

**DEPARTMENT OF THE TREASURY
INTERNATIONAL AFFAIRS TECHNICAL ASSISTANCE
2006 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 governments and central banks of developing or transitional countries. This legislation also requires Treasury to prepare and submit this report on the conduct of the Treasury International Affairs Technical Assistance program conducted by Treasury's Office of Technical Assistance (OTA).

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 their public financial management and financial sector oversight functions. Sound management and governance of public finance are crucial to the achievement of broader economic, political and security objectives. If the people and institutions charged with managing the public purse are not able to fulfill their task, efforts to build schools, hospitals, roads, military bases and other critical infrastructure will fail or not be sustainable. Development assistance, whether in the form of project finance, debt relief, or policy-based lending, will not be effective if aid recipients are unable to manage the support provided to them. Countries that are undermined by ineffective management and corruption are not stable bases for private investment, economic growth and democracy.

OTA is a center of expertise among worldwide providers of technical assistance. The reputation it enjoys in the international technical assistance community results from the quality of its expert advisors and its focus on financial processes. OTA's assistance is limited to areas of financial operations; its technical assistance is focused on institutional and personnel capacity building; and its projects are scaled to needs and objectives that are operational in nature. OTA does not make loans, give grants, or provide any other kind of monetary support. Its advisors consult, inform, mentor, train, caution, counsel, and encourage policy and working-level country counterparts. OTA deals primarily with the ministries and central banks which have primary responsibility for their respective countries' financial health and growth. The objectives OTA establishes with counterparts strengthen the laws, systems, and processes that sustain financial institutions. While OTA sometimes assists in policy development, its principal focus is on practical applications such as: implementation of a program budget; establishing procedures for auditing large taxpayer accounts; setting up a bond market; building a working financial intelligence unit; or closing a non-performing bank.

Since its creation in 1990, Treasury's technical assistance program has helped many countries strengthen their capacity to make best use of both their domestic financial resources and international assistance. Most of these countries are in the process of development or transformation to a market economy. 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, banking and financial services, financial enforcement, government debt issuance and management, and tax policy and administration. Projects include assisting governments in the development or revision of laws and regulations, the development of broad financial 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 kleptocracy, and the financing of terrorism.

This report addresses the entire spectrum of OTA program activities in 2006, both successes and engagements that did not go as well as had been foreseen. The success of a project depends on

many factors, above all: understanding the problem; designing an engagement that is tailored to real needs and capacity; and commitment to reform by the counterpart. OTA does not disengage precipitously, but it will suspend an engagement in the absence of reasonable progress and reform commitment by its counterparts. OTA's goal is to strengthen our counterpart institutions effectively and expeditiously, and then move on.

Key Program Developments

- In 2006, OTA successfully completed and closed out projects in eleven TIATA-funded countries, including Ghana (Tax), Honduras, Mauritius, Paraguay, Peru, Uganda, South Africa, and the Caribbean. At the same time, OTA disengaged from several country projects due to a lack of progress or civil unrest. New projects funded by the Treasury International Affairs Technical Assistance (TIATA) account were initiated in 16 countries, including Algeria, Brazil, Chile, Costa Rica, Ghana (Budget), Indonesia, Jordan, Namibia, Nicaragua, Paraguay, Sao Tome and Principe, Sri Lanka, Tunisia, and Zambia.
- OTA took steps to strengthen the alignment between its assistance activities and the objectives in its new strategic plan (see Annex 1) that reflects OTA's core mission as well as broader Treasury and USG policy priorities. In this regard, OTA laid the groundwork for strengthening its presence in Southeast Asia, a critically important region, while maintaining a strong presence in Sub-Saharan Africa and Latin America. In addition, OTA initiated a special program to strengthen the capacity of other countries to interdict bulk cash smugglers in fulfillment of their international agreements to combat money laundering and terrorist financing. This program is being developed in collaboration with Treasury's Deputate for Terrorist Financing and Financial Crimes and the Department of Homeland Security, Immigration and Customs Enforcement.
- OTA strengthened its collaboration with other U.S. assistance providers, notably the Millennium Challenge Corporation (MCC). In 2006, OTA worked as a significant participant in MCC Threshold Country Programs in Malawi and Paraguay, and assisted in setting up fiscal accountability mechanisms for MCC funds in Mongolia, Mozambique, Lesotho, Cape Verde, and Georgia.
- OTA increased its efforts to provide integrated financial assistance packages utilizing experts from a number of its five core disciplines. An integrated, cross-team approach improves the likelihood that assistance will have an impact. In 2006, this was a defining and positive feature of programs in Liberia, Malawi, Paraguay, and Zambia. OTA efforts in this regard are limited primarily by funding constraints.
- OTA took steps to improve its internal financial management by creating new allocation processes, new financial tracking systems and transferring financial management responsibility to the functional teams. OTA launched a multi-year effort to review and update all program directives, policies and procedures.

Country Highlights

- In Mauritius, OTA Budget Policy advisors provided critical assistance in advancing "aid for trade" initiatives. Advisors helped the government implement a medium-term framework and move to a "program results" focus for its budget system. This represents a major step forward in budget formulation, which will allow Mauritius to use the most advanced budget techniques. These steps will help Mauritius plan for and mitigate the budgetary impact of measures to liberalize its trade regime.
- In Paraguay, OTA Government Debt experts helped counterparts take a major step forward in the development of local debt markets. Paraguay's Ministry of Finance conducted its first

successful auction of its Treasury securities in May 2006, followed by a second successful auction in November. The combined issuance of \$62 million in 3 year securities was denominated in both local currency (guaraníes) and in dollars. Ten local banks participated. This action provides the first benchmark security for the development of a yield curve and reflects a strong commitment to fiscal management and capital market development.

- In Afghanistan, OTA Financial Enforcement advisors assisted the Central Bank in a successful effort to license and regulate hawaladars (currency changers). This was a major step forward in the effort to bring hawaladars into the formal financial system and thereby reduce vulnerability to money laundering and terrorist financing.
- In Zambia, OTA advisors mentored the Zambian Task Force on Corruption in the successful prosecution and conviction of two former regime officials who had looted the Government of Zambia and moved funds overseas.
- In Latin America, OTA Tax advisors helped strengthen tax administrations in ways that better position authorities to pursue pro-growth, pro-poor economic policies. In Costa Rica, OTA support for improved tax planning and management systems, combined with training and technical innovations in collection and audit contributed to a 22% increase in revenue from 2005 to 2006. In Paraguay, Treasury tax and budget advisors helped the Finance Ministry achieve its third straight year of revenue growth and budget surplus.
- The Banking and Financial Services Team provided substantial technical advice and assistance to three countries in the Middle East, a region that is a high priority for the Treasury but where receptiveness to Western assistance is not widespread. In Yemen, OTA advised on the drafting of a Deposit Insurance Fund law that has been introduced in the Parliament, and assisted in the closing of a troubled Yemeni Bank. In Oman, OTA advised on the establishment of a commercial court. And in both Oman and Jordan, OTA provided training in the application of Basel II standards

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

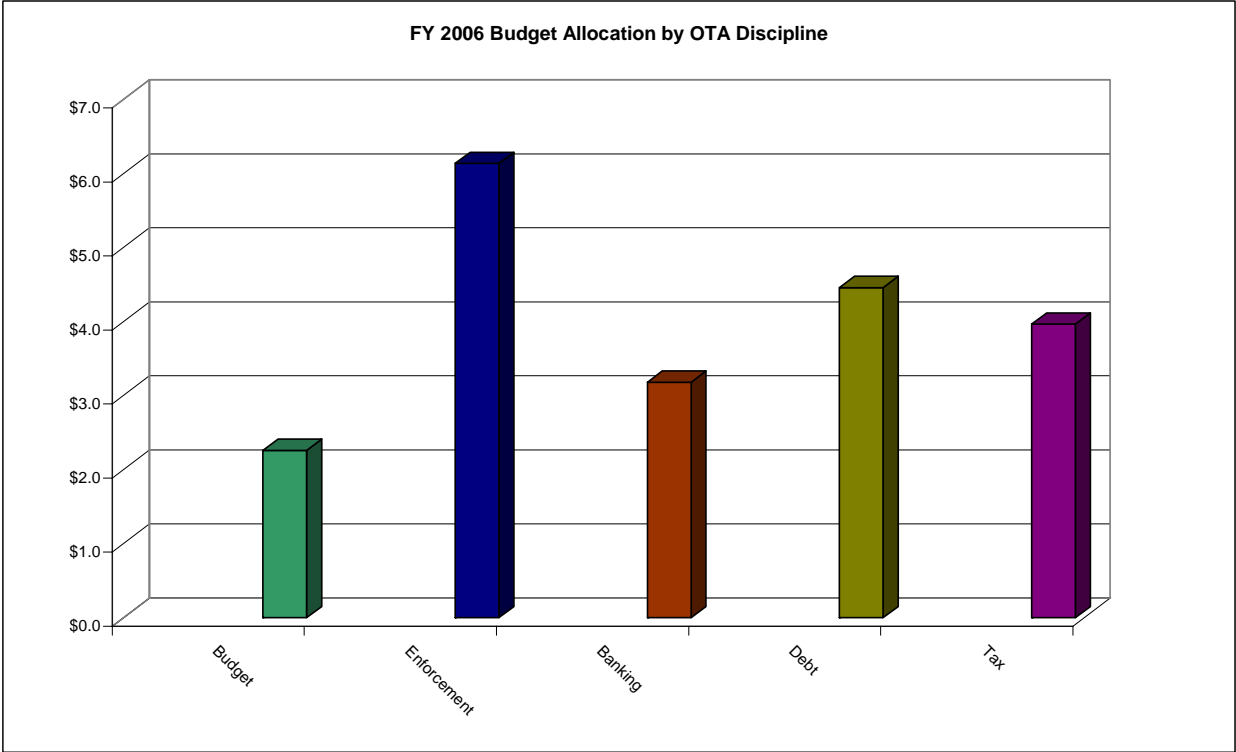
- In Chad, OTA suspended technical assistance following two separate emergency evacuations of its advisor as a result of civil unrest.
- Treasury terminated a revenue project in Turkey when it became evident that the leadership of the Turkish Revenue Administration (TRA) no longer possessed the political will to push forward on administrative and technical reforms for which the TRA had sought assistance from OTA.
- OTA began a Banking and Financial Services technical assistance project with the Bangladesh Bank in 2002. Though there appeared to be some positive signs for change early in the project, overall, OTA advisors in the country found counterparts lacking in experience, unwilling to press for reform, and difficult to engage on a regular basis. OTA ended the project in 2006.

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 2006, 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 OTA TIATA projects. This made it possible for OTA to

undertake 58 individual projects in 32 countries, and support these projects with 11 regional/senior advisor positions. Projects funded by TIATA but initiated prior to FY 2006 and that are still underway added 36 projects to the OTA total including 15 additional countries.

The following chart depicts the allocation of OTA’s TIATA budget in 2006 across the five core disciplines that make up the program. The largest allocation went to the financial enforcement area, followed by government debt issuance and management, tax (primarily administration), banking/financial services, and budget. This allocation across disciplines has been roughly constant over the last few years.

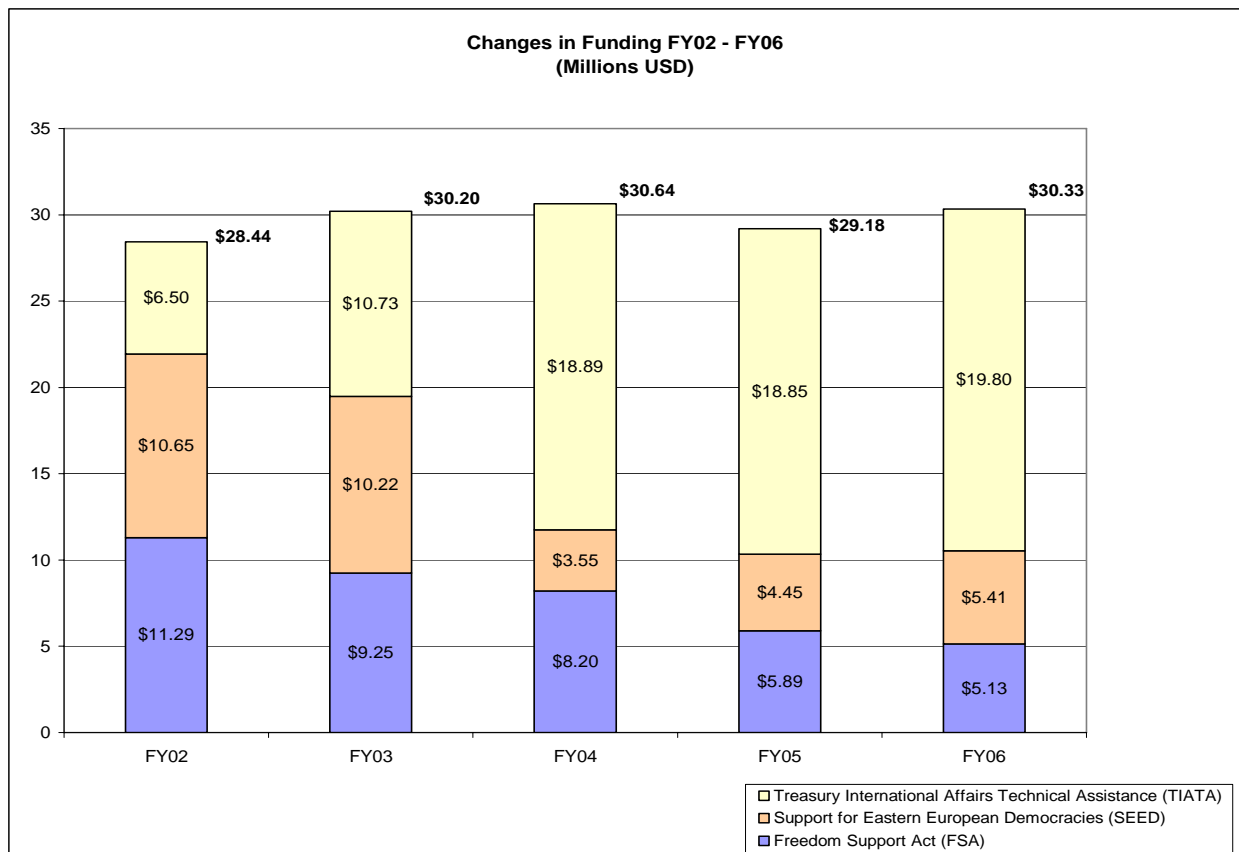


2006 REPORT

PROGRAM ORIGINS, FUNDING AND MANAGEMENT

Treasury’s technical assistance program was created in 1990 with an initial mandate to support the economic transition of countries in Central and Eastern Europe and the Former Soviet Union. Funding for Treasury’s program came primarily from the Support for East European Democracy (SEED) Act and the Freedom Support Act (FSA). In 1999, Congress passed section 129 of the Foreign Assistance Act which created the Treasury International Affairs Technical Assistance (TIATA) program, which provided a mandate for Treasury to assist reform-minded governments of developing and transitional countries around the world. Beginning with the initial TIATA appropriation from Congress the same year, Treasury gradually expanded the reach of its technical assistance operations to include countries in Africa, Asia, and Latin America. More recently, OTA has provided assistance in the Middle East and North Africa.

As the chart below depicts, TIATA appropriations have grown to be the single largest resource available to OTA for pursuing its mission. In addition to TIATA funding, OTA continues to receive SEED and FSA resources, although these latter resources have declined at an accelerated pace in recent years as the countries in these regions have become more self-sufficient and U.S. Government technical assistance less needed. OTA also receives funding through occasional supplemental appropriations. This funding, which has been used for countries such as Afghanistan, Haiti, Iraq, and Liberia, is of course available only as exceptional needs arise and is therefore not included in the chart below which focuses on “core” funding.



The above chart indicates that OTA's overall program funding level has been relatively steady at about \$30 million per year over the past five years. It is also important to consider OTA's program funding levels as its responsibilities have expanded from a regional mandate in Eastern Europe and the former Soviet Union to a global mandate. During that period, from 1999 to the present, OTA's funding level has remained essentially the same at \$27 to \$30 million per year.

Since 1999, OTA has provided technical assistance to over 80 countries around the world. In Fiscal Year 2006, Treasury advisors worked on 58 TIATA-funded individual projects in 32 countries. Table A attached to this report summarizes the execution of the Fiscal Year 2006 TIATA budget and shows the projects for which funding was allocated in Fiscal Year 2006. In addition, projects funded by TIATA but begun prior to FY 2006 added 36 projects to the OTA total including 15 additional countries.

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

OTA manages its technical assistance program through staff headquartered in Washington, D.C. A Treasury Deputy Assistant Secretary for Technical Assistance Policy is responsible for overall program direction and policy coordination with other parts of the Treasury Department. The overall cost of administering the program is limited to 15 percent of all funds allocated for OTA technical assistance.

PROJECT IDENTIFICATION AND SELECTION

The countries and projects for which Fiscal Year 2006 TIATA funds were used were selected according to a detailed process informed by real, on-the-ground conditions in countries identified as potential recipients of Treasury technical assistance. OTA prepared an initial internal Fiscal Year 2006 financial plan comprised of summary information on projects proposed for funding. The proposals originated from a variety of sources, including foreign governments, U.S. embassies, USAID missions, assessment missions conducted by OTA advisors, and bilateral policy discussions. Proposals were compiled, vetted, and submitted by the managers of each of OTA's five core disciplines for policy-level review. Special consideration was given to continuing current projects that demonstrated substantial results. (The Fiscal Year 2005 preliminary financial plan had contained nearly 80 proposed projects with an estimated cost of \$28.6 million, an amount well above the resources which later became available.)

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

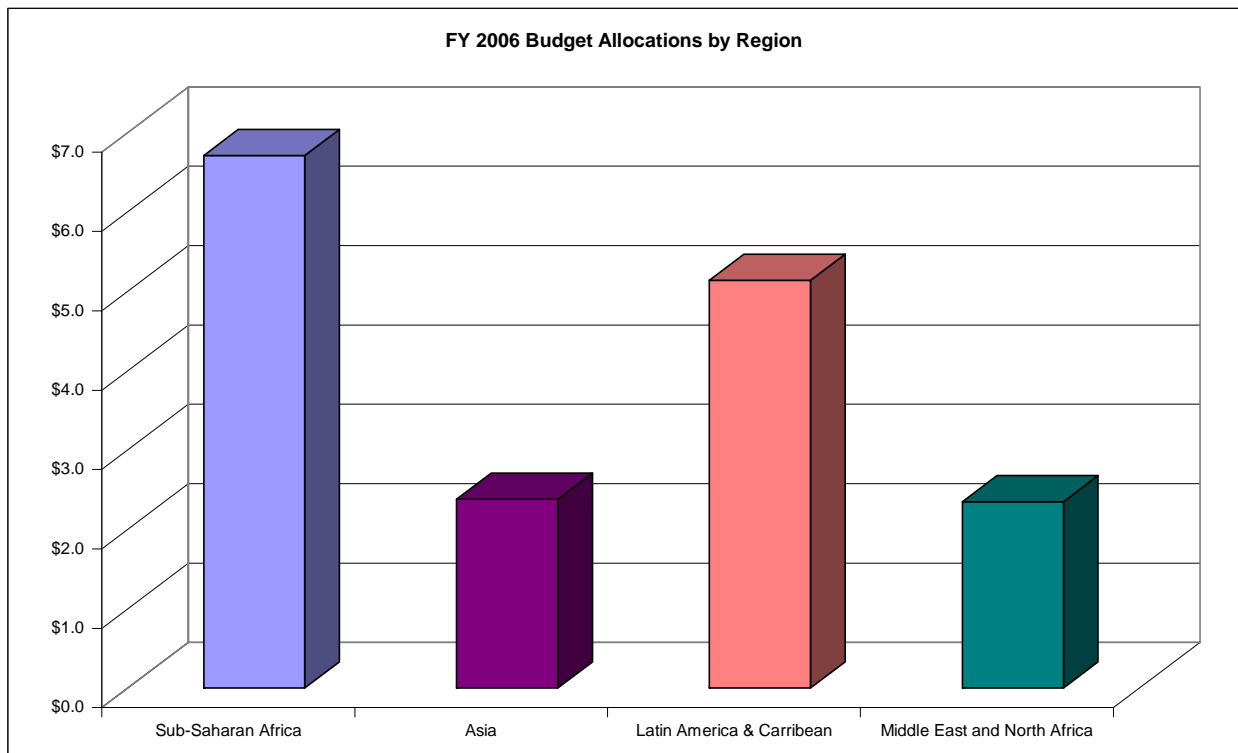
OTA then conducted an intensive internal selection process to identify projects with the greatest potential to result in capacity building and policy reform. These projects were selected for funding while the rest, though meriting serious consideration, were set aside due to a lack of resources. The final results of the project selection process are displayed in Table A, Fiscal Year 2006 Budget Execution Plan. Seventy-two separate projects are grouped geographically or as global projects in the following categories: Sub-Saharan Africa, 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 2006 Budget Execution Plan consists of \$19.4 million in TIATA funds leveraged by an additional \$3.5 million contributed by USAID missions and others.

STRATEGIC OBJECTIVES AND FOCUS AREAS

The many projects and initiatives that OTA pursues should be understood partly in terms of their individual merit and partly in terms of their relevance to broader strategic objectives and focus areas. In 2006, OTA undertook a comprehensive, collaborative direction-setting process, involving communication with all teams and advisors. Out of this review emerged a new strategic plan for OTA (see Annex 1). In addition to reaffirming the mission, vision and values of OTA, the plan pointed toward defined program goals in support of multi-disciplined efforts, regional and thematic targets for technical assistance, rapid-response teams for urgent priorities, continued improvement of internal management systems, and coordination of OTA planning and execution with other offices of the U.S. Treasury and with other U.S. Government Agencies at large. The plan recognized the continuing shift in geographic focus from Former Soviet and Eastern European countries toward developing countries in Sub-Saharan Africa, the Middle East and North Africa, Latin America and the Caribbean, and Asia. The following sections expand upon some key multi-year objectives and focus areas.



AFRICA

Under the Fiscal Year 2006 Budget Execution Plan, Sub-Saharan Africa continued to be a region of significant focus. Treasury committed \$6.7 million to this region in Fiscal Year 2006, up from \$5.2 million in Fiscal Year 2005. This amount represented about 34 percent of all funding for TIATA-funded projects. TIATA funds for projects in Sub-Saharan Africa were combined with \$0.25 million of USAID funds (down from \$1.5 million in Fiscal Year 2005) to create a combined program budget of \$6.95 million for the region.

Treasury's commitment to TIATA-funded projects in the Sub-Saharan region is based on the clear needs of many countries for assistance in reforming their public expenditure management programs and technical systems. OTA's experience has been that an increasing number of African countries are showing a commitment to strengthening financial institutions and practices. Indeed, the successes in these areas realized by countries such as Ghana, South Africa, Zambia, and Mauritius have prompted other countries to approach the U.S. Treasury for some of their TA requirements. In addition to providing TA in individual countries, OTA has actively supported select regional initiatives. One example is the Collaborative Africa Budget Reform Initiative (CABRI) which, under the overall guidance of South Africa, fosters a peer network of budget professionals who share practical, tested solutions to common problems.

HEAVILY INDEBTED POOR COUNTRIES INITIATIVE

In making its 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.

OTA provided assistance to nine African HIPC countries in Fiscal Year 2006 (up from seven in 2005) – Chad, Ethiopia, Ghana, Guinea, Malawi, Niger, Tanzania, Uganda, and Zambia. In addition, Fiscal Year 2006 TIATA resources funded tax technical assistance to Honduras and government debt management assistance to Honduras, Bolivia and Nicaragua – all three being HIPC countries.

MULTILATERAL DEBT RELIEF INITIATIVE

OTA has conducted technical assistance projects in nine Multilateral Debt Relief Initiative (MDRI)-I countries -- Burkina Faso, Ethiopia, Ghana, Madagascar, Malawi, Mali, Mozambique, Niger, and Uganda. It has carried out projects in five MDRI-II countries including Bolivia, Honduras, Nicaragua, Senegal, and Zambia. OTA intends to provide a continuing emphasis on assistance to debt-burdened countries, especially in relation to US appropriations made for this purpose.

ANTI-TERRORIST ACTIVITIES

OTA advisors have expanded their support in the areas of money laundering, terrorist financing, corruption, and other financial crimes. Resident Financial Enforcement advisors continued to provide assistance in Afghanistan, the Philippines, Jordan, Sri Lanka and Zambia. In 2006, OTA placed resident Financial Enforcement advisors in several FATF¹-Style Regional Bodies, including GAFISUD² in South America, EAG³ in Eurasia, and GIABA⁴ in West Africa, with plans for an advisor with ESAAMLG⁵ in East and Southern Africa. These regional bodies provide peer review and support to their member countries in meeting the FATF recommendations on anti-money laundering and countering the financing of terrorism (AML/CFT).

OTA anticipates placing a resident advisor in Pakistan in summer 2007 to provide technical assistance aimed at developing a robust AML/CFT regime with a focus on cross border controls with Afghanistan. This work will include coordination with DHS/ICE⁶ on the establishment of a Trade Transparency Unit to monitor flows of goods and cash.

OTA 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 2006 to the governments of Bolivia, Botswana, Brazil, Burkina Faso, Chile, El Salvador, Ethiopia, Haiti, Honduras, Nicaragua, Paraguay, Peru, Sao Tome, Lesotho, Malawi, Namibia, and Haiti.

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 who commit financial crimes over the Internet. In addition, Banking and Financial Services works with Financial Enforcement in creating financial services regimes compliant with international standards, and the Budget Policy and Management program works with Financial Enforcement in the areas of internal audit and fighting procurement fraud.

POST-CONFLICT COUNTRIES/FAILED-STATE INITIATIVES

¹ FATF: Financial Action Task Force

² GAFISUD: Grupo de Acción Financiera de Sudamérica (Financial Action Task Force Against Money Laundering in South America)

³ EAG: Eurasian Group on Combatting Money Laundering and Terrorist Financing (Moscow)

⁴ GIABA: Groupe Inter-gouvernementale d'Action contre le Blanchement en Afrique (Inter-governmental Action Group Against Money Laundering in Africa).

⁵ ESAAMLG: Eastern and Southern Africa Anti-Money Laundering Group

⁶ DHS/ICE: Department of Homeland Security/Immigration and Customs Enforcement

Treasury has become increasingly active in providing assistance to countries emerging from conflict and those that have been identified as failed states. In these engagements, Treasury has proven itself able to respond quickly with the placement of expert teams into inhospitable operating environments where technological infrastructure and institutional capacity are lacking. Treasury advisors have been able to make a marked contribution to the stabilization of the respective ministries with which they are paired.

TIATA does not provide long-term funding for post-conflict/failed-state initiatives. However, there are occasions when it is necessary to bridge the funding gap until alternative resources become available. Unlike other region-specific sources of funding, such as the Support for East European Democracy Act and the Freedom Support Act, TIATA funding is sufficiently flexible to do this.

Iraq

During Fiscal Year 2006, Treasury strengthened its presence in this high priority country. Throughout the year, Treasury's team of resident advisors in Baghdad focused on supporting Iraq's efforts to strengthen budget formulation and execution, banking supervision, and the development of a secure electronic payments system. Four resident advisors are currently serving in Baghdad. In addition, three U.S.-based advisors are supporting the mission through targeted work in the areas of monetary policy, information systems and training, and bank restructuring. In the monetary policy area, Treasury's advisor helped the Central Bank of Iraq take steps to deal with a build-up of inflationary pressures, and to ensure that these steps were taken in a transparent manner and explained to the public. Work on Iraq's new electronic payment system saw significant progress. In 2006, major components of this system – Real-Time Gross Settlement (RTGS) and Automatic Clearing House (ACH) – went “live” and are facilitating funds transfers and reconciliation of accounts between banks throughout the country and the Central Bank of Iraq. The system is being used by eight banks in the country, including the two largest – Rafidain and Rashid. For the system to be used to its greatest effect, all Iraqi ministries need to establish bank accounts with at least one institution linked to the system, the system needs to incorporate the Kurdish north, and work by Iraqis and other donors on telecommunications infrastructure needs to progress.

Afghanistan

At present, Treasury is engaged in three functional areas in Afghanistan. It is supporting the Ministry of Finance through institutional strengthening and capacity building in the areas of bank restructuring, credit access, payments systems, and creation of non-bank financial institutions and markets (insurance, leasing, and mortgage finance). It is also assisting the Ministry through training of Debt Management Unit personnel, developing appropriate debt tracking mechanisms and policies and procedures for debt management, and assisting with the development of sound cash management practices and procedures. Finally, Treasury is focusing its financial enforcement technical assistance on the establishment and development of a Financial Intelligence Unit as a semi-autonomous unit within the Central Bank of Afghanistan, as well as on measures aimed at combating money laundering and the financing of terrorist activities. OTA advisors assisted the Central Bank in a groundbreaking and successful effort to license and regulate hawaladars (currency changers).

Liberia

Treasury's technical assistance to Liberia has represented a comprehensive approach to improving operational and management capacity within key governmental institutions. The overarching goal of the engagement is to improve the government's ability to generate revenue (via increased tax collection and a 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 among productive economic activities. A resident advisor assisted the Central Bank of Liberia in the areas of banking supervision and banking sector governance, while intermittent advisors worked on the areas of macroeconomic policy and central bank accounting standards.. Due to the flexibility afforded by TIATA funding, Treasury placed a team of advisors on the ground in Monrovia earlier than did other providers of economic assistance.. OTA placed great emphasis on GOL accountability for public funds. OTA activities are now in the final phase and are focused now on assisting the Ministry of Finance with reconciling the government's domestic debt arrears.

Haiti

Treasury responded to the post-conflict situation in Haiti with targeted technical assistance. The security situation is still unstable in the country, violence has caused some delays, but work is continuing. The Treasury financial enforcement team is assisting the Government of Haiti's efforts to combat corruption and to recover substantial assets pilfered from that government's treasury. The Treasury team has worked with the Unite Centrale des Renseignements Financiers (Central Financial Information Directory) 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 the U.S. District Court in Miami.

The Treasury tax policy and administration team is focusing on ways to enhance management of information, reorganization of the Direction General des Impots (DGI, the tax administration), improvement of audit and collection techniques, tax law, management development, and customer service.

CROSS-TEAM PROJECTS

In the last few years, OTA has increasingly emphasized broad-based engagements that cover multiple aspects of public financial management and financial sector oversight within a given country. Historically this has been a proven approach for OTA, one that was the typical model in the 1990s in the more robustly funded regions of Central and Eastern Europe and the Former Soviet Union. In 2006, OTA operated a number of multi-disciplinary programs, including: Zambia (featuring four resident advisors working in the areas of banking, enforcement, and government debt); Paraguay (featuring four resident advisors working in the areas of banking, enforcement, budget, and government debt); and Malawi (an MCC-funded engagement comprised of three residents and one intermittent advisor working in the areas of banking, enforcement, tax, and government debt – with an additional resident advisor added in early 2007).

OTA believes that by providing assistance across the breadth of technical areas that form the components of public financial management, it can better position countries to properly match

revenues with expenditure requirements. This approach can better help these countries address fiscal gaps – as they arise – through a well structured borrowing regime that avoids clustering of repayment obligations. In addition, by complementing these engagements, as well as those that address financial sector strengthening and supervision, with activities designed to combat various forms of public corruption, OTA is substantively improving economic good governance in the countries in which it is working.

COOPERATION WITH THE MILLENNIUM CHALLENGE CORPORATION

During 2006, OTA continued to build on a mutually beneficial relationship with the Millennium Challenge Corporation (MCC) that was begun in 2005. 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 2006, OTA assisted in setting up fiscal accountability mechanisms for MCC funds in Mongolia, Mozambique, Lesotho, Cape Verde, and Georgia. 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 in Madagascar.

OTA has also continued to work as an implementer on MCC Threshold Country Programs, notably in Malawi - where a large multidisciplinary engagement is working in the areas of budget, tax, financial enforcement, government debt, and banking – and Paraguay where OTA is implementing the financial enforcement component of that country's TCP. In addition, OTA continues to explore additional opportunities to support MCC's efforts. Discussions are currently underway regarding potential engagements in São Tomé and Príncipe, Niger, and Tanzania.

COUNTRY-SPECIFIC HIGHLIGHTS

Africa

Algeria

- OTA Banking and Financial Services is advising the Ministry of Finance in the following areas: a Credit Guaranty Program; a Residential Loan Insurance Program; Department of Insurance; Residential Re-Mortgage Company; and Central Bank policy development. The project resulted in the interpretation and implementation of the new Law on Insurance, provided advice on admission into the International Association of Insurance Supervisors, and aided in the development of a private insurance market with emphasis on life insurance. The team also negotiated an agreement to deliver a three-day workshop with the Jordan Loan Guarantee Program to acquaint the Algerians with the Jordanian program. Work with the Bank of Algeria included a review of the 2003 Law on Banking, and an extensive review of the operations of the Bank of Algeria. OTA recommended changes to the Bank's Governor regarding the Bank's operations, and provided background on Basel II to the Director of Bank Supervision.

Ethiopia:

- Tax Policy and Administration assisted the Federal Inland Revenue Authority (FIRA) implement a new computer system with improved tax forms design, and helped pilot the Large Taxpayer Office. Improved, simplified tax forms were developed that require the input of the necessary tax information for future case management. FIRA expanded its taxpayer education program to introduce these forms to the public. Its auditors are using the skills taught to them by OTA, and they are following the guidelines laid out in the new audit manual developed with OTA assistance. Additionally, using their OTA training country auditors have taught audit courses to other auditors in the non-FIRA managed branches.

Ghana:

- Near the end of Fiscal Year 2006 a new Budget project began that will improve fiscal decentralization, treasury operations, financial information systems and accounting practices. The project continues on schedule and with good progress.
- Guided by OTA Government Debt Issuance and Management advice, Ghana's sovereign debt ratings (Standard & Poor's and Fitch Ratings) were reaffirmed at B+. GDIM helped design and implement a data link between the Ministry of Finance and the Bank of Ghana that provides real-time government cash balances at the central bank; thereby enhancing the government's management of its cash position and providing a tool that allows the Ministry's debt managers to better plan and announce its borrowing schedule. With GDIM help, a Treasury Single Account Task Force was established to guide stakeholders through Treasury Single Account implementation, and a Capital Markets Committee was established with members from the Ministry of Finance and the Bank of Ghana.

Guinea:

- With a resident advisor's assistance, the Minister of Finance continued the process of strengthening the budget review process and setting objectives for initiating a program budget approach. Recent civil unrest, however, has threatened this project and forced OTA to remove its resident advisor. Events will determine the level and nature of future OTA engagement in this project.

Kenya:

- The OTA Banking and Financial Services Regional Advisor participated in a five-day workshop in Nairobi, Kenya which discussed bank closing and asset liquidation. The workshop was under the auspices of the East Africa Regional Technical Assistance Center and the Management Institute of Eastern and South Africa.

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. Team advisors introduced strengthened budget analysis techniques, introduced standardized budget input documents, and drew central budget staff into closer operational collaboration with line ministries involved in budgeting. The Team provided basic capacity building training for staff in the Budget Bureau before ending this particular engagement in December 2006.

- The OTA Banking and Financial Services resident program with the Central Bank of Liberia (CBL) concluded in September 2006. The advisor had assisted the GOL in drafting a Bank Restructuring and Resolution Policy (BRRP), which formed the basis of a Distressed Banks Resolution Committee (DBRC). The advisor also developed and helped in the implementation of CBL regulations on Shareholder and Director Duties for Bank Management; Issuance and Transfer of Bank Shares; Public Disclosure and Publishing Requirements for Banks' Mid-term and Year-end Financial Reports; Relationship between the Bank Supervision Department (BSD) and a Bank's External Auditor Information Disclosure; and a Code of Conduct for BSD Bank Examiners. The advisor also helped the CBL implement Memoranda of Understanding and Recapitalization Agreements with selected banks, establish a CAMELS system for bank rating, and produce bank rating and examination manuals. During the time the project was in place, the advisor assisted in nine in-house training workshops developed and presented by Bank Supervision staff.

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. In 2006, agreement was reached to expand the engagement into a full time residency. In the meantime, additional guidance was given in revenue estimation techniques. An intermittent advisor is currently on-site assisting with issues related to revenue options. The resident project will commence in April 2007.

Malawi:

- Tax Policy and Administration is part of the MCC Threshold Country Program (TCP) administered by USAID. A resident advisor position was established in June 2006 to begin full-time assistance to the Malawi Revenue Authority (MRA) which is focused on reducing corruption in the Malawi government. (The Tax Team had been involved in Malawi, using TIATA funds, before the program was absorbed under the MCC umbrella in early 2006.) Through the work of the resident advisor, the MRA initiated an active program of prosecuting tax evaders, resulting in the first two tax cases ever for prosecution in 2005 and 2006. The first case resulted in a guilty plea by the taxpayer. The Enforcement Team also provided assistance to MRA in trial and evidence preparation..
- In a separate project, OTA Tax Policy and Administration has helped the MRA expand its cadre of instructors. The Tax Team assisted in the formulation of the MRA strategic plan, development of a new Code of Conduct and management training for the senior executives of the agency. In response to the TCP's focus on corruption, MRA demonstrated its commitment by firing an average of five employees per month for corrupt activities, including the dismissal of a commissioner-level senior manager. Assistance is being provided to several taxpayer investigations that involve the alleged bribery of MRA officials, including joint cases with the Anti-Corruption Bureau and the investigative unit of the Tanzania Revenue Authority (TRA). The emphasis on enforcement is resulting in record levels of revenue collection.
- OTA Financial Enforcement provided 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 has placed a resident advisor with the Reserve Bank to help establish an AML/CFT regime.

Mali

- In January, 2006, OTA Banking and Financial Services entered into an Inter-Agency Agreement (IAA) with the Millennium Challenge Corporation (MCC). Through the IAA, OTA is providing technical expertise to assist the MCC in evaluating the capacity of banks and financial institutions to act as the payment/disbursement agents under MCC-Country Compact Agreements (Compacts). Written reports provide findings for each bank/financial institutions being assessed. The case of Mali was unique in that none of the banks were in full compliance with the Central Bank's prudential norms. The OTA report advised against engaging any of the Mali banks for MCC compact purposes, and recommended instead a foreign bank operating in the West African Region to be the MCC Compact bank.

Mauritius:

- OTA Budget Policy and Management continued to assist the country in the development and implementation of a Medium-Term Expenditure Framework, which includes the identification of programs and strengthening the policy basis and results orientation of the budget. This project was part of a four year effort to make budget decisions more effective. Our advisor also played a major role in aid-for-trade policy development in 2006 as the OTA resident mission phased out.
- OTA Government Debt Issuance and Management assisted the Ministry of Finance in the development of a debt management strategy document that provides guidelines for the management of the country's debt stock and sets benchmarks that provide quantitative targets for the debt portfolio. Mauritius' debt burden has been approaching an unsustainable level and these guidelines provide tools to help place the country back on track to achieve macro-economic stability. GDIM also revamped the tendering process for Mauritius' Treasury securities that smoothed issuance practices, ensuring that auctions are regularly covered and government cash balances are in surplus.

Namibia:

- As a result of Tax Policy and Administration assistance, the Inland Revenue Directorate (IRD) developed handbooks on collection, document and payment processing, and began designing an audit handbook. In addition, the IRD conducted its first ever performance management workshops on strategic and tactical planning.

Niger:

- OTA Budget Policy and Management launched a reform effort that initially focused on advancing implementation of a Medium-Term Expenditure Framework and program budgeting. The project currently centers on inventory controls and management reforms to combat corruption and losses. The government has committed to creating an effective operating inventory control system – buildings, equipment, and other items have heretofore been inconsistently tracked through an ad hoc paper process. Along with procurement reform, these are necessary steps to handling potential MCC funds. The OTA project will provide a basis to launch other “good government” initiatives (e.g., expanded auditing capacity).

Nigeria:

- OTA Government Debt Issuance and Management helped in the development of a network of primary dealers whose responsibility is to ensure widespread distribution of Federal Government of Nigeria bonds, and to provide liquidity to investors through market-making in the secondary market. The advent of the primary dealer system resulted in the successful introduction of longer maturity securities (five and seven year), thereby lengthening Nigeria's domestic debt profile and reducing rollover risk. These developments have fostered high expectations for the introduction of Federal Government lending for private sector development and the creation of a mortgage market.

Sao Tome and Principe:

- OTA Financial Enforcement 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.
- In conjunction with OTA Financial Crimes and Enforcement, OTA Banking and Financial Services developed a program for Sao Tome officials to combat potential money laundering activity. The program was based on extensive interviews with representatives of government, the Central Bank, international organizations, and bankers.

South Africa:

- From 2003 through 2006, an OTA resident advisor helped the government restructure their social grant system and assisted in instituting reforms to better manage disability spending, which had been growing at an unsustainable rate. That effort continues on an intermittent basis. Another advisor worked with the National Treasury to devise a certification system for budget professionals which involves a sequence of courses and the demonstration of competence in budget analysis and reporting. Agreement was reached to provide a final year of resident technical assistance targeted toward organizing a budget performance evaluation system.

Uganda:

- OTA Banking and Financial Services converted this project, based at the Bank of Uganda, from resident to intermittent advisor status. All goals related to asset management, liquidation accounting, receivership termination, and problem bank intervention have been achieved. Technical assistance in deposit protection continues on an intermittent basis in order to finalize the Financial Institutions Act and its presentation to the Cabinet and Parliament.
- In Uganda, OTA Government Debt Issuance and Management (GDIM) assisted in improving secondary market liquidity for government obligations by providing advice on the structure and pricing of debt buybacks in the domestic market. The buybacks also helped reduce refinancing risk and lower the overall costs of debt service. GDIM also supported: initial steps toward longer term implementation of an all-encompassing national debt management strategy; drafting of Ministry of Finance policy and operational guidelines; risk control measures, reporting requirements, and benchmarks for debt managers; and strategies for managing external debt and debt arrearages. GDIM assisted the Bank of Uganda and the National Social Security Fund in the establishment of a framework for a secondary market for mortgages.

Tanzania:

- Though its regional assistance efforts Government Debt Issuance and Management helped increase the capacity of primary dealers to make markets and expand their use of repurchase agreement transactions by providing extensive training to the dealer community.

Zambia:

- In order to reduce fraud and eliminate waste, OTA Debt Issuance and Management assisted the Ministry of Finance in creating a new Treasury department that unites revenue and expenditure collection and reporting, and introduces new cash management tools and techniques. A new sovereign debt law is being prepared to harmonize and clarify debt issuance processes and procedures, laying the base for broader and deeper capital markets. To improve liquidity for commercial banks and their customers, a master repurchase agreement was drafted and is being implemented.
- OTA Banking and Financial Services successfully provided assistance to the Bank of Zambia in the areas of banking supervision and receivership termination. Banking supervision accomplishments included the implementation of internationally-acknowledged standards for corporate governance by all financial institutions, and the expansion of off-site analysis to cover trends for periods beyond month-to-month comparisons. Receivership termination assistance gained momentum during the course of the year, which culminated in the payment, in full, of all of the depositors of the largest of the receiverships during December 2006. Plans for the future include the termination of six of the eleven existing receiverships during USG Fiscal Year 2007, with the remainder to be terminated by the end of the third quarter of USG Fiscal Year 2008. In the area of supervision, prudential standards (regulations) were drafted for non-bank financial institutions (NBFIs) covering required initial capitalization, on-going capital adequacy requirements, liquidity standards, loan loss provisions, and limitations on investments in fixed assets. Assistance also included help in drafting guidelines for International Financial Reporting Standards for the financial institutions, and advice related to the adoption of amendments to the National Savings and Credit Bank Act, the Development Bank of Zambia Act, and the Building Society Act.

Asia and Near East

Afghanistan

- OTA Government Debt Issuance and Management assisted Afghanistan in completing a Paris Club debt restructuring agreement in 2006 with three countries: Germany, the Russian Federation, and the United States. This agreement is expected to result in 100% debt forgiveness on approximately \$11 billion of debt in the coming years, subject to Afghanistan's successful completion of a program under the Heavily Indebted Poor Country (HIPC) initiative.
- Development of the Financial Intelligence Unit progressed ahead of schedule. Memoranda of Agreement have been signed with two of the law enforcement investigatory units which will facilitate the sharing of information and the development of cases. Enforcement of the regulation of the hawaladars (service providers in an informal channel for transferring funds from one location to another) has, to date, resulted in the arrest and closure of one non-compliant hawaladar.

Bangladesh:

- OTA began a Banking and Financial Services technical assistance project with the Bangladesh Bank, the central bank, in 2002. Until approximately four years ago, Bangladesh Bank functioned as an agency of the Government of Bangladesh. Laws passed as a result of encouragement from the World Bank failed to deliver the degree of central bank independence that was hoped for (except in certain specific areas such as the salary and benefits paid to its employees). The result is that Bangladesh Bank continues to function as an overstaffed agency of the Bangladesh government and continues to be highly resistant to change. Levels of corruption are high, and individuals who are in positions of authority appear very reluctant to make decisions that might have a negative impact on those who have political connections. In addition, the country receives so much international assistance that they seem to feel almost no obligation to comply with the requests of international donors to improve their systems. Though there were times during the project when progress seemed promising, overall, OTA advisors in the country found counterparts lacking in experience, unwilling to press for reform, and difficult to engage on a regular basis.

Egypt:

- At the request of, and with funding from USAID, OTA Government Debt Issuance and Management provided assistance to the Ministry of Finance and Ministry of Investments to create a mechanism for lending and borrowing government securities in order to improve secondary market trading. The implementation of a master repurchase agreement resulted in Egypt's first repurchase agreement transaction when the National Investment Bank sold Egyptian Treasury bonds in its portfolio to the Commercial International Bank with an agreement to repurchase the securities at a later date. The development of the repo market provides safe investment instruments for institutional investors. GDIM also provided policy advice that resulted in the Ministry of Finance's taking responsibility for external debt management in addition to domestic debt management.

Jordan

- OTA Government Debt Issuance and Management provided cash management training and a cash forecasting model to line ministries. This has led to improved accuracy of cash projections and made government debt issuance more efficient. GDIM assisted in establishing regularity in the domestic debt issuance program which, over time, will allow the government to replace riskier external borrowing with domestic funding. Several GDIM initiatives have improved the coordination and communication between the Central Bank of Jordan and the Ministry of Finance that resulted in improved debt management. The Ministry is reducing the government's overdraft position at the Central Bank and shifting its domestic borrowing to market-based auctions. A new committee was established to coordinate the monthly issuing programs of the two institutions, thereby providing greater clarity to the market about which debt is issued for monetary policy and which is issued for fiscal purposes.

Oman:

- Government Debt Issuance and Management assisted the Oman Capital Markets Authority in its bond market development initiative. GDIM helped the Authority as it developed plans to attract credit rating offices to Oman. Two credit rating agencies

have announced plans to open regional offices in Oman.

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 by adopting the basics of financial investigations. Cash reporting requirements have been implemented at the Manila International Airport by the FIU. 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 in the design and introduction of new debt products - Inflation Index-linked bonds and Zero-coupon bonds - that provide the government with additional market-based funding instruments. Such instruments also provide new investment options for the retail market. GDIM also provided guidance for the re-profiling of existing government debt, thereby reducing excessive concentrations in the debt profile and enabling the Treasury to better manage the government's debt and cash positions. GDIM assisted in the development of a risk management framework that provides debt managers with analytical tools for implementing debt management operations based on sound risk management principles, and guided the development of a blueprint for a comprehensive public debt management strategy to replace ad hoc approaches to debt management.
- OTA's Budget Policy and Management team reconfigured its technical assistance to help Sri Lanka develop a long-term budget capacity-building program that is tailored to local realities and promotes exposure to experienced practitioners. This OTA-supported program became central to the Ministry of Finance and Planning's Human Resources Development Plan. Sri Lanka has begun to train a new generation of budget experts using this curriculum. OTA also helped the Department of Plan Implementation refine its methodologies for measuring and reporting program results.

Yemen

- OTA Government Debt Issuance and Management helped draft a sovereign debt law, as the country develops its vision for debt management and the Ministry of Finance struggles to become effective.

Latin America and the Caribbean

Bolivia:

- OTA Government Debt Issuance and Management assisted Bolivia's Treasury to increase the local currency composition of its debt portfolio from 56% at the end of 2005 to 70% in August 2006, thereby reducing Bolivia's U.S. Dollar currency risk in its liability portfolio. As part of this initiative, GDIM helped in the introduction of longer maturity (two and four year) Treasury Bonds that extended the yield curve and reduced rollover risk. GDIM also assisted in structural redesign and drafting of laws for sub-national debt and sub-national distress/insolvency.

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. 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. Financial Investigative Techniques training was provided to Chileans, and a moot court component was added in collaboration with DOJ/OPDAT⁷.

Costa Rica:

- Tax Policy and Administration supported the establishment of a strategic focus for improving tax administration, including the development and implementation of an accountable planning and management system. Training of managers and technical innovations in enforced collection and audit contributed, from 2005 to 2006, to a 69 percent increase in revenue collection from small and medium taxpayers and a 279 percent increase in revenue collection from large taxpayers. In other efforts, Treasury provided assistance to improve the quality, professionalism and consistency of auditing practices in the Central American region. Through a regional initiative, Treasury promoted and facilitated meetings with counterparts to prepare a Spanish language auditing techniques training guide and course. Tax advisors also helped produce, print, and teach a Spanish language manual for auditing taxpayers in Honduras and Nicaragua. This manual is being made available to other countries for their adaptation and utilization.
- At the request of the new Finance Minister, OTA assigned a resident budget advisor to work with the National Budget Directorate in developing a multi-year budget framework, which will allow the Government to present to the public a clear medium-term economic and fiscal strategy. Assistance will also focus on strengthening budget and program analysis to better measure the effectiveness of public spending. International (PEFA⁸) standards for public expenditure and financial accountability will help the Government of Costa Rica to measure its progress in improving and reforming these areas.

Dominican Republic:

- The Direccion General de Impuestos Internos (DGII), the revenue authority for the Dominican Republic (DR), continued to focus on audit and internal controls. Tax Policy and Administration advisors assisted audit group managers review and adapt El Salvador's general audit manuals and procedures to the DR context and implement review and adaptation techniques to specialized audit manuals for the retail sales industry, banks, insurance companies, and casino operations. Advisors also supported organizational restructuring efforts to improve audit standards, as well as a review of internal controls to include internal investigations.

⁷ DOJ/OPDAT: Department of Justice/Overseas Prosecutorial Development, Assistance and Training

⁸ PEFA: Public Expenditure and Financial Accountability

El Salvador:

- 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:

- Tax Policy and Administration assisted the Superintendencia de Administracion Tributaria (SAT) in strategic planning, human resources development and audit. In the petroleum audit area, SAT, with OTA assistance, established controls for the importation and distribution of petroleum products through Tax Free Zones, including an analysis of the current law and potential reforms needed to establish such controls. With a tax advisor's help, a petroleum unit was then created which developed a comprehensive training manual, verified petroleum quantities shipped to terminals and then imported for retail businesses, and trained 200 customs officials at the terminal facilities in both the Pacific and Atlantic ports on procedures and guidelines for physically measuring tank volumes.

Honduras:

- Tax Policy and Administration assistance to Dirección Ejecutiva de Ingresos (DEI – the Honduran equivalent of the IRS) continues to focus on the establishment of internal controls, tax collection and audit. In all three areas, the DEI took steps to change the organizational structure to improve efficiency, effectiveness and transparency. Tax advisors assisted the DEI to take a leadership role among Latin American tax administrations by hosting three OTA-designed training courses on basic instructor training and audit techniques.
- OTA Government Debt Issuance and Management assisted the Ministry of Finance in its initiation of regular market-based auctions of government securities that will allow the government domestically to finance budget deficits at the optimum combination of lowest cost and risk. GDIM also conducted advanced cash management training for the Ministry of Finance that enables the ministry to forecast cash needs and prepare management reports supporting debt policy decisions. Ongoing GDIM assistance is helping the Ministry's Public Credit department in reorganizing its operations to meet international standards and practices.

Nicaragua:

- Tax Policy and Administration continued providing assistance in strategic management planning, basic management and basic audit techniques for all audit staff. Revenues increased by 20.5 percent due to improved audits and collection techniques. The Gaming initiative, in conjunction with the Enforcement Team, increased casino revenue tax collection by 20 percent over what was projected. Other areas of assistance were in taxpayer service, returns processing via payments through banks, and accounting.
- OTA Government Debt Issuance and Management helped design a strategy to settle Nicaragua's outstanding external commercial debt (claims of approximately US\$1.3 billion). The World Bank approved this plan in August, 2006. GDIM also assisted the Central Bank of Nicaragua in the design and implementation of a contingency liquidity facility as insurance against sudden declines in financial system liquidity,

thereby helping maintaining financial system integrity during the last election. (Nicaragua has historically faced capital outflows during national elections.)

Paraguay:

- In 2006, Budget Policy and Management trained Paraguayan budget staff in budget analysis techniques, convened a working group to begin the process of transitioning to a Treasury Single Account, and led Paraguayan officials on a study of Florida public utility regulation systems. In addition, assistance was provided to improve the budget instructions distributed to line ministries, and the budget execution plan prepared by the Finance Ministry. A new resident advisor was assigned who will press forward the establishment of the unified treasury system, a critical tool for transparency and budget control.
- Tax Policy and Administration continued to provide assistance in the areas of Taxpayer Service, IT technical support, Internal Controls and Audit. In Taxpayer Service, the tax advisor trained and provided support to the establishment of a call center. In IT technical support, a tax advisor provided an independent review of a systems re-engineering project. In Internal Controls and Audit, the tax administration froze certain activities to minimize corrupt actions taken by tax officials. The combined efforts of the Vice Minister, the Head of Tax in Paraguay, and tax advisors contributed to an upward trend in revenue collections, totaling 6.3 billion Paraguay Guaranes (PYG) – a 14 percent increase from 2005 levels. The number of registered taxpayers rose more than 90,000, representing a 35 percent increase from the 2005 number.
- OTA Government Debt Issuance and Management assisted the Paraguayan Treasury with two issuances, in Guarani and U.S. Dollars, of Medium Term Notes. The issues were well received by investors, were the first non-compulsory domestic financings in Paraguay, and contributed to the development of domestic funding sources to reduce reliance on riskier external financing. GDIM also helped design a debt sustainability model that provides tools to help officials analyze Paraguay's ability to meet current and future debt service obligations. With GDIM assistance, Paraguay received its second sovereign credit rating – a Moody's rating of Caa.
- OTA Banking and Financial Services assisted the Central Bank in establishing a Financial Stability Monitoring Group to assist senior Central Bank management in providing early warning mechanisms to reduce the incidence of future banking crises.
- Paraguay also provided an opportunity for active cross-team involvement. OTA's Government Debt Issuance and Management, Budget Policy and Management, and Banking and Financial Services teams jointly conducted risk management and debt sustainability training for Central Bank and Ministry of Finance directors that contributed to improved operations and policy coordination between the two institutions.

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 processes, 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.