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UNCLASSIFIED

REVISED NONCAPITAL PROJECT PAPER (PROP)

TAX ADMINISTRATION PROJECT

No. 514-11-750-100

Country: Colombia

Submission Date: May 5, 1972

U.S. Obligation Span: FY 1963-1974
(This PROP Revision: FY 1973-1974)

Gross Life of Project
Financial Requirements $2,448,000

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UNCLASSIFIED

TAX ADMINISTRATION PROJECT

REVISED PROP

A. Purpose of Revision

This PROP revision at GOC request (1) extends the Tax Administration project for an additional two years through FY 1974, (2) (continues advisory services and training in the fields of audit and collections in which we are now giving assistance,) (3) expands the project to include long-term advisory services in organization and methods, and (4) provides commodity support to assist in developing a demonstration pilot project in the Cali regional tax administration office. The project objective and strategy remain the same as stated in the original PROP. However, as indicated in the attached Project Logical Framework, the targets have been revised to reflect the reorganization of the national tax office and the extension of the project.

Extending the project and continuing advisory services and training are in conformity with the original PROP. They are also an indication of the continuing effort being made by the GOC to improve tax administration and of the Mission's response through assigning high priority to the tax project. Our continued support of the GOC in this area is warranted, considering the high caliber and commitment to reform of the GOC tax administration staff and the improvements undertaken by the GOC since 1968, beginning with the work of the Musgrave Tax Commission.

The Commission, constituted at the request of former President Lleras, studied the Colombian tax system and made 117 recommendations for improvement in five areas of taxation and in inter-governmental fiscal relations. The Mission in cooperation with the National Department of Planning is reviewing Colombian progress in implementing these recommendations. While the analysis is not yet complete, preliminary indications are that the GOC has made considerable progress in implementing the recommendations, some of which are politically difficult. Major actions taken to date include adjusting the petroleum exchange rate in June 1971 and the presumptive agricultural tax provision of the agrarian reform legislation which passed the Senate in February and is scheduled for consideration by the House of Representatives in mid-1972. During 1971, the GOC also

raised sales and stamp taxes, increased withholding and, in a major effort to improve tax administration, announced the reorganization of the National Tax Administration (DIN).

B. Reorganization of the National Tax Administration

One of the most significant GOC actions to date is the reorganization of the national tax office which was authorized in July 1971 and is in the process of being implemented. It provided for the following: a 44% increase in staff from 4,457 to 6,417; salary increases; a budget increase in 1972 of 84%; eight new divisions; additional staff support to the Director General of Taxes (Office of Systems and Programs; Office of International Affairs; and Office of Tax Advisors); two additional regional offices, raising the total to 29; 43 additional local offices; a separate collections division; and improved coordination with the automatic data processing division of the Finance Ministry.

The two long-term organization and methods advisors requested by the GOC are to assist in implementing the reorganization through advising (a) the regional division of the Tax Administration on returns processing, revenue accounting, and related functions, and (b) the accounting and statistics division and the office of programs and systems on statistical and management reporting systems.

Full implementation of the reorganization is expected to result in increased revenues, greater voluntary compliance with tax laws and more fairness in administering the tax program, all of which are needed reforms singled out by the Musgrave group in its study. (For more detail, see the recent PAR on the tax project and TOAID A-283, dated August 24, 1971, on the reorganization of the National Tax Administration).

C. Other Donors

In addition to AID advisory services and training in improved administration, the OAS and the UN are assisting the GOC in taxation. The OAS sponsors a resident advisor who works on the tax policy implications of the Andean Code. They also provide scholarships in several fields for training in other Latin American countries. UN assistance is provided indirectly through Ministry participation in the UN-financed government-wide training program at the School of Public Administration (ESAP); 20 tax administration officials have participated. (See the recent PAR for more detail regarding OAS and UN assistance.)

D. Achievement of Targets in Original PROP

The original PROP contained quantitative targets to be achieved by the end of CY 1972 for revenue collections, field audits, closing of claims, number of people trained, and increasing the percentage of employees under Civil Service. These targets were based on the assumption that the reorganization of the Tax Administration would be effective by late 1970. Due to the change in administrations and delayed action by the Colombian Congress and the issuance of decrees which followed, it became effective in mid-1971. While we would expect that as a result of the delayed reorganization the GOC will have only partially succeeded in meeting the targets by the end of this calendar year, their overall performance in increasing revenue collections and in implementing the reorganization has been good. (See the recent PAR, Attachments A through E, and TOAID A-283 for supporting detail with regard to GOC accomplishments in improved revenue collections and in the reorganization.)

The decision to respond to the GOC request for further assistance was made following the recent project evaluation and the GOC formulation of its program goal as outlined in the Project Logical Framework. This goal as well as the project purpose, outputs and inputs are a realistic current GOC assessment of what it feels it can achieve by June 1974, based on the assumptions contained in the Logical Framework. Recent trends in progress indicators (i.e., tax revenues, including CATS, up an average of 12.9% in real terms between 1968-1971 and up 18.6% in the first quarter of 1972 over the same period in 1971; the reorganization activity) would indicate that the program goal and project targets are realistic, and achievable.

Thus, the requisites for continued U.S. participation in the project as contained in the original PROP with regard to revenue increases, institutional improvement, and GOC support have been met, and are the basis for the Mission's response to the GOC request for continuation of the advisory services and training contained in this amendment.

E. Possibilities of Further Assistance

In addition to training and advisory services, the Head of the National Tax Administration informally approached us regarding the possibility of providing some commodity assistance to demonstrate that costs of investment in modern processing equipment will actually

result in improved and increased tax collections. The Government of Colombia is not presently prepared to provide the budget necessary to acquire this equipment. This is mainly because it would be for a dependency of the very Ministry which has recently put into effect firm restrictions across the board on public agency purchases -- in good part due to the urging of the IBRD, IMF and AID to restrict expenditures in the public service.

The Tax Project has been an unqualified success to date. While the Mission is not disposed favorably toward large commodity grants, we are convinced in this instance that a measure of commodity assistance for a pilot effort will have important consequences in additional modernizing operations. The Cali effort would be a demonstration project, and the National Tax Administration would use the experience gained there to formulate plans for the modernization of other regional offices along the same lines. Following Cali, priority attention will be given to modernizing the large regional offices in Medellin and Barranquilla.

The DIN schedule to modernize the Cali administration includes the construction of new facilities, estimated to cost Col.$20.0 million (about US$930,000), which are expected to be completed by July 1973. Also, following a recent management and operations study of the Cali office, the National Tax Directorate developed plans to provide new equipment and furniture for the Cali office and to computerize its operations through tying the Cali administration into the Ministry of Finance computer center in Bogota. The GOC is financing the costs of the computer operation, estimated at Col.$10.0 million (approximately US$465,000). In support of this effort, the Mission recently approved the use of Col.$545,328 in GOC-owned counterpart funds generated under two-step loans to assist in converting existing data for computer use.

The GOC 1972 budget includes Col.$10.0 million to cover costs associated with maintaining, operating, and equipping the 29 regional tax offices. Of this amount, an estimated $2.0 million pesos, or 20% of the total, has been identified for the costs of equipping and furnishing the Cali office. The GOC is prepared to make available only half the total amount needed to fully equip and furnish the office. For AID to provide the difference will afford an opportunity to show that the cost/benefit ratio of a full complement of equipment is favorable. AID commodity assistance would finance major office equipment (e.g., calculators, cash registers) while the GOC contribution is restricted to financing, primarily, the purchase of furnishings and minor office equipment.

In the U.S. and elsewhere, improved tax administration has resulted in revenue increases. As population increases, so do the complexities of tax administration. Modernization, including the use of automatic data processing, training and modern equipment, is important to meeting the growing needs for improved tax administration and for greater revenues for development. The Department of National Tax Administration wishes to test this theory of modernization and its effects on revenue increases through modernizing a major tax office in Colombia (Cali) and systematically evaluating its effectiveness for expansion of the modernization program to other regional offices. The projected revenue increases from the Cali office are expected to help finance the extension of the modernization program to the other regional offices.

The Mission recommends that AID be responsive to any request for commodity support for the Cali office, within the identified total, and recommends that FY 1972 grant funds be programmed to assist in this effort. In the short run, we would consider providing a $100,000 grant to purchase items including calculators, adding machines, cash registers, electric typewriters, copying machines, etc., which are required to modernize the Cali tax office. The provision of this type of simple office equipment should provide an immediate payout at relatively small cost. The Director of the National Tax Administration has estimated that as a result of increased efficiency, the provision of one adding machine would pay for itself several times over in increased revenues in only one year.

The extension of improvements to other regional tax offices throughout the tax agency as planned by the GOC would be a major step in the implementation of the Musgrave Tax Commission recommendations for improved administration and should result in significant revenue increases.

Timing is an important factor in the commodity grant in two respects. First, following approval of our proposal, the Mission could move quickly to procure the equipment from the U.S. to have it in place and in use by late 1972 or early 1973. Secondly, the two long-term AID-financed organization and methods advisors scheduled to arrive shortly will help determine equipment requirements, and assist in its procurement and installation, and in training tax employees in its proper use.

In conclusion, we think commodity support of the Cali pilot modernization project is necessary, and justified, especially in a tax office which has not even a cash register and where 40% of its annual tax receipts of over $1.0 billion pesos (US$46.5 million) is collected in small portable boxes.

7. Actions Requested by this Revision

This PROP revision requests AID/W approval for the following:

(1) Extension of the project for an additional two years through FY 1974.

(2) Continuation and expansion of advisory services and training in the fields of audit, collections, and organization and methods.

(3) The provision of grant commodity support to the GOC National Tax Administration as previously described.

Attachments

NONCAPITAL PROJECT PAPER

TABLE A

(Obligations in $000)

PROP DATE 4/28/72
Original
Rev. No. 1
Project No. 514-11-750-100

Page 1 of 1
COUNTRY: Colombia

Project Title: TAX ADMINISTRATION

Fiscal Years	Ap	L/G	Total	Cont.1/	Personnel Serv.			Participants			Commodities			Other Costs		
					AID	PASA	CONT	AID	PASA	CONT	AID	PASA	CONT	AID	PASA	CONT
Prior through Act. FY 71			1,720	13	202	1,266	13	125			6	4		104		
Oper. FY 72			285		37	127		14			100			7		
Budg. FY 73			202		33	132		32						5		
B + 1 FY 74			241		42	171		21						7		
B + 2 FY __																
B + 3 FY __																
All. Subs.																
Total Life			2,448	13	314	1,696	13	192			106	4		123		

1/ Memorandum (nonadd) column.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project
From FY 1963 to FY 1974
Total U.S. Funding $2,448,000
Date Prepared April 28, 1972

Project Title: TAX ADMINISTRATION 514-11-750-100

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broad objective to which this project contributes is to increase public revenues for investment and essential public services and to share the burden of these costs more equitably by the impartial enforcement of tax laws.	Measure of Goal Achievement: 1. Continued increases in national tax revenues. 2. Tax division records showing impartial enforcement of tax laws.	1. Examination of Ministry of Finance fiscal reports and annual budgets and expenditures. 2. Review of National Tax Administration records and reports. 3. Review of other GOC reports including those of the Bank of the Republic.	Assumptions for achieving goal targets: The GOC continues to give high priority to its development program and to measures for increasing revenues, including tax administration and tax legislation.
Project Purpose To develop an effective, efficient and viable GOC tax administration.	Conditions that will indicate purpose has been achieved: End of project status FY 72 / FY 73 / FY 74 1. Work plans executed by 8 operating divisions. 8 / 8 / 8 2. Percent revenue increases due improved administration. 17 / 12 / 14 3. Evaluations by 8 operating divisions & Director of Taxes. 9 / 9 / 9 4. Percent total staff trained. 20 / 42 / 38 5. GOC budgets funds required for modernization of 3 other regional offices (No offices) 0 / 0 / 3	1. Examination of annual work plans and measurement of accomplishments of objectives which they contain. 2. Review of Ministry of Finance and Bank of Republic financial reports. 3. Review of progress of evaluation plan. 4. Review of implementation of training plan. 5. Review of GOC budget plans for 1975.	Assumptions for achieving purpose: The GOC desires continued technical assistance.

Outputs: 1. Reorganized National Tax Administration in place. 2. Operational procedural manuals developed. 3. Annual work plans prepared. 4. Improved management and statistical reporting system developed. 5. Trained Colombian personnel in place. 6. Modernization of Cali regional office, as pilot project, is completed.	**Magnitude of Outputs:** FY 72 / FY 73 / FY 74 1. Percent reorganization completed: 80 / 90 / 100 2. No. developed: 0 / 3 / 8 3. No. prepared: 8 / 8 / 8 4. Percent of 29 regional offices submitting required reports: 20 / 80 / 100 5. No. people trained each year: 478 / 1000 / 900 6. Percent of physical facilities completed and equipment in place: - / 80 / 100	1. Review implementation progress of provisions of decrees providing for the reorganization; review of personnel records; visitations to field offices. 2. Inspection of manuals and GOC personnel records; field visits and inspections. 3. Review of annual work plans. 4. Review of GOC records and reports. 5. Review of GOC and Mission training records.	**Assumptions for providing outputs:** The GOC staff at all levels has the motivation to implement the program.
Inputs: 1. Long-term and short-term advisory assistance. a) Team Leader and audit b) Collections c) Organization & Methods. 2. Participant training 3. Commodities 4. Other Costs 5. GOC contribution a) Legislation and decrees b) Budget	**Implementation Target (Type and Quality** 1. a. 48 man months b. 38 man months c. 57 man months 2. 48 man-months of training. 3. Provision of calculators, adding machines, cash registers and related items for the Cali office. 4. Books, films, and supplies. 5. GOC legislation and decrees necessary for the reorganiztion and its implementation; GOC budgetary support to provide necessary resources to the National Tax Administration including funds to modernize the Cali Office and direct support to the Tax Advisory Team.	1. Inspection of GOC budgetary and other records and on-site visitations in national and field tax offices. 2. Review of Mission financial records. 3. Review of Mission participant training records.	**Assumptions for providing inputs:** Continued GOC support and financial support by AID at GOC request.

ATTACHMENT A

GOC GROSS REVENUES 1967 - 1971 1/

Year	Revenue in Pesos (000)	Revenue in Real Terms (000) 2/	Percentage Increase Over Prior Year in Real Terms
1971	14,958,300	13,622,523.8	11.8%
1970	12,182,550	12,182,550.0	16.1%
1969	9,580,970	10,493,078.3	10.5%
1968	7,998,240	9,498,709.8	13.0%
1967	6,699,340	8,405,661.9	-- Four-year average increase: 12.9%

1/ Revenues include CATs.

2/ Deflated by wholesale prices minus food with 1970 as base year.

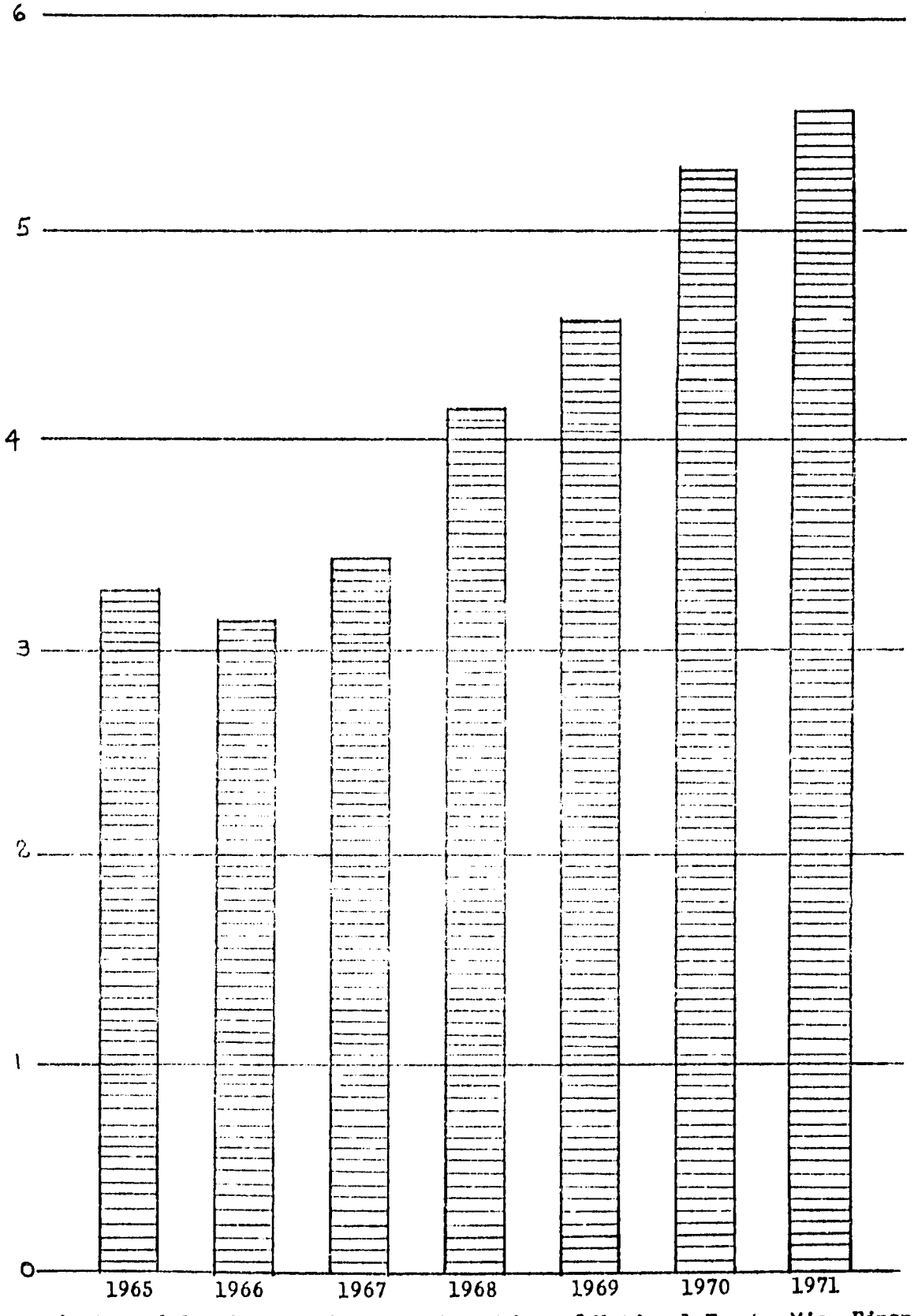
USAID/Colombia 2/18/72

REPUBLIC OF COLOMBIA

NATIONAL TAX ADMINISTRATION

INCOME TAX REVENUES

(Billions of Pesos in Real Terms 1970)



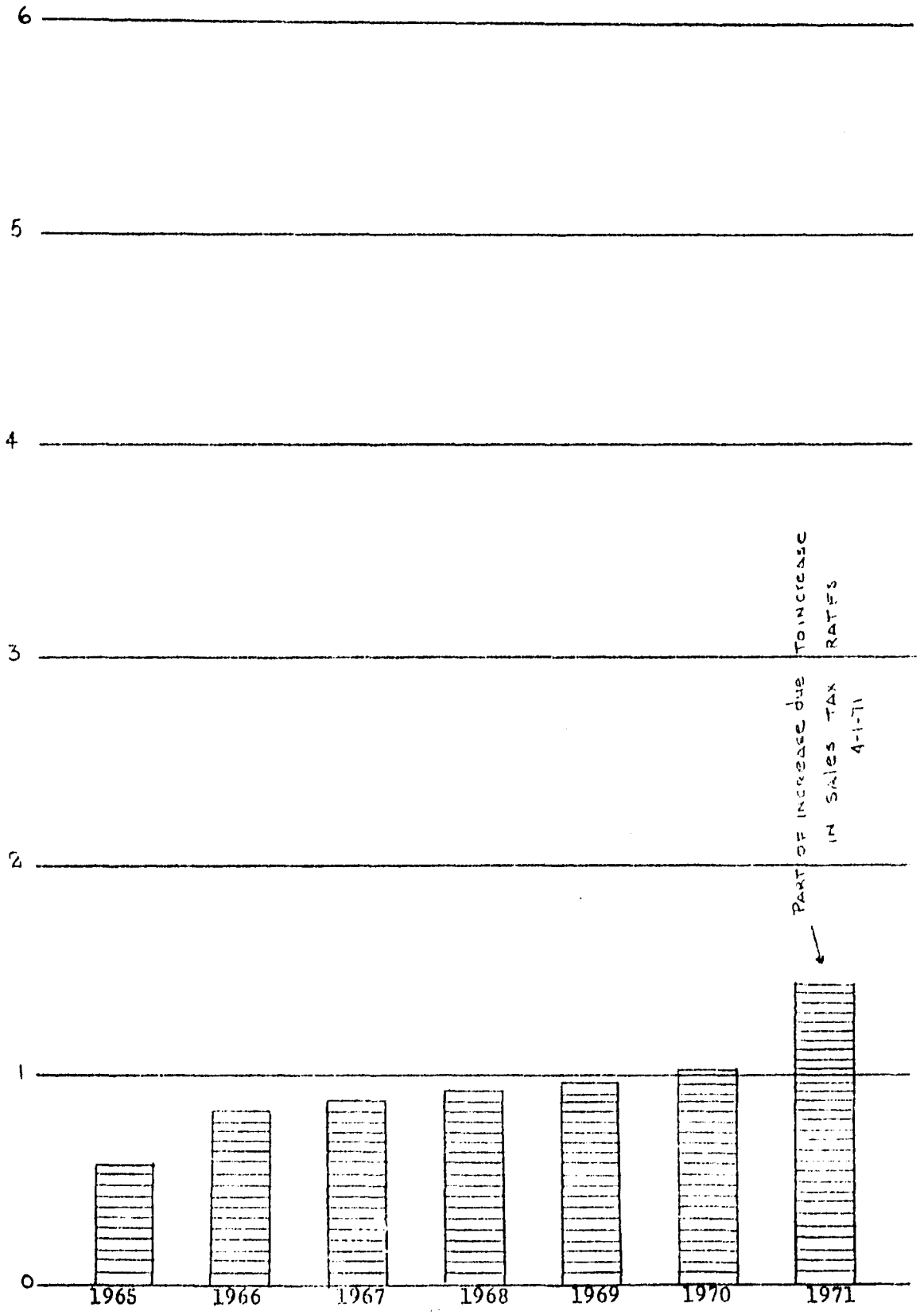
SOURCE: Acct. and Statistics Division, Gen. Dir. of National Taxes, Min. Finance

REPUBLIC OF COLOMBIA

NATIONAL TAX ADMINISTRATION

SALES TAX REVENUES

(Billions of Pesos in Real Terms 1970)



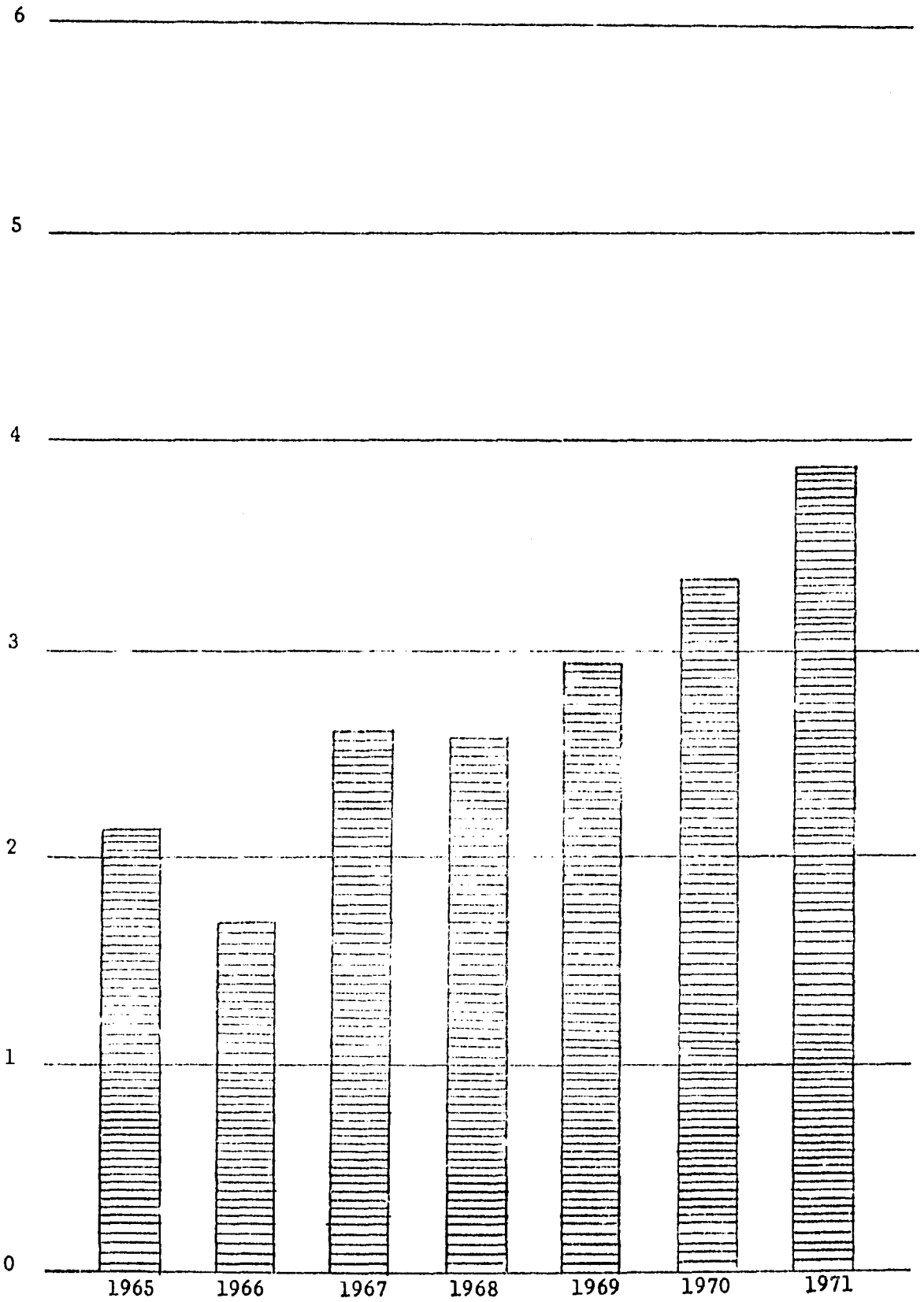
SOURCE: Acct. and Statistics Div., Dir. Gen. Ministry of Finance

REPUBLIC OF COLOMBIA (USAID/C 2/10/72)

NATIONAL TAX ADMINISTRATION

ALL OTHER REVENUES 1/

(Billions of Pesos in Real Terms 1970)



1/ Excludes Income Tax, Sales Tax, and Customs Revenues

SOURCE: Accounting and Statistics Division, General Director, Ministry of Finance

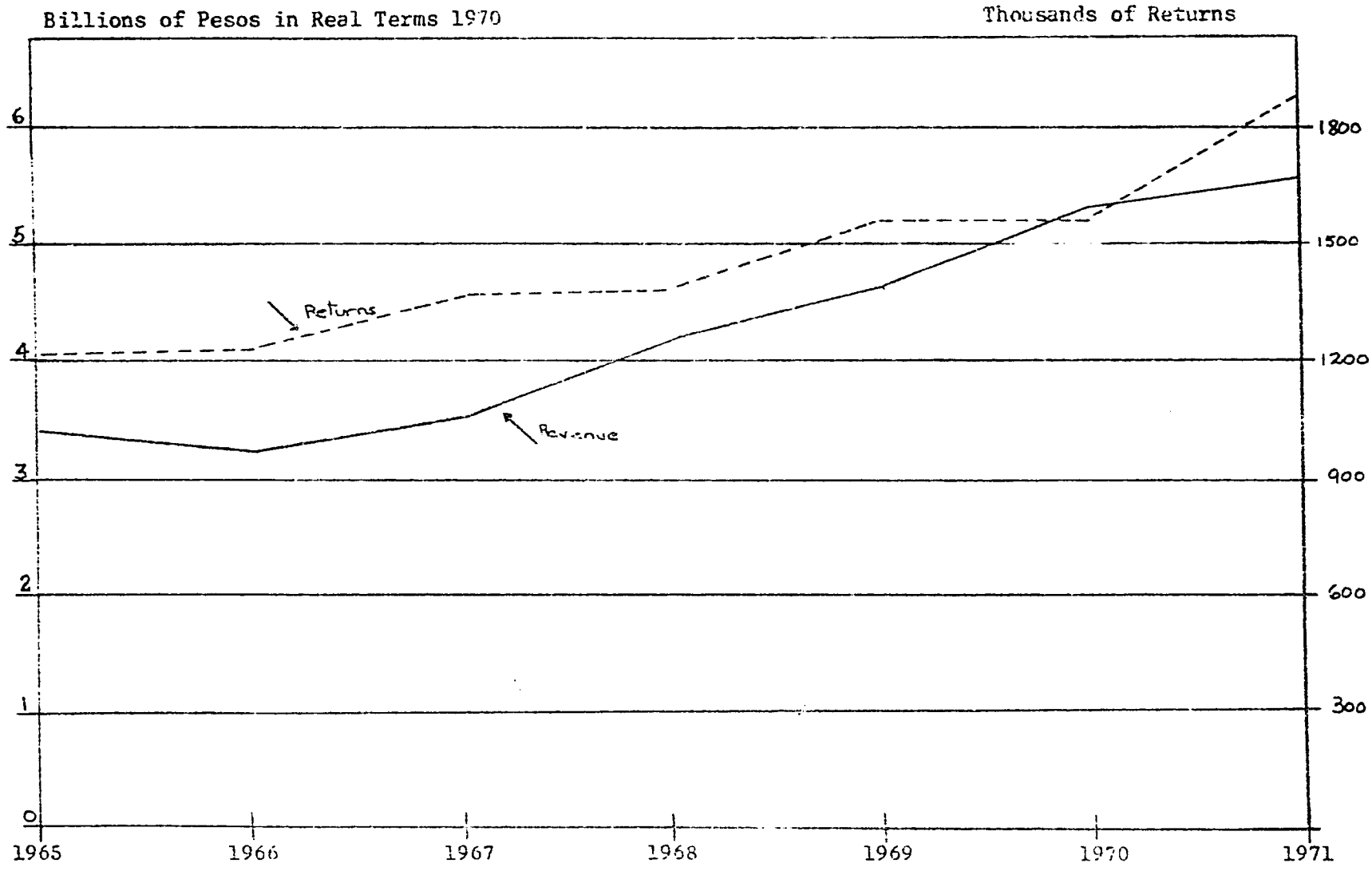
ATTACHMENT E

REPUBLIC OF COLOMBIA

NATIONAL TAX ADMINISTRATION

(USAID/C 2-10-72)

INCOME TAX REVENUES Vs INCOME TAX RETURNS



SOURCE: Accounting and Statistics Division, Director General, National Taxes, Ministry of Finance