

**DEPARTMENT OF THE TREASURY
INTERNATIONAL AFFAIRS TECHNICAL ASSISTANCE**

2005 REPORT TO CONGRESS

Section 129 of the Foreign Assistance Act of 1961, as amended, authorizes the establishment of a Department of the Treasury program to provide technical assistance to foreign governments and central banks of developing or transitional countries. This legislation requires Treasury to prepare and submit this report on the conduct of the Treasury International Affairs Technical Assistance program.

EXECUTIVE SUMMARY

The Department of the Treasury, through its Office of Technical Assistance (OTA), provides technical assistance and policy advice to select reform-minded countries seeking to strengthen the management of public finances. Most of these countries are in the process of development or transformation. Others have suffered severe deterioration of their financial institutions as a result of war, civil strife, or prolonged neglect. In all cases, OTA's assistance aims to increase transparency and accountability, reduce corruption, and strengthen the development of market-based policies and practices that support growing economies and stable democracies.

OTA services focus on five core disciplines: budget policy and management, financial enforcement, banking and financial services, government debt issuance and management, and tax policy and administration. Projects may include assisting with the development or revision of laws and regulations, the development of broad strategies, the design and implementation of financial systems to promote macroeconomic and fiscal stability, and the building of processes for efficient resource allocation, transparency, and sustainable private-sector growth. Financial enforcement is addressed through initiatives which combat money laundering, corruption, and the financing of terrorism.

This report addresses the entire spectrum of OTA program activities in 2005, from stand-out successes to engagements that, for a variety of reasons, did not go as well as had been hoped. Overall, 2005 was a good year. It is not always possible, however, to carry all engagements to a successful conclusion. Sometimes projects fail to meet expectations, even after diligent preparation. The development of a project can be slowed or halted as political changes alter counterparts' enthusiasm for reform; and though OTA prefers to stay the course, even in difficult times, it will suspend an engagement if commitment to reform wanes or terms of reference are not observed.

Key Program Developments

In 2005, OTA activities were marked by a number of developments.

- Increasingly, engagements drew on OTA's ability to provide an integrated assistance package, utilizing experts from a number of its five core disciplines. This was a defining and positive feature of programs in Liberia, Zambia, and Paraguay, among others. OTA expects this trend to continue and will seek to reinforce it.
- OTA continued to engage in post-conflict countries such as Afghanistan, Iraq, Liberia, and Haiti, and in some cases expanded its involvement. In Iraq, OTA made tangible progress on the creation of a nation-wide electronic payments system that will support the financial and economic integration of the country. Looking forward, OTA is taking steps to strengthen its ability to provide high-quality technical assistance in such challenging environments.
- OTA reduced its engagement in Central and Eastern Europe and the Former Soviet Union, reinforcing a trend that has been evident for several years. OTA has shifted focus from areas where assistance has become relatively less needed and has increased its involvement in regions where needs are acute.
- Since the terrorist attacks on September 11, 2001, Treasury has aggressively addressed issues surrounding the financing of international terrorism by expanding its traditional anti-money laundering and anti-corruption program to include asset identification and the tracking of financing for terrorist organizations. In this context, OTA's Financial Enforcement team has

redoubled its efforts to build capacity internationally and is now the largest of the five core disciplines in terms of funding and projects. During 2005, OTA Financial Enforcement drew extensively on expertise from the other four disciplines within OTA, emphasizing a comprehensive approach to financial enforcement.

- In 2005, OTA took additional steps to strengthen performance tracking and management. Every OTA project workplan has a set of concrete objectives, verifiable progress milestones, and targets for project completion. Monthly reports, required for each project, track progress against the workplan.

Country Highlights

OTA efforts resulted in noteworthy successes in 2005.

- OTA Government Debt advisors assisted in a number of “first ever” achievements, helping Benin to issue its first treasury bill, Georgia to obtain its first sovereign credit rating, Jordan to prepare its first annual debt issuance calendar, and Uganda to benefit from the first buy-back of Government debt.
- In Turkey, OTA Banking and Financial Services advisors supported the first large sale of bank assets held by the country’s asset management unit. U.S. financial institutions participated actively in the successful auction.
- In South Africa, an OTA Budget advisor helped authorities develop and implement a comprehensive set of expenditure controls at the national and provincial level. As a result, a three-year trend of growing (and unexplained) budget shortfalls was halted, and 2005 expenditures were in line with levels budgeted by the National Treasury.
- In Liberia, OTA Tax advisors helped Liberian authorities install and make use of a wireless radio link between the Ministry of Finance and Central Bank. The link provides a secure mechanism for a broad range of financial controls and services. The system will be expanded in 2006 to link the seaport and airport with customs and tax authorities.
- OTA Financial Enforcement advisors helped the Comptroller General of Peru establish an internal investigations/integrity unit for the prosecution of corruption, and provided follow-on investigative training. In Latin America, the Caribbean and other regions, Enforcement and Tax advisors worked in tandem to help authorities assess and strengthen legal and regulatory regimes for casinos and gaming – a major and rapidly growing industry in many countries.

As noted above, certain engagements fell short of expectations and had to be suspended or postponed. For example:

- In Thailand, Treasury OTA and other USG agencies withdrew technical assistance when it became apparent that the authorities’ anti-money laundering efforts were being driven by an incentive compensation program that placed personal gain before policy objectives.
- In Uganda, despite impressive progress in other areas, OTA’s Enforcement team suspended its two years of assistance because of a lack of commitment by the government to pass critical anti-money laundering legislation.
- Most recently, in West Bank/Gaza, assistance aimed at increasing financial transparency and accountability was put on hold after the January 2006 elections.

A more extensive description of country highlights appears in the body of this report.

Funding provided through the Treasury International Affairs Technical Assistance (TIATA) component of the 150 Account appropriation has grown to be the largest source of OTA financial resources for pursuing its global mission. In Fiscal Year 2005, OTA received \$19.4 million from Congress in TIATA funding plus an additional \$3.5 million from other U.S. agencies that co-funded Treasury's TIATA projects. This made it possible for OTA to undertake 72 individual projects in 49 countries.

REPORT

The Department of the Treasury (Treasury), through its Office of Technical Assistance (OTA), provides professional policy advice and technical assistance to reform-minded countries seeking to strengthen the management of public finances. OTA is highly selective when identifying nations in which to engage. Most countries that receive technical assistance from Treasury are in the process of development or transformation, while others have suffered severe deterioration of their financial institutions as a result of war, civil strife, or prolonged neglect, and require serious financial reform. In all cases, OTA's assistance aims to increase transparency and accountability, reduce corruption, and strengthen the development of market-based policies and practices that support growing economies and stable democracies. In this way, OTA supports the Secretary of the Treasury in implementing U.S. international economic policy as well as broader U.S. foreign policy objectives.

OTA services cover a range of public financial management activities. These include: revenue enhancement, budget policy and administration, banking supervision and regulation, cash management, government debt issuance and management, and initiatives focused on financial system integrity. Projects may include assisting with the development or revision of laws and regulations, advising on macroeconomic and monetary policy issues, developing broad strategies, designing and implementing financial systems to promote macroeconomic and fiscal stability, and building processes for efficient resource allocation, transparency, and sustainable private-sector growth. Financial enforcement addresses such activities as money laundering, financing of terrorism, and corruption. Consistent with the requirements of the Foreign Assistance Act of 1961, sec. 129(b), expert advisors in five core disciplines, working under OTA direction, provide these comprehensive services. The core disciplines are:

- Budget Policy and Management,
- Banking and Financial Services,
- Government Debt Issuance and Management,
- Tax Policy and Administration, and
- Financial Enforcement.

The relationships among the five disciplines are mutually supportive. In countries where a serious breakdown of financial institutions has occurred, advisors from all five disciplines may be working simultaneously on a broad front. This is often the case in post-conflict or failed-state engagements. This cross-disciplinary capability of OTA provides the program with flexibility and capacity to respond quickly to challenging and difficult situations. OTA advisors are an experienced group of experts with skills developed in both the private and public sectors who work together collaboratively to address complex financial management challenges.

OTA advisors have a high degree of credibility with the ministries to which they are assigned. They function as confidential experts who provide advice, counsel, recommendations, coaching, and professional guidance to reach the economic sector goals set by the countries themselves. At times this may involve assistance in developing and executing plans to meet requirements of international financial institutions. In some cases the assistance may focus on carrying out reforms that are initiated by the host government.

OTA selects projects to be funded by TIATA that will support capacity building, democratic governance, and economic reform. In order to increase the likelihood of positive and permanent change, Treasury requires that for each engagement a mutually-agreed-upon Terms of Reference (TOR) be established with a recipient country prior to assignment of an advisor, and that the advisor be linked with policy-level, reform-minded counterpart officials. These practices were forged through experience gained in Treasury's technical assistance work in Central and Eastern Europe and the Former Soviet Union. They have proven their utility as OTA has broadened its program geographically to meet challenges in Africa, Asia, and Latin America, as well as expanded its scope to include combating the financing of terrorism after the September 2001 terrorist attacks.

While much of the information in this report concerns OTA engagements that were successful, the report also covers engagements that did not live up to expectations. Even after diligent preparation, a project can encounter difficulties because of internal issues in the host country. Also, the shape of a project can vary over time as political changes alter enthusiasm for reform. Finally, though OTA prefers to stay the course even when encountering difficulty, an engagement will be suspended if agreements are not fulfilled or terms of reference are not observed. In 2005 OTA encountered a few setbacks and difficulties. For example:

- After four years and multiple cross-team assessment missions to the West Bank/Gaza, three teams had prepared terms of reference, identified advisors, and developed initial workplans for engagement in early 2006. The engagement was placed on hold, however, after the January election.
- In Thailand, OTA joined its U.S. law enforcement partners from State, Justice, and Homeland Security in withdrawing technical assistance when it became apparent that the anti-money laundering efforts of the Thai financial intelligence unit were being driven by personal gain as the result of an unusual incentive compensation program.
- After two years of technical assistance by the OTA Financial Enforcement team, the Government of Uganda (GOU) failed to pass promised anti-money laundering legislation. While OTA's Banking and Debt teams both made progress on other projects in Uganda, the Enforcement team suspended its efforts until the GOU demonstrates renewed political will to pursue anti-money laundering legislation. If that were to occur, OTA would weigh the merits of a re-engagement by its Financial Enforcement team.

OTA manages its worldwide technical assistance program through a staff headquartered in Washington, D.C., and through the placement of regional and senior advisors at locations that allow for both efficient and effective support. The cost of program management is limited to 15 percent of funds allocated for OTA technical assistance.

Treasury believes that OTA's established reputation for swift response and practical results grows out of its solid focus on financial management, its adherence to principles established in

U.S. law, its integrated approach, its cooperation with other U.S. agencies and international donors, its cadre of expert advisors, and its strong administrative and financial controls.

TIATA GLOBAL OBJECTIVES

The TIATA legislation called for assistance to reform-minded governments of developing and transitional countries around the world, and it is this funding that makes it possible for OTA to fulfill that global mission. Beginning with the initial TIATA appropriation from Congress, Treasury expanded the reach of its technical assistance operations to include a select and limited number of countries in Asia and Africa, as well as Central and Latin America. OTA now has primarily focused on these regions, along with the Greater Middle East, where its presence is increasing. Even though OTA has other sources of financial support, TIATA funding has grown to be the single largest resource available to OTA for pursuing its mission.

Since the inception of TIATA in 1999, OTA has used TIATA resources to provide technical assistance to nearly 80 countries around the world. In Fiscal Year 2005, Treasury advisors worked on 72 TIATA-funded individual projects in 49 countries. Table A attached to this report summarizes the execution of the Fiscal Year 2005 TIATA budget and shows the projects for which funding was allocated in Fiscal Year 2005.

In addition to TIATA funding, OTA receives financial resources through the Support for East European Democracy (SEED) Act for work in countries in Eastern and Central Europe, and through the Freedom Support Act (FSA) for countries in the former Soviet Union. SEED and FSA funds have been declining at an accelerated pace in recent years as countries have become self-sufficient, and U.S. Government technical assistance has no longer been needed.

OTA also receives funding through supplemental appropriations. This funding, which has been used for such countries as Afghanistan, Haiti, Iraq, and Liberia, is, of course, available only as exceptional needs arise.

Table B attached to this report itemizes OTA funding from non-TIATA sources.

FISCAL YEAR 2005 TIATA PROGRAM

Countries and projects for which Fiscal Year 2005 TIATA funds would be used were selected according to a careful process that was informed by real, on-the-ground conditions in potential recipient countries. OTA prepared an initial internal Fiscal Year 2005 financial plan comprised of summary information on projects proposed for funding. The proposals, which originated from several sources, were compiled and submitted by each of OTA's five core disciplines. These sources included foreign governments, U.S. embassies, USAID missions, and assessment missions conducted by OTA advisors. Among other factors, special consideration was given to continuing current projects that demonstrated substantial and measurable results. The Fiscal Year 2005 preliminary financial plan contained nearly 80 proposed projects with an estimated cost of \$28.6 million, an amount well above available resources.

In order to make best use of available funds, Treasury reached out to other sources and in some cases found partners that were committed to the project objectives and willing to provide co-financing. In this way Treasury was able to implement a technical assistance program larger than it could have undertaken on its own.

OTA then conducted an intensive internal selection process to identify projects with the greatest potential to result in significant reform. These projects were selected for funding while the rest, though meriting serious consideration, were set aside due to a lack of resources. The final results of the project selection process are displayed in Table A, Fiscal Year 2005 Budget Execution Plan. Seventy-two separate projects are grouped geographically or as global projects in the following categories: Latin America and the Caribbean, Africa, and Asia.

In addition to country-specific projects, budgetary allocations were made for senior and regional advisors, global anti-terrorist activities, global information technology assistance in support of combating financial crime, Financial Enforcement assessment missions, and cross-discipline regional missions.

The final version of the Fiscal Year 2005 Budget Execution Plan consists of \$19.4 million in TIATA funds leveraged by an additional \$3.5 million contributed by USAID missions and others.

AFRICAN FOCUS

Under the Fiscal Year 2005 Budget Execution Plan, Sub-Saharan Africa continued to be a region of significant focus. Treasury committed \$5.2 million to this region in Fiscal Year 2005. This amount represented about 27 percent of all funding for TIATA-funded projects. TIATA funds for projects in Sub-Saharan Africa were combined with \$1.5 million of USAID funds (down from \$1.9 million in Fiscal Year 2004) to create a combined program budget of \$6.6 million for the region.

Treasury has a strong rationale for committing so much of its TIATA resources to the Sub-Saharan region. First, Sub-Saharan Africa has acute needs. Second, a growing number of African counterpart institutions are showing a commitment to reform. The Program Highlights section of this report provides examples of such commitment. Third, results achieved by successful projects have inspired other governments in the region to seek a productive use of Treasury technical assistance. Fourth, few international donors in Africa focus on the design and operation of national financial institutions required for successful market-based economies.

HIPC CONNECTION

In making TIATA budget allocations, Treasury gives strong consideration to engagements that would complement and support the Heavily Indebted Poor Countries (HIPC) debt-reduction initiative. A major facet of HIPC involves the World Bank's granting of substantial debt forgiveness to highly-indebted poor countries that undertake significant reform of their economic and governance systems. Forgiving these debts represents a substantial investment in the future success of these countries by the U.S. Government and the other members of the international community. For this reason, it is appropriate that TIATA funding is utilized to support the efforts of HIPC countries in reforming their financial systems and improving their institutions of economic governance.

TIATA funded assistance to nine African HIPC countries in Fiscal Year 2005 (up from seven in 2004) – Chad, Ethiopia, Ghana, Guinea, Malawi, Niger, Tanzania, Uganda, and Zambia. In addition, Fiscal Year 2005 TIATA resources funded tax technical assistance to Honduras and

government debt management assistance to Bolivia, Honduras, and Nicaragua, which are HIPC countries in Central and South America.

FISCAL YEAR 2005 ANTI-TERRORIST ACTIVITIES

OTA advisors expanded international support in the areas of money laundering, terrorist financing, corruption, and other financial crimes. Resident Financial Enforcement advisors continued to provide assistance in the Eastern Caribbean, Paraguay, Peru, and the Philippines. In April, OTA began a program in Croatia to work on the organizational structure of that country's Criminal Investigation Division (CID). This work involved assessing the requirements for, and development of, a computerized project for the case management and time-reporting systems. In 2005, OTA placed a resident Financial Enforcement advisor in Albania with the High Inspectorate of Declaration and Audits of Assets to provide technical assistance on internal audit. A resident advisor also was placed in Senegal in February 2005 to work closely with the Senegalese Financial Intelligence Unit (FIU). In addition, OTA concluded plans to place a resident advisor in Afghanistan, who will focus on developing a semi-autonomous FIU within the Da Afghanistan Bank, Afghanistan's central bank.

OTA anticipates placing a resident advisor in Malawi in March 2006 to provide technical assistance in risk-based examination procedures to the Malawi Reserve Bank. OTA also will place a regional resident advisor in South Africa in March 2006 to assist with intermittent and resident advisors of both the African and Middle Eastern regions. Lastly, while continuing its intermittent assistance to the Government of Sri Lanka, OTA finalized plans to place a resident advisor in Colombo in spring of 2006. This advisor will assist in the development of effective anti-money laundering and countering the financing of terrorism, including establishment of a FIU that meets international standards.

OTA resident advisors in the Caribbean focused on national efforts to fight financial crimes as well as on bank regulatory compliance. In addition, using global TIATA funds, OTA Financial Enforcement advisors provided intermittent assistance during 2005 to the governments of Belize, Bolivia, Botswana, Brazil, Burkina Faso, Chile, El Salvador, Ethiopia, Haiti, Honduras, Nicaragua, Paraguay, Peru, Zambia, and the Eastern Caribbean countries.

Working either independently or within the context of the U.S. Government inter-agency process, OTA Financial Enforcement advisors conducted assessment missions in Afghanistan, Botswana, Brazil, Chile, Colombia, Honduras, Kyrgyzstan, Sao Tome and Principe, Lesotho, Malawi, and Nigeria. These missions led to largely positive determinations with respect to the feasibility of technical assistance engagements. Several countries requested long-term assistance to build their capacity to address money laundering, improve the regulation of banks and non-bank financial institutions, and create criminal tax divisions.

OTA's Financial Enforcement projects have the flexibility to draw expertise from the other four disciplines within OTA. Tax Policy and Administration advisors, along with Financial Enforcement advisors provided training and technical assistance to gaming industry regulators in several countries and laid the groundwork for providing training to regulators of Internet gaming. The aim was to aid in the implementation of measures that are useful for the identification, investigation, and prosecution of persons that commit crimes over the Internet. In addition, Banking and Financial Services works with Financial Enforcement in creating compliant

financial services regimes, and the Budget Policy and Management program works with Financial Enforcement in the areas of internal audit and procurement fraud.

RECONSTRUCTION AND STABILIZATION INITIATIVES

OTA has become increasingly active in providing assistance to post-conflict countries, as well as failed states. It also appears that certain countries suffering from the results of severe natural disasters have restructuring and stabilization needs not unlike those of nations weakened by conflict or political instability. In these types of engagements, OTA has proved itself able to respond quickly with the placement of expert teams in challenging environments.

Iraq and Afghanistan

During 2005, Treasury's technical assistance efforts in Iraq were focused on the implementation of the Iraq Payments System. This electronic system is designed to facilitate funds transfers and reconciliation of accounts between banks throughout the country and the Central Bank of Iraq. The new system will replace a dangerous reliance on physical transfers of cash throughout Iraq. The two core components that form the foundation of the project are a real time gross settlement system and an automated clearinghouse for batch payments. In addition, a recently added third component involves establishment of an electronic government securities registration system. First stage acceptance tests have been completed. The two major Iraqi banks, the Rasheed and Rafidain banks, have successfully sent transactions to the contractor's temporary test site in Dubai.

At present, OTA is engaged in three functional areas in Afghanistan: banking, debt, and financial enforcement. OTA is supporting the Ministry of Finance through institutional strengthening and capacity building in the areas of bank restructuring, credit access, and payments systems, as well as the creation of non-bank financial institutions and markets (insurance, leasing, and mortgage finance). OTA also assists the Ministry through training for the Debt Management Unit, creating appropriate debt tracking mechanisms, developing policies and procedures for debt management, and assisting with the development of sound cash management practices and procedures. OTA is focusing its financial enforcement technical assistance on the development of a Financial Intelligence Unit (FIU) as a semi-autonomous unit within the Central Bank of Afghanistan. The FIU will function as a centralized repository of financial intelligence based on suspicious and cash transaction reports submitted by banks and other reporting entities. It will process and analyze all such reports and disseminate case files to prosecutor offices for further investigation and potential prosecution.

Liberia

Treasury's technical assistance to Liberia helps a country with a special historic relationship to the United States, and supports a U.S. foreign policy priority. OTA's program in Liberia is an excellent example of a comprehensive, integrated approach to improving operational and financial management capacity within key governmental institutions. The overarching goal of this engagement is to improve the government's ability to generate revenue via increased tax collection and rationalization of the tax system, to create a transparent and sound government budget that reflects a measured prioritization of expenditures, and to transform the banking sector into an efficient means of allocating financial resources into productive economic

activities. Due to the flexibility afforded by TIATA funding, OTA was a first responder to the post-conflict crisis in Liberia. It was able to place a team of advisors in Liberia earlier than other providers of economic sector assistance. Specific examples of achievements in Liberia are noted in the Program Highlights section below.

Haiti

Treasury was also a first responder to the post-conflict situation in Haiti. Although security is still unstable and violence in the country has caused some delays, OTA's work is continuing. Financial Enforcement is assisting efforts by the Government of Haiti to combat corruption and recover assets pilfered from that government's treasury. OTA has assisted the Unite Centrale de Renseignements Financiers (Central Financial Information Directory) by providing training in the identification and gathering of evidence for use in prosecutions in Haiti and abroad, including a Racketeer Influenced Corrupt Organization (RICO) suit filed in U.S. District Court in Miami. In addition, Treasury's Tax Policy and Administration program conducted a successful strategic planning session with the top leadership of the Director General des Impots of Haiti in November. A strategic plan was completed and submitted to the Minister of Finance for final approval and signature.

CROSS-TEAM PROJECTS

Beginning in 2004 and increasingly in 2005 OTA emphasized country projects that called for the application of skills found in more than one of OTA's team disciplines. Financial Enforcement and Banking and Financial Services conducted a joint mission to the Dominican Republic and to Colombia that dealt with banking supervision and anti-money laundering. Financial Enforcement and Tax Policy and Administration conducted cooperative missions on gaming in Chile, Costa Rica, El Salvador, Honduras, and Nicaragua. These two teams also worked together in Paraguay on issues dealing with customs, the inspector general function, and tax. The Budget Policy and Management and Government Debt Issuance and Management teams jointly delivered cash management training in Afghanistan, Bosnia, Honduras, and Paraguay. They also joined with Tax Policy and Administration to present cash management training in Honduras. In Liberia, advisors from the budget, tax, and banking teams assisted the government in increased tax collections, rationalizing the tax system, creating a transparent budget, documenting existing debt, and improving regulation of the banking sector.

COOPERATION WITH THE MILLENNIUM CHALLENGE CORPORATION

In 2005 OTA began a mutually beneficial relationship with the Millennium Challenge Corporation (MCC). OTA's subject-matter expertise in financial management has been valuable to MCC for the analysis, evaluation, and monitoring of prospective and on-going projects. Through an interagency agreement, MCC has been able to move its efforts forward in seven countries by tapping the talents of advisors from OTA's budget, banking, and debt teams. In 2005, OTA assisted in setting up fiscal accountability mechanisms for MCC funds in Mongolia, Mozambique, Lesotho, and Cape Verde. OTA advisors participated on country transaction teams (working groups charged with implementing MCC compacts), and gave advice on the identification and procurement of fund managers. An evaluation of a proposed small enterprise credit facility was also provided by OTA. In Mozambique, an OTA advisor contributed to the initial design of, and due diligence on, a credit facility for the Compact. In Georgia, OTA introduced the concept, requirements, and structure for a development fund. The advisor then

provided guidance that resulted in the appointment of an advisory panel and board for the Georgia Regional Development Fund. In Malawi, OTA will field advisors in budget, tax, financial enforcement, government debt, and banking to support an extensive MCC Threshold Country Program for which USAID is exercising oversight and coordination.

STRENGTHENING OTA PERFORMANCE MANAGEMENT

Over the past year, OTA has taken a number of steps to strengthen its ability to track and manage its performance. Some of this effort has centered on sharpening, standardizing, and integrating program documents. The central documents used in the management of the OTA program are: (1) the Budget Request that is used to propose and justify funds for specific projects; (2) Terms of Reference, which constitute the agreement between Treasury and a host country; (3) the advisor Workplan, which lays out the specific plan for the project; and (4) the Monthly Report that is used to track Workplan progress for each project. In 2005, OTA revised all four of these documents so that they now have a standard and integrated relationship with each other and are applied to all OTA TIATA (as well as SEED and FSA) projects. In addition, every Workplan has verifiable measures associated with each objective, and each objective has milestones for completion. For example, the resident budget advisor in Paraguay has a workplan comprising nine objectives, each with one to nine milestones, to be completed (depending on the objective) between June and November 2006. The advisor's monthly reports track each objective and milestone and provide comments on progress and other information bearing on the projected results. The Monthly Report, in addition to relevant narrative information about the project, updates the Workplan objectives and provides the opportunity to track progress and take management action where appropriate. In 2006, OTA will scrutinize and further refine its performance management tools.

PROGRAM HIGHLIGHTS

Africa

Botswana:

- OTA Tax Policy and Administration helped authorities reorganize the Botswana Unified Revenue Service (BURS), which combined responsibility for income tax, customs, and VAT administration into one agency. One effort focuses on developing benchmarks of performance for BURS to track progress. Technical assistance has included development of a strategic plan, creation of position descriptions for all BURS managers and technical employees, and management training for all top managers of BURS. Technical assistance has also been delivered to create a taxpayer service function that consolidates three previous service functions, deliver audit techniques training, and develop revenue estimation procedures. Changes to systems to implement this assistance are currently in progress.

Ethiopia:

- OTA Tax Policy and Administration helped the Federal Inland Revenue Authority update its revenue databases, merge economic data into a macro-economic forecast, and build quarterly revenue models. Additional progress was made on tax forms redesign and taxpayer education.

Ghana:

- OTA Tax Policy and Administration assisted the Ministry of Finance in preparation for the 2006 merger of the tax and VAT functions into one organization. Development of audit and collection manuals and related procedures increased the number and quality of audits as well as revenue collection. A partnering agreement with the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), the German national enterprise for delivering foreign aid assistance, resulted in the delivery of human resources training in November 2005 and will extend into 2006.

Guinea

- When the Minister of Finance made his 2005 budget presentation to the National Assembly, legislators publicly complimented him on the appearance of the 2005 budget document, saying it was more readable than previous budget documents and was presented in a format that made it much easier to locate critical information. The Budget Director then publicly credited the resident OTA budget advisor with the changes to the physical layout and presentation of these budget documents. The format changes were followed in succeeding months by instruction on presenting new information to make the budget more comprehensible to policymakers and more transparent to the public.

Liberia:

- OTA Budget Policy and Management stationed an advisor skilled in budget execution procedures in Monrovia, starting in March 2005. The advisor established procedures for reconciling budget allocations to expenditures in the national budget and succeeded in convincing the Finance Minister to demand more accurate information about expenditures from the Cash Management Committee. At the advisor's urging, the Minister repeatedly resisted making payments for questionable expenditures. The team also began capacity building training for budget staff in the Ministry of Finance and the Budget Bureau.
- OTA Tax Policy and Administration information technology advisors, financed through an agreement with USAID, installed and made operational a wireless radio link between the Ministry of Finance and the Central Bank. The system electronically controls all tax bills produced by the Ministry and cross checks payments with Central Bank software. The system is designed to reduce the potential for fraud, while also offering taxpayers a one-stop tax-preparation and payment operation. In 2006 the seaport and airport are to be linked to a connection with customs and tax.
- OTA Banking and Financial Services developed and implemented several regulations for the Central Bank. The resident advisor drafted a bank restructuring and resolution policy, with input from the IMF technical assistance team, which formed the basic guidance for a Distressed Banks Resolution Committee. The advisor also directed a series of in-house training workshops for the bank supervision staff and collaborated with the OTA tax team to develop an electronic link between the Central Bank and the Ministry of Finance to facilitate the collection of tax obligations.

Madagascar:

- OTA responded to an urgent 2005 request from the President of Madagascar for assistance in macroeconomic forecasting. A Budget Policy and Management intermittent advisor, with the help of the U.S. Embassy, established effective working

relationships with the President and the relevant assistant ministers (Directeurs General) of the Ministry of Finance and Economy. Lack of analytical capacity in the Ministry of Finance and Economy was a critical shortcoming in the public finance process, and this project met Madagascar's specific needs. The advisor initiated training in computer modeling for revenue estimation as part of the overall budget process.

Malawi:

- In June 2005 the OTA Tax Policy and Administration program started a project to assist in the modernization of the Malawi Revenue Authority. This led to a larger OTA agreement with USAID to deliver broader services to strengthen fiscal reform, funded under the MCC Threshold Plan. OTA has a resident advisor awaiting assignment as soon as MCC funds arrive.
- OTA Financial Enforcement is providing intermittent assistance to the Anti-Corruption Bureau on mentoring forensic investigators. The team mentored several investigators and prosecutors on major tax evasion cases, which resulted in the first conviction for tax evasion in Malawi's history. The team will soon be placing a resident advisor with the Reserve Bank to help establish an AML/CFT regime.

Mauritius:

- OTA Budget Policy and Management continued to assist the country in the development and implementation of a Medium-Term Expenditure Framework. This was part of a three-year effort to make budget decisions more transparent and sustainable. Toward the end of 2005 the advisor also played a major role in the reorganization of public finance staff.

Nigeria:

- OTA Government Debt Issuance and Management helped the Federal Government of Nigeria (FGN) extend the maturities of its debt from three-month treasury bills through competitive auctions. This resulted in the FGN being able to market six-month treasury bills, two-year FGN notes, and three-year FGN notes successfully. A calendar of regularly scheduled auctions to finance FGN debt has been established, and a framework has been established for the creation of a Primary Dealer Network to enhance primary distribution and secondary market trading of FGN debt.

Sao Tome and Principe:

- OTA Financial Enforcement has instituted an intermittent program with the Prosecutor General to establish a unit to investigate financial crimes. The work underway will include the establishment of an AML/CFT regime.

South Africa:

- The OTA Banking and Financial Services team continues to advise the National Treasury concerning its proposal to establish a deposit insurance system in the Republic of South Africa. This requires obtaining agreement between the Reserve Bank (central bank of South Africa) and the National Treasury on a joint proposal. The advisor completed a full revision of a policy paper for submission to the Minister of Finance, and a legislative review is scheduled for the first quarter of 2006.
- From 2002 through 2004, the South African budget was being exceeded, with the shortfall growing approximately 30% each year while budgeted increases were only

10% per year. This reduced the availability of funding for vital initiatives in such fields as education and health. Simultaneously, there was no reliable information on the causes of these dramatic shortfalls. The OTA resident budget advisor worked closely with national and provincial program administrators to develop a multi-faceted set of policies to control spending. At the same time the advisor worked with National Treasury officials to secure mid-year funding for a management data information system so expenditures and key data could be monitored and future budget crises averted. The growth rate of expenditures for 2005 was reduced significantly, to 8%, which was consistent with the level budgeted by the National Treasury.

Uganda:

- OTA Banking and Financial Services technical assistance resulted in total investment of the Deposit Protection Fund (DPF). According to prior practice, funds were held in a non-interest bearing account. The transition to a more productive monetary policy resulted in an increase in income for the DPF. The resident advisor also compiled bank receivership manuals and delivered training on their use. As a result of this continuing education process, the payment of dividends from Ugandan receiverships to the DPF and general creditors has been initiated.
- OTA Government Debt Issuance and Management established a Primary Dealer Ranking System that gives the Central Bank of Uganda quantitative means for assessing the performance of primary dealers. The team also contributed to Uganda receiving its initial sovereign debt rating from Fitch Ratings Services; helped organize the first buyback of Government of Uganda debt to manage rollover risk; and wrote investment guidelines for the National Social Security Fund, the only source of long term capital in Uganda.
- Together with OTA Banking and Financial Services, the OTA Government Debt Issuance and Management resident advisor arranged for the Deposit Protection Fund held at the Central Bank of Uganda to be transferred to an outside professional investment advisor. This now represents the most important source of competition for the commercial banks in the government debt market.
- While the Debt team and the Banking team were having significant successes in Uganda, the Financial Enforcement team faced obstacles. After two years of technical assistance, the Government of Uganda failed to pass anti-money laundering legislation that was critical to the success of the Enforcement project. OTA interpreted this failure as evidence of a lack of political will, so the project was suspended and the advisor withdrawn. Were the GOU to demonstrate renewed political will to pursue anti-money laundering legislation, OTA would weigh the merits of a re-engagement by its Financial Enforcement team.

Zambia:

- Pursuant to technical assistance objectives for the Bank of Zambia (the central bank of Zambia), OTA Banking and Financial Services developed guidelines for the implementation of international financial reporting standards and drafted a banking circular. The resident advisor prepared guidelines for implementation of the Basel II regulatory capital framework of the Basel Committee, which promotes banking supervision cooperation and is sponsored by the Bank for International Settlements. The advisor also developed regulations covering the operations of money transfer agencies. Lastly, the Banking and Financial Services team proposed amendments to

the Banking and Financial Services Act and the Bank of Zambia Act, both of which were submitted to the Ministry of Justice. The Banking and Financial Services Act was passed in October, 2005; the Bank of Zambia Act is pending.

West Africa:

- As part of its West Africa regional initiative, OTA Government Debt Issuance and Management assisted the Government of Benin with its first treasury bill issuance of 23.35 billion CFA francs (approximately \$43.1 million). This represents an important step forward and evidences a focus on building the country's technical capacity.
- The OTA Government Debt Issuance and Management advisor organized six government securities seminars in collaboration with the Banque centrale des états de l'Afrique de l'Ouest (Central Bank of the West African States) in 2005. Participation included 180 representatives from banks, the Bourse régionale des valeurs mobilières (capital underwriter for West African states), the Conseil régional (insurance companies), and Sociétés générales d'investissement (financial intermediaries), as well as officials from five Ministries of Finance throughout francophone West Africa.

Asia and Near East

Afghanistan

- OTA Banking and Financial Services aided in developing a financial sector policy for the Ministry of Finance. This policy was designed to help develop a competitive, efficient, market-oriented, and privately-owned financial sector that provides innovative financial products and services to Afghanistan's households, enterprises, and government entities. When fully implemented, the policy will increase the level of formal financial intermediation in Afghanistan's economy, as well as support and sustain overall economic development and poverty reduction.
- OTA Government Debt Issuance and Management provided technical assistance for three months to the cash management unit in the Ministry of Finance. Accomplishments included streamlining and documenting key cash procedures, conducting a three-day seminar for 48 government officials on effective cash management, and installing OTA's cash management database.
- In preparation for the January 2006 deployment of its resident advisor to Afghanistan, Financial Enforcement conducted a mission in December 2005 that defined requirements for establishing a new Financial Intelligence Unit (FIU). The focus of the mission, conducted jointly with Treasury's Office of Terrorism and Financial Intelligence, was to specify organizational and staffing requirements for the new FIU.

Jordan

- OTA Government Debt Issuance and Management assisted the Ministry of Finance (MoF) in preparing its first ever annual debt issuance calendar; improving communication between the MoF and Central Bank of Jordan to ensure sufficient market liquidity for Ministry debt issues; and completing a comprehensive review and recommendation for amending the Kingdom of Jordan's debt law.

Palestine/West Bank:

- A third, multi-team country assessment of Palestine/West Bank was completed in 2005. Terms of Reference were drawn up by the Budget, Debt, and Tax teams, and advisors were selected and prepared to begin projects in early 2006. The Palestinian

government, however, asked for the deployments to be delayed while it awaited the results of the January 2006 national elections. OTA, in consultation with State and other USG entities, will judge whether providing technical assistance to Palestine/West Bank at some point in the future remains in the best interest of U.S. foreign policy.

Philippines:

- OTA Financial Enforcement has a resident advisor working with the Anti-Money Laundering Council (the Philippine Financial Intelligence Unit) to enhance its investigative management system and to build capacity in law enforcement concerning the basics of financial investigations. The team also has a resident advisor with the Asian Development Bank to provide guidance and technical support to the financial and governance sector so that the Bank can better support AML/CFT efforts among its borrowing countries.

Sri Lanka:

- OTA Government Debt Issuance and Management assisted the Government of Sri Lanka in developing a comprehensive debt strategy blueprint to assist with implementing its debt policy. The team also advised counterparts on the development of index-linked products, debt reprofiling, and introduction of short-selling by primary dealers to enhance the development of the domestic government debt market.
- OTA's Budget Policy and Management team reconfigured its technical assistance to develop a long-term capacity-building program that is tailored to local realities and promotes exposure to experienced practitioners. By the end of 2005 this OTA-supported program became central to the Ministry of Finance and Planning Human Resources Development Plan, which will generate long term benefits for Sri Lanka's budget and financial management.

Thailand:

- In 2005 OTA joined with its law enforcement partners from the Departments of Justice, State, and Homeland Security in withdrawing technical assistance from the Anti-Money Laundering Office (AMLO) of the Government of Thailand. The Thai financial intelligence unit had instituted a practice among its enforcement personnel under which individuals were rewarded with a percentage of recovered funds from cases prosecuted. This practice encouraged agents to pursue those cases with the highest potential financial benefit, without regard for the merit or significance of other, less financially promising targets. USG law enforcement personnel concluded that such a practice undermined the purpose and principles of responsible financial intelligence unit work.

Turkey:

- OTA Tax Policy and Administration provided ongoing assistance to the General Directorate of Revenue (GDR) as it continued its functional reorganization. Of the ten projects identified in the 2004 GDR tactical plan, five were completed in 2005. These included the creation of a Change Management Board (a selected group of GDR executives whose role is to oversee changes), completion of a law on reorganization of the tax administration system, study of the local office structure, and establishment of a taxpayer service function and human resources plan. Of the remaining projects, three are underway and two will be started in mid-2006.

- OTA Banking and Financial Services aided the Savings Deposit Insurance Fund (SDIF), which serves as the country's asset management unit, in completing its first large sale of bank assets. Under a revenue-sharing arrangement, entirely novel for Turkey, the SDIF accepted a U.S. investment bank's bid to pay \$161 million for assets being auctioned. This arrangement resulted in a projected gross cash flow of \$355 million (including revenue sharing) for the SDIF. Furthermore, as the result of a change in Turkey's banking law, the SDIF was given substantially expanded risk-management powers. With the help of OTA, the SDIF organized a new risk management department.

Yemen

- As part of a Broader Middle East and North Africa (BMENA) regional initiative, funded in part through the Department of State Middle East Partnership Initiative, the OTA Banking and Financial Services regional advisor provided technical assistance with respect to the closure of Watani Bank by the Central Bank of Yemen (CBY). The advisor also provided the CBY Supervision Department with standard closing and liquidation manuals and is in the process of preparing manuals written specifically for use in Yemen. In the future, this will enable the CBY to conduct bank closings and liquidations consistent with Yemeni laws.
- Also as part of the BMENA regional initiative, the OTA Government Debt Issuance and Management regional advisor helped rewrite a crucial public debt law that has since been adopted by the Cabinet and is now under consideration by the Parliament.

Latin America and the Caribbean

Antigua:

- In 2005 the OTA Financial Enforcement and Tax Policy and Administration teams conducted an assessment of Antigua and Barbuda's casino gaming oversight and anti-money laundering program. Financial Enforcement also worked with the Financial Services Regulatory Commission that regulates the insurance sector and the Office of National Drug and Money Laundering Control Policy (ONDPCP). Advisors delivered an anti-money laundering, counter-terrorist financing awareness seminar for the insurance sector and also provided mentoring for ONDCP financial intelligence unit investigators and managers.

Bolivia:

- OTA Financial Enforcement conducted a comprehensive needs assessment in Bolivia and formulated a recommendation for training and technical assistance. As a first step in its program for Bolivia, the team provided a detailed analysis and study comparing draft anti-money laundering and counter financing of terrorism legislation to model legislation of the Organization of American States, as well as to existing laws of neighboring countries that are deemed compliant with internationally accepted norms. In addition, advisors mentored Bolivian prosecutors in the development and presentation of evidence for money laundering cases.

Chile:

- OTA Financial Enforcement and Tax Policy and Administration advisors conducted a joint assessment of Chile's newly-created casino gaming oversight and anti-money laundering program. Following this assessment, OTA Enforcement advisors mentored

Chilean officials on the development of a program for vetting casino license applicants. OTA Enforcement advisors also conducted a comprehensive assessment of Chile's anti-money laundering laws and programs. As a result, they developed a training and technical assistance program to enhance the effective application of those laws and programs.

Costa Rica:

- Since April 2005 OTA Tax Policy and Administration has provided ongoing assistance to the Ministry of Hacienda and Direccion General de Tributacion (DGT). Assistance is focused on implementing recommendations for improving the taxpayer appeals process. The project also focuses on enhancing returns processing, improving the planning and management process, and augmenting audit activities. A major anti-corruption accomplishment of this technical assistance project has been the acceptance of a recommendation to establish a Ministry-wide internal affairs program to eliminate corrupt relationships between taxpayers and DGT officials.

Dominican Republic:

- OTA Tax Policy and Tax Administration initiated a technical assistance project for the Direccion General de Impuestos Internos (DGII) in July 2005 that focuses on audit and internal controls. Specialized auditing manuals and procedures are being adapted to DGII needs for audits of the retail sales industry, banks, insurance companies, and casino operations. Emphasis is also being placed on anti-corruption measures within the DGII.

El Salvador:

- OTA Financial Enforcement and Tax Policy and Administration teams jointly evaluated El Salvador's casino gaming oversight and anti-money laundering program and formulated a work plan. Implementation is planned for 2006.
- Financial Enforcement, working with judicial and prosecutorial authorities, provided training in the application of anti-money laundering and counter financing of terrorism laws and programs. The team also worked with the financial intelligence unit in the development, acquisition, and implementation of a data processing and management system.

Guatemala:

- In April 2005 Tax Policy and Tax Administration developed an extractive industries project with the Superintendencia de Administracion Tributaria (SAT) that is scheduled to begin in 2006. The focus will be on capacity building for taxation of the distribution and sale of petroleum products, training on specialized production sharing agreements, and providing assistance for SAT's audit of the mining industry.

Haiti:

- OTA Tax Policy and Administration began what could become a multi-year project with the Haitian Direction General des Impots (DGI). Initial assistance included a strategic planning workshop for the Director General and the DGI leadership team in December 2005. Full implementation of the project, however, will not begin until after the general elections and the emergence of a secure working environment.

Honduras:

- OTA Tax Policy and Administration provided ongoing technical assistance to the Ministry of Finance and the Dirección Ejecutiva de Ingresos (DEI – the Honduran equivalent of the IRS). The primary focus continues to be tax collection and audit. Following the completion and signing of the Code of Ethics by the President of Honduras, assistance in the establishment of internal controls was initiated. The DEI of Honduras took a Latin American regional leadership role among tax administrations by hosting three OTA-designed training courses. Subject matter included transfer pricing law and regulations, basic instructor training, and audit techniques. Three more regional courses are scheduled for 2006.
- OTA Government Debt Issuance and Management provided technical assistance to: (1) revise the rules and regulations of the Central Bank of Honduras to foster development of the interbank market; (2) reorganize back-office operations of the Central Bank to eliminate potential conflicts of interest; and (3) conduct a cash management seminar at the Ministry of Finance. The seminar was attended by 40 participants.

Nicaragua:

- OTA Tax Policy and Administration provided ongoing assistance to the Dirección General de Ingresos (DGI – the Nicaraguan tax administration). A primary focus of this assistance was the expansion of DGI information technology capacity, which was in conjunction with an Inter-American Development Bank program. This has resulted in dramatically improved utilization of automated information systems for data collection. As a result, there has been notable improvement in enforced collection through case prioritization. Tax revenues were up 39% over 2004 revenues.

Paraguay:

- OTA Enforcement Advisors trained financial intelligence unit analysts and worked with Paraguayan authorities in the negotiation and implementation of memoranda of understanding on information exchanges among prosecutors, police authorities, and foreign counterparts, including FinCEN.
- In 2005 Budget Policy and Management helped Paraguay take a major step forward in its effort to promote greater budgeting transparency. With the help of OTA's resident budget advisor, the Ministry of Finance issued a Budget in Brief that summarized budget plans in a more understandable way and enhanced accessibility by the general public. This action not only sets a positive precedent for government communication with the citizenry, but also encourages responsible decision making by government managers. It also promotes accountability for public funds.
- OTA Tax Policy and Administration provided ongoing assistance to the Ministry of Finance and the Sub Secretaria de Estado de Tributacion (SSET – the tax department at the Ministry of Finance). Tax assistance continues to focus on the need to reduce tax evasion – estimated to exceed 50% – by strengthening the tax audit program, establishing SSET internal controls to reduce opportunities for corruption, and eliminating cash transactions between SSET personnel and taxpaying public.
- Government Debt Issuance and Management assisted in the drafting of a debt financing law which, for the first time since the 1992 Constitution was adopted, will provide a framework for debt issuance. The draft law is making its way to the Paraguayan parliament. In addition, the team hosted an investment course on reserve management that was attended by twenty central bank professionals; assisted in the

first upgrade of the public debt database in over five years; and assisted the National Bank of Paraguay in designing an economic reporting system as a first step towards strengthening monetary policy.

Peru:

- OTA Financial Enforcement helped the Comptroller General of Peru establish an internal investigations/integrity unit for the prosecution of corruption. Advisors provided mentoring on the employee selection and vetting process and provided follow-on investigative training. The team also worked with Peruvian customs authorities to improve anti-money laundering and counter financing of terrorism procedures at airports.

Regional:

- In September 2005 OTA Financial Enforcement presented a financial investigations techniques course at the Caribbean Regional Drug Law Enforcement Training Center. This training was provided to investigators from Brazil and thirteen Caribbean jurisdictions.
- OTA Financial Enforcement engaged the Central American Council of Bank Supervisors in a joint initiative for a regional seminar on the regulation and examination of money-service businesses, including money remitters and currency exchange dealers.

Eurasia

Bosnia:

- OTA Government Debt Issuance and Management helped draft the Frozen Foreign Currency Law that is now before Parliament. The law will allow for the orderly settlement of the huge outstanding debt owed to the citizens. The team also helped draft and secure adoption of the State Debt Law which harmonized debt issuance procedures for all levels of government and created a legal framework for all debt, both external and domestic.

Georgia:

- OTA Government Debt Issuance Management assisted Georgia in obtaining its first-ever sovereign credit rating. Standard & Poor's assigned a B/B+ rating to Georgia in December 2005.