelines of the preliminary survey, but there is freedom to incorporate whatever changes may be justified by resident team's more painstaking follow-up examination of the needs for assistance and its assessment of the best way to meet them.

The exchange of information and policy discussions between the IRS team and the AID missions usually are channeled through conferences of the team leader with a designated mission official. The mission representative usually is the Chief Public Administration Officer if the mission contains a public administration unit. Otherwise the point of relationship usually is a member of the Program Division of the mission. The IRS team leader customarily also participates in the periodic staff meetings of the Director of the AID mission.

8. Adequacy of Goals

In general the Panel's impression of the validity and significance of the goals and the clarity of the objectives in the Project Papers (PROPs) and Project Implementation Plans (PIPs) in terms of the specifics of the project was favorable. In the search for clarity and precision, however, the projects often seem to be divided into too many small sub-items (major actions or steps, as identified in Parts I-B-1 and II-A-1 of the PARs). Perhaps this could be partly corrected by limiting the items in the PROPs and PIPs to a shorter list of main activities, even if more detailed breakdowns were used for internal dealings with the cooperating country officials.

The Panel understands the difficulty of articulating the relationship between the objectives of a tax administration project and the objectives of an overall country development program. Reference is usually made in the description of these projects to the obvious need for higher tax revenues. But a detailed articulation of relationships and choices (as, for example, the assessment of pros and cons of technical assistance on different types of taxes) does not generally appear, either in the preliminary survey or in the subsequent documents. Usually the objective of providing technical assistance in the administration of a given tax, predominantly or exclusively in most cases the income tax, is assumed without indications of alternatives. Sometimes this is the field agreed upon even before the preliminary survey (e.g. in India). There are, however, examples of the contrary. The work in Paraguay is a contrary illustration, covering income, property and sales taxation.

The Panel had limited opportunity for field observation, but it gained the impression that the teams make commendable efforts to obtain participation of host country counterparts in developing or changing

their work programs. In fact, in some cases (India) the insistence on utilizing the experience of the local people in developing the broad guidelines of the program during the preliminary survey, or later in formulating work programs, has led to criticism that the proposed work had all been previously recommended by Indian officials and that the team made only a meager original contribution. Such an outcome represents a sound approach rather than a deficiency of the team.

In Latin America, where AID assistance is expected to be specifically related to overall country development plans, every mission keeps track of government revenues and outlays. An effort is made to ascertain annually what revenue increases have been brought about by the tax administration project. This evaluation is followed up even more meticulously when program loans have been made. In some other areas of the world, where the relation between AID's technical assistance and the country's development program may not be as formally established as in Latin America, similar mission evaluations of the results of tax administration assistance take place in varying degrees.

9. IRS Teams' Relationships

(a) With foreign officials

In general, it is the Panel's view that relationships between the teams and their counterparts are good. The physical location of the team, usually housed in the offices of the host country's tax office promotes intimate relations. IRS stresses the need for effective personal relations with host country officials in its pre-departure training programs.

Establishment of the team and the team leader's offices in the places of appropriate prestige to symbolize their standing and rank is important in most LDCs because of attitudes toward rank in their cultures.

These physical arrangements for the IRS operations seem to be generally satisfactory. In many instances the team leader's office adjoins that of the national Director General of Taxes, a symbol of the close relationship.

In some countries that Panel members have visited, there have been highly complimentary comments about the IRS team members as individuals. These reactions also are related to some aspects of American culture such as lack of feeling of caste or class, openness in personal relations and willingness of senior personnel to do things for themselves, including physical chores.

This does not mean, of course, that there has been a perfect record in this respect. In some cases interpersonal relationship problems have arisen. There are instances of removal of IRS personnel whose relations with host country officials were unsatisfactory. These cases appear to have been fewer in number than would be expected in technical assistance activities.

These comments on interpersonal relations in this program should not be construed to mean that there is full, enthusiastic or unquestioning acceptance of tax administration reforms by host countries' counterparts. There is usually a tendency to accept minor procedural changes readily. But changes involving alteration of established administrative structures and those having political implications frequently are resisted strongly and often are accepted only after a long effort or as a result of the advent of a reform-minded government or official.

Intimately connected with good relations with host country counterparts, and with the whole gamut of factors associated with effective operations in a culturally different milieu, is the number of years the technical advisor has remained in the country, the length of

the tour of duty. Other things being equal, operational effectiveness increases with time spent in the country—up to a certain point. The policy of the IRS is to send permanent tax advisors for 2-year tours of duty, with the option of staying for one more such tour, or a total of four years. It is the general view of IRS field personnel that to become an effective operator in a tax administration project, at least six months and usually a year is needed to win the confidence of counterparts and begin to carry weight in a foreign country. The useful time of a 2-year tour of duty thus sometimes is reduced by between one-fourth and one-half of its stated duration. This is an expensive policy. Some experienced team leaders state that the adaptation period is shorter for persons who have already served in another foreign country of similar cultural background. The Panel considered carefully whether to recommend the extension of standard IRS tours of duty to four years. It decided to accept the argument that the extension might add an important inflexibility factor that would militate against the recruitment of better candidates. It urges strongly, however that IRS and AID exert efforts to lengthen the stay of at least the team leader, or of one who succeeds to the team leadership, to four years.

On the other hand, residence in foreign countries without regular home country service is likely to produce a different sort of adverse effect. Some of the experts consider undesirable the loss of professional keenness that results from isolation from usual professional circles and competition of home. To become too "internationalized" may mean in some cases that the advisor becomes too understanding, too relaxed, and thereby may fail to push for changes energetically enough. To avoid the pitfalls at either extreme requires a well-balanced program of training, home visits and professional updating.

Related also to this aspect of relations with cooperating country officials and effectiveness in the discharge of duties in a foreign milieu is the question of training in socio-cultural differences, sensitivity training, and training in the techniques of transference of technology and inducing the acceptance of change and new technology. The Panel concludes that more intensive preparation in these aspects would be highly desirable. It also considers that the process of acquainting the incoming IRS personnel with the country situation in most missions requires considerable strengthening. There were many reports that IRS personnel received little or no briefing on existing conditions in the country upon their arrival.

(b) With USAID missions

The location of tax team advisors in host country tax offices, the origin and backstopping by the U.S. Treasury Department rather than by AID, and the well-defined, specialized nature of its task appears to develop an attitude of self-sufficiency on the part of the teams. But however desirable, self-sufficiency also militates against a sense of identity on the part of IRS team members with the AID mission, in the same sense as direct-hire AID employees or even some contract personnel.

The IRS teams have an understandable pride in their IRS identity and in the autonomous way in which they conduct their work, which they tend to guard zealously. Generally these are attitudes associated with esprit de corps and high morale. The feeling of belonging to the AID Mission differs widely, in degree, of course, because of differences in their personality of team leaders, of AID officers and of the institutional practices prevalent in the AID mission. On the other hand, it is clearly an AID mission's responsibility to maintain consistency of policy and action in its relations with the host country. The opportunity for difference

of view between mission personnel and members of the IRS team is therefore present. While the Panel encountered no situation in which such differences have significantly impeded the work of the team or caused serious problems to the mission, there were examples of minor tensions and malaise. This is a problem to which both IRS and AID could profitably pay more attention and promote practices that would lead to a closer identification of teams with the missions.

Physical proximity of the IRS team and the mission facilitates attaining this objective. Where it has not already been done, the AID mission should provide office space for at least the team leader at the AID offices, contiguous to the office of the AID official person through whom he deals with the mission. This office should be a place that the team leader and his associates use for tasks not appropriate for host government quarters at times (writing confidential papers for example) although the more permanent location should continue to be in the host country tax offices.

The team leader usually participates in the mission director's regular staff meetings. In some few cases in the larger missions they do not attend but are briefed by their mission contact officer. Attendance at staff meetings is one way in which the team leader is kept informed of the affairs of the mission and of developments that may affect the overall mission goals and his own tax administration objectives. Such direct participation is preferable to second-hand briefing by a mission officer.

IRS teams are expected to become aware of the overall AID objectives and strategy through the program reviews of the tax administration project and the general discussions of the overall mission program. The absence of public finance specialists or other personnel with professional knowledge of tax policy in most missions limits the opportunity for both

the IRS team and the mission to obtain the optimum benefits of each other's knowledge. As already indicated, this is a significant deficiency in the mission's participation in the selection of courses of action and emphases in tax administration projects.

Interviews with many team leaders gave the Panel the impression, however, that under normal operating conditions the tax teams get effective general support from AID missions.

10. Reporting Systems

The reporting systems for the IRS tax teams are now in a state of flux. In 1966, when four missions were reviewed and evaluated in Latin America, the evaluation group recommended that "...there should be a loosening-up of purely reporting controls by FTAS...that AID and IRS should maintain an agreed reporting system and AID should clear its channels...so that reports originating in its missions and tax teams will rapidly reach Washington..." "The entire problem of communications between Washington and the missions," the group said, "should be studied to see how they can be improved."

In 1966 IRS instituted a comprehensive reporting system known as IMPACT. This was a rather ambitious system inspired by the advanced management principles that have characterized IRS' domestic operations. The preparation of the first IMPACT reports entailed long and painstaking effort, and the tax teams were unhappy. This dissatisfaction was reduced, we understand, after a meeting of team leaders for discussion of the subject late in 1966.

The new system of administrative control reporting instituted by AID in 1968 covers all technical assistance activities from the initiation of a project to its termination. The reporting series begins with a PROP (Project Paper) and a PPP (Preliminary Project Proposal). As the names indicate, these documents describe the project, its objectives, methods

to attain goals, cost and justification and attempt to ascertain cost-benefit ratios. Later, when the project is commenced, a detailed plan of work or PIP (Project Implementation Plan) is prepared. After a reasonable time of operation, a Project Appraisal Report (PAR) is to be made by each mission on each project, annually but at no fixed date.

The introduction of this new system of administrative reporting, which covers to a considerable extent the same information as the IMPACT report, has prompted IRS to consider the entire matter of reporting with the purpose of avoiding duplication but maintaining the desired degree of administrative control.

Besides the semi-annual IMPACT reports, the IRS requires monthly narrative reports and a quarterly statistical report of host government revenue and tax administrative activities. "Desk regional officers" in the IRS Washington headquarters monitor teams' activities closely with the aid of these reports. Welcome evidence was found of a somewhat more relaxed attitude in FTAS with respect to reporting as compared to 1966. For example, the India team, which was closing up at the end of 1968 and was hard pressed to finish its substantive work, was exempted from the preparation of IMPACT and end-of-activities reports by the Director of FTAS during a visit to that country in mid-1968.

The team leaders, with only a few exceptions, have come to accept the IMPACT reports, though they complain of duplications with AID's PIPs, but they find the quarterly statistical report frustrating and very time-consuming. Some team leaders expressed desire for more regular replies to their reports from regional desk officers in order to obtain an indication of headquarters' appraisal of their work.

Travel restrictions arising from the balance of payments problem have interfered with the scheduled travelling of IRS regional desk officers during the last two years. Thus, conditions over which IRS has had little

if any control have prevented the implementation of the 1966 Evaluation Report recommendation that FTAS should rely more for guidance, monitoring and evaluation on visits by the Washington supervisory personnel and relax the dependence on and pressure for written reports. The Panel hopes that these travel restrictions will be relaxed and that the recommended shift in emphasis, with which we are fully in accord, will be instituted.

V. ASSISTANCE IN CUSTOMS ADMINISTRATION

1. The Foreign Customs Advisory Service

The traditional heavy reliance of LDC's on customs duties for public revenue gave rise to early requests for technical assistance in customs administration. Several small projects were initiated in the Far East in the 1950's. A more systematic effort began in Latin American countries soon after the promulgation of the Alliance for Progress. These services were at first provided by retired Customs Bureau technicians employed as AID direct hires and by private consulting firms.

In mid-1966, customs administration assistance work was or had been conducted in Chile by a former Customs Bureau officer under direct hire by AID. In Peru the consulting firm of Collett and Clapp was conducting a customs administration assistance project. This firm utilized, among others, former Customs Bureau personnel. The 1966 evaluation group reported that the work was "progressing well, at a reasonable rate, taking into consideration the obstacles to progress in the Peruvian milieu" with no prospects of more rapid progress until the government's attitude to tax reform changed. The project was suspended later at the request of the consulting firm since little or no progress could be made due to lack of receptivity on the part of the host country. Other technical assistance activities in the customs field were initiated in 1966 in Panama and Colombia.

Commenting generally on its observations of customs assistance work at that time, the 1966 evaluation group stated: "We have been informed that full provision has been made for coordination between the U.S. Bureau of Customs and the IRS/FTAS programs. We would like to underscore the wisdom of this step and the need for such coordination,

especially in view of the benefits that can accrue by the interchange of valuable experience and lessons learned by the IRS/FTAS and the Customs Bureau." The current evaluation panel has not discovered evidence that customs has adequately exploited the management improvement techniques which IRS has developed in its field.

Undoubtedly the experience with the IRS/FTAS program contributed to the creation in fiscal year 1967 of a small AID-financed Technical Cooperation and Support (TC&S) unit in the Customs Bureau. A special training program to prepare U.S. customs officers desiring to work in foreign countries for technical assistance, modelled after LATAR (Latin American Tax Assistance Reserve) was established that same year.

2. Growth of the Program

From its small beginnings, the program grew to a peak of 44 advisors in 10 countries in 1968. The number of teams and personnel involved in recent years is given below.

Fiscal Year	No. of Active Teams	No. of long-term advisors on active teams	
<u>Fiscal Year</u>	<u>No. of Active Teams</u>	<u>Including Vietnam</u>	<u>Excluding Vietnam</u>
1967	8	38	16
1968	10	44	20
1969	10	30	17
1970 (projected)	8	20	10

Source: Bureau of Customs, Foreign Customs Assistance Service.

The Bureau reported that 21 advisors were serving in eight countries on April 30, 1969.

3. Programming and Project Planning

The Bureau of Customs follows the same procedure as IRS with respect to the start of the project in a nation requesting the service. A group is sent to make a preliminary survey. In the five PARs studied,

one mission (Argentina) commented adversely on the preliminary report and on the subsequent planning and programming for the project. The mission states: "...There was a lack of clear, prior understanding between Argentine Customs and USAID as to the scope and modality of the technical assistance to be rendered. Reliance was placed on the survey report, which effectively identified problems and kinds of technical assistance needed, but which did not constitute a set of mutually agreed goals or indicate how the suggested technical assistance was to be used. As it turned out this was a major obstacle to furnishing technical advice, for the customs administration neither committed itself to a program of changes nor came to any stable arrangement vis a vis the customs advisory team."^{1/}

The Panama PAR has a negative entry for "Project planning and management" in the section dealing with the implementing agency's resource inputs. This was explained thus: "...There has been a problem in establishing well-defined goals and carrying through the projects necessary to attain them. The dual role conflict has contributed significantly to the problem, but an even larger problem has been the difficulty of getting appropriate GOP (Government of Panama) officials to contribute to the conception of goals toward which projects can be planned for implementation." By dual-role conflict, the PAR means that the team leader had to attend to both the general work of coordination of the project and the follow-up of the details of implementing the proposed changes, to the detriment of both functions of the project.

^{1/}The most recent report indicates that a change in Argentinian customs officials has led to acceptance and beginning of implementation of customs advisors' recommendations.

The Vietnam PAR comments with respect to this topic: "The total project, including its pre-PASA and PASA periods, is not an example of careful project definition, planning, and execution. On the contrary, it has not been economical in terms of accomplishments commensurate with funds, time and effort applied. It appears to have been started and later expanded without thorough thinking through of objectives and methods." As partial justification for these deficiencies, it is further said of the project: "Begun as a Direct Hire, it was changed over to a PASA project—but without the full and typical PASA freedom of staff selection since the PASA operation picked up the Direct Hire leadership and rank and file, with completion of tours required before restaffing in terms of newly-defined objectives and emphases could be accomplished." The Foreign Customs Advisory Service staff in Washington does not consider that this PAR adequately describes the difficulties of the Vietnam situation. The Panel agrees that Vietnam is an atypical situation, and that deficiencies in performance in that country do not reflect the general nature of the Custom Bureau's technical assistance work.

4. AID Missions' Appraisal of Technical Assistance on Customs Administration

The ratings in part B-1 of the PARs were examined to compare mission ratings of IRS teams with those of Customs Bureau teams. Nineteen PARs for IRS projects and five for Customs Bureau projects were available. A scale from 1 to 7 for unsatisfactory to outstanding respectively, produced the following comparison:

<u>Rating</u>	<u>No. of PARs</u>	
	<u>IRS</u>	<u>CB</u>
1	0	0
2	0	0
3	1	2
4	5	1
5	7	2
6	5	0
7	1	0
	<u>19</u>	<u>5</u>

The arithmetic mean of the 19 IRS ratings is 4.9, and the corresponding figure for the 5 Customs Bureau ratings is 4.

Because of differences in the rating standards of the various missions, it may be fairer to compare the average ratings for the five countries for which the Panel had PARs for both IRS and CB projects. These ratings are as follows:

<u>Rating</u>	<u>No. of PARs</u>	
	<u>IRS</u>	<u>CB</u>
1	0	0
2	0	0
3	0	2
4	0	1
5	3	2
6	1	0
7	1	0
	<u>5</u>	<u>5</u>

The arithmetic mean for IRS is 5.3; that for Customs Bureau 4.

Either test indicates that the effectiveness of the tax team is rated higher than that of the customs teams by the missions.

The Panel has not been able to ascertain the reasons for this difference in appraisal. A number of explanations were advanced by Embassy, AID and Customs Bureau personnel interviewed. A greater resistance from the host governments to improvement in customs administration than in tax administration seems to be corroborated by the PARs. In two countries, Argentina and Panama, there were noteworthy improvements in tax administration, yet the results of the customs teams' efforts were reported as being much less satisfactory. The nature of the customs function, an older source of revenue traditionally tinged with corruption and inefficiency, and its declining importance as economic development occurs were factors also mentioned. The customs assistance teams' task may be even more difficult than that of achieving tax administration improvements in LDCs. However, it is the Panel's impression that part of the difference may also be due to differences between the Customs Bureau and the IRS in comprehension of the overall objectives of AID's program.

5. Customs Administration and Tariff Policy

The General Agreement with the Treasury and the PASAs with the Bureau of Customs call for the services of the Bureau on customs administration, not on revenue policy. Tariff policy is even more distant from the regular work of the Bureau of Customs than tax policy is from the work of IRS. In fact, the two are even more separate in an administrative sense. Customs revenue policy matters within the U.S. Government are the primary responsibility of the Tariff Commission, an independent agency, rather than of the Treasury Department.

The same advantages and disadvantages, as well as the logical impossibility of the separation of tax policy from tax administration discussed under the IRS heading, apply to the separation of customs policy from customs administration. A lower professional and civil service status of most overseas Customs Bureau personnel, compared to that used for IRS missions, may make the discussion of customs policy issues by custom team advisors more difficult than would be true of some of the IRS advisors, especially for the IRS team leaders.

These fields of customs policy and customs administration are so separated in practice that the issue was never raised by either AID or the Bureau of Customs or the few host country officials contacted. Apparently there has not been significant demand for technical assistance in this field from AID. That agency has only a few projects which deal with this subject—and these primarily in Africa where the U.S. generally is not concerned with the total economy of the host countries—while it has directly financed a number of tax policy projects despite its avowed policy of avoiding them.

The Panel has lacked time to study the relation of customs revenue policy and customs administration in depth and limits itself to the suggestion that this is a topic deserving joint attention by AID and the Bureau of Customs, with the advice of the U.S. Tariff Commission.

6. Relationships of Customs Teams

The PARs reveal that most AID missions consider that the Bureau of Customs advisors have the attitudes and behavior required for work in a different cultural background. The Argentinian PAR, however, states that "...working relationships with cooperating country nationals are adequate but no more than that." In the case of Vietnam, the entry in the item "Adaptation to Local Working and Living Environment" is negative; but, due to the special circumstances surrounding service in that country, this comment should not be given as much weight as would be the case elsewhere. The views expressed to the Panel about the customs teams' personal relations with Latin American officials were generally favorable.

7. Reporting System

In general, the reporting system of the Bureau of Customs technical assistance projects is similar to that used by IRS. A narrative monthly report is requested. There are also semi-annual reports and quarterly statistical reports of customs duty collections by the assisted countries. But a reporting system guided by the management control features of the IMPACT reports of IRS has not been developed. The impression of the Panel, borne out by some of the PARs, is that the Bureau of Customs Foreign Assistance Service headquarters in Washington does not monitor and control its teams as closely and methodically as its IRS counterpart does for the tax teams.

The two factors to consider in appraising the implementing agency's reporting system are left in blank in the resource input section of the Vietnam PAR. In the other four PARs analyzed, the entries regarding reporting are positive. It is the Panel's impression that there are no major problems with respect to this phase of customs assistance operations.

8. Relations with Other Assistance Donors

The Panel's inquiry regarding customs assistance did not disclose any problem of relations with other technical assistance donors. Neither is such a problem mentioned in the PARs. One interesting case is found in Bolivia. The PAR states that customs administration assistance began in Bolivia in fiscal year 1963, with a 5-man team of British advisors. The team was reduced to one individual in 1964, who has continued to assist Bolivia to the present under AID financing. The PAR, however, did not explicitly explain how the change occurred.

The UN currently provides customs administration advisors to several countries. In general, these are not countries in which U.S. bilateral assistance is being furnished. There have been several instances in which collaborative and mutually supportive relationships have been developed between UN advisors and U.S. Customs Bureau advisors.

9. Commodity Inputs

Provision of AID-financed commodities to assure or contribute to the attainment of the goals of the assistance projects in the cooperating projects has been a significant feature of some customs administration programs, but has not been important in assistance on tax administration or tax policy.

The Bolivian Customs Assistance PAR indicates that aid has been given on "...preliminary study for a bonded warehouse system; site study planning and supervision of a customs construction program; procurement of equipment including vehicles, launches, radios, uniforms, cargo handling equipment; and work related to the U.S. financed (US \$2.7 million) customs warehouse in La Paz. With respect to the input of commodities related to customs assistance, negative entries were made regarding "Control measures

against Loss and Theft" and "Control measures against damage and deterioration in shipment." Both are host country responsibilities. Most of these commodities were procured from Bolivian funds or from U.S. counterpart funds on an off-shore and non-U.S. basis.

In the case of Panama, all commodities procured for use in the Customs project have been U.S. Government excess property obtained without cost from military warehouses in the Canal Zone. The quality varied from unserviceable to good. The Panamanian Treasury is reported to have developed some capability for repairing goods and controlling their use and distribution. The mission comments negatively on the time involved in paper work compared with the benefits on the "Timeliness in procurement or reconditioning."

In the case of Jordan, assistance on customs administration was initially limited to the services of a U.S. Customs scientific advisor to study the feasibility of establishing a Customs/Standards Laboratory and locating it in the port of Aqaba. The report was submitted in early 1966 including lists of equipment and supplies to be provided by an AID grant of \$88,700. Assistance was given by the same advisor in preparing plans and specifications, and Jordan built the structure. Recommendations on staffing were made, and the advisor supervised the installation of equipment in the spring of 1969.

In Colombia three chemical testing laboratories have been constructed. A TDY Customs PASA specialist has aided in developing chemical analysis procedures and coordination with general customs operation.

With the exception of the special problems in Vietnam, where the customs program as an earlier stage included a large commodity element and about which we are unable to express judgment, the commodities input

phase of the Customs administration technical assistance impressed the Panel as being effectively handled by the implementing agency.

VI. TAX POLICY ASSISTANCE

1. For Internal AID Use

The 1966 evaluation team, which reviewed principally the IRS technical assistance programs on tax administration in four Latin American countries, concluded that, while providing technical advice on tax policy widely might not be feasible or desirable, the tax policy area should not be left essentially unattended. Because of the intimate relation of tax policy and development planning, it was the 1966 team's judgment that AID should have overall tax reform goals and strategy, encompassing possible technical assistance on tax policy, on tax administration, on customs administration and on property tax projects (mostly on valuation), as part of each country's overall development plan. To that end, the team recommended that the Latin American Bureau establish a public finance staff that would fill this gap.

This recommendation was for an in-house staff in public finance whose specific objectives would be to improve the formulation of the tax policy aspects of country development plans and to orient programming in the overall tax assistance field. The staff was not to deal exclusively with matters pertaining to the IRS tax administration assistance, which was concentrated in most countries on income tax administration, but was to cover other taxes as well.

The team saw no reason for the U.S. to abstain completely from technical assistance on tax policy and explicitly stated that "...AID should also be prepared to encourage and assist the Latin American countries to obtain the best tax policy advice possible....," referring approvingly to contracts with experienced U.S. university advisory services.

The 1966 evaluation team thought that AID needed to assume leadership in coordinating its efforts with those of other international agencies. This need was expressed with respect to Latin American countries, where AID was usually the paramount external assistance agency. The evaluation also underscored the great significance of coordination of tax policy and tax administration assistance in the host countries.

The current Panel made an effort to ascertain the extent of the tax policy content of the general tax improvement goals and strategies in the countries where some assistance is being given under PASAs with the Treasury Department. In varying degrees, country programs do incorporate some measure of consideration and study of overall tax policy issues. However, tax policy studies are not conducted in any agency-wide or regional center in the AID/W headquarters. For countries to which programs or sector loans are made, there is a deeper consideration of overall fiscal situations to determine and weigh what fiscal improvements, such as higher revenue collections, should be required as conditions for these loans. But this is still insufficient attention to the vital questions of tax policy. The tax policy content of country programs is usually the incidental contribution of program economists or public administration officers in the missions or in AID's regional bureaus who have some knowledge or experience in public finance. There are no public finance specialists as such, either at the regional level or at the institution-wide level. The cogent reasons why an agency such as AID, covering such a multitude of different fields of assistance, cannot be expected to have specialists in all subjects are understood by the Panel.

Because of its significance as a basic underpinning of AID's substantive programs in health, education and agriculture, technical assistance to improve revenue systems should be given a much higher priority within AID's total effort than it has at present. One step in this direction would be the establishment of a modest public finance unit in AID's headquarters. This unit would perform principally the above-described function of assisting missions on the tax policy elements of their planning and programming activities. One or two competent specialists at the agency-wide level, and possibly one or two in those regional bureaus where, because of revenue systems improvement is an important development problem, could make up the small headquarters staff suggested.

2. Tax Policy and the IRS Preliminary Country Survey

Intimately related to country programming and revenue systems reform goals and strategies is the IRS preliminary survey. In 1966 the evaluation team suggested a joint AID/IRS re-examination of the preliminary surveys. This meant a joint re-assessment of the IRS program in the light of 1966 circumstances. To a considerable extent the recommendations implicit in the 1968 PARs closely resemble the 1966 recommendation. Together with the current Panel's overall evaluation, analysis of the PARs should produce most of the results that might have been expected from the 1966 recommended joint review. Section IV of the PARs—Program Implications—specifically deals with this objective. The answers in that section for IRS tax administration projects have been analyzed, and some, such as the Colombia and Panama PARs, raise thoughtful questions. If the India team's work had continued, a thorough re-examination of the program and team composition would have had to be made. As part of the implementation of the recommendations of this report, a joint AID/IRS

examination of this subject is potentially very fruitful.

The creation of the specialized public finance staff at AID's Washington headquarters is one of the most urgent of the actions designed to round out the work on revenue systems improvement. It would provide the policy and programming guidance in a field where assistance, though limited up to now to tax administration, has produced encouraging results. This action should advance the correction of the previously stated shortcomings with respect to planning and programming. This unit of specialists could also give most effective staff assistance to AID's relationships with IRS, which though considerably ameliorated, is still unsatisfactory in some respects. The joint character of the program, as exemplified by the preliminary surveys, could attain real meaning. The unit could gradually, and with a practical sense, contribute strongly to a revision of the existing technical assistance projects on revenue systems to make them even more effective than they now are.

3. The AID/Treasury PASA on Tax Policy

In April 1968, a PASA was entered into between the Latin American Bureau of AID and the Office of International Affairs in the Treasury Department, under which Treasury agreed to provide professional services requested by AID by:

1. making tax policy studies of specific Latin American countries to help gather insights for the country programming process;
2. recommending approaches to tax reform and tax policy in these countries;
3. assisting in promoting and implementing structural tax reforms, including field missions and direct tax policy advice to

governments;

4. keeping abreast of Latin American tax policy work by regional, international, university and foundation personnel to avoid duplication and evolve a coordinated approach to tax policy problems;
5. training Latin American participants in the field of tax policy analysis and drafting of tax laws;
6. recruiting advisors for technical assistance in the field of tax policy analysis when needed.

The project was started with a \$12,000 budget for the last quarter of fiscal year 1968 and \$50,000 for fiscal year 1969. The actual expenditures to date have totalled about \$50,000.

The provision that Treasury should keep in close contact and cooperate with other institutions, offices and groups studying Latin American tax systems and problems, including the IMF, the OAS and private universities and foundations, with a view to avoiding overlapping services and conflicting recommendations and approaches to the solution of the problems is a most significant one. Since the program has been operating for such a short period, the extent to which this aspect of the service has been performed did not clearly emerge from the Panel's interviews.

The Latin American Bureau requested as its first study of tax structure an examination and analysis of tax system and tax policy issues in the Dominican Republic. The report had not been completed at the time of this evaluation. Under the same PASA, the Treasury made available in the early part of 1969 the services of its own tax economist, Richard E. Slitor, to AID/Uruguay to meet an urgent request of the government of that country for the services of a tax policy analyst.

The AID officials questioned as to whether the AID/Treasury PASA on Tax Policy Analysis was an effective adequate substitute for a tax policy unit at AID's Washington headquarters answered in the negative. It was suggested that moving some of the Treasury tax analysts to AID offices might help some but could not fully meet AID's requirement. Further, there appear to be obstacles to such an arrangement. Treasury analysts working on AID problems are not ordinarily expected to devote their full time to this work. They are expected to work on national as well as international matters. Treasury is doubtful whether it could recruit its present high-caliber level of personnel if the staff members were to be assigned only to foreign work. While there is much to be said for Treasury's position, AID's need for full-time tax policy analysts is not met.

The Panel believes that AID tax analysts should have as much background knowledge of developmental economics, transference of knowledge, institutional change and LDCs' cultural and environmental attitudes as possible. It would be too much to expect this level of preparation in the Treasury tax policy office, which presently deals mainly with national tax analysis or very specialized international matters. It is, of course possible that in the future the Treasury might develop a specialized foreign tax analysis staff with this type of competence.

For all these reasons, the Panel believes that AID should establish its own in-house tax policy analysis staff as outlined above. AID faces serious but not unsurmountable obstacles in developing such a unit at the level of competence the subject requires. There are relatively few public finance economists with the required background and experience. However, if AID employs enough flexibility in recruiting, including extensive use of part-time contract personnel, the task should not be

impossible. The Panel, in the course of its work, has met a number of economists who, in its judgment, would meet the standards; some of them are presently employed in USAID, are working for it under contract, or have worked for it in the past.

Despite the limitations mentioned, the Panel believes that AID took a step forward in dealing with tax policy when it entered into the PASA with the Treasury on this subject. The Panel considers that AID should continue the PASA on tax policy analysis with Treasury on a continuing basis at about its present level for the next few years. Tax policy analysis is a field in which a plurality of criteria and experience is most desirable. Thus, Treasury could continue to provide expertise for AID at what appears a reasonable cost, even after AID creates its own tax analysis staff.

4. An Open Policy on Tax Policy Assistance

The Panel concludes that tax policy is too important a field and the situation in the LDCs varies too much to justify a hard-and-fast rule that AID will refrain from giving technical assistance in this area. The extreme cases are those countries to which program and sector loans are made and from which compliance with conditions regarding sounder fiscal operations are usually requested and accepted by the borrowing countries. Therefore, when conditions with respect to tax structure are established, not offering tax policy advice would represent forfeiting the opportunity to contribute to the attainment of the very conditions that are requested.

The Panel appreciates the sensitivity of many countries to bilateral advice on such controversial matters as tax policy, especially from a major power such as the United States. But we believe that most objections can be met by offering and giving such advice in a carefully planned manner and that it is inadvisable to withdraw from the subject.

In highly sensitive situations AID can finance competent advisors who, in fact and legally, become employees of the host country, with AID involvement only to satisfy itself of the advisors' competence and their discharge of contractual obligations. AID has done this in some instances with respect to advice on development planning.

Suggestions have been made that international multilateral agencies can provide tax policy advice more effectively and with less risk of adverse reactions against the U.S. Government. There is merit in this contention also, but if this policy were adopted, the LDCs; demands could not be met fully and the opportunities in certain LDCs could not be fully exploited by AID. The IMF tax assistance service is eminently qualified to provide this assistance. But the top officials of this group emphasized that the Fund is highly selective in giving such service and naturally prefers to serve countries in which that agency has special interest. They do not visualize how their staff could be expanded fast enough to serve many more countries than it does now without sacrificing quality, a cost they are not inclined to pay. The OAS, limited to service in Latin American countries, is eager to serve, enthusiastic, and undeniably useful. Its programs are heavily weighted by structural studies and drafting of model laws, and more time is needed by this agency to broaden and deepen its approach. UN activities tend to be limited in coverage and in effective "leverage."

Confronted with a real lack of alternative sources of advice, at present and in the immediate future, the Panel found the conclusion inescapable that this field should not be abandoned by AID. Exercising tact and avoiding overbearing attitudes, AID should continue to be ready to finance this type of technical assistance in the way appropriate to a country's circumstances—as it has been wisely doing in a limited number of cases.

VII. FINANCING TREASURY DEPARTMENT'S FOREIGN ASSISTANCE ACTIVITIES

The Panel had neither the time nor the accounting and auditing expertise to acquaint itself thoroughly with all the details of the financial relationships of AID and Treasury. Some of these relationships are recorded in this concluding section, not so much for the enlightenment of AID and Treasury officials as for the benefit of future outside evaluators.

Treasury's foreign assistance activities are funded either by direct Congressional appropriation or by means of interdepartmental payments out of AID's appropriations. The former type of funding has been confined to IRS activities, for which Congress has appropriated directly sums in the order of a quarter of a million dollars annually in recent years for the support of FTAS. Interdepartmental payments from AID to Treasury supplement these direct IRS appropriations and provide the sole funding of the Customs Bureau, the International Tax Office, and other activities of the Office of the Secretary on behalf of AID. These interdepartmental payments have amounted to around \$3-3/4 million annually in the last two years.

The total cost of the Treasury's technical assistance activities on revenue systems may be placed in perspective by comparing it with AID's total commitments of \$288.2 million on all technical cooperation programs and \$15.6 million on the public administration components of those programs in fiscal year 1968.^{1/} About 70 percent of the cost of these Treasury activities was incurred by IRS, around 1 percent by the Office of the Secretary, and the remainder by the Bureau of Customs.

^{1/}The Foreign Assistance Program, Annual Report to the Congress, Fiscal Year 1968, p. 45.

1. AID Reimbursement Methods

The General Agreement between the Department of the Treasury and the Agency for International Development provides that AID will furnish the Department with timely forecasts of general requirements in each category of service for its guidance and planning and will reimburse the Department for all technical services at monthly or other agreed-upon intervals on the basis of bills presented on Standard Form 1081 to the AID/Washington Controller.

(a) Participating Agency Service Agreements. Much the largest amount of AID's reimbursements of Treasury costs is for what are known as "project services." Project services can be specifically defined as those for planned end results, for which cost, location of implementation and duration are estimated. A project may range from a preliminary survey that precedes the sending of an IRS or Customs Team to a requesting country, to a short feasibility survey of some aspect of technical assistance, as for example an ADP installation, or to the assumption of a world-wide service over a period of years, subject to the availability of resources. It may involve the assignment or temporary detail of a group of technicians or of a single expert. In providing such a service, either in the U.S. or overseas, the Department assumes operating responsibility for the project. This responsibility usually involves staffing, supervising, budgeting, backstopping, evaluation and reporting.

Project services are covered by Participating Agency Service Agreements (PASAs) entered into between the participating agency and AID under the terms of the General Agreement. A PASA consists of (a) a face sheet, (b) a budget plan and (c) a Project Implementation Order/Technical services (PIO/T). The PIO/T includes a statement of the scope of work in sufficient detail to provide all information necessary to plan and

effect the service. The initial budget plan covers both the estimated total cost of the service and the amount to be used during the first fiscal year of operation. At the beginning of each succeeding fiscal year, a new PIO/T is issued to provide additional funds and, as required, a redefinition of the scope of work.

When the PASA has been formally approved by both agencies, the participating agency is authorized to implement the project and to begin incurring expenses which will ultimately be reimbursed by AID. The salaries and expenses of all employees assigned by Treasury to AID projects are paid directly by the Treasury Department.

Funds allotted by AID under the classification of Public Administration are used to finance revenue systems projects. The funds are made available to AID's regional bureaus and in turn to the various AID missions around the world according to need. When it becomes necessary to employ the services of Treasury technicians for a project service, a PASA is developed and a budget plan is agreed upon by both agencies. The AID office responsible for negotiating the PASA, whether in Washington or in the field, sets aside the amount necessary to satisfy the eventual claims for reimbursement that will be made by the Department. Appropriate symbols are assigned to each allocation of funds by AID so that the AID controller in Washington is able to charge the amount of the claim to the appropriate AID regional bureau or mission.

Most of the total reimbursable amount paid to Treasury by AID is for the services of technical advisors. Teams of advisors, or occasionally individual experts, are sent abroad under separate PASAs to provide the specific services described in the PIO/T. The salaries, travel costs and other expenses for these services are charged to the AID office or mission under which the assistance is rendered and which

had negotiated the PASA.

AID reimbursement to Treasury for the costs of training foreign participants sent to the U.S. by AID missions are also covered by inter-departmental arrangements. Courses in particular subject areas related to tax administration are provided for participants at costs ranging from \$83 to \$165 per week. All living and travel costs for the participant are paid directly by AID.^{1/}

To the principal of each PASA is added a charge to cover Treasury Department's overhead costs. The costs of personnel functions, payroll work, accounting, reproduction services, mail rooms, legal service, and upper-echelon supervision are among the overhead items normally allocated among a department's programs and appropriately added to the direct expenditures on AID projects. Currently, the IRS overhead is charged at the rate of 22 percent of the principal amount of each PASA, while the Customs Bureau overhead is charged at the rate of 8 percent. No overhead provision is included in the PASA for the International Tax Office.

(b) Participating Agency Support Payments. The AID reimbursements not based on PASAs are designated as "participating agency support payments." These payments relate to any service in support of the foreign assistance program which cannot be characterized as a project or staff service and which is normally performed in the U.S. on a continuing basis. These support services include the furnishing of technical information and advice, backstopping of project services in the field, assistance in recruiting technical experts in the fields of competence of the Department, and Participant training costs not directly chargeable

^{1/}A considerable number of casual (less than one week) visitors are also referred to Treasury by AID, the UN and other government agencies for observation and discussion of Treasury operations. No direct charges are made in connection with any programs arranged for these visitors.

to any particular regional bureau of AID. Some training costs for IRS course development have been charged to the Latin American Bureau because the bulk of the participants come from South and Central America.

The headquarters office of the Foreign Assistance Staff in the Bureau of Customs and two Treasury/AID coordinating positions in the Office of the Secretary of the Treasury are financed by AID's Office of Procurement. The specific amount allocated to each office is determined by the anticipated workload during the budget year. A formal PASA is not prepared. Instead, a Participating Agency Support Program (PASP) budget agreement is developed and signed by the Department and AID. At the present time, PASP funds are provided for a staff assistant and secretary in the Office of the Secretary of the Treasury and for ten positions in the Bureau of Customs. Were it not for the direct appropriation to IRS, the 23 FTAS headquarters staff positions would be funded with interdepartmental payments of this type.

2. Adequacy of Overhead Charges

In the course of its survey, the Panel came to the conclusion that the marked difference between the overhead percentages added to PASA charges for IRS and Customs Bureau services was a source of some concern. It was evident that the 22 percent charge by IRS was considered too high in some quarters, while the adequacy of the 8 percent charge by Customs Bureau was questioned by others. The Panel did not attempt to evaluate these views. It is our impression that a detailed analysis by a joint Treasury-AID task force would help to clear the air and reduce interdepartmental tensions. A current review would be particularly timely because of the rather marked change in the outlook for activity in the fields covered by the General Agreement between Treasury and AID.