

ARE SEMI-AUTONOMOUS REVENUE
AUTHORITIES THE ANSWER TO TAX
ADMINISTRATION PROBLEMS IN
DEVELOPING COUNTRIES? -- A PRACTICAL
GUIDE

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August 2004

Research paper for the project:

Fiscal Reform in Support of Trade Liberalization

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Development Alternatives, Inc. with the Georgia State University and the Boston Institute for Developing Economies implements the Fiscal Reform in Support of Trade Liberalization Project. The U.S. Agency for International Development funds the Project through Task Order No. 03 under SEGIR: EP, Contract No. PCE-I-00-00-00015-00

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**ARE SEMI-AUTONOMOUS REVENUE AUTHORITIES THE ANSWER TO
TAX ADMINISTRATION PROBLEMS IN DEVELOPING COUNTRIES?**

A Practical Guide

by

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August 2004

Abstract

This paper describes and analyzes the experiences of several developing countries that have adopted the growing trend toward establishing semi-autonomous revenue authorities (SARAs) to administer tax collections. By removing the basic tax administration functions from the traditional line departments in the ministry of finance and granting the SARA a greater degree of autonomy to administer its own internal systems, the expectation has been that real revenue collections will be enhanced, tax-related corruption and evasion will be reduced, and taxpayer services will be improved. After carrying out an in-depth analysis of five SARA cases and taking into account the results of studies done by others, this paper concludes that SARAs have neither lived up to expectations nor can they be categorized as having failed. Tax administration efficiencies have risen and receded, and SARAs have not proven to be quick-fix panaceas. They do provide a platform from which tax administration efficiencies can be generated, but their mere establishment offers no guarantee of success.

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PREFACE

Although the intimate nexus between tax policy and tax administration has always existed, the public finance texts and readings assigned to graduate students give short shrift to this linkage. It is only when one comes face to face with the real world that it sets off blinking lights. Partially emerging from academia several decades ago, I first noted this connection as fiscal economist on a series of World Bank, IMF, and IDB missions. I was hardly the first to come to this realization, but it still remains a mystery to many “practical” tax policy analysts. Tax policy is sexy; tax administration is blue-collar nuts and bolts.

To a large extent this paper is the product of my own experiences actually working as a consultant in the tax administration entities cited as case studies. I first encountered a semi-autonomous revenue authority (the SUNAT) on an IDB mission to Peru in 1992, and was struck by the “novelty” of the approach. Also impressive were the motivation and the esprit de corps of the relatively young staff, a phenomenon not at all notable among the personnel of ministries of finance in which I had previously worked. At that time the SUNAT was on an upward path, and was the beneficiary of a strong political commitment. It soon became the model for other such entities in Latin America. A more recent experience carrying out a feasibility study for possibly creating a SARA in Nepal made me even more appreciative of the political and technical impediments, as well as the necessity to give a great deal of thought to the sequencing of measures leading up to the establishment of a full-blown SARA.

I want to especially thank Richard Bird, Odd-Helge Fjeldstad, Mark Gallagher, Steve Rozner, and Seth Terkper for their comments on a first draft of this paper. Also contributing to this paper are all the persons mentioned in Annex 6 with whom I have worked and/or interviewed. The usual disclaimer is in order: all errors and omissions are my responsibility alone.

I. INTRODUCTION

In most developed and developing countries, tax collection *cum* administration is carried out in traditional fashion by line departments within the Ministry of Finance (MOF). However, over the past decade (especially in Africa and Latin America) there has been an accelerating trend toward establishing semi-autonomous revenue authorities (SARAs). Under a SARA the tax administration function has been taken out of the MOF and granted to a semi-autonomous entity labeled in public finance literature as revenue authorities (RAs) or autonomous revenue authorities (ARAs). While there are many variations around a similar basic theme, the principal characteristics include personnel systems outside civil service purview, self-financing mechanisms (oft-times a given percentage of gross collections), and boards of directors that usually include the ministers of finance and those from other key ministries in addition to private sector representatives. A list of the many developing countries with currently operational SARAs is found in Annex 5.

Although each country that has already established a SARA has done so under differing circumstances, there do exist similar patterns with respect to underlying political and economic conditions. In general, governments have been greatly dissatisfied with the level and efficiency of revenue collections, especially in the face of fiscal deficits and expanding public expenditure needs. Additionally, private sector complaints regarding tax evasion and generalized corruption within the public sector combined with high taxpayer compliance costs have led to calls for wholesale reform of tax administrations. It was generally the perception that reforms and/or restructuring of revenue collection functions within the existing finance ministries had not generated any notable and/or sustainable improvements.

The following summarize the conceptual and practical arguments that have been put forward in favor of establishing a SARA:

- Public revenue enhancement reflected in higher tax ratios and real revenue growth.
- Greater efficiency in public resource utilization via financial and administrative independence/autonomy.
- Employment of a competent, disciplined, and more qualified staff via the freedom to offer higher compensation than the civil service and the freedom to recruit and fire on own terms.
- De-politicization of tax administration.
- Reduced corruption, thereby improving the credibility of taxation in particular and the government in general.
- Improved taxpayer services and reduced taxpayer compliance costs.
- Better work ethic and modification of administrative culture from reactive, bureaucratic, and hostile to proactive and professional.
- Comprehensive accounting for all tax revenues.
- Integration of tax and taxpayer-related databases.

As in any case, there also exist counter arguments, which, among others, claim that the SARA:

- Represents an enclave approach to public sector reform, but in the absence of broader public sector reforms it will become isolated and far less effective.
- Creates an inherent conflict with the MOF, the entity that is ultimately responsible for all fiscal matters; i.e., a disjuncture between accountability and authority.
- Generates resentments in other public sector entities and leads to enhanced public sector institutional rivalries.
- Tends to over-emphasize tax collection rather than fundamental and more broad-based administrative reforms, most particularly within the broader public expenditure and financial management system.
- Interferes in the formulation of tax policy, an essential responsibility of the MOF and the legislature.
- Creates a “super entity” which, without strong and honest leadership and the setting up of solid accountability mechanisms, may not only abuse its taxing powers but also become another source of governmental corruption.
- Establishes an “unnecessary” organization whose tax collection functions, given the political will and resources, could be upgraded within already existing departments of the MOF.

There is some validity to both sides of the issue. As will become evident from this study, the arguments in favor of creating a SARA have proven to be only partially supported by events. Those tax administration improvements that have been accomplished have not always maintained a positive correlation with expectations across countries and/or in the same country across time. For many (if not most) cases, expectations ran well ahead of reality. There have been sometimes subtle and other times definite ebbs and flows, a phenomenon not unexpected in any institution.

This study has several objectives. It is not a theoretical exercise. Rather, it seeks to present a practical guide to the experience of SARAs and to the lessons learned from these experiences. Although it does offer five in-depth SARA case studies drawing on the author’s own work experiences in Ecuador, Guatemala, Peru, Tanzania, and the urban municipality of Lima, Peru, it attempts to establish certain generalizations regarding the evolution of SARAs by also drawing on the work of others. In addition to identifying those elements that can be identified with the “success” or “failure” of the SARA experiment, it will also (with caveats) generate estimates of overall performance by incorporating indicators such as tax ratios and tax collection productivity measures. Moreover, it will present a series of performance indicators that will permit others to gauge SARA performance both over time in one country and at the same time between countries. The paper does not purport to cover all aspects of SARAs; some aspects will be left unexplored, and some have been analyzed by others. Nevertheless, it hopefully covers many of the principal issues raised by the establishment and ongoing implementation of SARAs.

The fundamental idea that permeates this paper is that establishment of a SARA is no panacea; it offers no “quick-fix” to a developing country’s revenue and tax administration quandaries. The mere existence of low revenue/tax ratios, corruption, administrative inefficiencies within the finance ministry, and tax evasion does not automatically call for the creation of a SARA. It might be “right” under some—but not all—circumstances. What a SARA can do is establish a platform from which change can be facilitated, but its initial impact and, more importantly, longer-term successful performance, depend on (the trite but true old standbys) the strength and quality of SARA leadership, political will, and sustained public and private sector support.

Of the several steps usually not taken prior to creating a SARA, (at least) two merit further comment: carrying out a cost-benefit analysis of transferring tax collection functions from the MOF and establishing a “contract” between the SARA and those entities to which the SARA would be accountable. Not only should the cost-benefit analysis cover the cost, revenue, and technical aspects of disengaging tax administration operations from the MOF, it should also attempt to gauge the political commitment to what amounts to a sea change. Often overlooked is that the very same tax administration procedures and processes already extant in the tax administration departments of any ministry of finance must also be put in place in a SARA. Not only must these procedures be maintained, but they will most likely require updating at a higher cost. Beyond cost aspects, the real issue boils down to whether or not these procedures can be more easily established and improved upon in a SARA than within an already existing institution.

The performance contract would be used to assure that policy objectives are met (e.g., ethical and fair application of the tax code and laws) and enforced. The specific terms of such a contract can be defined in quite objective terms, and many examples of these can be found in Annex 1 of this paper. Funding for the SARA and/or renewal of high-level management contracts could become dependent upon meeting a given percentage of the contract’s terms.

Needless to say, care must be taken to provide the SARA with a legal foundation that grants it both *de jure* and *de facto* autonomy. But this is merely a first step. Sustainability of the initial impetus and the maintenance and gradual improvement of the myriad internal and external facets of tax administration processes are hardly automatic, and many factors come into play that either lead to improvement, stagnation, or backsliding.

It must be recognized that this paper is basically constrained to a discussion of SARA performance in a limited number of countries and aspects. Such a constraint essentially means that the overall environment in which a SARA (or any tax administration) operates is taken into account on a relatively restricted basis. Clearly, the real world does not function in this manner. All revenue administrations must function in complex environments in which exogenous factors outside their direct control are constantly coming into play—e.g., the macroeconomic environment, fiscal policies, the legal framework, the judiciary, other public and private sector institutions, taxpayer behavior, and intrusion from the legislative and executive branches of government. This environment is well presented and summarized in Gill (2000).

This paper is organized in the following manner: The remainder of Section I offers an overview of the main issues that arise in establishing a SARA, and additionally presents a typology regarding the “stages” of SARA evolution and comments on the use of general indicators to gauge SARA performance. Section II is dedicated to a description and brief analysis of SARA experiences in five separate cases: Peru, Tanzania, Guatemala, Ecuador, and the Municipality of Lima. Section III takes on the topic of fiscal corruption while delving into the corrupt practices that (inevitably) infiltrated three SARAs; it even dares to offer some suggestions regarding how to limit such corruption. Section IV recounts some of the lessons learned from SARA experiences, and offers opinions with respect to the future of SARAs. There are also six Annexes: Annex 1 presents lists of indicators that can be used to gauge SARA performance; Annex 2 yields VAT efficiency estimates for the four country case studies, thereby complementing the text tables; Annex 3 offers some suggestions on how to sequence a SARA start-up; Annex 4 details a generic SARA Act that incorporates some of the best practices recommended in the text; Annex 5 presents a list of developing countries with currently operational SARAs; and Annex 6 lists all the persons who contributed the information and the ideas that underlie this study.

A. The Principal Issues to Be Dealt with in Establishing a SARA

To reiterate, the overriding rationale for transferring the tax collection function from a ministry of finance to a SARA is to enhance revenue performance to reduce fiscal deficits, meet rising public expenditure needs, and attack ingrained corruption. By doing so, the objective is to upgrade tax administration efficiency by setting up improved systems, insulate tax administration functions from undue political interference, and enhance accountability. The transfer of the tax collection function is carried out by conferring semi-autonomous legal status on the newly established institution in a variety of ways. Each currently operational SARA has adopted a veritable gamut of approaches to the most pressing organizational and institutional issues. Although there are many similarities in these approaches, there are also a large variety of solutions. It must be emphasized that the following are (necessarily) generalizations. For in-depth analysis of these issues covering six countries, see Taliercio (2003).

Accompanying each issue is a “Recommended Best Practice.” Use of such a term is not meant to imply that a SARA itself is recommended; this issue is discussed in Section IV.B. Rather, it should be interpreted as suggesting that, if the decision is taken to establish a SARA in a given country, then the authorities should take into account these “best practices,” which are a product of the experiences of previously established SARAs. Admittedly, they incorporate a significant subjective element as well.

1. The Legal Base

The legal base is usually in the form of a parliamentary (legislative) law or act, although it may arise as a presidential or ministerial decree or as an amendment to the constitution.

Recommended best practice: An Act based on parliamentary authority. This will enhance the SARA's longer-term stability and perceived legitimacy.

2. The Legal Form

There can also be many variations of the legal form:

- A large degree of *de jure* autonomy as a decentralized institution with separate legal character and complete autonomy regarding financial, personnel, administrative, and procurement systems (e.g., Ecuador, Guatemala, and Peru).
- A corporate body with perpetual succession and also a large degree of *de jure* autonomy (e.g., Kenya, Tanzania, Uganda, Zambia).
- A de-concentrated service with no separate legal character (e.g., Argentina, Mexico, South Africa). It might be a stretch to even label this variation a SARA.

Recommended best practice: Complete autonomy with separate legal character, perpetual succession, and the ability to own assets and to sue and to be sued. Under stable and competent management, this will aid in warding off political interference and will provide some of the most important elements that underlie performance enhancement. A caveat is in order. As will become evident in subsequent parts of this paper, the mere existence of *de jure* autonomy does not always translate into *de facto* autonomy. And the existence of either *de jure* and/or *de facto* autonomy offers no guarantee of enhanced efficiency and accountability and reduced corruption.

3. The Governance Structure

The majority of SARAs have a Board of Directors at the apex; some exceptions are the SARAs in Peru, South Africa, and Venezuela. The Chairperson of the Board of Directors and Board members may be appointed by the President of the country (e.g., Ecuador, Guatemala, Peru, Tanzania) or by the Minister of Finance (e.g., Uganda, South Africa). When the appointment of the Chairperson is made by the President, it is often with the recommendation of the Minister of Finance and sometimes with approval by Parliament. The composition of the Board normally includes the Minister of Finance or a high-level MOF representative, the SARA head (without vote), other ex-officio members from other public sector institutions (e.g., Central Bank), and private sector representatives. The number of Board members usually varies from 5 to 10 persons. An independent Advisory Committee may be used to propose private sector candidates for Board membership.

Appointment of the head (alternatively given the title of Superintendent, Director General, or Commissioner General) of the SARA (and sometimes the top management) may be made by the Board of Directors, the Minister of Finance subject to cabinet or special approval processes (e.g., Kenya, South Africa, Uganda), or by the nation's President (usually with the recommendation and/or approval of the Minister of Finance).

The tenure of both the SARA head and Board members, although part of the SARA legislation, is somewhat loosely defined and relatively insecure given that the term of appointment is usually indefinite, and removal may be for “sufficient cause” (e.g., failure to meet revenue targets, illicit activities, others).

Recommended best practice: A Board of Directors with non-ex-officio private sector representatives selected by an independent committee, with all members serving for a fixed (and perhaps once renewable) tenure. The ex-officio members will be the Minister of Finance, the Central Bank’s Governor, and heads of several other select public sector entities. Selection of the private sector members by a truly respected and independent committee will remove many of the present impediments (e.g., designation by the President or Minister of Finance) to Board and SARA stability. Given that Board members usually have other full-time responsibilities, a Technical Assistance Unit reporting directly to the Board should be formed to advise members on matters regarding tax administration and policy. For the SARA head, selection by the Board of Directors and approval by Parliament for a period of five years (also once renewable). Removal should be by “qualified” majority vote (say, five of seven members) of the Board only for specific and proven causes: e.g., fraudulent acts, gross dereliction/negligence of duty, physical incapacity, and/or failure to fulfill the stipulations of a (possible) performance contract between the SARA and the MOF. The stability of tenure of a competent SARA head is so important that such tenure should not be subject to the whims of politics; i.e., appointment and removal by the nation’s President, Minister of Finance, and/or Parliament. Although the above recommendations do not guarantee stability of tenure, they offer better support than is presently stipulated in SARA Acts.

4. Personnel Management Systems

In the majority of cases, human resource policy *cum* personnel systems is established autonomously within the SARA outside the purview of the regular civil service system. This is clearly important for the recruitment and retention of competent personnel. In a minority of less autonomous cases, SARA human resource policy and salary scales fall within the civil service and/or must meet with ministerial (of finance) approval.

Recommended best practice: Complete autonomy and the use of competitive entrance examinations (including psychometric tests) under the management of the Human Resources Department. Salary scales for professional staff should match those offered in the private sector, especially in such key areas as information technology, legal affairs, and top management positions. Career path and retirement systems should be incorporated in the SARA Act and subsequently implemented.

5. Financing Mechanisms

Financing mechanisms also vary from strongly autonomous to discretionary: direct deposits of a given percentage of revenue collections into a special SARA account (Peru, Guatemala); a given percentage of collections released periodically by the MOF (Ecuador); legislative (annual) budget appropriations (Mexico, South Africa, Tanzania, Uganda); or a given percentage of estimated collections plus the difference between actual and estimated revenues (Kenya).

Recommended best practice: A given percentage of gross tax collections that will permit the SARA to develop and carry out better medium- to long-term budgeting and planning.

6. Accountability Mechanisms

Accountability mechanisms also vary from direct reporting to the legislature to reporting to the MOF, the SARA's Board of Directors, and/or the national comptroller's office. All SARA organizational charts include an internal audit unit, but most lack an internal anti-corruption investigation unit and a unit to investigate external fiscal fraud (on the part of the taxpayer). It is critical to establish such units given the inevitable rise of corruption as the SARA matures.

Recommended best practice: Institutionalized reporting to the Board of Directors, the MOF, the Parliament, the Auditor (Comptroller) General's Office, and (if it exists) the national anti-corruption body; and the establishment of internal anti-corruption and external fiscal fraud units.

7. The SARA-MOF Relationship

The relationship with the MOF and, in particular, between the SARA head and the Minister is often a serious bone of contention. The MOF must establish tax policy—but with SARA input. Frequently, the tax policy analysis unit in the SARA is better than that in the MOF. The Minister often tries to interfere in SARA policies, and resolution of these matters often depends on personalities. Separation of responsibilities is important, but is hard to define and/or maintain.

Recommended best practice: Attempt to strictly define this relationship in the SARA Act, but adhere to the reporting mechanisms that are also part of the Act.

8. Relationships with Other Public Sector Entities

Also important are relationships with other public institutions, especially the Ministry of Justice (to deal with taxpayer fraud prosecution), the Central Bank, the Customs Department (if not part of the SARA), and other tax collection entities (e.g., social security, regional and local governments).

Recommended best practice: Formulate and institutionalize agreements for the exchange of information between the SARA and these entities.

9. What to include: Internal Taxes and Customs?

Many developing countries that have already established SARAs have chosen to concentrate solely on strengthening internal tax administration (i.e., mainly income taxes, VAT, and excises), and have not incorporated customs operations into the SARA. Others have opted to place the collection of all principal taxes (including those administered by customs) under the SARA umbrella. There is no one general rule that fits all cases, and each country must act according to its own particular circumstances.

At first glance, it would seem appropriate to include customs operations within the SARA. After all, most developing countries display a tax structure that relies heavily on customs duties and a VAT and excises on imports. Such reliance alone is evidence of the strategic fiscal and economic importance of customs operations, its valuation and classification procedures, and its overall administrative capacity. Moreover, the valuation and classification of goods at customs offices represent the key first step in the VAT chain that ultimately impacts total (import and domestic) VAT collections. If these steps are improperly carried out, it becomes difficult to establish an adequate invoicing system up to and including the retail level.

However, customs and internal tax administration are two rather different administrative worlds. While they do share numerous general features (e.g., the need for computerization, personnel management and monitoring systems), their daily processes and procedures are quite dissimilar. Consequently, as witnessed in country after country, the merger of two fundamentally different administrative “cultures” is usually fraught with difficulties. In developing countries customs administration often lags behind that of internal taxation in such critical areas as computerization, risk assessment, strategic management plans, management information systems, internal controls, and disciplinary systems. One recent study (see World Bank Group, 2003) concludes that:

The full merger of the two institutions may in fact impede the goal of increasing effectiveness. A joint focus on the operational aspects, a cross-institutional focus on target groups, and coordinated legislation and planning may serve the purpose....whereas a merger of the physical organizations....may in the end be counterproductive.

The aforementioned points often lead to the initial inclusion in the SARA of only internal taxation. Simultaneously, of course, greater efforts should be undertaken to strengthen customs administration. One option is to establish a SARA for customs alone, but only after the (internal tax) SARA is up and running, thereby permitting the customs SARA to learn from the experience of the internal tax SARA. At a later date, both SARAs can be merged under a single roof. These are not unrealistic recommendations divorced from experience. For example, Peru established two parallel SARAs in the 1990s, and is presently in the process of merging them. The Peruvian merger effort (uncompleted as of

mid-2004) has not proceeded without significant difficulties, many of which are the product of the previously mentioned “cultural clash.”

10. Outsourcing

The outsourcing of more than a few revenue administration services (in both SARAs and non-SARAs) is a distinct possibility, but certainly not a panacea. A snap judgment that private sector service delivery is always better than that provided by the public sector is not necessarily valid. The privatization of some services requires in-depth analysis. Outsourcing, which can be complicated by legal issues, initially requires a clear vision of what is to be accomplished, and an organizational consensus on how to accomplish it. Subsequently, for each activity or function to be outsourced its financial impact must be carefully analyzed. This necessitates constructing a base case financial analysis to establish a reference point for comparing in-house costs to the marketplace and expected trends. This comparison is then used to estimate the financial impact of outsourcing; i.e., the generation of expected savings or increased expenditures. If it is decided to contract an outside company, public bidding procedures must be followed and technical and cost evaluations must be made. Thereafter, constant monitoring and supervision must be exercised. In sum, outsourcing offers no shortcuts.

B. The Stages of SARA Evolution

One of the best analogies that can be used to describe the experiences of operational SARAs is that of a roller-coaster ride (although not entirely apt, because the cars complete the ride at the same point and level as they begin). This is evident in the case studies found in Section II of this paper and in other comparative studies of SARA experience in Africa and Latin America; see especially Taliercio (2003) and Terkper (2003). In general, the initial years have witnessed genuine progress toward the achievement of enunciated goals. Progress is never linear, but the trend line is upward. But after the enthusiasm and progress of the initial years comes the tripartite divide: upward trend enhancement is (non-linearly) sustained, stagnation (i.e., sideward movement) sets in, or regression (backsliding) takes over. These latter two trends are reversible, as reforms can and have been instituted to overcome stagnation and regression. On the other hand, over time upward sustainability becomes increasingly difficult to maintain.

The elements that lead to the roller-coaster ride are both internal (to the SARA) and external; e.g., corruption, economic conditions, and political interference. Some of the keys to initial success, sustainability of progress, and renewal after stagnation and/or regression are not surprising to anyone who has worked in the area of economic and institutional development: the scope, strength, and sustainability of (semi) autonomous legal and institutional arrangements; SARA leadership; assignment and use of enforcement capabilities; design and implementation of internal and external accountability and anti-corruption mechanisms; financing to cover both current

operations and required investment in hardware, software, and personnel; and a voice in the formulation of tax policies, especially as they impact upon collections and administrative and taxpayer compliance costs.

What follows is a **generalized** typology of the stages of SARA development. Given that it represents a generalization, in each country case (many) exceptions can be found. Nevertheless, it can be useful to generate some order out of chaos.

Stage I: Decision to Establish SARA

The main reasons that lie behind the political decision to take collections out of the MOF and to establish a SARA were previously enumerated: the desire to raise tax ratios to finance higher levels of public spending on social and infrastructure needs, de-politicize the tax administration bureaucracy, and reduce corruption. Such a decision does not occur in a vacuum, and the decision-makers must undertake a strong public relations campaign to sell the idea to the taxpaying public and the legislature. Opposition arises not only from the MOF bureaucrats who stand to lose their rent-seeking positions (or simply their low-paying but stable jobs), but also from taxpayers who have historically been able to evade paying their rightful share of the tax burden. Needless to say, strong and sustained political commitment is a requisite. The idea of establishing a SARA might also be supported by international agencies and donors. Although such support may be helpful, the absence of a genuine internal (national) commitment to “make it work” and feelings of local ownership greatly reduce the probability that it will.

A critical first step is to draft and pass the law establishing and defining the SARA’s institutional and technical base. The importance of “getting it right” in terms of the initial legislation (and subsequently the organizational structure) cannot be overemphasized. That there are many alternatives is evident from Section I.A of this paper. Since numerous SARAs already exist, it is not difficult to analyze best international practices and adapt them to the institutional, political, and economic conditions of a given country. Annex 4 of this paper presents a generic SARA Act. Of course, it is naïve to assume that the mere existence of internationally “correct” legislation and the rational sequencing of activities will lead to an effective SARA. As will be pointed out in Sections II and III, the real world intrudes.

Stage II: Commencement and Rise in Tax Ratios and Efficiency Indicators

During the first part of this stage, the disengagement process from the MOF begins and is normally completed after the first year. It involves the transfer and development of automated administrative systems pertinent to (among many others) taxpayer registration, auditing, delinquent account identification and collection, taxpayer services, planning and coordination, etc. Simultaneously, it also encompasses hiring and placing the right persons in the right staff positions by using a process of open and competitive exams. Care must be taken to avoid the reintroduction of political patronage, from which follows

the cultural logic of corruption and/or incompetence. Most critically, the process must hone in on the appointment of strong and competent leadership in the lead management positions (a factor that is important in all stages). Annex 3 lays out some of the main steps that must be taken to get a SARA up and running.

In this stage, the SARA is usually perceived as a credible and fair alternative to the former tax collection entity in the MOF. Public enthusiasm for the SARA and the SARA's credibility rise. (At last there appears to be a public institution that actually works well!) Improved taxpayer compliance is noted, as a so-called "SARA-effect" kicks in. This effect occurs due to a change in taxpayer perceptions: the risk of getting caught for tax evasion rises, tax collection is perceived as being horizontally and vertically more equitable, and the taxpayer's neighbor is actually paying the levies that he/she heretofore evaded; this effect in a high-income developing country was analyzed in Mann and Smith (1988). Tax ratios and real tax collections gradually increase along with efficiency and productivity indicators (see the tables in Annex 2). SARA performance is even better if combined with tax policy reforms that correlate with more efficient tax administration and lower taxpayer compliance costs; e.g., reducing the negative revenue impact of tax expenditures by eliminating some tax exemptions and deductions and/or the numerous tax forms required from the taxpayer. The degree of coordination and cooperation between the SARA and the MOF improves (e.g., setting revenue targets), as potential rivalries between the SARA head and the minister are placed on hold or (temporarily) set aside. Taxpayer service quality improves, and broad-based political support is maintained.

Stage III: Divergences on the Road to Enhanced Performance, Sustainability, and Maturity: The Medium- to Long-Term Struggle

This is the most critical stage. After initial enthusiasm has waned and both insiders and outsiders learn how to "game the system," several divergent paths are observable: steady but slower sustainable institutional improvement (with the inevitable but relatively slight ups and downs), relative stagnation (one step forward, one step backward), or backsliding (one step forward, two steps backward). In several of the cases analyzed in Section II, a combination of all three scenarios has unfolded over time. Similar cyclical trends in other countries have also transpired.

During this phase the SARA becomes technically more proficient, introducing second generation automated systems pertinent to such functions as taxpayer registration, auditing, delinquent account collection, and taxpayer services. Tax payments (at least by large taxpayers) are facilitated via the internet, and taxpayers are able to discharge their obligations via the banking system.

However, political support is difficult to maintain, and politicians, political parties, and government officials begin to chip away at SARA autonomy. Tax policy, designed in the MOF, may create greater barriers to better administration; e.g., the granting of additional exemptions. The inherent conflict (between accountability for overall fiscal policy that

lies in the MOF and the SARA's authority over tax collections) between the SARA and the MOF rears its head as the initial "truce" between the two institutions fades; see Taliercio (2001). New (and perhaps conflicting) personalities at the top of each institution emerge. Although enhanced computerized systems and improved audit strategies should strengthen the SARA's enforcement capabilities, there are forces pulling in the opposite direction: taxpayers that initially laid low with respect to illicit behavior learn how to "game the system", often with inside help; internal networks of corruption are developed, and linkages between these internal networks and external ones are formed; SARA authorities are often culturally loathe to apply internal sanctions and to vigorously prosecute tax evaders (aided and abetted by a weak judiciary); the Board of Directors may attempt to micromanage the SARA's daily activities, an aspect all the more probable if the Minister of Finance chairs the Board; the Board may prove to be weak and/or fail to exercise its supervisory functions; the SARA's internal accountability mechanisms (e.g., the internal audit unit) may not be maintained at reasonable levels and/or may look the other way at "inappropriate" practices; the SARA may fail to put in place such accountability mechanisms as an internal anti-corruption unit; instability at the top of the SARA's management structure crops up if the President and/or Minister of Finance are easily able to appoint and dismiss the SARA's Director.

It can be argued that it is not inevitable that all or some of the above factors (and others) occur. But the SARA, as any other private or public sector institution, is not walled off from the real world. Human nature prevails. The best that can be done is to provide the SARA the means through which institutional stability can be strengthened (but never guaranteed). This means incorporating in the SARA Act (see Annex 4) mechanisms that practical and honest persons can employ to attempt to fight off some of the more significant challenges to autonomy and efficiency. Some of these mechanisms are found in Section IV, and are not at all surprising—e.g., managerial, personnel, and planning stability; funding sufficiency; maintenance of public support via perceived honesty, competence, and fairness; tax compliance simplification; vigorous application of internal and external sanctions; maintenance and updating of systems; and constant and consistent maintenance, monitoring, and application of performance indicators (see Annex 1).

C. The Statistical Measurement of SARA Performance

Tax ratio tables are presented for four of the five case studies covered in Section II; more detailed tax revenue performance data for the four case studies are found in Annex 2. Presentation of these tables fulfills a dual purpose: it allows the reader of this paper to reach an empirical judgment regarding pre- and post-SARA performance, and the various tables offer simple and straightforward methodologies that may be applied to gauge the performance of tax administrations in other countries, be they SARAs or non-SARAs.

The results displayed in the statistical tables are subject to very important caveats. This type of quantitative analysis does **not** control for all the exogenous variables that affect tax collection *cum* tax administration efforts. While tax collections over time are partially a function of the efficiency of tax administration *per se*, they also depend upon factors over which the tax administration has little or no control. Examples of such

administratively exogenous elements abound: tax law modifications that affect both tax rates and tax bases (e.g., exemptions, deductions, thresholds); overall economic growth rates; structural (macroeconomic) changes (e.g., the declining/increasing importance of the “hard-to-tax” agricultural and informal sectors); external trade liberalization accompanied by lower tariff rates and increased imports (taxable under VAT and excises); the volumes and prices of imported petroleum products; the functioning, effectiveness, and fairness of the judicial system in which suspected cases of tax fraud are ultimately decided and sanctioned.

The role of tax expenditures merits special mention. Tax codes in all countries are replete with these preferential measures (e.g., exemptions, deductions, credits, deferrals, incentives) that (legally) reduce tax liabilities. Many ministries of finance and/or SARAs attempt to quantify the tax revenue “lost” due to these provisions. However, such results must be taken with a large grain of salt due to the static methodology that is employed to generate them. The methodology, labeled in the literature the “revenue foregone method,” generates *ex post* quantifications of revenue losses. It is based on the assumption that taxpayer economic behavior does not change due to the absence or the presence of each tax expenditure provision. Moreover, it assumes that each individual tax expenditure is additive, thereby not taking into account the possible interdependencies that might exist between provisions. A study applied to Guatemala (Mann and Burke, 2002) that attempted to correct for these interdependencies and price and income elasticities of demand concluded that, for the year 2000, the net value of revenue lost due to Guatemala’s tax expenditures was 3.25% of GDP, not the 7.29% estimated under the static methodology. Whichever figures are used, there is no doubt that tax expenditures do generate significant revenue “losses.” But they are politically difficult to eliminate, and the SARA itself has no control over them.

Despite such significant limitations surrounding tax administration efficiency measures, the mere fact that they do provide statistical indicators of tax performance is helpful. After all, in their absence no judgment of tax administration performance would be possible—a clearly undesirable result. Moreover, by factoring in (and attempting to account for and/or remove) the year-to-year modifications in the numerous exogenous variables that do impact the statistical efficiency measures, outside analysts and tax authorities are able to better gauge performance over time. Using an analogy, for decades those involved in tax policy analysis have attempted to “smooth” tax revenue time-series data by distinguishing between the concepts of tax elasticity and tax buoyancy; this is precisely an exercise that attempts to “clean up” time-series data from those tax code modifications (that affect the tax buoyancy coefficient) in order to capture the “true” underlying elasticity of different types of tax revenues.

Furthermore, judging SARA performance over time is not limited to the statistical time-series analysis of tax collections. This becomes evident in Annex 1, where multiple examples of indicators are listed that can be used to gauge SARA (and non-SARA) administrative performance.

II. CASE STUDIES

The country case studies that follow are presented according to the chronological order of their legal and operational establishment. To a certain extent, the first case study from Peru can be used to set a reference point for the remaining cases. Moreover, the Peruvian case was employed as a model in the establishment of SARAs in Ecuador and Guatemala. The case study regarding the Metropolitan Municipality of Lima does not adopt this chronological sequence. The reasoning behind its presentation is that it represents the only known case (to this researcher) of a SARA having been established at a municipal government level.

A. Peru

Peru's Superintendencia Nacional de Administración Tributaria (SUNAT) was legally established under Law #24829 (June 7, 1988) and Legislative Decree #501 (December 1, 1988). It is a decentralized public institution that was granted functional, economic, technical, financial, and administrative juridical status. Its roots date back to the 1980s, when it was visualized as a drastic reform measure required to remove the collection of **internal** taxes (excluding customs) from the under-performing, overstaffed, and thoroughly corrupt General Department of Contributions (DGC) in the Ministry of Finance (MOF). However, the chaotic economic and political conditions of the late 1980s precluded implementation of the SUNAT law.

Following the political and economic debacle of the García administration (1985-1990), the elections of 1990 brought the first Fujimori regime (1990-1995) to power, and its inception led to the implementation of a comprehensive package of neo-liberal economic reforms. As part and parcel of these reforms, the perilous fiscal situation required the adoption of an integrated attack on both the tax policy and tax administration fronts. Myriad low yield taxes (at least 60) were replaced by five basic levies: income (corporate and personal), consumption (value-added and excises) and customs duties. The SUNAT's tax administration responsibilities were limited to the collection of internal taxes (income, value-added, and excises), whereas customs duties were assigned to another semi-autonomous agency (SUNAD), which later changed its acronym to ADUANAS. They were legally integrated in 2002, and implementation of the integration process is currently (mid-2004) underway.

In early 1991, the SUNAT's first Superintendent was named (by law, appointed and removed by the President of Peru with the advice of the Minister of Finance), the SUNAT was reorganized by executive decree (based on the 1988 law), and was given the green light (by legislative decree) to create a new personnel regime with salaries far above and outside existing civil service scales. All positions in SUNAT were then filled by open competitive exams (offered to old employees and outside newcomers) that contained a mixture of technical and psychological queries. Retrenchment costs (severance pay and pensions) were high, and the end result was a net tax administration staff reduction of almost one-fourth. Stability in funding was guaranteed by the direct deposit of 2% of tax collections directly into a special SUNAT account; other (minor)

SUNAT funding sources were derived from 25% of property auctions and 0.2% of non-treasury revenues. Three ex-SUNAT Superintendents have stated that such funding levels were sufficient during their tenure, although the integration of customs with the SUNAT, whose implementation did not begin until 2003, may have created higher short-term financing needs for hardware and software.

In contrast with most SARAs, the SUNAT does not have a Board of Directors. It is governed by an Administrative Committee (Comité de Alta Dirección) composed of the Superintendent, the Deputy Superintendent, and the heads of the various functional dependencies within the organizational structure. The absence of an external supervisory entity represents a type of moral hazard, although the long-run performance of many SARAs that do have Boards has been decidedly mixed.

In sum, by the end of 1992 Peru's tax administration had been completely revamped, including such vital elements as a new organizational structure, information technology (IT) and personnel systems, strong leadership, and political support. Clearly, without autonomy these wholesale reforms would not have been possible over such a short time span.

The SUNAT's performance between 1992 and 2003 conforms quite well to the scenarios laid out in Section I.B. The initial period, roughly spanning the years 1992 to early 1997, witnessed an auspicious beginning buttressed by strong political support from the Presidency and the MOF. The data found in Table 1 support this assertion. Both overall and SUNAT-linked tax ratios rose, although not nearly as rapidly nor as dramatically as is oft-times claimed (especially discounting the chaotic pre-1992 years). The overall tax ratio net of social security taxes increased from 10.83% in 1990 to 14.24% in 1997, while the SUNAT's "own-collected" tax ratio (see the last column of Table 1) climbed from 7.84% to 12.69% over the same period. However, given that the SUNAT only became fully operative by the beginning of 1992, this latter year represents a better point of reference from which to judge its performance. From 1992 to 1997 the "own-collected" ratio increased from 10.10% to 12.69%. VAT productivity measures (see Tables A.1 to A.3 in Annex 2) also rose substantially. These latter indicators are significant, given that the VAT constitutes over one-third of all central government tax revenues (including social security---see Table A.4 in Annex 2) and more than two-fifths of SUNAT-collected taxes (Table A.5 in Annex 2).

Table 1: Peru: Tax Ratios, 1990-2003

Year	All Taxes	Income	VAT ^(a)	Excises	Import Duties	Others ^(b)	Social Security	SUNAT- Collected Taxes ^(c)
1990	11.75	0.66	1.44	4.28	2.08	2.37	0.92	7.84
1991	12.86	0.94	2.56	4.55	1.33	1.66	1.82	9.05
1992	13.87	1.67	3.60	3.94	1.44	1.34	1.88	10.10
1993	13.91	2.03	4.95	2.37	1.75	1.07	1.74	10.06
1994	14.76	2.56	5.50	2.34	1.70	1.13	1.53	11.45
1995	15.19	2.88	5.72	2.09	1.74	1.22	1.54	11.88
1996	15.59	3.64	5.62	2.05	1.66	1.15	1.47	12.46
1997	15.70	3.63	5.61	2.17	1.55	1.28	1.46	12.69
1998	15.55	3.53	5.50	2.07	1.79	1.30	1.36	12.39
1999	14.08	2.92	5.08	1.98	1.66	1.16	1.28	11.13
2000	14.13	2.77	4.96	1.86	1.60	1.22	1.72	10.81
2001	14.34	2.99	4.76	1.89	1.48	1.49	1.73	11.13
2002	13.86	3.03	4.86	2.11	1.25	0.94	1.67	10.93
2003	14.63	3.76	5.16	2.13	1.20	0.73	1.65	11.78

(a) Net of refunds; includes the VAT on both domestic transactions and imports.

(b) The principal taxes included here are the payroll tax (impuesto extraordinario de solidaridad), taxes on small taxpayers (régimen único simplificado), fines, road user fees (impuesto al rodaje), and the tax on public companies (impuesto a las acciones del estado).

(c) Income, VAT, excises, payroll, and others. The main exclusions are social security and import duties. Although the SUNAT began collection of social security taxes (health and pensions) in 1999 and import duties in 2003 (with the fusion of SUNAT and the formerly semi-autonomous customs agency, to generate a consistent data series from 1990 to 2003 these two levies are excluded. To be completely consistent, the VAT and excises collected on imports should also be excluded, given that they were a function of imports; this was not done.

Sources: Developed from MOF, SUNAT, and Central Bank data.

The number of registered active taxpayers rose from 895,000 in 1993 to 1.8 million at the end of 1997, with the 33,000 large and medium taxpayers showing close to a 100% declaration to payment ratio; i.e., the oft-present tax arrears bottleneck was not a dilemma. However, by 2000 for large taxpayers under the VAT and income taxes this tax compliance rate (the ratio between paid tax obligations and total tax obligations) had deteriorated to 79%, but improved to 87% by 2002. Of course, the reduction in tax arrears is not synonymous with drops in tax evasion rates (see below). More recent data reveal that by the end of 2003 the number of registered active taxpayers had reached 2.66 million, of which 14,600 were classified as large taxpayers who generated some 85% of total internal (excluding customs) tax revenues; in 2002 a mere 54 large taxpayers paid 39% of this total. Such a highly skewed distribution is not atypical of tax collections in SARA countries.

However, after the initial impetus, political support began to wane and the inherent conflicts between the MOF and the SUNAT gained precedence. This conflict concerning

accountability and incentives is analyzed in detail by Taliercio (2001), who posits that the main challenge to SARA autonomy and sustainability stems from it. The Minister of Finance is held accountable for SARA performance, but has very limited authority over it, especially in the areas of personnel and finances. Although the MOF is formally responsible for the formulation of tax policy, it may sometimes be forged by the SARA in those cases where the MOF's tax policy analysis unit is weak. And there is no doubt that tax policy affects (often negatively) tax administration. Thus, SARA sustainability *cum* autonomy depends not only on the relationship between the MOF and the SARA, but also on the strength of executive (and private sector) support.

Nevertheless, the three SUNAT Superintendents who served from February, 1991 to February of 1997, in the face of mounting political pressures, increased encroachment on the SUNAT's autonomy from the MOF, and an increasingly corrupt external environment, managed to establish and maintain the SUNAT's basic autonomy and efficiency, although some erosion was in evidence as early as 1995. Stage III problems (in addition to several holdovers from Stage II) began to spring to the fore in 1996, and backsliding and relative stagnation set in. The two Superintendents who served from February, 1997 through August, 2000 proved unable to resist the increased internal corruption and patronage demanded by the second Fujimori administration (1995-2000); this is well documented in Durand (2003, especially pages 458-465). The data presented in Tables A.1 to A.3 in Annex 2 bear this out, although it must be emphasized that these figures were also affected by deteriorating macroeconomic conditions and tax policy, especially the increased granting of exonerations and other forms of tax expenditures; any member of the legislature can introduce tax legislation with Executive Branch support, and courts may also grant tax benefits. Additionally, tax erosion was prevalent in the form of a high basic exemption level under the personal income tax, the *de jure* exclusion from taxation of capital income, and the *de facto* exclusion of rental and non-salaried incomes. Lower customs tariffs, the elimination of a tax on net assets (IEAN), a rate drop in another tax (the IES on salaries in the formal sector), and the recession of 1999-2000 also lowered revenues.

Notwithstanding these factors, tax administration efforts did deteriorate, SUNAT leadership was weak, and staff morale was undermined. Among the general public and especially among large taxpayers, there arose a lowered perception of the SUNAT's fairness and institutional image, both of which had been very highly rated in the past. Moreover, in the late 1990s the SUNAT took on more tax collection responsibilities as it became the collection agent for social security contribution to the national pension (Sistema Nacional de Pensiones) and health plans (Seguro Social de Salud). To be fair, the late 1990s was a period of political turmoil and increased overall corruption, so the SUNAT was not the only public (and private) institution negatively impacted.

After having withstood the backsliding of the years 1997 to 2000, entering 2004 the SUNAT seemed to be staging a comeback that began in 2001. From August, 2000 to August, 2001, it had five different Superintendents, albeit two interim persons during the brief interval between August and November of 2000. In December of 2000, the provisional government appointed the well respected former Deputy Superintendent (who

served from 1991 to 1995) as Superintendent to “clean house,” and he was replaced when a new national government came to power in July, 2001. During this eight month period, at least 40 SUNAT personnel who had infiltrated the organization as agents from the National Intelligence Service (SIN) were dismissed (see Section III.C.1), and a two-year strategic “recovery” plan was designed and its implementation initiated; the subsequent two Superintendents have maintained the plan’s basic structure.

Despite what happened in the late 1990s, a survey (of 1500 opinion leaders done by APOYO) carried out in July, 2003 rated the SUNAT as the number one Peruvian private and public sector institution categorized as “outstanding” for its efficiency. Nevertheless, much remains to be done to place the SUNAT back on the path it diverged from in the mid-1990s. While some stability has returned to the Superintendent’s position (only two since August, 2001) and high-level managerial posts, outside political interference remains a constant threat to autonomy and internal governance. The lack of a Board of Directors and the support the Superintendent might receive from a strong Board may be a weakness. Appointment of a Superintendent for a fixed term (say, five years overlapping the presidential term) might constitute a stabilizing factor.

Other problems remain. The 2002 legislative mandate to integrate internal taxation with the heretofore semi-autonomous customs entity (without appropriate planning whose implementation did not begin in earnest until 2003) places a large burden on the institution, given that the two institutional cultures, histories, and functions differ so greatly. The argument that such integration will aid in information exchanges is not necessarily valid, given that such interchanges can occur without integration. There remain many areas that are in need of strengthening: arrears collections, auditing (especially expertise in transfer pricing for both international and national firms/business groups), refunds, and better uses of database exchanges. Moreover, examples abound of tax legislation deleteriously affecting collections. Tax expenditures in the form of sectoral and regional tax exemptions from the VAT and the income tax amount to approximately 2% of GDP, thereby reducing tax revenues by some 11% (see the caveat regarding these calculations in Section I.C). Little was accomplished during 2003 to reduce these exonerations (some corporate income tax exemptions were eliminated), and in early 2004 legislation was approved to leave them untouched until (at least) 2005. The only positive development was that, for the first time in the history of Peru’s budget process, in the 2003 budget all tax expenditures (exonerations, credits, refunds, etc.) were specified and quantified.

The thresholds for annual sales at which the VAT kicks in and at which the Unified Unique Tax (Régimen Único Simplificado--RUS) is applied remain too high. The 2002 reforms that put in place additional withholding mechanisms related to the VAT and import duties (“retenciones”, “detracciones,” and “percepciones”) produced short-term revenue rises, but added significantly to taxpayers’ compliance costs. Also generating revenue gains but adding to private sector compliance costs and creating other distortions was the early 2004 imposition of the financial transactions tax (impuesto a las transacciones financieras—ITF) that applies to both bank credit and debit operations. From the SUNAT’s point of reference they represent “good” tax administration measures

in the sense of producing additional revenues and clamping down on tax evasion, but they also imply shifting tax administration costs from the public to the private sector. It is claimed that in its first four months of existence the ITF uncovered significant amounts of tax evasion. Whether or not these gains are sustainable is questionable. And, not surprisingly, tax evasion remains ubiquitous. An IMF mission study (2002) estimated VAT and personal income tax evasion in 2001 at 50% of its potential (some 6-7% of GDP), although Annex 2 Tables A.1, A.2, and A.3 do show an up-tick in VAT compliance between 2001 and 2003; but this hardly constitutes a long-term trend.

B. Tanzania

The Tanzania Revenue Authority (TRA) was established in 1995 under parliamentary Act No.11 as a SARA responsible for the collection *cum* administration of all central government taxes (as well as several non-tax revenues); it became operational in July, 1996. Prior to its establishment tax collection was a function of three revenue departments within the Ministry of Finance (MOF), and, as such, fell within the normal civil service framework. The rationale for its inception was similar to that of most SARAs: weaknesses in tax administration and tax policy formulation; widespread tax evasion; the desire to limit political interference (particularly from the MOF) and to free tax administration from civil service constraints; one of the lowest tax ratios in Sub-Saharan Africa (averaging 11.3% from 1990 to 1995); and a fiscal deficit (after grants) of 5% and 7.9% of GDP in FY 1994/95 and FY 1995/96 respectively. These budget shortfalls combined with a large quasi-fiscal deficit generated a money supply expansion of some 25% between 1994 and 1996, with subsequent high inflation rates and domestic debt growth.

The TRA, in contrast to Peru's SUNAT, operates under the general supervision of a Board of Directors, with daily operations conducted by the chief executive, the Commissioner General (CG). With the advice of the Minister of Finance, both the Board Chairman and the CG are appointed by the President of Tanzania. The Board has 10 members, and is responsible for the formulation and implementation of TRA policies and for advising the Minister of Finance on overall fiscal policy matters. The Board has five ex-officio members, one of whom is the CG; the remaining members, who may come from the public or private sectors, are appointed by the Minister of Finance for three-year terms (that may be renewed only once). Given an overlap, present (early 2004) Board composition is only nine members.

At the outset (FY 1995/96), all tax administration staff in the MOF's revenue departments were dismissed and were required to reapply for positions in the TRA. More than a third of the original 3,300 were not reappointed, and by the date of the TRA's operational start-up in July, 1996, the tax administration staff had been whittled down to 2,200; at end-2003 total staffing was at 1,900. Perusing its autonomy regarding the personnel system, large salary raises were offered, sometimes up to ten times higher than comparable civil service posts.

Establishment of the TRA was accompanied (and, in some cases, preceded) by gradual tax reforms aimed at simplifying and broadening the tax base: a VAT became operational as of July, 1998, replacing a highly resource-distorting multi-rate (turnover) sales tax as well as part of the low-yield stamp and entertainment taxes; export taxes were abolished in the early 1990s, were later re-introduced in 1996, and again abolished on traditional export crops in 1999; trade liberalization policies led to lower across-the board import duty rates, and are currently subsumed in four above zero bands ranging from 5% to 25%; over the 1990s excises were simplified and rates lowered, as a base covering several hundred items was reduced to nine principal groups, with a mere five goods (beer, other alcoholic beverages, tobacco, petroleum products, and motor vehicles) generating some 90% of the excise total; the income tax structure (personal and corporate) was simplified and marginal rates reduced (the top marginal rate for both personal and corporate levies is 30%, and the taxable income threshold is currently TSh. 50,000 per month, effectively removing some 40-50% of taxpayers from the system); and over the past few years more than a dozen low-yield taxes, levies, and duties have been abolished.

Under Act No.11, annual TRA operations are financed via the general government budget. The TRA prepares a (Board approved) budget based upon its annual action plan and on revenue targets that are negotiated with the Ministry of Finance. For the past several years an IMF team has also intervened (“mediated” between the TRA and the MOF) in setting the targets, so that the final figures (total and per principal tax) represent a consensus projection. Since this constitutes an annually moving target, it does not provide a solid base from which multi-year planning can be carried out. Moreover, although these revenue targets are supposed to be determined by negotiations between the MOF and the TRA, it has been the Research, Policy and Planning Department (RPPD) of the TRA itself that has taken the lead in setting the targets. This clearly implies a moral hazard in that the TRA (conservatively) sets its own revenue targets. This situation has arisen essentially by default, as the TRA has managed to establish a competent tax policy unit (the RPPD), whereas the MOF has not. In 2004 the MOF is in the process of setting up its own fiscal policy analysis unit (with the 2003 appointment of the former head of the RPPD), so that this latter quandary might be resolved over time. This new MOF unit will deal with far more than tax policy (e.g., debt and public expenditure policies), and at some future juncture will be able to negotiate revenue targets from a stronger analytical position.

Nevertheless, whatever the future holds will not really come to grips with the core of the funding *cum* planning problem, which might be better implemented by adopting the Peruvian model (a given up-front percentage of gross collections). The FY 2003/04 budget allocated TSh. 39 billion to the TRA, which constituted some 3% of the TRA’s revenue collections (net of VAT refunds). According to the TRA’s CG, this amount merely covers current expenditures, and is insufficient to cover infrastructure, software, hardware, and training needs. At present, most of these non-current outlays are being financed by external donor sources (via both loans and grants).

Since its operational establishment in 1996, the TRA has received substantial amounts of technical assistance (TA) from a gamut of external donors. Since 1999, donor support has

been coordinated by the World Bank under the Tax Administration Project (TAP), an umbrella program that provided TA for specific activities and TRA departments under the First Corporate Plan (FY 1998/99 through FY 2002/03), which was donor-driven. The TRA is currently operating under a second Five Year Corporate Plan (FY 2003/04-FY 2007/08), which is largely TRA-driven. One of the critical goals of this second Plan is to better integrate operations, especially in the critical area of internal and customs taxation. Through December 31, 2003, actual TAP outlays (which began flowing in 2000) amounted to US\$43.6 million, and projected external financing through FY 2007/08 is over US\$76 million. The principal externally funded investment components are targeted for new IT systems, equipment, and training.

If successfully implemented, the second Five Year Corporate Plan will produce administrative efficiencies that will have a positive impact on tax collection efforts. Already implemented have been measures to revoke (and perhaps re-issue after analysis) tax exemptions issued prior to 1997. Among the more significant measures that the TRA plans to implement during the initial stages of this second Plan are: a set of comprehensive administrative measures to reduce smuggling and tax evasion on petroleum products; streamlining VAT collections by raising the threshold; strengthening the limitations on using discretionary power to grant exemptions from customs, excise, and stamp duties; establishing a function-based Large Taxpayers Department (created in 2001) that will pilot the computerized integration of the administration of income and VAT taxes; carrying out a comprehensive review of customs administration to develop a customs reform strategy; and submitting to the Parliament a simplified income tax law. It remains to be seen whether or not these measures (if successful) will reduce administrative costs, which are apparently well in excess of 3% of tax collections. The other side of the coin is taxpayer compliance costs, which have not been estimated recently in Tanzania. A study for FY 1995/96 by Shekidele (2001) that was restricted to estimating the compliance costs for excise taxes found them to amount to 3.05% of total sales turnover and 15.57% of excise tax revenue.

Despite wholesale tax structure reform that either preceded or accompanied the TRA's establishment and post-1996 macroeconomic stability (real GDP growth rates of almost 5% and consumer price inflation hovering in the 5% range since 1999), it is evident from the tax ratio changes displayed in Table 2 that the (tax revenue) results have been relatively disappointing. On the heels of a tax ratio up-tick to 12.15% in FY 1996/97, it has been a struggle to return to the 12% level, much less attain the FY 2003/04 goal of a 13.3% ratio. Tax performance has trended upward since FY 1999/2000, and the tax ratio is estimated to have returned to the 12% mark in FY 2003/04. Tax evasion in the petroleum sector has been curbed, and the abolition of 100% deductibility on capital assets owned by firms has also contributed to this rebound. Admittedly, part of this poor tax collection effort is due to factors outside the control of the TRA: an increased use (oft-times for political reasons) of tax incentives and exemptions, especially in the tourism and mining sectors (which account for over one-tenth of GDP); the declining role of parastatals and the rise of informal sector activities; and the large GDP share of the hard-to-tax primary sector. The TRA estimates that exemptions granted at customs (that affect collections from import duties, the VAT, and excises) amount to over a fifth of

gross tax revenues. Some headway is being made in reducing this foregone revenue by elimination of VAT exemptions on petroleum and government purchases; these latter reforms generated much of the improvement in VAT efficiency indicators beginning in FY 2001/02 (see Annex 2, Tables B.1 through B.3). Nevertheless, the VAT's relatively (by international standards) low productivity ratios continue to be affected by numerous exemptions and poor enforcement.

Table 2: Tanzania: Tax Ratios, Fiscal Years 1991/92 – 2003/04

Fiscal Year ^(a)	All Taxes	Income	VAT ^(b)	Excises	Import Duties	Other Taxes
1991/92	12.49	3.27	3.65	2.49	1.72	1.36
1992/93	9.46	2.94	2.66	1.31	1.05	1.50
1993/94	10.95	2.91	3.14	1.44	1.41	2.05
1994/95	11.28	3.26	2.00	0.80	NA	NA
1995/96	11.31	3.31	2.78	2.07	1.81	1.34
1996/97	12.15	3.17	2.88	2.16	1.85	2.09
1997/98	11.01	2.91	2.69	1.97	1.68	1.76
1998/99	10.27	2.71	3.47	1.40	1.46	1.23
1999/2000	10.13	3.00	3.28	1.30	1.28	1.27
2000/01	10.74	2.52	3.92	2.01	1.24	1.05
2001/02	10.88	2.65	4.08	2.06	1.03	1.06
2002/03	11.58	2.89	4.44	1.96	1.11	1.18
2003/04 ^(c)	12.09	2.92	4.73	2.13	1.21	1.10

(a) The fiscal year for the TRA and tax statistics runs from July 1 through June 30. The denominator value (GDP) employed to calculate these tax ratios represents two-year calendar averages, given that Tanzania's GDP is estimated on a calendar year basis.

(b) The VAT was introduced at the beginning of FY 1998/99. Prior to this date, the taxation of consumer expenditures was levied via a multi-rate (turnover) sales tax.

(c) Estimated.

Sources: Developed from TRA, MOF, National Bureau of Statistics, and IMF data.

Another reason for Tanzania's low tax ratio is its narrow tax base. Almost half of the country's GDP (non-monetary GDP comprises almost 30% of the total GDP estimate) originates in the "hard-to-tax" agriculture sector, and the informal sector comprises a large portion of monetary GDP. According to a recently completed study (TRA, September, 2003), the tax gap (the difference between potential and actual tax collections) for Tanzania's main taxes during FY 2000/01 amounted to 4.9% of GDP; the VAT gap was responsible for almost half of the total gap, and the VAT compliance rate was estimated at 63%. Thus, there is clearly a strong administrative dimension that must be addressed in order to augment the overall tax ratio.

The TRA, the Government of Tanzania, and international organizations estimate Tanzania's tax effort *cum* performance in terms of the tax ratios displayed in Table 2. While it is both convenient and conventional to do so, the use (overuse?) of such an indicator may actually represent a misuse of data to gauge tax performance. This is because the denominator (GDP) is itself a questionable estimate, especially in the case of a developing country such as Tanzania. The estimates of the country's GDP made by the National Bureau of Statistics show that, from 1996 through 2001, total GDP consisted of 70% monetary GDP and 30% non-monetary GDP. Moreover, the total contribution of the agriculture sector (monetary and non-monetary) was some 45%. Just these factors alone can buttress an argument in favor of using another type of statistic to evaluate tax performance. An internal TRA study (TRA, June, 2002) attributes part of the tax ratio decline to "errors in recording GDP, which ultimately required adjusting the figures upward." The questionable accuracy of Tanzania's national accounts is also confirmed by a recent IMF report (IMF, March 2004).

An alternative tax performance measure is presented in Table 3. It involves deflating nominal tax revenue data by the Consumer Price Index (CPI) in order to measure the evolution of real (constant price) tax collections over time. While it can be (correctly) argued that the CPI itself is subject to limitations (see IMF, March 2004), it is generally the result of serious efforts aimed at addressing sampling and weighting issues. Moreover, even if the CPI reflects consumer price changes in only urban areas (or is limited to the capital city), most of the taxes paid are also derived from taxpayers residing in these areas.

**Table 3: Tanzania: Real Tax Revenues, FY 1990/91 – 2003/04
(1994/95 = 100)**

Fiscal Year ^(a)	Deflated Total Tax Revenues ^(c)	Index
1990/91	308,877	103.0
1991/92	328,394	109.5
1992/93	250,291	83.5
1993/94	220,360	94.3
1994/95	299,900	100.0
1995/96	317,149	105.8
1996/97	366,496	122.2
1997/98	357,414	119.2
1998/99	360,724	120.3
1999/2000	382,290	127.5
2000/01	434,992	145.0
2001/02	471,597	157.3
2002/03	531,697	177.3
2003/04 ^(b)	583,234	194.5

(a) July 1 through June 30.

(b) Estimated.

(c) Millions of Tanzanian shillings.

Sources: See Table 2 sources.

Tables 2 and 3 describe two quite different scenarios subsequent to the July 1, 1996 (FY 1996/97) operational functioning of the TRA. Whereas the overall tax ratio after FY 1996/97 fell below 12%, the index of real tax revenues climbed rather dramatically after FY 1998/99, posting a 47% jump between FY 1998/99 and FY 2002/03. This is at least partially due to increases in VAT efficiency/productivity, changes that are reflected in Annex 2 Tables B.1 through B.3. Moreover, these VAT efficiency increases occurred simultaneously with a proportional increase in the VAT's contribution to total tax revenues, from 24% in FY 1996/97 (although this type of consumer expenditure taxation did not become an "official" VAT until the beginning of FY 1998) to 38% in FY 2002/03).

Given these two substantially different results, the issue then becomes which one better reflects Tanzania's tax performance since the formation of the TRA. There is no "correct" response. However, simply splitting the difference leads to the conclusion that the TRA has made certifiable progress with respect to improving tax collections.

To its credit, the TRA has introduced important administrative reforms: the introduction of a duty drawback system in 2000; the development and implementation of a unique taxpayer identification number (TIN) in 2001; the 2001 establishment of a large taxpayer department (covering 116 taxpayers in Dar es Salaam with plans to add 100 additional taxpayers during 2004); a unified taxpayer appeal mechanism; the computerization of a pay-as-you-earn (PAYE) system for income taxes; and a simplified income tax system for small businesses.

Nevertheless, many basic problems have not been addressed, and they continue to affect the TRA's ability to perform its functions efficiently. Customs regulations date from the 1950s, and are clearly out of date. There is a lack of regional consistency in applying and interpreting tax laws. An especially critical flaw is that not all TRA systems talk to each other, although the second Five Year Corporate Plan has targeted this deficiency. This is a holdover from the TRA's 1995 establishment, which was initiated without a corporate plan *cum* strategy. Moreover, the first Corporate Plan did not achieve the desired (and required) integration. Of course, including systems integration in a plan and actually implementing such a strategy are two different phenomena. Human resources constitute an additional problem. Although there are competent persons at the top of the TRA's managerial hierarchy, a core group of mid-level managers is lacking. This may not be surprising, since at independence in 1961 there were only 16 university graduates in the entire country. It appears to be both a salary problem (see below) and a reflection of the absence of a deep pool of managerial talent in Tanzanian society. Internal corruption and taxpayer fraud are also problematic. There is a cultural aversion both to instituting a zero tolerance policy within the TRA itself and to vigorously pursuing taxpayer fraud.

The VAT is Tanzania's most important tax revenue source, currently generating some two-fifths of Tanzania's total tax collections. Nevertheless, at least 60% of gross output remains outside the VAT system and, although there has been improvement in recent years in VAT efficiency/productivity (see Annex 2 Tables B.1, 2 and 3), there are a

number of policy and administrative measures than should be taken to better these numbers. For example, the zero-rated list of agricultural products can be reduced; VAT refund policy toward non-exporters should be modified to require a carry-forward of excess credits until the end of the fiscal year; VAT control officers in the regional offices do not possess sufficient skills to detect fraud, and their skill base must be upgraded; auditing techniques (selection, programs, procedures manuals) must be improved; the VAT Information Processing System (VIPS) does not capture all relevant information needed for management purposes (e.g., matching tax return information with third-party sources and cross-checking buyers' and sellers' invoices), and its software requires an upgrade; tax arrears are not being well collected, and there is a lack of programs to identify non-filers and stop-filers. One positive move recently occurred (effective July 1, 2004) when the VAT compulsory registration threshold was raised from TSh. 20 to 40 million, thereby removing some 50% of VAT taxpayers from the tax rolls as well as lowering the TRA's administrative costs and small taxpayers' compliance costs; it is estimated that the measure will only reduce VAT revenues by approximately 3-4%. Despite this, there clearly remains a great deal of space to overcome basic tax administration deficiencies.

Tax legislation itself, which is not a TRA function, requires further simplification, but TRA tax enforcement staff have rather wide and discretionary interpretation leeway (regarding, for example, the determination of tax liabilities and audit selection) that could be limited by better composed guidelines and manuals (which are often non-existent). According to Fjeldstad et al (2003b), transparency, monitoring systems, and internal auditing are deficient, and taxpayer sanctions for non-compliance are weak. Despite the higher salaries offered under TRA autonomy, there remains a shortage of qualified personnel in auditing, law, information technology, and economics; these shortages can be partially explained by private sector competition, the erosion of real wages since 1997, and limited vertical mobility within the TRA.

Fjeldstad et al (2003b) argue that the TRA's autonomy has waned over time, as the Board increasingly intervenes (i.e., attempts to micromanage) in daily operations. While there might be substance in such charges, this is refuted by the TRA's CG and others in the TRA. Less debatable is that there is a distinct lack of demarcation of management authority between the Board and the Commissioner General, and the MOF makes decisions on staffing. Apparently, internal corruption goes relatively unpunished (also refuted by the TRA's CG), and has increased over time. Fjeldstad (2003) and Fjeldstad et al (2003b) posit that several main elements have contributed to this increase: the termination of the one-year probation period for staff; declining real wages; the lack of correlation between higher than civil service wages and the far higher gains to be reaped from corruption; the strengthening of corruption networks both within the TRA and between the TRA and outsiders; the social distance between staff and management; the erosion of autonomy due to political interference; the enhanced opportunities due to more numerous tax exemptions; and patronage via extended family and kinship ties. This topic will be expanded upon in Section III.

As far as taxpayer fraud goes, it is the TRA's Tax Investigations Department (TID) that is delegated this responsibility. Its current staffing of 52 professionals (accountants, auditors, lawyers) carries out integrated audits (i.e., all taxes simultaneously), which is far preferable to the audit by tax strategies employed in Uganda and Kenya. The TID employs several audit approaches, profiling risk sectors, taxpayers, and/or products. The usual audit progression is desk audit, field audit, discovery of possible fraud, and transferal of fraud cases to the Secretary to the Board (who is also Chief Counsel). Criminal fraud cases are then transferred to the Ministry of Justice and the courts (there is no special tax court). In 2003, only 87 cases were prepared in the TID, and a mere 29 went to court. Not one single taxpayer has ever been sentenced to prison. The TRA itself admits that any effective administrative reform will require a "fundamental change in the attitudes of tax administrators and taxpayers, and a strong and enduring commitment from the highest levels of the government" (see TRA, June, 2002).

C. Guatemala

Guatemala's Superintendencia de Administración Tributaria (SAT) was legally established on January 12, 1998 under legislative Decree #1-98; it became operationally active (as tax collector) in January, 1999. This measure followed on the heels of decades of low tax ratios and the signing of the Peace Accords in late 1996 that had ended more than 30 years of guerrilla insurgency. Over several decades preceding the mid-1990s, the Government of Guatemala and its Ministry of Finance (MOF) had received large amounts of international donor technical assistance (TA) funding aimed at improving tax administration. This donor TA included significant quantities of Inter-American Development Bank (IDB) financing (beginning in 1984), a World Bank Structural Adjustment Loan (SAL) from 1992 to 1995 that contained numerous tax policy and tax administration conditions, a GTZ (Germany) grant TA from 1989 to 1991, UNDP/UNCTAD grant monies for the mechanization of customs entry processes, and USAID project grants (1990-94). Although these efforts did leave some positive elements (principally in the decentralization and generation of information systems/databases that are essential to tax collection efforts), overall tax administration remained weak. The bottom-line as measured by Guatemala's tax ratio showed little or no improvement, having averaged a mere 7.8% between 1990 and 1997 (and as low as 6.77% in 1994). It was clearly time to adopt a more radical approach to tax administration reform.

With the aid of grant and loan funding and technical assistance from a gamut of donors, measures were taken to establish and place in operation a semi-autonomous revenue administration separate from the traditional line structures within the MOF; the Peruvian SUNAT model was especially taken into account. As in the cases of Peru and Tanzania, Guatemala's SAT is a decentralized entity with separate legal character; i.e., it has its own resources and assets as well as functional, economic, financial, technical, and administrative autonomy. Its Superintendent is named by the President of Guatemala for an indefinite time period, and the only causes for his/her removal are specified in Article 27 of the SAT's organic law: among others, committing fraudulent acts, acting with "manifest negligence," and failing to reach annual tax revenue targets. These causes are

rather vague and open to almost any interpretation, and it is not surprising that political realities (interference) have intruded.

At the apex of the SAT's organizational structure is a Board of Directors. Among its oversight activities is the approval of the SAT's annual budget, which is then sent for final approval to executive and legislative branches. The Board has six directors (appointed for indefinite time periods) all named by the President of Guatemala: the Minister of Finance (who presides), the SAT's Superintendent (who participates but without voting rights), and four others who may come from the private and public sectors. Its main source of financing is 2% of all tax revenues, which are automatically transferred on a daily basis to a separate SAT account; the SAT may also receive other (minor) revenues generated by its own services, grants and loans from international sources, and monies from the central government's budget. From the outset, the SAT was designated as the tax collector for most internal and external taxes. This meant the immediate incorporation of customs as well as internal taxes (again in contrast to Peru and, as will be seen, Ecuador). Internal tax collections began in January of 1999 (although the SAT actually took over the MOF's informatics and auditing functions in September and October, 1998 respectively), and the SAT began customs operations in February of 1999.

The selection process for new personnel was rigid, and a contract was given to a firm that specialized in personnel recruitment. Each candidate had to undergo interviews, reference checks, and a battery of psychometric and technical tests. In Customs, with a long and infamous history of corruption, almost 90% of personnel were replaced. By early 2000, close to 1,700 (mostly new hires) had been contracted under the new personnel regime, and by December, 2001, SAT personnel totaled more than 1,900 (almost 600 in Customs), with some 40% being university graduates and/or about to graduate. Salaries were set at levels well above civil service levels, and in most cases were competitive with those offered in the private sector. Initially, the wage compression gap was not nearly as high as that of the Tanzania Revenue Authority; between the Superintendent and a qualified auditor it was 5:1, and between the heads of an Intendency and a unit it was 3:1.

Stability in the post of Superintendent has been lacking, and such changes have been reflected in the inconsistent application of internal policies and programs. This instability has been a function of political interference and a national climate of corruption that became especially apparent in the latter two years (2002-03) of a national government administration that was voted out of office in late 2003. The new reform government that assumed office in January, 2004 has begun to take energetic steps to reduce corruption, but it remains to be seen what the ultimate results will bring; see Section III.C.3 for more details regarding corruption. From October, 1998 to October, 2002, there were three Superintendents, with the latter being removed without having violated any of the causes specified in Article 27. It later became evident why the SAT's fourth Superintendent was appointed, having been transferred from his post as Comptroller of the Republic; in January of 2004 he fled Guatemala after the incoming government named a new (fifth) SAT Superintendent, and has been implicated in numerous cases of fraud. In essence, the SAT has had five Superintendents in a little over five years of full operation.

A glance at Table 4 reveals an extremely deficient tax performance in the pre-SAT period (1990-98) and a modest improvement in the SAT's first five operational years (1999 to 2003). Between 1998 and 2002 Guatemala's tax ratio did rise by almost two percentage points of GDP, and at least part of the slight drop in 2003 was due to extenuating circumstances outside SAT's control (although internal corruption in the SAT might also have been a factor). Nevertheless, in light of Guatemala's goal of reaching a tax ratio of 12% of GDP by 2002, it can only be categorized as disappointing. This goal had been set in May of 2000, under the Fiscal Pact (Pacto Fiscal) subscribed to by leaders representing all sectors of Guatemalan society. The Fiscal Pact was unique in that it represented a consensus viewpoint with respect to using fiscal policy as a tool to lower poverty levels and promote the country's socio-economic development; increased revenues were to be targeted at social sector spending.

Table 4: Guatemala: Tax Ratios, 1990-2003

Year	All Taxes ^(a)	Income	VAT ^(b)	Excises	Import Duties	Other Taxes
1990	6.87	1.48	2.30	0.73	1.54	0.82
1991	7.33	2.10	2.16	0.86	1.39	0.82
1992	8.31	1.78	2.64	1.07	2.11	0.71
1993	7.82	1.85	2.61	1.09	1.75	0.52
1994	6.77	1.13	2.52	1.02	1.58	0.52
1995	7.72	1.60	2.80	1.04	1.88	0.40
1996	8.53	2.08	3.70	0.95	1.55	0.25
1997	8.78	2.08	3.62	1.18	1.40	0.50
1998	8.74	1.91	3.68	1.36	1.36	0.43
1999	9.35	2.14	4.08	1.35	1.34	0.44
2000	9.46	2.20	4.18	1.20	1.21	0.67
2001	9.67	2.34	4.24	1.28	1.20	0.61
2002	10.55	2.79	4.68	1.19	1.24	0.65
2003	10.28	2.68	4.73	1.31	1.21	0.35

(a) Net of social security, refunds, and municipal taxes.

(b) Net of refunds.

Sources: Developed from data provided by the Ministry of Finance, the SAT, and the Central Bank.

At least in part, failure to reach a tax ratio of even 11% has not been solely a function of administrative deficiencies. Guatemala's private sector has a long history of taking cases to the Constitutional Court (Corte de Constitucionalidad) under which revenue-enhancing tax law modifications passed by the legislative branch have been struck down, thereby either eliminating and/or reducing such measures. In 2003 alone a Court ruling declared unconstitutional measures that decreased excise and customs revenues by some 0.65% of GDP; compensatory measures were taken that reduced this net loss to approximately

0.32% of GDP. Moreover, the process of trade liberalization has led to the lowering of average and effective tariff rates; this is reflected in the decreasing import duties-related tax ratios after 1995.

The deflated tax revenue data found in Table 5 essentially mirror those presented in Table 4: significant increases in real tax collections after 1997 and stagnation after 2002.

Table 5: Guatemala: Real Tax Revenues, 1990-2003 (1995 = 100)

Year	Deflated Total Tax Revenues(a)	Index
1990	4638	70.6
1991	5126	78.0
1992	6032	91.8
1993	6038	91.9
1994	5479	83.4
1995	6570	100.0
1996	7330	111.6
1997	7817	119.0
1998	8348	127.1
1999	9299	141.5
2000	9827	149.6
2001	10,263	156.2
2002	11,449	174.3
2003	11,410	173.7

(a) Millions of quetzals; the deflator is the consumer price index.

Sources: Developed from data provided by the Ministry of Finance, the SAT, and the National Institute of Statistics (INE).

Another important part of the low tax ratio story can be linked to the large amount of tax expenditures found in Guatemala's tax laws. For the year 2003 they were estimated by the SAT at more than 12% of GDP, or 120% of tax revenues. The previously cited study by Mann and Burke (2002) that attempted to adjust for interdependencies and price and income elasticities of demand concluded that, for the year 2000, the net value of revenue lost due to Guatemala's tax expenditures was 3.25% of GDP rather than the 7.29% estimated by the SAT.

Adding to Guatemala's low tax ratios is the failure to come to grips with tax evasion. For the year 2003, the SAT itself estimated the following tax evasion rates: for the overall VAT, 29%; for the domestic VAT and the import VAT, 48% and 9% respectively; for income taxes, 63%; for the net assets tax, 39%; for excises on beverages and tobacco products, 46% and 57% respectively; for all taxes, 40%. The total amounted to more than two-thirds of actual collections.

Whereas overall administrative costs as a proportion of tax revenues (and for each principal tax) between 1999 and 2001 were quite reasonable for a nascent organization (Mann, 2002), even taking into account the impact of exogenous (both political and economic) factors, instability and corruption within the top ranks of the SAT has led to slower than previously envisioned progress on attacking the many remaining administrative deficiencies within the SAT. This does not mean that significant administrative improvements have not been undertaken, although the latter part of 2002 and all of 2003 did witness a significant amount of backsliding. In this, the SAT's performance conforms very well to the Stages of SARA evolution delineated in Section I.B. Stages I and II were accomplished quite effectively, but as the SAT entered Stage III the roller-coaster analogy became quite apt. The upswing trend reached into 2002 (the fourth full operational year), but stagnation and backsliding then set in. By mid-2004 there were indications that the downward slide had been stopped and that internal "cleansing" will enable the SAT to retake the positive trend of the initial years.

To be fair, some positive changes did occur during the backsliding period, some examples of which were:

- By early 2004, some 85% of total tax collections were being made electronically, in contrast with early 2002 when close to 100% were paper transactions.
- Some efforts were made toward cleaning up the Unified Taxpayer Registry (RTU), although there remains much to be done, thereby impeding progress in such key areas as collections and auditing.
- A current account system for the 1,500 large taxpayers (who generated 74% of total tax collections in 2003) was largely put in place.
- The recovery of delinquent payments from stop-filers increased appreciably.

Unfortunately, the bad far outweighed the good. Some selected negative examples (see Gallagher et al, 2004) were:

- Between late 2001 and early 2004, the total number of SAT employees jumped by 61% (from 1,915 to 3,092) without accompanying rises in administrative efficiency. In Customs (including security services) more than 400 persons were added to the SAT's payroll; during 2003 alone some 500 new personnel were added, and the personnel recruitment and selection system that functioned so well in Stage II was skirted or ignored for many new hires.
- Longer-term (and honest) SAT staff were either dismissed and/or often relegated to lesser positions where their responsibilities (and ability to interfere in corrupt practices) were diminished.
- Staff morale and real salaries declined.
- Although in 2002 a risk-profiling system (FISAT) for the automatic selection of taxpayer audits was implemented, it remains relatively inefficient in terms of making significant inroads into reducing tax evasion among medium- and small taxpayers.
- Planning and monitoring systems as an instrument for supervision, evaluation, and control are not working well, and during 2003 SAT's internal situation and

the external environment further complicated any effective implementation; this is expanded upon in Section III.C.3.

- VAT productivity and efficiency indicators regressed (see Tables C.1 to C.4 in Annex 2). This is significant because the VAT (domestic and import) has accounted for between 42% and 46% of Guatemala's tax revenues since 1998.
- Very limited progress was made in carrying out database cross-checking (for audit purposes) using several already available external (to the SAT) databases.
- There was no follow-up on plans to create an administrative career path and a retirement system.
- Corruption, especially in the customs administration, was not well dealt with. The SAT did not follow up on recommendations to establish an internal anti-corruption unit and a specialized tax fraud investigation unit. That these units were not created in the 2002-03 period is not surprising (see Section III.C.3).
- The SAT's public credibility as an efficient and relatively uncorrupted institution declined significantly.

Although these deficiencies (and others) do not paint a very positive picture of the SAT's administrative operations in the past few years, there are reasons to believe that renewal is underway in mid-2004. This conclusion derives from the combination of a reform government and a new administration at the top levels of the SAT, both of which came into office in January of 2004. At the national level the prosecution of corrupt persons from the previous government is ongoing (see Section III.B.3), and within the SAT itself former staff have been dismissed. One example of house cleaning is that the new Superintendent named a special team (reporting directly to him) to ferret out the mafias and dismiss corrupt employees in Customs. Whether or not these efforts will remain sustainable is another issue. The jury is out.

Meanwhile, it is doubtful that the tax ratio will reach double-digits in 2004. After the sordid experience of 2003 (and of the entire governmental period from 2000 to 2003), taxpayers are skeptical and a reverse "SARA effect" has come into play. Moreover, the Constitutional Court's tax rulings stemming from private sector initiatives have severely hampered both tax policies and the SAT's efforts to efficiently implement them.

D. Ecuador

Legislation creating Ecuador's Servicio de Rentas Internas (SRI) officially took effect under Law #41 on December 2, 1997. Although start-up operations were carried out during 1998, it became fully operational as of January, 1999. As are the SARAs previously covered in this study, the SRI is a technically autonomous entity, having separate legal character and its own administrative, financial, procurement, and personnel systems. Since its establishment, its tax collection mandate has been limited to the collection of internal taxes; i.e., it does not collect import duties and taxes on petroleum-related revenues, this latter source representing a large part of Ecuador's central government budget. A separate semi-autonomous customs administration (Corporación Aduanera Ecuatoriana---CAE) was established in 1999. Although efforts have been made to better integrate customs and internal taxation, a customs reform law that was passed in

2003 did not provide (as had been sought) the SRI with effective control over personnel management in customs. Even though the SRI's Director General presides over the CAE's Board of Directors, he/she has no mandate to deal with internal administrative decisions, which is in the hands of the CAE's manager. By law, however, the CAE must transfer to the SRI all data generated by its operations: import values, goods imported (by country origin), and lists of importers.

In one sense the backdrop to the SRI's creation was similar to that of other SARAs: ineffective and corrupt tax administration as historically implemented by the General Income Directorate of the Ministry of Finance. Added to the tax administration factor was the decade-long poor performance of Ecuador's economy---despite its petroleum resources: negative trend growth even prior to the 1990s, stagnant per capita GDP since the mid-1970s, and negligible productivity growth. Per capita GDP barely rose in 1996-97, and by end-1997 external debt (mostly public) reached 77% of GDP and 250% of exports; the banking sector's non-performing loans amounted to 7% of total assets; and the central government's fiscal deficit was over 5% of GDP. In 1998-99 Ecuador experienced a drastic macroeconomic crisis that eventually led to complete dollarization (i.e, the adoption of the US dollar as the country's currency) in 2000. External debt arrears totaled almost US\$550 million by end-1998, inflation (sucre-based) reached 61 percent by end-1999, and the real effective exchange rate had depreciated by almost 50%. In 1999 real per capita GDP fell by over 8%, and more than 20 financial institutions closed. It was in the midst of this milieu that the SRI began its mandate.

The SRI is presided over by a Director General named by the President of Ecuador; the duration of the Director's tenure is specified as overlapping that of the President's, and the Director can be reappointed by successor Presidents. Given that Ecuador has had six Presidents and more than ten Ministers of Finance in the past seven years, this has turned out to be a very positive stabilizing factor. The present SRI Director, named to the post in September of 1998, has remained (despite numerous politically-inspired attempts at ouster) until the present (mid-2004). This permanency has been a distinctly positive element behind the SRI's success, and represents one very important lesson learned from SARA experiences around the world.

The maximum authority of the SRI lies in its six member Board of Directors presided over by the Minister of Finance; four other members come from the public sector (the Superintendents of Companies and of Banks, the Under Secretary of Budget and Accounting, and the Under Secretary of Customs), with the remaining member representing the private sector (a representative named by the National Federations of the Chambers of Production). The SRI's Director participates in Board meetings, but without voting rights. The Board has overall supervisory functions, but is not supposed to deal with day-to-day operations. It does, however, have the right (upon the recommendation of the Director) to name persons to the top SRI administrative posts, including the position of internal auditor.

Most SRI operating revenues derive from 1.5% of gross collections (2% in 1998 alone for start-up purposes), although it is able to receive grants and non-reimbursable credits.

However, the process is not automatic nor nearly as easy as that of Peru's SUNAT. SRI collections first flow into a "bridge account" that the SRI maintains in the Central Bank, and are then transferred to a treasury account that the MOF maintains at the Central Bank. The Central Bank will only transfer funds to the SRI by order of the Minister of Finance, and these transfers originate (on the average once a month) from a request (for a specific amount) made by the SRI's Director to the MOF's Budget Under Secretary. The Under Secretary then gives the green light to complete the transfer. In practice, this financing method has not always gone smoothly, even though the funds are already in the SRI's budget that had previously been approved by the Board of Directors. Several impediments have occurred: either the fund transfers are not approved or they are approved with a delay. For example, the SRI's 2001 approved budget contained a US \$26 million allocation, but only around half was actually transferred. Moreover, at the end of the budget (calendar) year funds not transferred are not recoverable. Clearly, such a situation affects the SRI's cash flow and its planning activities. Automatic transfers are far more justifiable, and transfers should not be subject to personal (or other) problems in an agency that collects monies to finance the activities of the central government's ministries. Noteworthy is that the semi-autonomous customs administration automatically takes its operating funds off the top before transferring the remainder to the MOF.

The law creating the SRI grants autonomy in personnel matters, and this has been used very effectively. From the beginning in 1998, all personnel have had to qualify for positions after undergoing a battery of psychological, intelligence, and knowledge tests. There exist no career path or retirement plans. This is a deliberate policy put in place by the Director under an institutional philosophy to avoid the bureaucratic mentality so prevalent in civil service organizations. Promotions and firings are based on a merit system upheld by SRI's top administrators. The SRI does have its own cessation fund financed by employee and employer contributions.

Institutional personnel policy goes beyond mere avoidance of a bureaucratic mindset. Staff turnover rates are relatively high, in part due to "programmed" turnover. Some employees, especially those who work in taxpayer services and in VAT-infraction business closings, are given six to nine month non-renewable contracts. Salary levels do not appear to be a factor, as they are competitively based on private sector salary surveys. Even more innovative for a (quasi) public sector institution is the "privatization" of employment. Approximately three-quarters of the SRI's staff work under contract to private sector enterprises, the remainder being directly appointed and contracted by the SRI.

As noted previously, the SRI was established to collect and administer Ecuador's **internal** taxes at the national level. As a result, it is not responsible for all the taxes levied by the central government (mostly import duties) nor for a relatively large portion of the non-financial public sector's revenues that are derived from tax and non-tax levies on the petroleum sector. Table 6 offers perspective regarding the relative importance of SRI tax collections within Ecuador's non-financial public sector. Of note is that the SRI, despite the inclusion of petroleum revenues and social security contributions, is not a

minor player in Ecuador's overall revenue regime; since 2001 it has been responsible for more than two-fifths of all non-financial public sector income.

Table 6: Ecuador: Percentage Distribution of Non-Financial Public Sector^(a) Revenues, 1998-2003

Year	Petroleum Revenues ^(b)	SRI-Collected Taxes	Other Tax and Non-Tax Revenues	Social Security Contributions	Total
1998	20.4	32.4	36.4	10.8	100.0
1999	27.7	36.8	29.0	6.5	100.0
2000	33.3	37.8	23.7	5.2	100.0
2001	26.1	45.3	19.6	9.0	100.0
2002	22.0	42.9	22.7	12.4	100.0
2003 ^(c)	23.8	41.3	21.4	13.5	100.0

(a) Central government, social security institute (IESS), major public enterprises, local governments, and the quasi-fiscal operations of the central bank.

(b) Excludes VAT on petroleum derivatives.

(c) Preliminary.

Sources: Developed from MOF, SRI, and Central Bank data.

Table 7 offers a different perspective on the SRI's performance since it became truly operational in 1999; the years 1994-1998 are included as a point of reference. The SRI administers three basic taxes: on the income of individuals and businesses, a VAT on domestic transactions and imports, and excises on the consumption of domestically produced and imported goods. The jump in the overall tax ratio and in those on income and the VAT between the pre- and post-SRI periods is quite dramatic. From 1994 to 1998 the overall tax ratio (on those taxes that represent the SRI's mandated responsibility) averaged less than 6%; from 1999 through 2003 this same ratio averaged 10.35%. For the VAT, which has become the backbone of Ecuador's internal tax structure, the rise in tax ratios between the two periods was even more dramatic: from 1994 to 1998 the VAT ratio averaged 3.15%, but from 1999 to 2003 it averaged almost 6%.

Table 7: Ecuador: Tax Ratios for SRI-Collected Taxes, 1994-2003

Year	All Taxes	Income	VAT	Excises	Other
1994	5.57	1.66	2.99	0.62	0.30
1995	5.94	1.97	3.06	0.54	0.37
1996	5.65	1.87	2.95	0.46	0.37
1997	6.02	1.76	3.20	0.63	0.43
1998	6.18	1.78	3.53	0.53	0.34
1999	8.27	3.56 ^(a)	3.67	0.48	0.56
2000	10.41	3.70 ^(a)	5.79	0.56	0.36
2001	11.16	2.82	7.01	0.86	0.47
2002	11.15	2.76	6.96	1.06	0.37
2003	10.74	2.80	6.49	1.03	0.42

(a) A temporary financial transactions tax was levied in 1999 and 2000. It was applied against amounts deposited in or credited to bank accounts (including time deposits) held by corporations and individuals.

Sources: See Table 6 sources.

With respect to the VAT, this is only part of the story. Tables D.1 to D.4 in Annex 2 demonstrate significant leaps in all VAT efficiency *cum* productivity indicators. For example, the VAT efficiency ratio (i.e., the ratio of GDP generated by the VAT to the nominal VAT rate; see Table D.1), which averaged 31.49 from 1994 to 1998, averaged 50.63 between 1999 and 2003. Moreover, the domestic VAT efficiency ratio improved at an even faster rate. It is evident that the SRI generated a sea change with respect to Ecuador's internal tax administration.

These tax ratio and VAT efficiency gains have been achieved despite the existence of a large amount of tax expenditures in Ecuador's tax legislation and the continuing obstacles thrown up by tax evasion. A recent study using the static revenue foregone method (Roca and Vallarino, 2003a) estimated the following amounts of tax expenditures: for VAT, 2.6% of GDP; for the business income tax, 0.66% of GDP; and for the personal income tax, 1.6% of GDP. Another study (Roca and Vallarino, 2003b) estimated VAT and business income tax evasion in 2001 at 21% and 43% respectively of potential collections. Unfortunately, similar studies using the same methodology from previous years are not available, so it is not possible to gauge the magnitude of the progress the SRI has made in reducing taxpayer evasion. Transfer pricing is always a problem for any tax administration agency. Another study (Giraldo, 2003) that analyzed the tax gap *cum* tax evasion impact of company transfer pricing practices in six of Ecuador's main economic sectors estimated its magnitude at just over 1% of GDP.

How was this accomplished? Since inception the SRI has had only one Director who is well known for her honesty and competence. The Director and her management team have put in place a well sequenced and executed corporate plan that has been implemented despite constant pressures from various fronts for their replacement by

more “amenable” persons. The combination of steady policies, the strict enforcement of internal anti-corruption policies, and the maintenance of efforts to combat tax evasion (e.g., closure for VAT violations) have produced these results. Achieving and maintaining this management stability has been a constant battle. The Director (and the SRI) is disliked by many in the business sector simply because the SRI is strongly enforcing tax legislation (as was not done in pre-SRI days). However, the SRI continues to receive unbending support from the international donor community and the public in general, both of which have protected the SRI’s autonomy through mid-2004.

Other factors have also come into play. The Board of Directors has maintained a hands-off posture with respect to routine administrative matters. Given the general disorganized state of affairs with the MOF (Ministerio de Economía y Finanzas—MEF), over the past few years the tax policy function was largely ceded to the SRI. In fact, the 2003 tax reform package that was submitted to the legislature (but not approved) was actually prepared by the SRI’s staff and adopted for submission by the MOF. This is similar to the situation in Tanzania, and efforts are currently underway to strengthen the MOF’s tax policy capabilities. Another element is that the SRI has established an internal anti-corruption unit (Unidad de Investigaciones y Denuncias) that analyzes internal acts of corruption and quickly takes action when called for; i.e., there is no organizational cultural aversion to doing so, and it all leads back to strong and honest leadership. The same cannot remotely be said regarding CAE, Ecuador’s other semi-autonomous tax collection entity.

E. Metropolitan Municipality of Lima (Peru)

In 1996, the Metropolitan Municipality of Lima (MML) established the Servicio de Administración Tributaria (SAT) with the express intent of strengthening its revenue collections. Both the idea for its establishment and its internal organizational structure were modeled after the national SUNAT, and its Director in its formative years had been the Deputy Superintendent of the SUNAT from 1991 to 1995 (and later became the SUNAT’s Superintendent during the transitional national government installed between late 2000 and July, 2001).

The income the SAT receives to cover its operations is derived from 5% of its gross collections plus its own-income from user fees; in its 2003 budget this broke down into 11.5 and 4.0 million soles respectively. The SAT’s managers complain that this 15.5 million soles total is insufficient to cover its needs. This may be the case, but before reaching any definitive conclusion there are numerous measures that might be taken internally to rationalize expenditures; e.g., simplify procedures, improve the MIS, eliminate unqualified personnel, and adopt a more entrepreneurial focus.

In fiscal and governance terms, the MML, with a population of between six to seven million persons, is a hodgepodge of overlapping jurisdictions. Regarding fiscal matters, it is both a Provincial Municipality (Distrito Provincial) and a District Municipality (Distrito Municipal) that comprises 43 district municipalities, each with its own mayor, municipal government administration, (limited) revenue-raising powers and revenue

assignments, and a revenue office and own-budget. Overall MML revenues are derived from a mix of taxes levied at the provincial level (e.g., a vehicle tax), taxes and fees levied at the district level (e.g., the property tax), transit tolls from its own semi-autonomous toll road enterprise, and transfers from the central government. The taxes and user charges levied at the district municipality level are restricted to residents and activities within Lima Cercado, a district municipality geographically situated in the heart of the MML. Actual revenue collections for the MML are carried out by several entities that are independent of each other. The principal taxes are collected by the SAT itself, and it also collects user charges for the district municipality and traffic fines for the provincial municipality.

Table 8 sets out the principal revenue sources for the MML in 2002, whose proportional contribution to total municipal revenues have not significantly changed since the late 1990s. Several structural aspects stand out:

- Taxes generated just over a quarter of total current revenues, with property taxes weighing in at less than 5%.
- User charges (tasas) represented the principal revenue source at over two-fifths of the total, the major fee being the road tolls (peaje) collected by EMAPE (Empresa Municipal Administradora de Peaje de Lima).
- Fines and administrative sanctions represented an appreciable portion (13%) of the total.
- Current transfers (largely from the central government) generated 14% of the total, the main transfer coming from FONCOMUN (Fondo de Compensación Municipal).
- Own-source revenues, which at first glance constituted four-fifths of aggregate MML income, are “diminished” because of the mix of district and provincial revenues due to the peculiar division of revenue responsibilities and revenue collection between the overall MML (43 municipalities) and Lima Cercado (only one of the 43).

Table 8: Income Sources of the MML, 2002

	Value (millions of soles)	% of total
Taxes	109.4	27.2
Property	19.3	4.8
Vehicles	28.3	7.0
Property Transfers ^(a)	37.1	9.2
Others ^(b)	24.7	6.1
User Charges	171.7	42.7
Road Tolls	105.7	26.3
Fees ^(c)	53.3	13.3
Others ^(d)	12.7	3.2
Fines and Sanctions	53.2	13.2
Traffic Infractions	47.1	11.7
Others ^(e)	6.1	1.5
Transfers	57.4	14.3
FONCOMUN	50.9	12.7
Others	6.5	1.6
Other Current Income ^(f)	10.0	2.5
Total Current Income	401.7	100.0

Notes:

(a) Alcabala; of the 37.1 million, 4.5 million corresponded to Lima Cercado and 32.6 million to all other district municipalities (42) in the provincial district of Lima.

(b) Betting, public spectacles, games, slot machines, and refinanced tax debts.

(c) Arbitrios.

(d) Licenses and other fees (derechos).

(e) Administrative and tax.

(f) Sales of goods and services, real property rents, and interest.

Sources: Developed from data provided by the SAT and MML's Finance Directorate.

Administration of the property tax is poor, with deficiencies ranging from the property registry (for Lima Cercado maintained by the Instituto Catastral de Lima) to significant under-valuation. This latter defect by itself leads to both horizontal and vertical inequities. Needless to say, overall administrative deficiencies (accumulated over decades) lead to low yields and significant underutilization. Estimates place the ratio between actual market values and the tabular values used to assess improvements at 3:1; for land at 7:1. There is no doubt that this may constitute the most important potential source of enhanced municipal revenues. However, given the depth and breadth of the problems, there is no short-term fix. If undertaken, it will take years of consistent effort and political will to improve cadastral infrastructures in order to increase yields and their proportional contributions to aggregate municipal revenues.

The tax on real property transfers (alcabala) constituted the MML's most important tax revenue source, generating 9.2% of total current revenues and 33.9% of tax revenues. An obligation of the buyer, it levies a 3% tax on the sales price (or self-assessed property

value) of the property. There are numerous exemptions, including low value transfers and those involving governmental, religious, and educational entities. Collected by the SAT, collections are distributed half and half between the district and provincial municipalities. In 2002, the MML received income (6.1% of the total) from four relatively minor taxes: gambling (apuestas), public spectacles (espectáculos públicos no deportivos), games (juegos), and slot machines (máquinas tragamonedas).

User charges represented the MML's most important revenue source in 2002, generating almost 43% of total incomes and outweighing the 27% produced by taxes. Clearly the most significant of these charges were the tolls (26% of total revenues) collected on MML's tollroads by EMAPE, a semi-autonomous entity established by the MML in the 1980s to administer its toll road system. Each of Peru's 1,828 district municipalities has the right (with certain restrictions) to impose, administer, and collect a broad range of fees (arbitrios). These charges cover a wide spectrum, the most important (from a revenue generation viewpoint) being public registry fees, street cleaning, park maintenance, neighborhood vigilance (security), business and construction licenses, and copies of certificates.

As in the case of fees, there are a multitude of fines and sanctions, the total of which represent significant sources of MML revenues (13.2% in 2002). By far the largest portion of the total is drawn from fines related to traffic infractions. In keeping with the peculiar division of revenue collection responsibilities within the 43 municipalities constituting the MML, fines for traffic infractions are collected by the SAT for the coffers of the MML; individual municipalities levy non-traffic related administrative fines and sanctions, which constitute the remainder.

Although the MML receives monies from a variety of transfers granted by Peru's central government, in 2002, 88.6% were a product of FONCOMUN (Fondo de Compensación Municipal). FONCOMUN revenues, which are distributed to all of Peru's 1828 district municipalities, are generated from four sources, by far the most important being the Municipal Development Tax (Impuesto de Promoción Municipal), which itself represents an earmarked 2% of the Impuesto General de Ventas (IGV), the national value-added tax on imports and domestic transactions. FONCOMUN transfers, which made up almost 13% of MML total revenues in 2002, are outside the MML's control; they are a function of IGV revenues, which in turn depend on IGV tax rates, tax base evolution (as determined by the national economy's growth), and the SUNAT's tax enforcement policies and activities.

The medium- to longer-term method of strengthening the MML's revenues and revenue base is to beef up tax administration efficiency. This means strengthening the SAT, which, with the exception of road tolls, is in charge of collecting the MML's principal own-revenues. In passing judgment on the SAT, a bottom-line indicator—revenue collections from 1998 to 2002—is indicative of at least some of these deficiencies. Adjusting its total revenue collections for anomalies, nominal revenue collections were essentially flat. While official data show low (single-digit) consumer price inflation rates for metropolitan Lima, after taking into account all aforementioned anomalies it can be

concluded that real “permanent” revenue growth between 1998 and 2002 was virtually nil (or even negative).

The SAT itself recognizes many of its weaknesses:

- Absence of uniform institutional policies that establish long-term objectives.
- Lack of permanent personnel training programs.
- No implementation of stable personnel policies (there is no labor union, a positive factor).
- Vertical and conservative organizational structure.
- Incomplete and relatively inefficient information systems.
- Lack of permanent control and auditing programs.
- Overlapping (with district municipalities) jurisdiction for revenue collection, a legal problem outside SAT’s immediate (and internal) purview.

Outside opinions and this researcher’s brief interviews with SAT managers corroborate the SAT’s self-critique. On the positive side, SAT has installed a new informatics platform, and taxpayers are able to pay their obligations via the internet. Moreover, the SAT has developed and implemented an internal Management Information System (SIAT) with seven different modules. There does exist a system of planning, follow-up, and control, complete with annual and multi-annual (three years) operational plans, monthly activity reports, income targets constantly updated and segmented by revenue source and type of taxpayer (large, medium, small), and a set of indicators for monitoring purposes. Moreover, a large taxpayer office with 10 persons was established in 2002.

Unfortunately, the negatives outweigh the positives, a proposition supported by the above-cited figures with respect to the evolution of overall revenue collections:

- Auditing, key in any tax administration, is a very weak link in the SAT’s internal operations.
- Taxpayer registries *cum* databases are outdated and not very well maintained, and the exchange of information with other sources of taxpayer information must be strengthened. Unfortunately, the most important taxpayer databases are in the hands of other organizations.
- Follow-ups on collections from delinquent accounts are inefficient for a variety of reasons.

Expanding on some of these administrative deficiencies leads to the following conclusions:

- Institutional instability stems from constant managerial changes at the very top of the SAT. Lima’s mayor appoints the SAT’s Director, and the latter reports directly to the former. Similar to the SUNAT, the SAT has no Board of Directors. There were three Directors between September 2002 and September of 2003. No matter how efficient and well meaning the Director and the upper managerial staff may be, each change has led to a shuffling of the top managerial positions and a rearrangement of the SAT’s organizational structure as well as interruptions in internal policies, procedures, and planning. Such instability does not bode well for developing and following through on medium- to long-term plans; it percolates

- down to the lower levels of the organization, represents a serious drawback to long-term strengthening, and has led to the loss of experienced personnel at mid-level operational levels.
- The auditing function, which is the responsibility of the Department of Taxpayer Auditing (Departamento de Fiscalización Tributaria), became a separate department within the SAT's organizational structure in early 2003. Its personnel do have access to computerized information regarding the vehicle and property taxes and user charges (arbitrios); other taxes are manually administered. There are only four desk auditors and two property tax field auditors currently employed, a number well below what is needed (8-10 additional auditors). No medium-term auditing programs and plans are developed and/or implemented, and there is a real need for overall guidance from upper management regarding procedures. Plans are in the works to interchange information with other databases and to do mass database matching with different levies; e.g., licenses and user charges or property taxes and user charges (which use the same tax base). However, such plans require consistent managerial support and close cooperation with other SAT entities, especially Informatics (Gerencia de Informática).
 - Taxpayer registries/databases represent the very first step in the revenue collection process, and they are chock full of deficiencies. The property tax registry is not well maintained, and since this levy uses the same tax base as most user charges (arbitrios), these deficiencies imply weak collections from both levies. The SUNARP (Superintendencia Nacional de los Registros Públicos), established in 1994, maintains the databases used by the SAT to identify taxpayers linked to the property, vehicle, and user charge revenue sources. Thus, the SAT is dependent on another organization to develop and maintain its most important taxpayer registries, and must buy these databases from SUNARP. On the other hand, the SAT does have an agreement (free of charge) with the SUNAT for information exchange. Correction of basic database deficiencies within the overall MML supposedly lies within the purview of SUNARP. However, the SUNARP cannot be counted on to establish a reliable cadastral base over the short- to medium-term. Moreover, the mere fact that real property is actually registered in SUNARP's Real Property Registry (Registro Propiedad Inmueble: Predios) means little in view of the probable under-valuation of the approximately two million properties presently registered; this is a problem that can only be corrected by physical inspection. SAT personnel estimate that there exists a large (but unquantified) gap between actual and potential collections. The actual physical cadastre is overly descriptive and of little use for property tax purposes; i.e., it is not a fiscal cadastre. Regarding the tax on vehicles, SAT personnel estimate that, of the more than 800,000 vehicles circulating in metropolitan Lima, a mere tenth are actually registered in SUNARP's vehicle database (Registro Bienes Muebles: Propiedad Vehicular). By SUNARP's own admission, database updating is very deficient, and evasion is widespread.
 - Collecting delinquent accounts is the responsibility of the SAT's Debt Recovery Department (Departamento de Recuperación de la Deuda). This Department depends on Informatics for its data, but the data are often inconsistent with

physical evidence (papers, documents, inspections). While these inconsistencies have a lot to do with database quality, they clearly complicate the delinquent accounts problem. The SAT system quantified approximately 750 million soles as uncollected revenues between 1996 and 2002 (which represents three-fifths of total revenues actually collected over the same period, and was more than three times 2002 collections). Taking into account the fact that this 750 million soles figure represents only *identifiable* tax debts, an additional (and not quantifiable) amount of tax obligations actually *evaded* merely hints at the tax administration quandary. Of the 750 million soles in delinquent accounts, it is estimated that some 420-450 million soles are potentially collectible---with concerted effort. But the 11 persons employed in this Department are well below what is needed to sustain such an effort, which involves tax debt segmentation and subsequent collection processes. After identification of the delinquent debt, SAT's Departamento de Cobranza Coactiva has the responsibility to contact the delinquent taxpayer with a notice sent via courier. By law the delinquent taxpayer must sign a receipt, a requirement that complicates tax collection. At least the justice system does not have to become involved (as it does in other countries), and the SAT does have power to embargo properties and deposits. However, the taxpayer retains the right to appeal (via the SAT's Departamento de Reclamaciones), a process that can hold up collections for months or years. The SAT must design programs to become much more proactive in going after delinquent taxpayers.

The outlines for measures to strengthen revenue administration within the SAT are clear. The priorities cover the interlinking areas of auditing, taxpayer registries, information systems *cum* databases, delinquent accounts, planning, institutional stability, and human resources. This latter area is especially important, because no functional area will operate well without qualified personnel. The SAT has no true salary policy, and persons performing essentially the same job receive unequal pay (after accounting for experience and academic qualifications).

III. CORRUPTION AND ACCOUNTABILITY

SARAs may be criticized for their supposed enclave approach to public sector reform, but the reality is that they are not (and never will be) an island isolated from the rest of the government and the private sector. The problem of corruption is part of far broader issues involving public sector management and governance. One of the most recent efforts comes from Transparency International's 2004 Global Corruption Report, where it empirically substantiates that corruption "may either deter investments or render them less productive." A rise in corruption by one point on TI's scale of 10 (highly clean) to 0 (highly corrupt) was found to lower productivity by 4% of GDP and decrease annual net capital inflows by 0.5% of GDP. The literature on the inverse correlation between corruption and economic growth and development is voluminous, and no attempt will be made in this paper to review it. Further references can be pursued in studies (and accompanying bibliographies) published in Abed and Gupta (2002) and in two more recent papers [Lanyi (2004) and Thomas/Meagher (2004)] also containing extensive bibliographies.

A. The Corruption-Tax Revenue Link

Numerous studies have empirically substantiated the case that those countries with high levels of corruption tend to have lower tax ratios, leading to sub-optimal public spending levels, more distorted public resource allocation (due to corruption on the expenditure side of the budget), higher fiscal deficits, and lower growth rates. Fiscal corruption solely from the revenue/tax side of the public budget generates a tax gap and reduced tax system neutrality and progressivity. Since the principal arguments for establishing SARAs revolve around reducing corruption in tax collection activities to enhance public revenues, corruption is clearly an issue to be dealt with in any discussion of SARAs.

To cite one of many studies regarding the corruption-tax revenue link, employing a sample of up to 90 countries covering the 1980-1997 period, Tanzi and Davoodi (2000) reached the following conclusions:

- A one-point rise in a corruption index is associated with a 1.5 percentage point fall in the revenue ratio (total public recurrent revenues to GDP), a 2.7 point drop in the tax ratio, and a decline of 0.63% of GDP in personal income taxes collected.
- In comparison to developed countries, corruption has a greater impact on direct taxes in developing countries. Taking into account the predominance of indirect to direct taxation in the latter, a four-point decrease in corruption would significantly increase the direct to indirect tax ratio.
- For a sample of 83 countries, a statistically significant (at the one percent level) correlation coefficient of -0.34 was found between the corruption index and the VAT gross efficiency ratio.

Given the importance of the VAT in the tax structures of most developing countries, this latter finding is especially interesting. For each country case study covered in this paper,

the VAT gross efficiency ratio has been calculated (see Annex 2). It was previously pointed out that the level and number of VAT exemptions affect this ratio, and there is little doubt that political favoritism and rent-seeking lie behind the growth of many of these exemptions. Of course, since the SARAs themselves do not write and approve tax laws, it is not fair to blame them for the proliferation of tax exemptions. But exemptions certainly complicate the tax administration process while simultaneously enhancing the possibility of increased corruption within (and outside) the SARA.

Ghura (1998) reached similar conclusions. Using panel data for 39 sub-Saharan countries over the 1985-1996 interval, a negative statistical association was found between increased corruption and the tax ratio. These findings, and the notable divergences between statutory and effective tax rates, are indicative that tax ratios can be raised by strengthening all aspects of the tax administration process

Forging an anti-corruption tax strategy begins with factors usually outside the immediate purview of a SARA: tax simplification (e.g., reducing the number of low-yield taxes, lowering rates, broadening the tax base), an independent and effective judiciary, associations that strengthen taxpayers' voice and rights, and external audit reviews by independent agencies. But the SARA's internal system of checks and balances are elements that fall under the control of the SARA itself. In the organizational structure of all SARAs covered by this and other studies, there do exist internal audit units. But these units may be understaffed or lack sufficient competence and/or true independence to fully discharge their responsibilities. Often absent is a unit to effectively investigate internal corruption and another unit to investigate and prepare tax fraud cases to take to tax courts and/or to the appropriate authorities in the Ministry of Justice. But even in those cases where either one or both units are present, they often do not function well.

B. Selected Internal Accountability Mechanisms

Apart from the basic accounting functions of an internal audit unit (which all the SARAs in this study already have), reducing internal corruption within a SARA can be accomplished by establishing special anti-corruption units. This too offers no panacea, for even in those SARAs where these units already exist ways always seem to be found to get around the rules. Nevertheless, their mere existence (and effective application) most likely will reduce the extent of internal corruption. A SARA's organizational structure might be modified to place three entities under a single roof generically labeled, for example, the Internal Control Department (ICD). The existing Internal Audit Unit would become one of the ICD's three units. The other two would be the Internal Anti-Corruption Investigation Unit and the Ethics Unit. All three units would cooperate with and complement one another. The functions of the latter two are briefly described below and elaborated on by Jacobs (2002).

The Internal Anti-Corruption Unit (IACU) would fall under the supervision of the SARA's Director (Superintendent, Commissioner General), and its head appointed by either the Director and/or the Board of Directors. Its responsibilities would be limited to investigating corruption among SARA staff using information generated by the Internal

Audit Unit, the Ethics Unit, and from third parties within the SARA and/or from taxpayers themselves. The Ethics Unit would establish and maintain an ethics program for the SARA, including: the development and maintenance of a professional code of ethics and of conduct; the design and offering of courses on ethical behavior; the definition and application of disciplinary norms; the detection of cases of corruption that would be transferred to the IACU; and the development and monitoring of staff personal asset statements.

Either complementary to or standing alone, another SARA internal accountability unit should be the Investigation of Tax Fraud Department (ITFD), with responsibility for investigating fraud committed by taxpayers. The appointment of its head should also be a responsibility of the SARA's Director and/or Board. The component units of the ITFD are: a unit to collect financial information on taxpayers both from internal sources (e.g. tax returns) and especially from external (third party) sources; a unit to investigate tax fraud in customs and another in internal taxes (income, VAT, excises); and a security unit offering protection to the SARA (both staff and the overall institution) involved in tax fraud investigations.

Somewhat unfortunately, the detection of tax fraud by this unit is merely the beginning of a longer judicial process, with completion usually outside the SARA's authority. The file containing the evidence gathered by the ITFD must then be transferred to lawyers in the SARA's Judicial Department, which then prepares the case to be transferred to the pertinent unit in the Ministry of Justice and/or a national anti-corruption commission. Given the weaknesses in the judicial systems (including sanctions and penalties for tax fraud) in most developing countries, tax fraud convictions are limited—and the sanctions actually applied for tax evasion are even more limited.

C. Selected Case Studies

While corruption certainly does exist in each of the SARAs analyzed in this paper, to gather solid evidence of its existence and magnitude in abbreviated visits to each entity was clearly impossible. Therefore, a second best approach was adopted by relying on analyses carried out by others. For this reason, not all of the five cases covered in Section II are included in this section.

According to the 2003 Corruption Perceptions Index (CPI) prepared by Transparency International, none of the four case countries covered in this study ranks high in the CPI of 133 developed and developing countries: Peru in the 59-63 range; Tanzania 92-99; Guatemala 100-105; and Ecuador 113-117. These low rankings have not measurably changed since 1998 (the first time all four countries appeared in the CPI), although the order of appearance did. Out of the 85 countries included in the 1998 Index, Peru was ranked 41st, Guatemala at 58-59, Ecuador at 77-78, and Tanzania at 81-82. While these rankings are subjective and cover all types of corruption (including but not limited to taxation), they do offer a good idea of the environment in which the SARAs operate. Not surprisingly, therefore, corruption has infiltrated the SARAs themselves. In at least two

of these cases, such infiltration was been well documented, with the Guatemalan investigation currently (mid-2004) underway.

1. Peru

Of the four case study countries presented in this paper, Peru ranks lowest (i.e., best) according to Transparency International's Corruption Perceptions Index, weighing in at 59th place in the 2003 Index. Not surprisingly, however, corruption is hardly absent. According to Transparency International's Global Corruption Report: 2004, the "multifaceted nature of corruption in Peru...is not assisted by the absence of a national anti-corruption strategy coordinated by a strong organization. The body that should play that role, the National Anti-Corruption Commission, is hampered by its dependence on the executive." Instead of being appointed by the President of Peru (as it now is), the head of the Commission should be appointed by the Peruvian congress or an independent citizen's body.

An early 2004 estimate (El Comercio, January 26, 2004) placed the "cost" of the central government's budget corruption at 15% of expenditures, much of it due to over-billing for purchases of goods and services. Although this may represent an improvement over the latter part of 1990s, it is happening despite the use of a public sector integrated financial administration system (SIAF). An Index of Budget Transparency for 2001 covering five Latin American countries (International Budget Project, 2001) placed Peru at the very bottom with a score of 3.7 on a scale of one to ten. A second version of this Index was replicated in 2003 with the addition of five countries. In the 2003 survey (International Budget Project, 2003), Peru weighed in at sixth place, with Chile ranked as the most transparent and Ecuador as the least. Among the most notable Peruvian deficiencies are the ineffectiveness of an accountability system (e.g., evaluation indicators to assess program impacts), the untrustworthiness of the Office of the General Comptroller and other supervisory institutions, the poor quality of budgetary allocation of public resources, and the very low level of citizen participation in the overall budget process.

The best study regarding the ubiquity of corruption in Peruvian society in general and within the SUNAT itself is that recently published by Durand (2003). The author occupied a high administrative post in the SUNAT's initial years, and was closely allied to the first Superintendent. Subsequently, he served as advisor to the SUNAT's Superintendent during the transition from the Fujimori to Toledo governments (December, 2000 to July, 2001), with the mandate to "clean up" the practices that had been inexorably building up after the mid-1990s. Durand's overall thesis (covering the years 1980 to 2002) is that Peru's powerful business groups and politicians have implicitly and/or explicitly "conspired" in generating rent-seeking activities (e.g., protection from competition, tax exemptions, legal "favors," perpetuation in power). These efforts weaken institutional development while simultaneously leading to corruption and poverty. Although this is not a novel viewpoint, given that it can be very easily transferred to many other countries, the book does offer an excellent inside look

into the Peruvian case. The very brief summary (from Durand) that follows in the next three paragraphs is restricted to the fiscal arena.

During the 1990s there arose three components (or mafias) of the fiscal kleptocracy: the Presidency, the Ministry of Economy and Finance (MEF), and the National Intelligence Service (SIN). Each mafia operated with relative independence, although efforts and “policies” were coordinated when required. The SUNAT fell under the sway of two of the three: the MEF and the SIN. Mafia members were not only placed in the SUNAT and the MEF, but in critical executive ministries and in private sector enterprises. As previously explained in Section II.A, after the mid-1990s the MEF (i.e., the Minister) was able to gradually limit the SUNAT’s autonomy, turning it into an “instrument of repression and source of favors.” Furthermore, the SIN’s agents were appointed to positions within the SUNAT, wherefrom they were able to create a special taxpayer registry (“RUC sensible”) that blocked computerized access to information on some 450 taxpayers. Moreover, access to confidential taxpayer information meant that political enemies were subject to audits and/or outright blackmail. However, apparently the existence of this special tax registry had little impact on tax collections; i.e., it was more a political than fiscal instrument.

Also as previously pointed out in Section II.A, the tax base was eroded by a large number of MEF-authorized exonerations and exemptions that increased rapidly after 1995. Additionally, the government signed 332 “tax stability contracts” with many of the private sector firms that had bought privatized state enterprises. Each contract was individually negotiated, and guaranteed a given taxation level for a period of from five to 20 years. Escape clauses were also incorporated in each contract that allowed the firm to return to the normal tax regime. The post-1996 impact of these measures is apparent from the data presented in Table 1 and Tables A.1 to A.3 in Annex 2.

Concurrently with tax base erosion, the erosion of the SUNAT’s autonomy was also taking place. Although efforts to do so had occurred prior to 1997, the 1997-2000 interval witnessed a quantum leap as the several mafias were able to deeply penetrate the agency. One main entrance was provided via the Special Unit for Tax Investigation (UEIT) that was established (for legitimate reasons) in late 1994. After the mid-1990s this Unit provided a connection between the SUNAT, the Ministry of the Interior, and Peru’s intelligence services. While it was used for legitimate tax investigations, it was also employed to spy on and harass the government’s “enemies.”

As a postmortem, the fall of the Fujimori government in late 2000 witnessed a quick clean up of many of the SUNAT’s corrupt practices. The UEIT and the special tax registry (RUC sensible) were dissolved, and the SIN’s agents were fired. Of the two Superintendents who served from 1997 to 2000, in early 2004 one was under house arrest in Peru and Peruvian authorities were trying to extradite the other (in addition to ex-President Fujimori). On the national scale, by mid-2004 more than 100 persons linked to corruption in the Fujimori government had been imprisoned, and over US\$ 150 million had been “repatriated” from bank accounts in other countries. The ex-head of the SIN (Vladimiro Montesinos) is serving a 15-year prison sentence, and is facing additional

charges. McMillan and Zoido (2004), using data covering the period 1998 to 2000, detail how Montesinos bribed politicians, judges, and the television and print news media to maintain political power and to buy the 2000 presidential election. Revealed preferences, as quantified by the amounts of the bribes, demonstrated that television (as a source of news) was far and away regarded as the strongest potential impediment to the government's power; i.e., the average bribe paid to television-channel owners far exceeded (by a multiple of about 100) that paid to politicians and judges. The reason: most persons receive their news from television, not newspapers. On the positive side, a few newspapers and magazines were not bribable. And ironically, it was television that first publicly revealed videotapes of bribe-takers and opened the floodgates that led to the regime's demise.

2. Tanzania

In a study pre-dating the establishment of the TRA, employing a rather crude methodology Osoro (1995) estimated the magnitude of overall tax overall evasion in Tanzania at 31% of potential collections. Estimates reported in Wadhawan and Gray (1998) placed tax evasion in the same range; i.e, some one-third of potential revenues. Gray et al (2001) estimated that the magnitude of evasion of import taxes alone averaged 2.1% of GDP between 1994 and 1996. For the same years, the revenue foregone by import tax exemptions was estimated at 13.6% of hypothetical revenue (actual revenue plus exemptions). An attitudinal survey (late 1990s) of taxpayers and tax officials concluded that: sole proprietorships, not large enterprises, were perceived to be the biggest tax evaders; collusion and corruption were viewed as the principal elements supporting tax evasion; trading (commerce) was the activity most susceptible to evasion activities; and many doubted the government's willingness and ability to punish tax evaders.

The survey respondents have proved correct. As of early 2004, although the TRA's Tax Investigations Department has raised the number of prosecutions from zero to 72, not one person has been jailed. The fault here might not lie so much in the TRA as in the judicial system, given that tax fraud cases must be sent to the judiciary. Not surprisingly, the latter is both weak and corrupt. Anecdotally, in 2004 corruption in customs and tax evasion of import related taxes (import duties and VAT and excises on imports) remained very problematic.

In a number of studies reflecting information collected from fieldwork between 1996 and 2002, Fjeldstad (2003) and Fjeldstad et al (2003a and 2003b) have been able to analyze the "culture of corruption" affecting the TRA from both internal and external elements. The first year of TRA operations (mid-1996 through mid-1997) witnessed a decrease in corruption and a substantial rise in real tax revenues due to administrative strengthening and the "SARA effect." However, on the heels of this initial progress followed a renewed jump in internal corruption and generalized tax evasion. Moreover, corruption grew not only at the higher levels of the TRA, but also at the middle and lower levels. All this happened despite the existence of an entity specifically established to investigate internal

corruption, the TRA's Internal Investigation and Monitoring Unit (IIMU). Although many in the IIMU were being bribed to ignore corruption (apparently as early as 1997), it was not until late 2000 that the TRA's Board and management forced out 24 IIMU staff. In 2003 the current TRA management established a five member Ethics Committee chaired by the Deputy CG that reports monthly to the CG.

Fjeldstad attributes the post-1997 corruption increase to a number of factors. All TRA employees were hired on a one-year probationary basis, and upon its completion risk-taking increased. Moreover, it takes time to learn how the new systems and their internal control mechanisms work and to devise ways to get around them. Although TRA salaries remained attractive (despite declining in real terms), the prospect of potential gains from bribe-taking may far outweigh salary levels. Perhaps most important of all is the role played by networks within and outside the TRA. In the first place, in Africa and in many developing countries family networks and obligations increase the pressure on the potential bribe-taker. Patronage based on family and/or community ties pervades these networks. Additionally, the presence of well-organized networks in public institutions is often a normal phenomenon. These networks "reduce transactions costs, as well as any moral costs that may arise from allowing oneself to be involved in corruption....and often function as repositories of knowledge for members" regarding who is bribable, how the IIMU works, and management attitudes and sanctions regarding corruption (Fjeldstad, 2003). Networks were also gradually formed between TRA employees and dismissed tax administration employees, with the latter advising the private sector on administrative loopholes.

There are avenues of internal corruption explicitly recognized by the TRA (TRA, June, 2002). The first deals with refund policy (mostly under the VAT system), where taxpayers make under-the-table payments to speed up the refund process and/or the lack of adequate computerized information (and subsequent auditing procedures) allows taxpayers to consistently claim credits in excess of debits. The second (overlapping) type occurs when taxpayers conceal sales to the domestic market on which input taxes are reclaimed for refunds, while the taxes due on output are not submitted to the VAT Department.

On paper there does exist a fairly strong penalty structure for engaging in tax fraud. For example, under the VAT fines and prison terms are specified for different types of offenses, including failure to register, file a return, and issue a tax invoice. In each of these cases the law specifies a fine (up to a maximum amount) and prison up to 12 months. But, as previously noted, application of these sanctions depends on the judicial system, and has yet to be forcefully implemented.

Another study [Kobb (2003)] dealing with local taxes (not administered by the TRA) estimated corruption at the local level by employing two methodologies: simple counting (persons, commodities or events) and comparing actual observations during a sample period with officially recorded tax collections; and by temporarily substituting a tax collection regime with an external team composed of honest persons. In his two market samples he found that only one-fifth of potential tax revenues were being collected.

3. Guatemala

According to Transparency International's 2003 Corruption Perceptions Index, Guatemala ranked 100th out of 133 countries. Juxtaposing what transpired during the period 2000-03 with information that is being uncovered by the new government that came into power in January of 2004, such a poor ranking does not come as a surprise. Several examples suffice. In 2002 the Anti-Narcotics Operations Department (DOAN) was dissolved after more than 300 of its staff had been arrested for corruption. Since 2002, the (now former) President and Vice-President of Guatemala have been under suspicion of embezzling more than half a million dollars of public funds by setting up bank accounts and phantom companies in Panama; two anti-corruption prosecutors pursuing this "Panama Connection" resigned under pressure (including death threats). The government that came into office in January, 2004, has reopened this (and other) cases. Those in charge of the Guatemalan Social Security Institute (IGSS) created a trust fund to siphon off 350 million quetzales (about US\$44 million) from different social security programs. There is genuine cause for concern regarding the "ability of public prosecutors to act in cases involving high-level public officials – the chief state prosecutor has total discretion to remove and name prosecutors. This lack of independence contributes to the prevailing impunity for perpetrators of corruption;" see Transparency International (2004).

Guatemala has a long history of corruption. The corruption scandals of the late 1970s that involved the wholesale siphoning off of monies from international organization loans never led to any prosecutions. And the long-standing existence of internal networks and impunity from prosecution most likely emboldened the 2000-03 perpetrators. With World Bank assistance there was an attempt in 2002 to establish a National Commission for Transparency and Against Corruption, but it never really got off the ground and is now defunct. Civil servants have long been required to submit income, asset, and liability declarations that are supposed to be received and verified by the National Comptroller's Office. Not surprisingly, verification and follow-up of their accuracy and public access to them have been sorely absent. The government that entered office in January of 2004 immediately established a Presidential Commissioner's Office and a Multisectoral Council for Transparency, but only time will tell if these latest efforts will have any real impact on corrupt practices. What is interesting is the role played by the media, which so often and in so many countries have been bribed and/or cowed into silence. It was the Guatemalan media that first uncovered and investigated the "Panama Connection," and that have been actively pursuing and publishing reports of corruption throughout Guatemala's public sector.

In mid-2004, Guatemala's "elite" corruption roll read as follows: the former President had fled to Mexico and was wanted in both Guatemala and the United States on charges of embezzlement and money-laundering; the former Vice-President and the former Minister of Finance, who also presided over the SAT's Board of Directors, were imprisoned; the SAT's Superintendent (and former National Comptroller General) from

October 2002 to January, 2004 was a fugitive from February to July, and was captured and imprisoned in mid-July, 2004, accused of pilfering either 63 million quetzales (some US\$8 million) or 41 million quetzales (more than US\$5 million); 15 others connected to this case (family members and former SAT employees) remained at large; the National Comptroller General who replaced the former SAT Superintendent in that post was also in prison, accompanied by the three persons accused of defrauding the Guatemalan Social Security Institute. Under the United States Patriot Act of 2001, the visas of most of the above have been revoked.

Two (the ex-officio representatives) of the SAT's six member Board of Directors were replaced by the incoming government in January of 2004: the Minister of Finance and the Superintendent. However, the four non-ex-officio members named by the President of Guatemala from a list drawn up by a nominating committee remained. Under the SAT law, their tenure is for an indefinite time period, and they can only be removed by the President of the Republic for "just cause" ("previa expresión de causa"). Being asleep at the wheel (under the presumption of innocence) does not constitute a prosecutable offense, although it is known that Board members did receive payments for Board meetings that never took place. The imprisonment of the SAT's former Superintendent and the ex-Minister of Finance may provide information that will lead to their removal for "just cause." During the October, 2002 to January, 2004 interval, the SAT's Internal Audit Unit (at best) adopted a "see no evil, hear no evil, speak no evil" posture. Numerous SAT staff were either dismissed or relegated to the SAT's "outer offices" to read newspapers. It is for this reason that SARAs should incorporate in their organizational structure additional internal accountability mechanisms *cum* entities similar to those previously mentioned in Section III.B.

D. Some Potential Solutions

1. Generalizations

No SARA is an island. Although one of the most important arguments put forward for establishing a SARA is to reduce taxation-related corruption, it is naïve to assume that the SARA can remain isolated from the national environment in which it functions. With respect to the overall picture, the issue becomes one of how to attack and reduce endemic corruption in its varied forms. This requires the adoption of an institutional framework that includes a variety of agencies and public entities. While not ignoring vertical accountability (e.g., electoral, independent mass media) and external (e.g., pressures or conditions exerted by international multi-lateral and bi-lateral donors) institutions, primary focus should be placed on those domestic institutions linked to horizontal accountability: the judicial system, anti-corruption entities, public audits, ombudsman's offices, and legislation.

An independent judiciary is crucial to reducing corruption, but this is too often the weakest link to forging an anti-corruption strategy. An effective judicial system demands

knowledgeable and well-trained prosecutors, judges, clerks, and defense attorneys in conjunction with computerized information systems, training institutes, and competent law schools. Such elements do not spring up overnight. Rather, they require medium- to long-term adequately financed efforts. Moreover, the issue of who appoints these persons is also critical. If appointments are left in the hands of politicians, an independent judiciary may remain moribund.

A second piece in the puzzle might be the creation of an independent anti-corruption entity responsible for monitoring the conduct of public officials and for verifying their asset declarations. Quite a number of countries with SARAs also have established a single national anti-corruption agency; e.g., Kenya, Malawi, Peru, and Tanzania. But who names its members, to whom is it accountable (who watches the watchdogs?), and is it effective? The answer to the last query is “not very.” For example, in 1999 Tanzania adopted a National Anti-Corruption Strategy and Action Plan (NACSAP), and set up a Good Governance Coordination Unit (GGCU) in the President’s Office to oversee it. Under NACSAP each ministry develops its own anti-corruption action plan and submits quarterly reports to the GGCU. But NACSAP implementation “has not lived up to its potential, . . . capacity of the GGCU remains low, the production of quarterly monitoring reports is chronically behind schedule, and the government has not seized the opportunity to generate significant publicity around NACSAP” [Sundet (2004) as cited in Martínez-Vazquez et al (2004)]. It appears to be the rule (as elsewhere) that few proven cases of corruption have led to specific disciplinary actions.

On the other hand, Bolnick (2001) argues that Malawi’s 1995 establishment of the Anti-Corruption Bureau (ACB) was at first relatively successful in pursuing corrupt practices in the public sector. It is a quasi-autonomous entity outside the civil service, and its Director and Deputy Director are appointed by the President subject to parliamentary ratification. Reporting is directly to the parliament via the Justice Minister, but funding is via the normal government budget. Several ministers were dismissed, disciplinary actions were taken against a large number of civil servants, procurement schemes were closed, and contracts annulled. However, the bottom line is that “there have been few arrests and even fewer convictions. Indeed, the situation is universally perceived as worse now than it was before the end of the repressive Banda regime.” Updating Malawi’s experience through mid-2004, although some reduction in lower level corruption has been achieved, pursuit and prosecution of the “big fish” have been disappointing.

While a case can be made that anti-corruption agencies that are quasi-independent might achieve some positive results (Thailand’s National Counter Corruption Commission is a good example), “anti-corruption agencies can only be effective organizations in combating corruption in a limited number of contexts, because the variables behind their success are complex, and often specific to individual countries;” see Doig et al (2001) as cited in Camerer (2001). In sum, while not completely discounting the broad-brush use of national anti-corruption agencies that might somehow prove to be marginally effective, a better strategy is to focus on an agency-by-agency strategy. Of course, each public agency should have its own internal audit unit, and the national Auditor General’s Office

would provide the external audit charged with the responsibility to carry out random audits separate from those done by the internal units.

If an Ombudsman's Office does not exist, it should be established as soon as feasible. Its principal function is to receive and investigate the general public's complaints regarding governmental corruption. Channels of communication should be set up between the ombudsman and the anti-corruption entity, as their work is complementary.

The final and overriding piece in putting together an anti-corruption strategy is the law itself. Legislation must explicitly state that all forms of corruption (e.g., bribery, malfeasance, nepotism) are unacceptable and will be effectively sanctioned. This is more easily said than done, since in most cases such legislation is already extant, whereas it is the system of sanctions and penalties that is not effectively applied. In other words, such laws represent a necessary but insufficient condition to contain corruption. One very specific stipulation of this legislation is that all public officials, upon taking office, must submit asset declarations to the anti-corruption commission; such declarations should be annually updated.

2. Some Specifics

Honing in on the SARA itself, mention can be made of the usual "cast of characters" that can aid in reducing corruption: e.g., tax simplification (e.g., low and a minimum number of rates and exemptions); computerization of processes and documentation; transparent regulations and procedures; consistent tax law interpretations; minimization of document and information requirements; professional and stable management; decent compensation and working conditions; performance-based promotions and merit-based recruitment; use of performance standards (see Annex 1 for numerous examples); employee code of conduct; internal controls (e.g., accounting, management, administrative, program); effective application of existing penalties and sanctions. All but the first lie within the SARA's purview, and if the SARA has a competent tax policy analysis unit it may be able to exert influence over the MOF's tax policy decisions.

Among the principal measures a SARA might adopt to curtail internal corruption, a good starting point is the appointment of the SARA's Board of Directors and the head of the SARA. In many (if not most) cases both the Chairperson of the Board and the head of the SARA are appointed either by the nation's President or the Minister of Finance (see Section I.A.3). This process by itself creates instability in the SARA. Developing country Presidents (generally) serve for finite terms, and the tenure of Ministers of Finance is usually even shorter. Moreover, during their tenure they often change their minds, and the SARA head falls out of favor. To overcome this potential pitfall, the designation of the SARA's head might be made by the Board of Directors that itself is named by an independent committee composed of representatives drawn from a country's public and private sectors. Moreover, his/her tenure should overlap that of the President and the Minister of Finance (similar to the head of the U.S. Federal Reserve). These ideas are incorporated in the generic SARA Act (Chapters 3 and 4) found in Annex 4. The

importance of strong and stable leadership cannot be underestimated, and its absence creates many of the problems found in all country case studies. The case of Ecuador's SRI is a positive example of this.

Also falling under the SARA's direct control is the establishment of the Internal Anti-Corruption Unit and the Investigation of Tax Fraud Department summarily described in Section III.B. Although both can be established by the SARA, the latter ultimately depends upon other public sector entities to bring a fraud case to resolution. Part of the former revolves around "auditing the auditor," and involves such aspects as monitoring, special investigations, and reviews of finalized audit cases. Frequent use of the internet to monitor auditors' activities makes such monitoring more feasible than in the past.

The SARA's Planning and Monitoring Department (PMD) should also play a key role—if it is allowed to carry out its duties and responsibilities. All SARAs have such a department, but its functions and responsibilities are often overlooked and/or ignored. The SARA should design and implement an internal planning system based on an Annual Operation Plan (AOP), which in turn should reflect its multi-year Corporate Plan. There should be an AOP for the overall SARA and for each SARA Department. One of the most important responsibilities of the PMD is to monitor each AOP. Using information supplied by each Department, the PMD should produce a monthly Activity Results Report, with copies sent to the Director, the Deputy Directors, and the Internal Audit Unit. In addition to monitoring carried out by the PMD, each unit should monitor its own AOP. Such a planning and monitoring system, if properly used, constitutes an excellent tool for evaluation, control, and strategic decision making. The duties and functions of the PMD can be strictly delineated in the SARA's Internal Regulations Manual—and adopted by all SARA units.

The annual filing and verification of Asset Declarations made by SARA staff represents an additional anti-corruption control instrument. The requirement for such filings should be incorporated in the SARA Act (see Chapter 6, clause 14 of the Generic SARA Act in Annex 4). Of course, annual or periodic verification is critical, and requires access to and the use of third party sources; e.g., bank accounts, visits to neighbors.

Personnel rotation can also be adopted to inject some degree of arms-length status between the tax collector and the taxpayer. This is especially important in customs, auditing (especially of large taxpayers), and SARA regional offices. While it must be judiciously used so as to not lose accumulated knowledge, it is feasible to design such a program.

Outsourcing is another option, but one that requires continuous oversight from SARA administrators. All modern tax administrations (SARAs and non-SARAs) have long used third-party tax withholding, and contracting with private sector banks to receive tax payments has been increasingly employed over the past several decades. Self-assessment shifts the administrative burden from the tax administration to the taxpayer, and often raises compliance costs. Other areas that lend themselves to outsourcing are pre-shipment inspections, specific IT functions, and institutional security operations (e.g., at customs

port facilities); for more on this topic, see Ramírez Acuña (1992). Tax farming has been attempted in a few countries, but has not proved to be effective. Kobb (2003) provides an empirically supported case from Tanzania that the auctioning of tax franchises to the highest private bidder is one solution to curbing corruption and increasing tax revenues. However, it is doubtful that this example that worked well in local markets in three districts is transferable to the national level and the requirements of national level taxes such as the VAT and income taxes.

External accountability measures must also play an important role in both reducing corruption and enhancing SARA productivity. Although the SARA is ultimately accountable to the nation, the question of what practical measures to implant is critical; i.e., who guards the guardians? Expanding upon what was previously broached in Section I.A.6, the SARA's Director should be required to report to the Board of Directors, the Minister of Finance, the legislative branch, the national auditor (comptroller) general's office, and the national anti-corruption commission. These reports regarding the SARA's activities, level of compliance with targets, budget, and budget execution might be submitted on a quarterly, semi-annual, and/or annual basis, and should be specified in the SARA Act. The SARA's accounts should also be annually audited by a private sector accounting firm. Reinforcing these accountability measures might be a performance contract between the SARA (represented by its Director) and the MOF (and perhaps other public entities). The contract would be framed in terms of compliance with distinctly defined performance objectives, examples of which are to be found in Annex 1. Failure to attain a given percentage of the performance objectives (after taking into account extenuating circumstances) could result in the dismissal of the SARA's head and/or the management team. A monitoring committee composed of representatives of those agencies receiving the SARA's reports would oversee this contract. To this researcher's knowledge, such an arrangement has not been fully implemented in any SARA.

IV. LESSONS LEARNED AND CONCLUDING REMARKS

A. Lessons Learned

There are many keys to SARA success, and most of them will not come as a surprise to those who have dealt with reform processes in both developed and developing countries. Among the myriad factors, some of the more outstanding are: the scope, strength, and sustainability of the legal and institutional arrangements between the SARA and other public sector institutions (and especially the MOF); the character, professionalism, and political aptitude of SARA leadership; the granting and maintenance of autonomy to manage personnel and financing systems; the assignment and use of enforcement capabilities; the design and implementation of internal and external accountability and anti-corruption mechanisms; adequate financing to cover both current operations and required investment in hardware, software, and personnel; and a voice in the formulation of tax policies, especially as they impact upon collections and administrative and taxpayer compliance costs. These and many other lessons can be gleaned from the country case studies found in Section II of this paper and from other studies; see Delay et al (1999), Fjeldstad et al (2003b), Gray and Chapman (2001), Hadler (2000), Taliercio (2003), and Terkper (2003).

Among the most critical lessons learned from the experiences of already established SARAs are:

- Establish the SARA under a Parliamentary Act to give it sustainable legal and political legitimacy.
- Incorporate in the SARA Act a legal framework that permits the SARA to adequately exercise its functions and responsibilities to administer, resolve, and sanction both internal and external corrupt practices.
- Reduce political interference in the SARA's internal affairs by (if feasible) taking away the appointment of the SARA's Director from the politicians (including the President) and granting this responsibility to the SARA's Board of Directors, some of whom should be named by an independent citizen's committee.
- Grant stability of tenure at the top of the administrative hierarchy via fixed tenure for the SARA's Director and define very carefully the specific reasons for dismissal; these reasons might be made explicit by incorporating performance objectives (with accompanying indicators) in the SARA Act.
- Establish funding stability for medium- to long-term planning purposes.
- Grant autonomy in personnel management to be able to recruit outside of civil service laws; exclude the MOF from interfering in the recruitment process.
- Carry out an open and competitive recruitment and personnel selection process.
- Offer market-competitive remunerations packages to professional staff.
- Over time, maintain real wage levels and wage decompression ratios.
- Establish a Board of Directors with public and private sector participation and strictly delineate and adhere to the separation of responsibilities between the Board and the SARA's Director. The Board has no business interfering in the day-to day affairs of the SARA.

- Generate and maintain political support (especially from the private sector), something that will automatically arise if the SARA is perceived as a fair, competent, and relatively uncorrupt institution.
- Create an organizational structure that is flexible to respond to ever-changing administrative needs.
- Define strictly the relationship between the MOF (and the Minister) and the SARA (and its Director). Problems will always arise because the Minister is held accountable for SARA performance, but has very limited authority over it, especially in the areas of personnel and finances. Moreover, although the MOF is formally responsible for the formulation of tax policy, it may sometimes be forged by the SARA in those cases where the MOF's tax policy analysis unit is weak.
- Permit SARA input into tax policy decisions, as such decisions affect (often negatively) tax administration processes; e.g., tax expenditures, shifting of compliance costs, setting and meeting revenue targets.
- Incorporate internal anti-corruption mechanisms in the SARA Act and/or in the SARA's internal regulations, and strictly and rapidly apply sanctions when called for.
- Design, implement, and maintain both internal and external accountability mechanisms.
- Limit the scope of initial SARA tax collection responsibilities to what is administratively feasible, and extend these responsibilities over time in a "learning by doing" process. A gradualist approach is preferable to trying to do everything at once.
- Develop and adhere to traditionally strong and sound management practices.
- Design a Five Year Corporate Plan to establish objectives.
- Design a program for external donor technical assistance.
- Develop and circulate manuals and guidelines to aid, improve, and evaluate staff performance.
- Develop uniform institutional policies that establish long-term objectives.
- Design and implement permanent personnel training programs.
- Design and implement all required information systems, including a management information system.
- Simplify, standardize, and control all processes and systems to the extent feasible.
- Design a technological platform that generates operational de-concentration, centralized databases, and user-friendly information.
- Develop and implement permanent taxpayer control and auditing programs.
- Update and maintain taxpayer registries *cum* databases, and strengthen the exchange of information with third-party sources.
- Develop and apply performance-based indicators *cum* standards to the overall institution, its departments and divisions, and its individual staff; see examples in Annex 1. Rather than being introduced in one fell-swoop, their design and application should be gradually built up in a "learning-by-doing" environment.

B. Concluding Remarks

By mid-2004, what is the SARA scorecard after more than a decade of experiences? Have they constituted a successful exercise in reforming tax administrations in developing countries? Are they really necessary to propagate tax administration reform? Or are they simply half-baked attempts to set up quasi-public enterprises, a sort of outsourcing within the public sector that meets no competitive restraints? There are no clear-cut answers.

As stated in the Introduction, SARAs undoubtedly offer no quick-fix remedies to tax administration inefficiencies. They do provide a platform from which positive reforms can take place. They can prove to be a catalyst for change and can facilitate change, but their creation is merely a necessary, but not a sufficient condition, that might lead to reform. The institutional and legal reforms that creating a SARA imply are hardly enough, and the occasion to launch positive reforms from the SARA base should not be confused with the institution itself. Reform must spread to all the procedures and processes that fall within the orbit of a tax collection agency. Bird (2004) covers many of these administrative issues, while simultaneously demonstrating the tax policy-tax administration link.

As acknowledged in Section I, one cogent argument for not establishing a SARA is that tax administration can be improved without a SARA. After all, the same basic processes and procedures that a MOF already employs must be replicated in a SARA. Such arguments often cite the cases of Chile and Singapore (which arguably has created a quasi-SARA), both of which are recognized for having well performing tax administrations. In rebuttal, one can argue that the city-state of Singapore is no longer a developing country and, in most political-economic aspects, represents a significant exception to the developing economy model. Chile has a solid institutional history dating back into the 19th century that sets it apart from most (if not all) Latin American countries.

Autonomy to deal with personnel policies may be the most critical element that a SARA brings to tax administration. Leaving such policies to be decided by civil service laws severely hampers carrying out real reform within any tax administration entity. The flexibility to hire, internally transfer, and effectively sanction SARA staff is key. Placing competent persons in the right positions generates a feedback effect on all the other processes that must be reformed; i.e., these processes will be more efficiently put in place and implemented by well-motivated personnel. It is for this reason that it is so important to offer and maintain market-competitive remunerations packages. As the Tanzanian and Ugandan cases have so clearly demonstrated, failure to do so has perverse consequences. Van Rijckeghem and Weder (2001) empirically support the negative association between corruption and relative civil service wages. But even maintaining competitive remunerations offers no guarantee that backsliding will not occur—especially if the rewards that can be gained from corrupt practices far outweigh remunerations and the risks of sanctions.

Never to be overlooked are the “social and political dimensions of tax administrative reform, and the limitations of some of the technocratic approaches to institutional reforms taken by donors;” see Fjeldstad et al, 2003b. Establishing a successful SARA is not only about technical efficiency. In fact, this might be the easier part, especially when donors and not the government define needs. The prosaic but valid stand-bys of sustained political commitment and strong and honest leadership (both inside and outside the SARA) remain constantly at the forefront. How this can be achieved on a long-run basis is anybody’s guess.

What can go wrong? Everything and anything. By no means is autonomy sufficient. Inefficiencies can continue without the complete overhaul of internal procedures and processes and a strengthened regulatory and accountability framework that connects the SARA with other public sector institutions and the private sector (the taxpayers). Personal clashes between the MOF (and its Minister) and the SARA (and its Director) and/or between the SARA’s Board and its Director impede the sustainability of the SARA model. It is easy to state that they must be avoided, but, given human nature, over the life of a SARA they are inevitable. After the halcyon initial years of a SARA’s existence, corruption often returns as a serious issue; one merely has to note the country cases covered in this study and in Ghana, Kenya, and Uganda (Terkper, 2003). This is partially the consequence of not quickly enforcing penalties and sanctions. The problem is that the rules are usually clear but cultural and other factors impede enforcement. At the least, the development and application of output and performance standards can help.

It is clearly naïve to assume that however precisely any piece of legislation (the SARA Act) is drafted, it can isolate the SARA from “undue” political interference. Just as one cannot have policy without politicians, tax administration cannot be apolitical in the sense of eliminating personal interest interference. The SARA head and Board will be constantly bombarded from many angles by this sort of interference, especially when the SARA’s responsibilities are so central to the state. There are no “persons in white coats” who can be expected to act in totally apolitical fashion.

Taliercio (2004) presents econometric evidence supporting the hypothesis that there exists a rather strong link between autonomy, the credibility and enhanced taxpayer compliance it generates, and a SARA’s overall performance. The evidence presented in this paper only partially supports this conclusion. One merely has to note the Guatemalan, Peruvian, and Tanzanian case studies, all of which have been granted a great deal of autonomy and did display enhanced performance in their initial years. However, performance later began its roller-coaster ride. While not discounting autonomy and credibility, what does appear to yield better results is greater autonomy/credibility combined with honest and stable leadership and the consistent application of internal programs and policies. Ecuador’s SRI is an (isolated?) example. Although there is no doubt that strong leadership and its stability are critical, Ecuador might be the exception, not the rule. After all, Tanzania’s TRA has had only two Commissioner Generals and Board Chairmen since inception. It will be interesting to revisit the Ecuadorean case several years after the current leadership is replaced.

One of the problems with judging SARA performance is that expectations have become over-inflated. Under any circumstances and in any context, sustainable tax administration reform and improvement are (and will always be) a slow and gradual process that does not proceed linearly. After all, even the supposedly “developed” U.S. Internal Revenue Service is not all that efficient. A recent article from the Washington Post (March 30, 2004) contained the following information: there were more than two million delinquent tax accounts pending from 2003 totaling nearly US\$ 16.5 billion, 15 million service calls unanswered, nearly 46,000 audits unscheduled, routine failures to pursue criminal tax cases, and a tax gap (between taxes paid and owed) of some US\$ 311 billion.

Several suggestions emerge from SARA experience: intermittent renewal at the top, performance contracts, a pact between the government and civil society, the use of expatriates, and outsourcing. There is much to be said for intermittent renewal at the top management levels of the SARA and in the Board of Directors. Bringing in new blood can provide a boost to incorporating new approaches to old problems. But it must be carefully done in a structured manner so as to not lose accumulated experience. And it must not be done simply for its own sake. Admittedly, this is far easier to say than to do in a way that moves the organizational culture in an upward direction.

In order to reduce frictions between the MOF and the SARA, the previously mentioned concept of a performance contract between the two is another possibility. It would set targets for the SARA in such areas as auditing, collections, taxpayer services, and tax return filings. It might be advisable to exclude (or not overemphasize) such indicators as tax ratios and revenue targets due to the host of exogenous factors that influence these variables (see Section I.C). The contract would have to be monitored and judged by an independent interlocutor (e.g., the Central Bank) or committee composed of persons of recognized ability and honesty. While, at first glance, this appears to be a viable idea, performance contracts themselves have a checkered past. They require a strong and consistent commitment and the design and use of concrete performance indicators with all their statistical requirements.

One approach to strengthening political commitment to a SARA is to reach a consensus agreement between all sectors of civil society regarding the need for better public sector fiscal management in order to raise public spending in such areas as education and health. In fact, such an approach was attempted in Guatemala and Peru, but eventually fell apart due, in large part, to taxpayers’ perception of increased corruption in the SARA and the weak application of sanctions for tax evasion. Another approach that has been used in several African SARAs is to initially install expatriates in top management positions. The idea is that non-nationals are unfettered by internal politics and patronage exigencies. However, such an approach is often hampered by a clause in SARA legislation specifying that the head of the SARA must be a citizen.

In addition to taking into account the legal and financial analyses that should be carried out prior to taking outsourcing decisions (see Section I.A.10), difficult decisions have to be taken what constitute a SARA’s core and non-core functions. The former must be left within the SARA, but drawing the line between the two is more art than science. Tax

administrations in many countries have outsourced such activities as the receipt and processing of tax returns via the banking system and the printing of tax return forms. Self-assessment and third party withholding are additional examples. Nevertheless, the tax audit itself should be a non-outsourced function, although it can be argued that self-assessment is a type of audit privatization (but which must be backed up by the tax administration). On the other hand, the determination of tax policy is not a SARA function, as it quintessentially belongs in the MOF. To reiterate, however, the MOF and the SARA should work together in this area to (at the least) alleviate any negative administrative repercussions caused by tax policy modifications.

A final concluding remark encompasses all previous parts of this paper. It relates to the fundamental issue regarding under what specific conditions and circumstances a SARA should be established and, as a corollary, which particular feature of a SARA is best. A qualification is in order from the start. This paper was not written to champion the SARA idea. Quite the contrary. As clearly stated in the Introduction, its objective is to “present a practical guide to the experience of SARAs and to the lessons learned from these experiences.” It was additionally stated that “the fundamental idea that permeates this paper is that establishment of a SARA is no panacea; it offers no quick-fix to a developing country’s revenue and tax administration quandaries.” Having reiterated these thoughts and adding that nothing is forever (i.e., if it doesn’t work, the SARA can be scrapped), the circumstances under which it might be worthwhile for a country to adopt the SARA model boil down to:

- Administrative breakdown. The MOF’s ability to efficiently administer the tax system is clearly broken after many years of internal “reforms” and external technical assistance. There is little to lose by attempting a sea change approach.
- Civil service laws. The MOF and its staff labor under the country’s civil service law and accompanying regulations. Consequently, remunerations are inadequate, dismissals for corruption, incompetence, and/or failure to perform halfway decently are difficult if not impossible, and working conditions are poor.
- Square peg in square hole. Being able to place the right person in the right position takes on even greater importance given the pressing need for modern tax administrations to employ up-to-date information technologies, processes, and procedures.
- Staff motivation. The absence of a system of rewards and penalties leads to poor work performance, with the most motivated and competent personnel finding better opportunities in the private sector.
- Accountability. The inability to put in place the accountability mechanisms required in an institution so central to the nation as tax administration leads to credibility problems and, ultimately, to poor taxpayer compliance.

With respect to those aspects of a SARA that are “best,” this was covered at the beginning of the paper in Section I.A. Whether or not they fit the particular circumstances (or reality) of a given country at a given time is a question that cannot be answered without specifying the country and the circumstances. Ultimately, of course, such decisions lie in the hands of the country’s authorities.

In closing, despite not having lived up to expectations (does anybody ever do so?), the maintenance and/or future establishment of SARAs remain a viable concept not to be lightly discarded—despite past failures or partial successes. It is certainly reasonable to be highly critical of their past performance and to cast sincere doubt on their future. Nevertheless, given the institutional weaknesses so prevalent in developing countries, there are not many alternatives. One alternative is to continue life as usual by leaving tax administration functions where they have traditionally been—in the Ministry of Finance. But it is even more difficult to reform a larger institution than to reform a part of it. A second option is to establish a separate tax ministry (as Canada did for decades) or a separate agency such as an inland revenue service or the U.S. Internal Revenue Service that reports to, but is not an integral part of, the Treasury Department (MOF). However, under both alternatives civil service regulations prevail, and this is probably the key obstacle to generating tax administration reforms in developing countries.

With respect to the future, adopting an attitude of skeptical optimism might be the best way of understanding the past (and future) performance of SARAs. As Alm and Martínez-Vazquez (2003) have argued, the search for improved tax compliance requires focusing on improving a society's institutions, with one significant aspect being the "social norm of compliance and the presence of an effective but service-oriented tax administration." A SARA, if effectively administered, might be able to fulfill this role, given that its establishment is supposed to combine the traditional tax administration punishment paradigm with the newer service paradigm. But there are no guarantees.

ANNEX 1

GAUGING SARA PERFORMANCE: SOME EXAMPLES OF PERFORMANCE INDICATORS

The list of performance indicators found below is neither exhaustive nor definitive. Although some are targeted at judging the performance of SARAs alone, most can be employed to judge performance in the many operational areas in which all tax administration agencies (SARAs and non-SARAs) work. As such, they are designed to be flexible, and can be adjusted as needed. Most are adaptable to time-series development and maintenance, which can be a time-consuming process. Not all the indicators are subject to direct (cardinal) measurement. Rather, they may range from objective to (somewhat or wholly) subjective. Nevertheless, from the moment some or most of these indicators are adopted (and adjusted) by a tax administration entity, they should be maintained over time, thereby giving rise to time-series information that can be used to gauge performance of the overall institution, its different divisions, and its individual employees. To develop this list the wheel has not been re-invented. In addition to personal experience, other sources have been referred to; e.g., Baer et al (2002), Centro Interamericano de Administradores Tributarios (2002), Crotty (1996), Gallagher (2004), Gallagher et al (2004), Inter-American Development Bank (2001), Mann et al (2001), Radano (no date), Silvani and Baer (1997), and several non-referenced (i.e., confidential) IMF reports.

The use of performance-based indicators as rewards or penalties in tax administrations can be questioned. By definition, they are multi-task institutions, and it is not often easy to directly link the performance of Department X or Individual Y to specific indicators. However, some countries have claimed to having observed positive results, while others have not. Moreover, over time in the same country the positive impact may gradually fade away. However, Silva (2003) demonstrates that the perverse effects of tax performance bonuses do not have to occur.

1. Indicators for all Tax Administrations (SARAs and non-SARAs)

A. Tax Performance and Structure

1. Tax ratios: overall and per principal tax; see the caveats discussed in Section I.C.
2. Factors impacting tax buoyancy (tax legislations changes—rates, exemptions, additions, eliminations, GDP and import growth rates, etc.)
3. Real tax collections (nominal figures deflated by CPI): overall and per principal tax.
4. Specific tax productivity indicators: e.g., VAT efficiency ratios; VAT productivity rates, VAT compliance rates, tax evasion estimates using household income and expenditure surveys and/or other evasion

methodologies; see examples in Annex 2 tables; also, personal and corporate income tax productivity rates.

5. Indirect and direct taxes as a percentage of total tax revenues.
6. Taxes as a percentage of total recurrent revenues.
7. Percentage of taxpayers that generate 80% of collections from major taxes.
8. Number of taxes that generate 80% of total tax revenue.
9. Extent and magnitude of tax expenditures for each major tax.
10. VAT collections as a percentage of total taxes and breakdown of VAT from domestic sources vs. imports.
11. Number of rates for income taxes and VAT.
12. Height of tax rates for major taxes.

B. Taxpayer Registration

1. Number of registered taxpayers in database; percentage active in past year; calculate by type of business (large, medium, small) and by persons.
2. State of taxpayer registry database: ongoing efforts to update and clean.
3. Contents of registry (name, address, tax obligations, activity, etc.).
4. Methods of registration and maintenance: obligatory, elimination after given time period, documentation required.
5. One (or more) unique taxpayer number; numeric; relationship to other ID numbers (e.g., national identity card, social security number). Use for other registration purposes.
6. Extent of automation; real time, controls, extent of decentralization.
7. Estimate of unregistered (potential) taxpayers.
8. Percentage of taxpayer identification numbers issued within five days of receipt of the registration applications.

C. Auditing

1. Types of audit strategy in place for desk and field audits.
2. Frequency and type of field preventive audits.
3. Number of annual audits completed by type of tax, type of audit, and type of taxpayer.
4. Percentage of audits where the taxpayer accepted the assessment.
5. Percentage of audits where the taxpayer did not seek a review.
6. Percentage of tax assessed where the taxpayers' appeals were unsuccessful.
7. Percentage of audits completed within prescribed time limits, by type of audit.
8. Circulation controls on highways: types and frequency of use.
9. Type of performance indicator system for auditors and audits.
10. Auditor training and qualifications.
11. Number of auditors relative to "needs."
12. Unified or separate (by tax) audits.
13. Taxpayer segmentation (large, medium, small).
14. Percentage of taxpayers audited (desk and field).
15. Percentage of large taxpayers audited (desk and field).

16. Tax compliance rate for large taxpayers; i.e., ratio between paid tax obligations and total tax obligations under VAT and income taxes.
17. For VAT taxpayers, use of fiscal credit/fiscal debit ratios.
18. Use of and results generated by independent database matching.
19. Ratio of differences detected (value) to total number of audits (by type).
20. Percentage of total tax collections generated by audits.
21. Ratio of audits completed to programmed audits.
22. Average period (number of days/weeks) of field audits as percentage of completed audits.
23. Collection rate per audit and per auditor.
24. Percentage of taxpayers administered using functional current accounts by type of taxpayer (large, medium, small).
25. Automatic selection of taxpayers to be audited.
26. Extent of use and type of exogenous information to carry out audits.

D. Delinquent Accounts (DAs)

1. Entity responsible for DAs: internal or external (i.e., collections or judicial).
2. Estimated amount owed on DAs; as percentage of current year's tax revenues; as percentage of revenues over last x number of years (against total collections for same time period).
3. Age of DAs (one year, two, etc.).
4. Estimated amount truly recoverable with concerted efforts.
5. Processes and methods of collecting DAs.
6. Use of embargoes on assets, bank accounts, etc.

E. Automated Systems

1. List of functions automated and not automated; extent of automatization by function.
2. Magnitude of interconnectivity between headquarters and local offices.
3. Existence and reliability of backup systems.
4. Extent of the incorporation of exogenous/secondary databases.
5. Systems for and ease of crossing (matching) databases.
6. Adequacy of hardware and software.
7. Magnitude of systems integration.

F. Planning and Coordination

1. Existence and use of annual and multi-annual operational plans.
2. Types of monthly reports.
3. Use of planning and monitoring system as an evaluation, decision-making, and control instrument.
4. Efficiency of internal information flows.
5. Coordination of information flows with other external entities, especially the MOF, the Central Bank, and the planning ministry.

6. Governmental entity responsible for tax projections.
7. Coordination of revenue projections between entities.
8. Types of management practices.

G. Administrative and Compliance Costs

1. Total administrative costs as a percentage of total tax collections, making allowance for spreading out capital costs and including implicit costs.
2. Administrative cost of each principal tax.
3. Estimates of taxpayer compliance costs as percentage of collections by type of tax.
4. Changes in tax laws that shift administrative costs from tax agency to taxpayers and/or vice-versa.

H. Taxpayer Services

1. Availability of tax forms and information.
2. Ability to pay taxes via the banking system.
3. Simplicity/transparency of tax laws.
4. Use of surveys to judge taxpayer satisfaction with quality of service.
5. Ability to file tax returns via the internet.
6. Number of annual tax inquiries handled per staff person via telephone, office visit, internet, and letter.

I. Collections

1. Existence of revenue targets by month and tax.
2. Ratio of collections generated to revenue targets (programming efficiency).
3. Exporters under VAT: Ratio number of VAT returns made within interval stipulated by law/total number VAT returns.
4. Average number of days for VAT refunds; VAT refund backlog.
5. If tax payments are made via the banking system, the nature and stipulations of the contract between the tax administration entity and the banks; e.g., average number of days of float, bank obligation for data entry, bank remuneration, sanctions for non-compliance, daily reconciliation.
6. Ratio of the number of returns received within legally stipulated interval to total number of due returns.
7. Percentage of taxpayers paying via internet (especially large taxpayers).
8. Ratio of stop-filers to total number of active taxpayers.
9. Status of systems for automatically sending notices to stop-filers; means of sending out notices.
10. Percentage of all VAT and withholding stop-filers contacted within 10 working days of monthly return filing date.
11. Percentage of registered taxpayers with VAT and withholding tax returns outstanding after 15, 30, and 60 days.
12. Existence of income tax withholding systems and estimated tax regime.

J. Returns Processing

1. Percentage of VAT returns processed within five days of receipt.
2. Percentage of withholding tax (PAYE) returns processed within five days of receipt.
3. Percentage of non-electronically and electronically filed income tax returns processed within 20 and 10 working days respectively.

K. Customs

1. Average number of days between receipt and dispatch of merchandise.
2. Ratio between physical inspections to the total number customs declarations.
3. Ratio of the value of sanctions imposed to the value of declarations.
4. Type and efficacy of internal controls to reduce corruption.
5. Increased percentage of declarations made electronically.
6. Value system in use: Brussels or GATT.
7. Coverage of the manuals developed, distributed, and actually used.
8. Extent and use of performance indicators.
9. Improved quality of infrastructure.
10. Extent of internet interconnectivity between customs posts.
11. Existence and use of ex-post audits.
12. Number and percentage of assessments made via post-release reviews.
13. Use of database cross-checking with internal revenues (VAT and income taxes).
14. Number of adjustments for tariff classification.
15. Number of adjustments for valuation.
16. Amount of duties recovered through exemption controls.
17. Status of trade and revenue statistics in terms of number, contents, and timeliness.
18. Number of supporting documents required to accompany an import declaration.
19. Frequency and content of information seminars for the private sector.
20. Percentage of customs functions that are computerized.
21. Frequency, content, and relevance of management training.
22. Status of transparency via computer and IT applications.
23. State of development of a risk management system.
24. Measures of enhanced administrative and operational efficiency via IT applications.

L. Large Taxpayer Unit (LTU)

1. Number of taxpayers controlled and taxes covered.
2. Criteria used to identify large taxpayers.
3. Organizational structure (tax or function-based).

4. Types of audits (comprehensive, single-issue, desk, structured around major sectors).
5. Status of computerized systems.
6. Audit and VAT refund performance.
7. Professional staff as a percentage of total tax administration entity professional staff.
8. Entity and/or division that has the responsibility for the collection of tax arrears.
9. Types of payment procedures (electronic, banks, via LTU, etc.).
10. All taxpayer identification numbers issued within three days of receipt of the registration applications.
11. Development and monitoring of revenue targets by month and tax.
12. All tax payments to be posted to the LTU's IT system and deposited to the relevant account within 24 hours of receipt.
13. 80% of income tax returns processed within 28 days of receipt.
14. 100% of income tax returns recorded in IT system within 24 hours of filing.
15. 100% of VAT returns processed within 10 days of receipt.
16. All VAT stop-filers contacted within 10 days of the monthly return filing date.
17. 90% of income tax stop-filers contacted within four weeks of the filing deadline.
18. Annual tax returns outstanding at the end of the fiscal year should not exceed 3% of registered taxpayers.
19. All VAT taxpayers with outstanding debts contacted within 10 days of the monthly due date.
20. All income taxpayers with outstanding debts contacted within 20 days of filing date on annual returns.
21. Outstanding tax debts should not exceed 5% of total collections.
22. Regarding all taxpayer debt cases, 70% cleared within six months, 75% within one year, and 80% within two years.
23. Number of audits completed per person year.
24. Number of audits completed by type of tax, audit, and taxpayer.
25. Percentage of audits where taxpayer accepted the assessment.
26. Percentage of cases assessed where taxpayer did not request a review.
27. Percentage of cases where the taxpayer's appeals were unsuccessful.
28. Percentage of audits completed within three months for income tax audits and five days for VAT audits.
29. Percentage of audits resulting in no adjustment.
30. Number of taxpayer inquiries handled per person year by telephone, letter, office interview, and e-mail.

M. Sanctions and Penalties

1. Types in tax laws.
2. Automatic or discretionary application.
3. Number of temporary closures per months; number of monthly (or annual) sanctions imposed due to tax fraud.

4. Type and magnitude of penalties imposed.
5. Frequency of tax amnesties.
6. Appeals process—nature and length.
7. Application in specialized (tax) tribunals or other.
8. Reality of application (apart from that stated by law).
9. Changes adopted over time.

2. Indicators for SARAs

A. *Institutional*

1. Juridical nature: e.g., decentralized state entity, de-concentrated entity within MOF or other ministry, other.
2. Legal foundation: established by Executive (Presidential) Decree, congressional law, other.
3. Term of Superintendent: Fixed or not.
4. Appointment of Superintendent: President, Minister of Finance, other.
5. Origin of budget: fixed percentage of gross collections, discretionary from annual government budget, other.
6. Autonomy over personnel policies, general administrative policies, finances, procurement, other.
7. Disconnect between *de jure* versus *de facto* autonomy.
8. Board of Directors and its composition; Board tenure and nature of appointment process.
9. Length of tenure of the members of the Board (i.e., proxy for stability).
10. Relationship (legal and judgmental/scaled) with MOF.
11. Private sector perceptions of the SARA's credibility from public surveys done by independent polling organizations.
12. Political sustainability (judgmental/scaled).
13. Organizational structure; i.e., functional, other.
14. Existence of a Large Taxpayer Unit.
15. Establishment of an internal anti-corruption unit and internal audit unit.
16. Responsibility for the collection of both internal and external taxes.
17. What internal policy changes occurred due to a change of Directors and/or the head of the SARA?
18. What led to these changes? Why were they made?
19. Estimates of the extent of internal corruption and trends.
20. Existence and efficacy of accountability systems.
21. Extent of transparency.
22. Extent of the discretionary powers of tax administrators.
23. Strength/honesty of legal/judicial system.
24. Who sets revenue targets? MOF alone? MOF and SARA in consensus agreement? External entities (e.g., IMF)?

25. If customs is not part of the SARA, the status and extent of integration of internal taxation with customs.
26. Surveys of taxpayer attitudes regarding the quality of service.
27. Extent of input into the formation of tax policy.
28. Do higher wages (above civil service scales) really matter in reducing internal corruption?

B. Human Resources

1. Percentage of professionals with university degree.
2. Existence of career path plan.
3. Existence of retirement plan.
4. Faculty and procedures for naming personnel.
5. Hiring practices (testing, competitive exams, etc.).
6. Adequacy and frequency of training; in-house or not.
7. Average number of annual hours allocated to training.
8. Percentage of professionals with more than 5 years in the SARA.
9. Unionized or not.
10. Salary structure: equal pay for equal positions.
11. Ratio between salaries of top executives and average professional; i.e., compression ratio.
12. Ratio between average professional salary and per capita GDP.
13. Percentage salary gap (if any) between the SARA and the private sector for comparable positions, especially in such areas as auditing and information technology.
14. Real wage trends (nominal/CPI).
15. Turnover rates by functional area, division, and department.

ANNEX 2

SELECTED VAT PERFORMANCE INDICATORS AND TAX STRUCTURES

A. PERU

A.1 Peru: VAT Efficiency Ratio ^(a)

Year	(1) Nominal VAT Rate	(2) VAT Collections ^(b) (millions of soles)	(3) GDP (millions of soles)	(4) Overall Efficiency Ratio	(5) Domestic VAT Collections ^(b)	(6) Domestic Efficiency Ratio ^(c)
1990	16.03	78	5422	8.97	43	4.95
1991	14.79	682	26,686	17.28	392	9.93
1992	17.68	1619	44,953	20.37	873	10.98
1993	18.0	3427	69,262	27.49	1944	15.59
1994	18.0	5422	98,577	30.56	3245	18.29
1995	18.0	6909	120,858	31.76	3966	18.23
1996	18.0	7689	136,929	31.20	4267	17.31
1997	18.0	8823	157,274	31.17	5065	17.89
1998	18.0	9120	165,949	30.53	5314	17.79
1999	18.0	8844	173,957	28.24	5205	16.62
2000	18.0	9181	185,281	27.53	5370	16.10
2001	18.0	8962	188,172	26.46	5208	15.38
2002	18.0	9642	198,437	26.99	5735	16.06
2003	18.42	10,953	212,168	28.03	6564	16.80

(a) Ratio of GDP generated by the VAT to the nominal VAT rate.

(b) Net of refunds.

(c) Excludes the VAT collected on imports in order to focus on internal tax administration efficiency.

Sources: Developed from MOF, SUNAT, and Central Bank data.

A.2 Peru: VAT Productivity Rate

Year	(1) Nominal VAT Rate	(2) Household & Government Consumption ^(a)	(3) VAT Collections ^(b)	(4) Net National Consumption (2) – (3)	(5) Productivity ^(c)
1990	16.03	4500	78	4422	11.00
1991	14.79	22,750	682	22,068	20.90
1992	17.68	38,480	1619	36,861	24.84
1993	18.0	58,564	3427	55,137	34.53
1994	18.0	79,978	5422	74,556	40.40
1995	18.0	97,719	6909	90,810	42.27
1996	18.0	112,425	7689	104,736	40.79
1997	18.0	126,269	8823	117,446	41.74
1998	18.0	135,565	9120	126,445	40.07
1999	18.0	141,115	8844	132,271	37.15
2000	18.0	151,282	9181	142,101	35.89
2001	18.0	156,330	8962	147,368	33.79
2002	18.0	163,663	9642	154,021	34.78
2003	18.42	172,862	10,953	161,909	36.73

(a) From national accounts in millions of soles.

(b) VAT collections net of fiscal credit refunds in millions of soles.

(c) (Net VAT collections/net national consumption) / nominal VAT rate; i.e., (column 3/column 4) / column 1.

Sources: Developed from MOF, SUNAT and Central Bank data.

A.3 Peru: VAT Compliance Rate

Year	(1) Nominal VAT Rate	(2) Household & Government Consumption as % GDP ^(a)	(3) Net VAT Collections as % GDP	(4) Potential VAT Collections As % GDP ^(b)	(5) VAT Compliance Rate ^(c)
1990	16.03	83.00	1.44	13.30	10.83
1991	14.79	85.25	2.56	12.61	20.30
1992	17.68	85.60	3.60	15.13	23.79
1993	18.0	84.55	4.95	15.22	32.52
1994	18.0	81.13	5.50	14.60	37.67
1995	18.0	80.85	5.72	14.55	39.31
1996	18.0	82.10	5.62	14.78	38.02
1997	18.0	80.38	5.61	14.47	38.77
1998	18.0	81.69	5.50	14.70	37.41
1999	18.0	81.12	5.08	14.60	34.79
2000	18.0	81.65	4.96	14.70	33.74
2001	18.0	83.08	4.76	14.95	31.84
2002	18.0	82.48	4.86	14.85	32.73
2003	18.42	81.47	5.16	14.66	35.20

(a) From national accounts.

(b) Nominal VAT rate multiplied by column (2).

(c) Actual collections (column 3) divided by potential collections (column 4).

Sources: Developed from MOF, SUNAT and Central Bank data.

A.4 Peru: Central Government Tax Structure (%)

Year	Income	Social Security	Payroll	Property	VAT	Excises	Import Duties	Other Taxes	Total
1990	5.7	7.9	-	7.7	12.2	36.4	17.7	12.4	100.0
1991	7.3	14.1	-	5.1	19.9	35.4	10.3	7.9	100.0
1992	12.0	13.6	3.0	3.2	26.0	28.4	10.4	3.4	100.0
1993	14.6	12.5	4.0	2.6	35.6	17.1	12.6	1.0	100.0
1994	17.4	10.4	5.8	0.6	37.3	15.9	11.5	1.1	100.0
1995	19.0	10.2	5.9	0.2	37.6	13.8	11.5	1.8	100.0
1996	23.3	9.4	6.4	-	36.0	13.2	10.6	1.1	100.0
1997	23.1	9.3	5.8	-	35.7	13.8	9.8	2.5	100.0
1998	22.7	8.7	4.9	-	35.4	13.3	11.5	3.5	100.0
1999	20.7	9.1	4.5	-	36.1	14.1	11.8	3.7	100.0
2000	19.6	12.2	4.4	-	35.1	13.2	11.3	4.2	100.0
2001	20.9	12.1	3.5	-	33.2	13.2	10.3	6.8	100.0
2002	21.9	12.1	1.7	-	35.1	15.2	9.1	4.9	100.0
2003	25.7	11.3	1.6	-	35.3	14.6	8.2	3.3	100.0

Sources: Developed from MOF and SUNAT data.

A.5 Peru: Tax Structure for SUNAT-Collected Taxes (%)

Year	Income	Payroll	VAT	Excises	Other Taxes	Total
1990	8.5	-	18.4	54.6	18.5	100.0
1991	10.4	-	28.2	50.2	11.2	100.0
1992	16.5	4.1	35.7	39.0	4.7	100.0
1993	20.2	5.5	49.2	23.6	1.5	100.0
1994	22.4	7.5	48.0	20.5	1.6	100.0
1995	24.2	7.5	48.1	17.6	2.6	100.0
1996	29.2	8.0	45.1	16.5	1.2	100.0
1997	28.6	7.2	44.2	17.1	2.9	100.0
1998	28.5	6.1	44.3	16.7	4.4	100.0
1999	26.2	5.7	45.7	17.8	4.6	100.0
2000	25.6	5.8	45.8	17.2	5.6	100.0
2001	26.9	4.5	42.8	17.0	8.8	100.0
2002	27.7	2.1	44.5	19.3	6.4	100.0
2003	31.9	1.9	43.8	18.1	4.3	100.0

Sources: Developed from MOF and SUNAT data.

B. TANZANIA

Note: Although Tanzania's VAT did not come into effect until FY 1998/99, FY 1997/98 data relating to the sales tax that was replaced by the VAT is included.

B.1 Tanzania: VAT Efficiency Ratio ^(a)

Fiscal Year	(1) Nominal VAT Rate	(2) Net VAT Collections ^(b)	(3) GDP ^(b)	(4) Overall Efficiency Ratio	(5) Domestic VAT Collections	(6) Domestic Efficiency Ratio ^(c)
1997/98	20.0	138.2	5140	0.134	61.8	0.060
1998/99	20.0	208.2	6002	0.173	102.5	0.085
1999/2000	20.0	223.8	6829	0.164	112.5	0.082
2000/01	20.0	302.0	7706	0.196	119.8	0.078
2001/02	20.0	352.3	8627	0.204	143.6	0.083
2002/03	20.0	424.3	9549	0.222	201.5	0.106
2003/04 ^(d)	20.0	498.6	10,531	0.237	218.4	0.104

(a) Ratio of GDP generated by the VAT to the nominal VAT rate.

(b) Billions of Tanzania shillings; the GDP figures are two calendar year averages.

(c) Excludes the VAT collected on imports in order to focus on internal tax administration.

(d) Estimates.

Sources: Developed from TRA, National Bureau of Statistics, and IMF data.

B.2 Tanzania: VAT Productivity Rate

Fiscal Year	(1) Nominal VAT Rate	(2) Household & Government Consumption ^(a)	(3) Net VAT Collections ^(a)	(4) Net National Consumption (2) – (3)	(5) Productivity ^(b)
1997/98	20.0	4863	138	4725	0.146
1998/99	20.0	5731	208	5523	0.188
1999/2000	20.0	6330	224	6106	0.183
2000/01	20.0	6989	302	6687	0.226
2001/02	20.0	7857	352	7505	0.235

(a) Billions of Tanzania shillings; the column (2) figures are two calendar year averages.

(b) (Net VAT collections/net national consumption) / nominal VAT rate; (column 3/column 4) / column 1.

Sources: See Table B.1 sources.

B.3 Tanzania: VAT Compliance Rate

Fiscal Year	(1) Nominal VAT Rate	(2) Household & Government Consumption As % GDP ^(a)	(3) VAT Collections as % GDP	(4) Potential VAT Collections as % GDP ^(b)	(5) VAT Compliance Rate ^(c)
1997/98	20.0	94.61	2.68	18.92	14.16
1998/99	20.0	95.48	3.47	19.10	18.17
1999/2000	20.0	92.69	3.28	18.54	17.69
2000/01	20.0	90.69	3.92	18.14	21.61
2001/02	20.0	91.07	4.08	18.21	22.41

(a) From national accounts.

(b) Nominal VAT rate multiplied by column (2).

(c) Actual collections (column (3) divided by potential collections (column 4).

Sources: See Table B.1 sources.

B.4 Tanzania: Central Government Tax Structure (%)

Fiscal Year	Income	VAT	Excises	Import Duties	Other Taxes	Total
1991/92	26.2	29.3	19.9	13.8	10.8	100.0
1992/93	31.0	28.1	13.9	11.1	15.9	100.0
1993/94	26.5	28.7	13.1	12.9	18.8	100.0
1994/95	28.9	NA	NA	NA	15.1	100.0
1995/96	29.3	24.6	18.3	16.0	11.8	100.0
1996/97	26.1	23.7	17.8	15.2	17.2	100.0
1997/98	26.5	24.4	17.9	15.3	15.9	100.0
1998/99	26.4	33.8	13.7	14.2	11.9	100.0
1999/2000	29.6	32.3	12.8	12.7	12.6	100.0
2000/01	23.4	36.5	18.7	11.6	9.8	100.0
2001/02	24.3	37.5	18.9	9.7	9.6	100.0
2002/03	25.0	38.4	20.2	9.6	6.8	100.0
2003/04 ^(a)	24.2	39.2	17.6	10.0	9.0	100.0

(a) Estimates.

(b) NA: not available.

Sources: Developed from MOF, TRA, and IMF data.

C. GUATEMALA

C.1 Guatemala: VAT Efficiency Ratio ^(a)

Year	(1) Nominal VAT Rate	(2) VAT Collections ^(b) (Q millions)	(3) GDP (Q millions)	(4) Overall Efficiency Ratio	(5) Domestic VAT Collections ^(b)	(6) Domestic Efficiency Ratio ^(c)
1990	7.0	790	34,317	32.89	359	14.94
1991	7.0	1021	47,302	30.84	492	14.86
1992	7.0	1423	53,985	37.66	663	17.54
1993	7.0	1679	64,243	37.34	693	15.41
1994	7.0	1885	74,669	36.06	782	14.96
1995	7.0	2388	85,157	40.06	1058	17.75
1996	10.0	3533	95,479	37.00	1566	16.40
1997	10.0	3903	107,943	36.16	1797	16.65
1998	10.0	4562	124,023	36.78	1886	15.21
1999	10.0	5524	135,287	40.83	2377	17.57
2000	10.0	6259	149,743	41.80	2562	17.11
2001	10.82	6983	164,870	39.18	2720	15.25
2002	12.0	8523	181,996	39.03	3339	15.29
2003	12.0	9289	196,396	39.41	3518	14.93

(a) Ratio of GDP generated by the VAT to the nominal VAT rate.

(b) Net of refunds.

(c) Excludes the VAT collected on imports in order to focus on internal tax administration efficiency.

Sources: Developed from Bank of Guatemala, Ministry of Finance, and SAT data.

C.2 Guatemala: VAT Productivity Rate

Year	(1) Nominal VAT Rate	(2) Household & Government Consumption ^(a)	(3) VAT Collections ^(b)	(4) Net National Consumption (2) – (3)	(5) Productivity ^(c)
1990	7.0	31,016	790	30,226	37.34
1991	7.0	42,407	1021	41,386	35.24
1992	7.0	49,381	1423	47,958	42.39
1993	7.0	58,316	1679	56,637	42.35
1994	7.0	68,361	1885	66,476	40.51
1995	7.0	77,591	2388	75,203	45.36
1996	10.0	87,923	3533	84,390	41.87
1997	10.0	99,195	3903	95,292	40.96
1998	10.0	112,470	4562	107,908	42.28
1999	10.0	123,106	5524	117,582	46.98
2000	10.0	136,147	6259	129,888	48.19
2001	10.82	152,336	6983	145,353	44.40
2002	12.00	169,820	8523	161,297	44.03
2003	12.00	185,529	9289	176,240	43.92

(a) National accounts data in millions of quetzals.

(b) Net of fiscal credit refunds in millions of quetzals.

(c) (Column 3/column 4) / column 1.

Sources: Developed from Bank of Guatemala, Ministry of Finance, and SAT data.

C.3 Guatemala: VAT Compliance Rate

Year	(1) Nominal VAT Rate	(2) Household & Government Consumption as % GDP ^(a)	(3) Net VAT Collections as % GDP	(4) Potential VAT Collections as % GDP ^(b)	(5) VAT Compliance Rate ^(c)
1990	7.0	90.38	2.30	6.33	36.33
1991	7.0	89.65	2.16	6.28	34.39
1992	7.0	91.47	2.64	6.40	41.25
1993	7.0	90.77	2.61	6.35	41.10
1994	7.0	91.55	2.52	6.41	39.31
1995	7.0	91.12	2.80	6.38	43.89
1996	10.0	92.09	3.70	9.22	40.13
1997	10.0	91.96	3.62	9.20	39.35
1998	10.0	90.69	3.68	9.07	40.57
1999	10.0	91.00	4.08	9.10	44.84
2000	10.0	90.92	4.18	9.09	45.98
2001	10.82	92.40	4.24	10.00	42.40
2002	12.0	93.31	4.68	11.20	41.79
2003	12.0	94.47	4.73	11.34	41.71

(a) From national accounts.

(b) Nominal VAT rate multiplied by column (2).

(c) Actual collections from column (3) divided by potential collections from column (4).

Sources: Developed from the Bank of Guatemala, Ministry of Finance, and SAT data.

C.4 Guatemala: Estimates of VAT Evasion Rates

Item/Year	1997	1998	1999	2000	2001	2002	2003
1. Household Consumption as % GDP	87.0	85.0	84.7	83.9	84.9	86.2	87.3
2. Proportion Actually Taxed	40	40	40	40	40	40	40
3. % Household Consumption Actually Taxed	34.8	34.0	33.9	33.6	34.0	34.5	34.9
4. Government Consumption as % GDP	5.0	5.7	6.3	7.0	7.5	7.1	7.2
5. Proportion Actually Taxed	29	26	27	25	25	25	25
6. % Government Consumption Actually Taxed	1.5	1.1	1.7	1.8	1.9	1.8	1.8
7. % Intermediate Inputs Actually Taxed	26	26	26	26	25	25	25
8. Potential VAT Base	62.3	61.1	61.6	61.4	60.9	61.3	61.7
9. Nominal VAT Rate	10.0	10.0	10.0	10.0	10.82	12.0	12.0
10. Potential Collections	6.2	6.1	6.2	6.1	6.6	7.4	7.4
11. Actual Collections	3.6	3.7	4.1	4.2	4.2	4.7	4.7
12. Magnitude Evasion	41.9	39.3	33.9	31.1	36.4	36.5	36.5

Line 1: From national accounts.

Line 2: Estimates generated from the VAT law and a household income and expenditure survey covering 1998/99.

Line 3: Line 1 times Line 2.

Line 4: From national accounts.

Line 5: Idem Line 2.

Line 6: Line 4 times Line 5.

Line 7: Idem Lines 2 and 5.

Line 8: Sum of Lines 3, 6, and 7.

Line 9: VAT law and decrees.

Line 10: Line 8 times Line 9.

Line 11: Actual collections as percentage of GDP.

Line 12: (Line 10 minus Line 11)/Line 10.

Sources: Developed from data generated by the Bank of Guatemala, the SAT, and the Instituto Nacional de Estadística, Encuesta Nacional de Ingresos y Gastos Familiares, 1998-1999.

C.5 Guatemala: Central Government Tax Structure (%) ^(a)

Year	Income	VAT	Excises	Import Duties	Other Taxes	Total
1990	21.5	33.5	9.7	22.1	13.2	100.0
1991	28.6	29.5	11.7	19.0	11.2	100.0
1992	21.4	31.7	12.8	25.3	8.8	100.0
1993	23.5	33.4	13.8	22.2	7.1	100.0
1994	16.7	37.3	15.1	23.4	7.5	100.0
1995	20.8	36.3	13.5	24.3	5.1	100.0
1996	24.4	43.4	11.1	18.1	3.0	100.0
1997	23.6	41.2	13.4	15.9	5.9	100.0
1998	21.9	42.1	15.5	15.5	5.0	100.0
1999	22.9	43.6	14.5	14.3	4.7	100.0
2000	23.3	44.2	12.7	12.7	7.1	100.0
2001	24.2	43.8	13.2	12.4	6.4	100.0
2002	26.4	44.4	11.3	11.8	6.1	100.0
2003	25.9	45.8	10.2	11.8	6.3	100.0

(a) Excludes social security and municipal taxes; the VAT is net of refunds.

Sources: Developed from Ministry of Finance and SAT data.

D. ECUADOR**D.1 Ecuador: VAT Efficiency Ratio ^(a)**

Year	(1) Nominal VAT Rate	(2) Net VAT Collections ^(b) (millions of dollars)	(3) GDP (millions of dollars)	(4) Overall Efficiency Ratio	(5) Domestic VAT Collections ^(b)	(6) Domestic Efficiency Ratio ^(c)
1994	10.0	556	18,573	29.94	308	16.34
1995	10.0	619	20,196	30.65	355	17.58
1996	10.0	627	21,268	29.48	371	17.44
1997	10.0	756	23,636	31.99	382	16.16
1998	10.0	822	23,255	35.35	407	17.50
1999	10.0	612	16,674	36.70	385	23.09
2000	12.0	923	15,934	48.27	542	28.35
2001	12.5	1473	21,024	56.05	861	32.76
2002	12.0	1692	24,311	58.00	977	33.49
2003	12.0	1759	27,088	54.11	1032	31.75

(a) Ratio of GDP generated by the VAT to the nominal VAT rate.

(b) Excludes the VAT collected on imports in order to focus on internal tax administration efficiency.

Sources: Developed from MOF, SRI, and Central Bank data.

D.2 Ecuador: VAT Productivity Rate

Year	(1) Nominal VAT Rate	(2) Household & Government Consumption ^(a)	(3) Net VAT Collections ^(b)	(4) Net National Consumption (2) – (3)	(5) Productivity ^(c)
1994	10.0	14,829	556	14,273	38.95
1995	10.0	14,829	619	15,733	39.34
1996	10.0	16,589	627	15,962	39.28
1997	10.0	18,584	756	17,828	42.41
1998	10.0	18,976	822	18,154	45.28
1999	10.0	13,123	612	12,511	48.92
2000	12.0	11,762	923	10,839	70.96
2001	12.5	16,625	1473	15,152	77.77
2002	12.0	19,387	1692	17,695	79.68
2003	12.0	21,934	1759	20,175	72.66

(a) From national accounts in millions of dollars.

(b) VAT collections net of fiscal credit refunds in millions of dollars.

(c) (Net VAT collections/net national consumption) / nominal VAT rate; (column 3/column 4) / column 1.

Sources: Developed from MOF, SRI, and Central Bank data.

D.3 Ecuador: VAT Compliance Rate

Year	(1) Nominal VAT Rate	(2) Household & Government Consumption as % GDP ^(a)	(3) Net VAT Collections as % GDP	(4) Potential VAT Collections as % GDP ^(b)	(5) VAT Compliance Rate ^(c)
1994	10.0	79.84	2.99	7.98	37.47
1995	10.0	80.97	3.06	8.10	37.78
1996	10.0	78.00	2.95	7.80	37.82
1997	10.0	78.63	3.20	7.86	40.71
1998	10.0	81.60	3.53	8.16	43.26
1999	10.0	78.70	3.67	7.87	46.63
2000	12.0	73.82	5.79	8.86	65.35
2001	12.5	79.08	7.01	9.89	70.88
2002	12.0	79.75	6.96	9.57	72.73
2003	12.0	80.97	6.49	9.72	66.77

(a) From national accounts.

(b) Nominal VAT rate multiplied by column (2).

(c) Actual collections (column 3) divided by potential collections (column 4).

Sources: Developed from MOF, SRI, and Central Bank data.

D.4 Ecuador: Estimates of VAT Evasion Rates

Item/Year	1997	1998	1999	2000	2001	2002	2003
1. Household Consumption as % GDP	66.35	69.32	66.18	64.01	68.93	69.26	69.67
2. Proportion of Sales Actually Taxed	30.0	30.0	45.0	45.0	45.0	45.0	45.0
3. % Household Consumption Actually Taxed	19.91	20.80	29.78	28.80	31.02	31.17	31.35
4. Government Consumption as % GDP	12.28	12.28	12.52	9.81	10.15	10.49	11.19
5. Proportion Actually Taxed	0	0	80.0	80.0	80.0	80.0	80.0
6. % Government Consumption Actually Taxed	0	0	10.02	7.85	8.12	8.39	8.95
7. % Intermediate Inputs Actually Taxed	30.0	30.0	45.0	45.0	45.0	45.0	45.0
8. Potential VAT Base	49.91	50.80	84.80	81.65	84.14	84.56	85.30
9. Nominal VAT Rate	10.0	10.0	10.0	12.0	12.5	12.0	12.0
10. Potential Collections	4.99	5.08	8.48	9.80	10.52	10.15	10.24
11. Actual Collections	3.20	3.53	3.67	5.79	7.01	6.96	6.49
12. Magnitude Evasion (%)	35.87	30.51	56.72	40.92	33.37	31.43	36.62

Line 1: From national accounts.

Line 2: Estimates generated from the VAT law and the most recent household income and expenditure survey.

Line 3: Line 1 times Line 2.

Line 4: From national accounts.

Line 5: Idem Line 2.

Line 6: Line 4 times Line 5.

Line 7: Idem Lines 2 and 5.

Line 8: Sum of Lines 3,6, and 7.

Line 9: VAT law or decrees.

Line 10: Line 8 times Line 9.

Line 11: Actual collections as percentage of GDP.

Line 12: (Line 10 minus Line 11)/Line 10.

Sources: Developed from data generated by the SRI, the Central Bank, and the Instituto Nacional de Estadísticas y Censos, Encuesta de Condiciones de Vida, 1998-1999.

D.5 Ecuador: Tax Structure for SRI-Collected Taxes (%)

Year	Income	VAT	Excises	Other Taxes	Total
1994	29.9	53.8	11.1	5.2	100.0
1995	33.2	51.6	9.2	6.0	100.0
1996	33.1	52.2	8.1	6.6	100.0
1997	29.3	53.1	10.4	7.2	100.0
1998	28.9	57.2	8.6	5.3	100.0
1999	43.1	44.4	5.8	6.7	100.0
2000	35.5	55.6	5.4	3.5	100.0
2001	25.2	62.8	7.7	4.3	100.0
2002	24.8	62.4	9.5	3.3	100.0
2003	26.1	60.5	9.6	3.8	100.0

Sources: Developed from SRI data.

ANNEX 3

GETTING STARTED: SEQUENCING A SARA

Although for various reasons there might be some deviations, the sequencing process for establishing a SARA should essentially take place in the following manner:

- SARA feasibility study: technical and political.
- Strong political commitment made to begin preparations for establishing a SARA.
- Establishment of the Steering Committee and its component Working Groups.
- Approval and parliamentary passage of the SARA Act.
- Establishment of the Implementation Committee and its Operational Unit; the activities of this Committee and Unit might pre-date the final passage of the SARA Act.
- The disengagement process of the tax administration units (internal taxes and/or customs) from the MOF.

Once a political decision is reached to analyze the possibility of removing tax collection functions from the Ministry of Finance (MOF) and place them in a SARA, a Steering Committee must be established to spearhead the process. The composition of this Committee should be decided upon by the pertinent authorities. From the MOF it might be recommendable to include the Minister and/or Vice-Minister, the head of the Internal Revenue Department (IRD) and of Customs (if Customs is to be included), with the post of Committee Chairman going to the either the Minister or Vice-Minister. Representatives from other ministries and public agencies should also be included; e.g., the Ministry of Justice, the Central Bank, and the anti-corruption commission (if it exists). Private sector representation is also important, and might include representatives from the Chamber of Commerce, the Institute of Public Accountants, the Bar Association, and a relevant university faculty (business administration, economics, and/or law). To provide continuity, a designated (substitute) representative for each Committee member should also be appointed for those instances in which the member is absent. The Steering Committee should also be buttressed by a representative from the international donor community. This is due to the strong probability that donor support, expertise, and funding will be initially needed to back up both the transition to the SARA and its initial development.

The Steering Committee would be divided into several Working Groups, which would be composed of its members and others from outside the Committee possessing expertise regarding specific issues. The terms of reference for each Working Group cover one or more of the general issues previously mentioned in Section I.A.; i.e., the SARA's legal base, governance structure, personnel management systems, financing and accountability mechanisms, organizational structure, staffing and budgetary requirements, and information technology (hardware and software) needs.

The Working Groups should be able to complete their work within a period of six months, with the final product being the SARA Act. Needless to say, it is imperative to “get it right” in terms of the basic defining legislation and organizational structure, although the latter will be flexible and adjustable after the SARA begins operations. As previously pointed out, there are many alternatives to SARA legislation. Therefore, there does arise the need to study best international practices and adapt them to a country’s political and economic conditions. This could involve a study tour to several developing countries that have had operational SARAs for close to a decade.

During this time the Steering Committee and its Working Groups must “sell” the idea of an SARA to the nation. This involves carrying out a series of meetings with different sectors of society, including (but not limited to) other government ministries, the parliament (if in existence), influential private sector and international organizations, labor unions, and the taxpaying public in general. These meetings will provide an explanation of what a SARA represents and can simultaneously be used to generate feedback. In a sense, they will represent a public relations campaign in favor of a SARA.

Subsequent to the government’s acceptance of the Steering Committee’s Final Report, an Implementation Committee must be established to address all the remaining transitional requirements for the SARA’s operational phase. Whereas the Steering Committee’s report will provide a framework for structuring and operating the SARA, it will be the Implementation Committee’s task to give operational content to this framework. The leading members of the Implementation Committee might be similar (but also somewhat different) to those of the Steering Committee, and an Operational Unit working under the supervision of the Committee must be formed to come to grips with the multitude of measures and transitional arrangements required to establish an operational SARA. Some of the internal issues that must be addressed after parliamentary approval of the SARA Act are subsequently found in Table 1 of this Annex, although the Operational Unit could initiate parts of this process prior to passage.

While the Operational Unit might be staffed with individuals under the direction of one qualified person (Director), it would be highly recommendable to look into the possibility of contracting a consulting firm (local or international) to carry out the necessary preparatory activities geared toward the disengagement process from the MOF and the establishment of an up-and-running SARA. Given that the contracting of a qualified consulting firm would not be inexpensive, one alternative that should be explored is to seek such cooperation from the international donor community. Clearly, grant financing of such a consultancy is preferable to a loan.

Table 1 below represents an initial attempt to generate “order from chaos” with respect to sequencing the principal activities that the SARA should undertake. It does not purport to be all-inclusive, but it does emphasize many (if not most) of the most important actions that a new tax administration entity must carry out to successfully achieve its goals. While some of these activities can be initiated prior to parliamentary passage of the SARA Act, most will be developed and implemented (via the Implementation Committee) after this approval becomes a *fait accompli*.

Table 1
Sequencing the SARA's Activities

Activities	Year 1 Quarters				Year 2 Quarters			
	I	II	III	IV	I	II	III	IV
Design Five-Year Corporate Plan	X							
Formulation of Two-Year Action Plan	X	X						
Implementation of Action Plan		X	X	X	X	X	X	X
Formulation of First-Year Budget	X							
Formulation of Second-Year Budget				X				
Analysis of IT Needs & Re-Definition Of IT Architecture (if needed)	X	X						
Purchase of Additional Hardware, Software, and Equipment		X	X					X
Update Taxpayer Registry		X	X	X	X	X	X	X
Update and Maintain Other Systems and Processes; e.g., collections, current accounts		X	X	X	X	X	X	X
Design & Implement HR Policies: Selection First Staff Contingent Initial Training Development Career Path & Personnel Evaluation System	X X		X	X	X	X		
Development & Implementation of Taxpayer Control Systems; e.g., Stop-filers, tax return errors			X	X	X	X	X	X
Development & Implementation of Taxpayer Audit Programs; e.g., field audits, audit strategies, database (external & internal) matching			X	X	X	X	X	X
Development & Implementation of Taxpayer Communication & Education Strategy		X	X	X	X	X	X	X
Development & Implementation of Taxpayer Service System			X	X	X	X	X	X
Development & Drafting Of Staff Job Descriptions		X	X					
Development & Drafting Of Staff Job Performance Indicators		X	X					
Drafting of Internal NARA Regulations			X	X				
Drafting of Personnel Manual & Regulations			X	X				
Development of Other Manuals & Regulations				X	X	X		
Identification of Training Needs		X	X	X				
Design of Training Programs			X	X	X	X		
Drafting of Internal Code of Conduct				X	X			
Drafting of Code of Taxpayer Rights					X	X		

It is evident from previous sections of this paper and the above table that the SARA will require a great deal of technical assistance both prior to and during its first years of operations. To reiterate, it is imperative to begin such an undertaking on the right footing. Poor decisions taken from the outset can easily inflict permanent medium- to long-term damage from which it may be extremely difficult to recover. The aid of experienced consultants, consulting firms, and international organizations (e.g., country donor agencies, the World Bank, the IMF) has been a constant in the initial developmental years of all developing country SARAs.

Whatever the financing source of the required technical assistance, the SARA will require short, medium, and long-term consultants, be they national or international. While it would be possible for the SARA to establish its own Project Coordinating Unit led by a SARA staff member, an easier and more feasible solution would be to establish a project whose Coordinator reports directly to the SARA's Director General/Superintendent. The Coordinator would be an external long-term consultant who would work in close consultation with a SARA counterpart and the Director General. All consultants would be managed by the Coordinator, and each consultant would work closely with designated SARA counterparts (both individuals and departments).

Medium- to long-term (two years) consultants would most likely be needed in (at a minimum) the following areas:

- Organization and Human Resources
- Collection Systems
- Audit Systems and Strategies
- Information Technology Design and Systems
- Communications and Taxpayer Services
- Tax Legislation
- Tax Policy Analysis
- Internal Monitoring and Corruption Control

Short-term needs will also crop up, and would be identified by the SARA and managed by the Coordinator.

ANNEX 4

A GENERIC SARA ACT

While the activities of a SARA Implementation Committee can be sequenced in somewhat overlapping and parallel fashion (see Annex 3), without legislative approval and passage of a SARA Act all will come to naught. Therefore, the Steering Committee's drafting of the SARA Act must pay strict attention to all its detailed contents. What follows is an attempt to outline what should be the main elements of such an Act. By no stretch of the imagination does it purport to be a near-final version. It merely seeks to offer an example of the principal characteristics that a SARA Act should adopt in order to establish a truly efficient and strong tax administration entity. As such, it represents an amalgamation of the experiences of this consultant in working in SARAs in Latin America and Africa and on the experiences of others who have also analyzed the issues related to SARA best practices. The generic country will be labeled Afla (Africa and Latin America).

PREAMBLE

Whereas it is expedient to establish an Autonomous Revenue Authority to structurally reform Afla's tax administration to: increase the effectiveness of the nation's tax collection processes; raise the amount of tax revenue to cover public expenditure needs, especially in the social sectors; improve tax compliance from the perspective of the taxpayer so that each taxpayer contributes a fair and equitable share of the tax burden; reduce tax evasion; and offer better taxpayer services, now therefore, the Parliament has enacted this law on (date).

Chapter 1

Preliminary

1. Short Title and Commencement

- (a) This law shall be known as the Afla Autonomous Revenue Authority Act.
- (b) It shall come into force as soon as parliamentary approval is granted and the law is published in the Official Gazette.

2. Definitions

Chapter 2

Establishment, Objectives, and Functions

3. Establishment of the Afla Autonomous Revenue Authority (AARA)

(a) The tax administration agency to be known as the Afla Autonomous Revenue Authority shall be established as a decentralized state entity with jurisdiction in all Afla's national territory to duly carry out its objectives, and it will have all the attributions and functions assigned to it by this Act. It will be granted functional, economic, financial, technical, and administrative autonomy.

(b) The AARA shall be an autonomous and corporate body with perpetual succession; i.e., it will possess its own assets, resources, and judicial character. It shall have a separate seal of its own for all its functions and businesses, and may acquire, use, possess, sell, and otherwise dispose of movable property. It may sue or be sued in its own name.

(c) The AARA's central office shall be located in (the political capital), and it may open other offices at any place within or outside Afla according to need.

4. Objectives and Functions of the AARA

(a) Carry out the administration of Afla's internal tax system; implement tax legislation, collection, control, and auditing of all internal taxes with the exception of those taxes administered by the Customs Department and the municipal governments.

(b) Maintain and control taxpayer registries and other relevant taxpayer databases, and execute those administrative and judicial activities necessary to collect those taxes (and interest and fines) legally owed by taxpayers.

(c) Impose sanctions on taxpayers according to those stipulated in tax codes and laws, and prepare possible taxpayer fraud cases to be presented to the pertinent authorities.

(d) Develop and operate all systems and procedures deemed necessary to verify the correct payment of tax obligations.

(e) Develop and implement internal norms and regulations in order to guarantee the correct implementation of tax laws and regulations.

(f) Offer advice to the Ministry of Finance regarding tax legislation and policy, given that such policies (e.g., tax exemptions) affect revenue collections, administrative procedures, and taxpayer compliance.

(g) Administer its own human, material, and financial resources in accordance with this law and with its internal regulations.

(h) Plan, formulate, execute, evaluate, and control its internal management systems and procedures.

(i) With the advice and consent of the Ministry of Finance, enter into international treaties and arrangements for the interchange of tax-related information and databases.

(j) Ability to contract and/or delegate to individuals or private companies certain administrative, financial, and legal services dealing with such issues as collections, auditing, and information technology. In no instance, however, may these services be completely and permanently outsourced. Not to be delegated are such functions as the determination of the tax obligation, the application of sanctions, and the registration of taxpayers.

(k) Final taxpayer audit responsibilities shall lie solely within the AARA. The Auditor General's Office shall not have the power to audit individual taxpayers; it shall only be able to audit the AARA itself.

Chapter 3

Composition and Tenure of the Board of Directors and Its Functions, Duties, and Powers

5. Composition of the Board of Directors

The AARA shall have an eight member Board of Directors comprised of:

- The Minister of the Ministry of Finance, who will be designated as the presiding Chairman of the Board.
- The Director General of the AARA, who shall have a voice but not a vote.
- The Governor of the Central Bank.
- The Chief Commissioner of the Anti-Corruption Authority.
- The Minister or Vice-Minister of the Ministry of Justice.
- Three representatives from the private sector who shall be selected by a Special Selection Committee; at least one of these members shall be the rector (president) or Dean from one of Afla's leading universities.

The Special Selection Committee shall be comprised of seven prominent persons from the public and private sectors; e.g., a prominent member of Parliament, a long respected and serving representative from the Ministry of Justice, the Rector of a prominent university; a Dean from the Faculty of Economics, Business Administration or Law of a leading university; a representative from Afla's Bar Association; a representative from the Association of Certified Public Accountants; a second member of Parliament serving on a Committee dealing with fiscal matters; or a representative of the Federation of Chambers of Commerce and Industry. The members of this Committee shall not be eligible for Board membership and shall serve in an *ad-honorem* capacity.

6. Tenure of the Members of the Board of Directors

The tenure of the Board members from the public sector shall overlap their service in their respective positions and/or for a period of three years. The private sector representatives shall serve for three years. All Board members may be eligible for an additional term of tenure unless deemed disqualified due to reasons of dishonesty, fraud, and criminal behavior. Vacancies among the private sector representatives shall be filled by extraordinary sessions of the Special Selection Committee convoked by the Chairman of the Board.

7. Functions, Duties, and Powers of the Board

- (a) Formulate, oversee, and approve the general policies and administration of the AARA.
- (b) Offer opinions and assistance regarding the fiscal, economic, and financial impact of tax law changes.
- (c) Propose to the Executive Branch of government, via the Ministry of Finance, the legal measures necessary to improve tax administration.

- (d) Approve the internal regulations (rules and bye-rules) and the annual budget proposed by the AARA.
- (e) Approve the AARA's budget execution and liquidation for its subsequent transfer to the Parliament and the Auditor General's Office.
- (f) Approve and annually publish the AARA's financial statements.
- (g) Establish a Technical Assistance Unit that will report directly to the Board to aid it in carrying out its functions and duties.

Chapter 4

The Position of Director General of the AARA: Appointment, Functions, and Duties

8. Appointment

The Director General shall be selected by the AARA's Board of Directors from a list of five qualified candidates chosen by the Special Selection Committee previously defined in Chapter 3, Article 5. The selected candidate will be subject to final approval by a simple majority vote of the Parliament.

9. Functions and Duties

The Director General shall be the highest administrative authority of the AARA, holding responsibility for the overall administration and management of the entity. He/she shall:

- (a) Exercise duties with independence of criteria and in compliance with all pertinent laws and regulations.
- (b) Plan, direct, supervise, coordinate, and control the multitude of functions delegated to a tax administration authority in order to ensure that objectives and targets are adequately met.
- (c) Act as the AARA's legal representative (e.g., sign contracts) in conformity with the law and the AARA's internal regulations.
- (d) Develop rules and systems that facilitate and guarantee that tax laws and internal regulations are complied with.
- (e) Name, sanction, and remove AARA employees.
- (f) Submit for approval to the Board of Directors the AARA's internal regulations, including those that deal with the organizational structure, personnel system, and salary and benefit scales.
- (g) Annually submit for approval to the Board of Directors the AARA's budget, which will be subsequently submitted to the Ministry of Finance and the Parliament.
- (h) Submit semi-annual reports to the Ministry of Finance and the Parliament regarding the state of the AARA's budget execution.
- (i) Hold formal monthly meetings with the Minister and Vice-Minister for Revenues of the Ministry of Finance regarding the AARA's tax collections and other pertinent issues.

10. Tenure

The Director General shall have tenure for five years, and may be reappointed for one additional term of up to five years. He/she shall be removed by a qualified majority vote (defined as five of the seven voting members) of the Board of Directors only for the following causes: proven fraudulent and illegal acts; proven gross dereliction of duty; physical incapacity; and gross (and proven) negligence. Any vacancy created due to these causes shall be filled using the appointment procedure found in Chapter 4, Article 8. The interim position of Director General will be filled by one of the AARA's Deputy Director Generals.

11. Qualifications of the Director General

The Director General must:

- (a) Be an Afla citizen or a non-Afla citizen who has successfully occupied the same position in another country.
- (b) Be of high moral character.
- (c) Have acquired a university degree in the fields of economics, business administration, banking, public administration or law, and gained at least ten years of work experience in these same (or closely related) fields.

Chapter 5

Financial Provisions

The AARA shall be granted autonomy regarding its assets, financial resources, and budget preparation and execution (subject to the Board's approval as stated in Chapter 3, Article 7).

12. Financial Resources

The AARA's financial resources shall be constituted by:

- (a) An amount equivalent to 2.5% of gross internal tax revenue collections during the first two years of full operations and 2.0% of gross internal tax revenue collections beginning in year three and in all subsequent years. These monies shall be automatically transferred on a daily basis to an account established specifically in the name of the AARA in the Central Bank.
- (b) Non-tax revenues generated by certain taxpayer services provided by the AARA.
- (c) Grants and other sources of finance provided by international development agencies.
- (d) Transfers and grants from other private and public sources.
- (e) International or national loans received with the approval of the Ministry of Finance and the Parliament.

13. Control and Auditing of the AARA's Accounts

The AARA shall maintain accounts and records of all its transactions, and shall be subject to the control and annual audits by the Auditor General's Office. Additionally, the

Board of Directors may contract an external auditing firm to independently carry out audits of the AARA's accounts. Within two months of their completion, the results of all audits will be presented to the Board of Directors, the Ministry of Finance, and the Parliament.

Chapter 6

Personnel Management and Organizational Structure

The AARA shall be granted complete autonomy from the provisions of the Civil Service Act to establish and manage its own personnel system in accordance with its own internal personnel rules and regulations as set forth in its Personnel Manual.

14. The Contracting and Administration of Personnel

(a) Contracts offered to AARA management and professional personnel may be of different types: for indefinite periods, fixed periods, and for specific professional services. The contracts for fixed periods and for professional services may be offered only for functions and activities that do not have permanent character. Provisions may be made for short- to medium-term secondment from other public sector entities, thereby permitting the AARA to take advantage of an individual's expertise without penalizing the person from returning to his/her former post.

(b) The AARA will establish and annually implement a personnel evaluation system that will constitute the sole criterion used to take decisions regarding promotions and salary increases. In order to create employment stability, it shall also establish an Administrative Career Plan.

(c) Contracting of all personnel shall be based on a rigid recruitment system that will be detailed in the Personnel Manual. This system will involve: fulfillment of the minimal educational requirements for each specific position; personal interviews of each candidate; verification of personal references; openly competitive technical exams that will be in accordance with the position to be filled; and psychometric exams.

(d) Prior to initiating employment, each selected employee shall be required to complete a legally sworn statement of personal and/or family net worth. This process shall be repeated annually, and the AARA shall have the duty and power to verify such statements.

(e) All personnel must work exclusively in the AARA, as their duties and responsibilities are incompatible with holding any other private or public employment.

(f) All infractions committed by personnel shall be sanctioned in accordance with the norms and regulations stipulated in the AARA's Personnel Manual. All AARA personnel, including the Board of Directors, shall be strictly prohibited from revealing any information regarding individual taxpayer accounts.

15. The Organizational Structure

The AARA shall be functionally structured by applying criteria of efficiency and decentralization to the tax administration process. This organizational structure will be in

accordance with the AARA's Internal Regulations, and will be flexible in order to adapt to future modifications that will be deemed necessary. The Deputy Director Generals and the Directors of each functional department shall be the highest officials in the hierarchy, and will be named and removed by the Director General.

Chapter 7

The Taxpayer Appeals System

16. The right of taxpayers to appeal any decision made by the AARA regarding tax obligations are already stipulated in the Tax Code and tax laws, and these rights will not be affected by the establishment of the AARA.

Chapter 8

Transitional Arrangements

Within one year after the passage (Parliamentary approval) of this Act, the AARA will have developed and begun to implement all the procedures and systems necessary to operate Afla's internal tax administration operations. Partial operations will have been initiated within six months.

17. The Transitional Phase

(a) The AARA shall gradually take responsibility for all the functions and attributes assigned to the Internal Tax Department of the Ministry of Finance. It will also assume partial responsibility for the Tax Administration Training Center, as some personnel from this entity will remain to deal with matters in the Customs Department. The Director General shall be empowered to fix the definitive date for accepting total operational responsibility. As the AARA assumes responsibility for each different aspect of tax administration, it must circulate such information in official sources and in the public media.

(b) The members of the Board of Directors shall be selected and have assumed their functions and duties (see Chapter 3, Article 7) within three months after passage of this Act.

(c) The Director General shall be appointed and shall assume his functions and duties (see Chapter 4, Article 9) within two months after installation of the Board of Directors. Between the date of passage of the Act and until the Director General is able to assume his duties, the Minister of the Ministry of Finance shall exercise the functions assigned by the Act to the Director General.

(d) The AARA's Internal Rules and Regulations shall be presented to the Board of Directors for approval within 30 working days following the Director General's assumption of duties.

(e) The AARA shall give priority to the contracting of personnel presently employed in the Internal Tax Department and other concerned Departments referred to in Chapter 8, Article 17(a). However, all these personnel shall be required to undergo the same process

of qualification and selection to which all newly contracted personnel will be subjected. For those who choose not to enter into the selection process and for those who will not be selected, the Ministry of Finance will: place them in other divisions of the Ministry, transfer them to other public sector ministries, or establish a program of early retirement. This process shall be completed within one year subsequent to the passage of the AARA Act.

(f) The Ministry of Finance shall take the necessary legal and budgetary steps to provide adequate funding for the process of organization of the newly established AARA until such time as the AARA becomes self-financing. The Ministry will transfer to the AARA the real and personal property of the entities affected by the AARA's establishment.

(g) During the first year of operations of the AARA, all administrative processes pertinent to taxpayers and their relations with the Ministry of Finance shall be transferred to the AARA within three days of their reception.

(h) The Minister of Finance shall have the responsibility and duty to validate and sign, in the name of the AARA, all contracts required during the organizational phase of the AARA.

(i) All legal obligations, functions, and responsibilities with respect to internal tax laws and regulations previously assigned to the Ministry of Finance shall be assigned to the AARA.

ANNEX 5

DEVELOPING COUNTRIES WITH SARA EXPERIENCE

(with dates of passage of enabling legislation and fully operational establishment)

Countries with SARA Experience	Date of Establishment
Argentina	1988
Bolivia	1987; defunct in 1988; re-established 2000/2001
Botswana	2004/2005
Colombia	1991
Ecuador	1997/1999
Ethiopia	2002
Ghana	1986
Guatemala	1998/1999
Guyana	2000/2001
Jamaica	1981
Kenya	1995/1996
Lesotho	2001/2003
Malawi	1995/2000
Malaysia	1995/1996
Mexico	1995/1997
Peru	national 1988/1991 and municipal 1996/1997
Rwanda	1998/2000
Sierra Leone	2002
Singapore	1992
South Africa	1996/1997
Tanzania	1995/1996
Uganda	1991/1992
Venezuela	1993
Zambia	1993/1994
Zimbabwe	2000

By mid-2004 among other countries contemplating the possibility of establishing a SARA were Gambia, Namibia, Nepal, Sri Lanka, and Swaziland.

ANNEX 6

PERSONS INTERVIEWED WHO CONTRIBUTED IDEAS AND/OR INFORMATION FOR THIS PAPER (alphabetical order)

Acronym key:

SUNAT	Superintendencia Nacional de Administración Tributaria of Peru.
TRA	Tanzania Revenue Authority.
SAT	Superintendencia de Administración Tributaria of Guatemala.
SRI	Servicio de Rentas Internas of Ecuador.
SAT (Lima)	Servicio de Administración Tributaria of Lima, Peru.
MML	Metropolitan Municipality of Lima.
IMF	International Monetary Fund.

Achín, Alberto. Director, SAT (Lima).
Afcha, Gonzalo. Economist, Inter-American Development Bank (IDB).
Aguirre, Oswaldo. National Director for Institutional Development, SRI.
Aitkenhead, Richard. Former Minister of Finance (Guatemala) and Presidential Commissioner for the Monitoring of the Government's Economic Plan.
Arias, Luis Alberto. Consultant and former Superintendent of SUNAT and Director of the SAT (Lima).
Baer, Katherine. Fiscal Affairs Department, IMF.
Betancourt, Santiago. National Coordinator for Collections, SRI.
Blest, Juan. Director of Finance, General Directorate of Finance, MML.
Bolnick, Bruce. Economist and former Tax Policy Advisor to the Zambia Revenue Authority.
Bowen, Steve. Senior Tax Administration Advisor, IRS and former Resident IRS Advisor to the TRA.
Carrera, Patricia. National Director for Tax Administration, SRI.
Chew de Calderón, Mérida. Advisor to the Minister of Finance of Guatemala.
Chinchilla, Ligia. Administrative Director of IDC (Guatemala).
Coyoy, Erick. Economist, ASIES, Guatemala.
Crotty, John. Former Coordinator, East Africa Regional Technical Assistance Center (Tanzania), IMF.
Cruz, Abel. Executive Secretary of the Comisión Técnica del Pacto Fiscal (Guatemala) and former Head of the Planning and Institutional Development Department, SAT.
De Estrada, Fanny. Executive Director of AGEXPRONT, Guatemala.
De Mena, Elsa. General Director, SRI.
Ellyne, Mark. Senior Economist, African Department, IMF and former Resident Representative (2001-03) of the IMF in Lusaka, Zambia.
Escobar, Rolando. Lawyer and former Director of the General Directorate of Internal Revenue, MOF, Guatemala.
Flores, Alberto. Manager, Operations Division, SAT (Lima).

Fjeldstad, Odd-Helge. Research Staff, Chr. Michelsen Institute, Bergen, Norway; interviews via e-mail exchanges.

Garabito, Juan Carlos. Former General Manager, Information Technology Division, SAT.

Guerra, María Elena. Former Director, Directorate of Internal Audits, SAT.

Guevara, Amelia. National Head for Human Resources, SRI.

Hussein, Ussi Hamza. Senior Principal Statistician, TRA.

Irías, Juan Miguel. Deputy Manager of the Financial Administration Division, SAT.

Kamugisha, Mugisha G. Commissioner for Policy Analysis, MOF, Tanzania.

Kitillya, Harry M. Commissioner General, TRA.

López, Luis. Head, Department of Tax Audits, SAT (Lima).

Lozán, Oscar. Advisor, General Directorate of Finance, MML.

Marroquín, Geovani. Coordinator of Large Taxpayers, SAT.

Mc Andrews, Thomas. Economic Growth Officer, USAID/Tanzania.

Medina, Abelardo. Head, Department of Statistics, Analysis, and Tax Programming, SAT.

Merino, Beatriz. Former Superintendent of SUNAT (2001-03) and former Peruvian Prime Minister.

Minaya, Antonio. Manager, Information Technology Division, SAT (Lima).

Miranda, Jorge. Manager, Planning Department, SAT (Lima).

Monzón, Donato. Manager, Planning and Institutional Development Department, SAT.

Muganyizi, Tonedeus K. Acting Director of Research, Policy, and Planning, TRA.

Muñoz, Carlos. Head Administrator, Collections and Administration Intendency, SAT.

Mwaseba, Lusekelo B. Commissioner for Tax Investigations, TRA.

Nasson, Martin O. Commissioner, Large Taxpayers Department, TRA.

Ngelela Maganga, Mary. Manager, Tax Modernization Project, TRA.

Páez, Xavier. Department of Tax Audits, SRI.

Pérez, René. Former Superintendent, SAT.

Perry, Victoria J. Fiscal Affairs Department, IMF.

Recalde, Jorge. National Head of Tax Audits.

Revilla, Adrián. Former Superintendent (1994-97) of the SUNAT.

Ruales, Wilson. Consultant to the SRI.

Sánchez, Juan Carlos. Head, Department of Debt Recovery, SAT (Lima).

Schydrowsky, Daniel. President of COFIDE and member of the Board of Directors of the Central Bank of Peru.

Serrano, Juan Pablo. National Head of Planning and Administrative Control, SRI.

Silvani, Carlos. Fiscal Affairs Department, IMF.

St. Laurent, Pierre. Revenue Policy and Administration Advisor, East Africa Regional Technical Assistance Center (Tanzania), IMF.

Suárez, Julio. Advisor to the Minister of Finance, Guatemala.

Subía, Alejandro. National Head of Information Technology, SRI.

Terkper, Seth. Fiscal Affairs Department, IMF.

Zapata, Willy. Superintendent, SAT.

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