

**DEPARTMENT OF THE TREASURY  
INTERNATIONAL AFFAIRS TECHNICAL ASSISTANCE  
2007 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 by Treasury's Office of Technical Assistance (OTA).

## **TABLE OF CONTENTS**

<b>EXECUTIVE SUMMARY</b>	<b>1</b>
<b>2007 REPORT</b>	<b>7</b>
<b>STRATEGIC OBJECTIVES</b>	<b>8</b>
<b>Support for Post-Conflict Countries and Failed States</b>	<b>9</b>
<b>Anti-Terrorist Activities</b>	<b>10</b>
<b>Compelling Assistance Needs</b>	<b>11</b>
<b>Cooperation with the Millennium Challenge Corporation</b>	<b>12</b>
<b>CROSS-TEAM PROJECTS</b>	<b>13</b>
<b>PROJECT IDENTIFICATION AND SELECTION</b>	<b>13</b>
<b>2007 COUNTRY-SPECIFIC HIGHLIGHTS</b>	<b>15</b>
<b>STRATEGIC PLAN 2006-2010</b>	<b>25</b>
<b>TABLE A - FISCAL YEAR 2007 BUDGET EXECUTION PLAN</b>	<b>27</b>
<b>TABLE B - FISCAL YEAR 2007 Non-TIATA Sources of Funding</b>	<b>31</b>

## EXECUTIVE SUMMARY

This report covers the 2007 activities of the U.S. Treasury Department's international technical assistance program, administered by the Office of Technical Assistance (OTA). It focuses on the results of projects financed by Treasury International Affairs Technical Assistance (TIATA) funds provided by Congress, as well as activities funded by other sources, and reviews new program developments since the previous annual report. The report describes the program's mission, organizational structure, decision-making processes, and implementation methods. A special theme of this year's report is the importance for overall aid effectiveness of building public financial management capacity in aid recipient countries.

The purpose of Treasury's technical assistance program is to promote sound public financial management, to improve regulatory oversight of financial institutions, and to strengthen financial systems against criminal, terrorist and corrupt practices. In working toward these goals, OTA supports the economic, foreign policy, and security objectives of the Treasury Department and U.S. Government around the world. Treasury advisors serve in countries as diverse as Iraq, Liberia, Haiti and Honduras. The unifying element across these engagements is the recognition that strengthening institutions of financial governance is critical to security, stability and prosperity. In addition to information on individual projects, the main body of this report includes a section on OTA's strategic objectives and the alignment between OTA activities on the ground and broader economic, AML/CFT and foreign policy priorities.

Treasury provides assistance in five core areas where it has specialized expertise and comparative advantage:

- Budget policy and administration;
- Tax policy and administration;
- Financial institutions policy and regulation;
- Government debt issuance and management; and
- Financial enforcement.

OTA works primarily with developing countries and countries making the transition to market economies. The program deploys resident or intermittent advisors who work with senior management and staff-level counterparts. Currently, OTA is conducting 53 resident projects and 67 intermittent projects in 66 countries in Latin America, Africa, Asia, the Middle East, Central and Eastern Europe, and the Former Soviet Union.

OTA projects emphasize *capacity building* -- both human and systems -- through practical, sustained, on-the-job training. A specific project may last several years and entail collaboration on a number of initiatives, such as:

- thinking through the trade-offs among policy choices;
- drafting improved laws and regulations to give effect to policy choices;
- strengthening management and administrative processes so that institutions perform more

effectively;

- helping governments develop the tools that will allow them to focus their attention and resources on those activities that are best suited to the public sector, while conducting government business in ways that foster private economic activity. For example, a government debt market necessarily involves the public sector, but in order for the market to function well, government involvement must be conducted in a way that allows market forces and private activity to flourish.

OTA helps countries emerge from a variety of difficulties. Sometimes OTA acts as a first-responder to countries emerging from conflict, as it did and continues to do in Afghanistan, Bosnia, Kosovo, and Iraq. In such cases, OTA assistance becomes part of the military-civilian effort to stabilize a country and re-establish civil society through the building of effective government financial systems. In other cases, OTA helps countries emerging from financial turmoil or burden. For example, in fiscal year 2007, OTA provided assistance to 17 Heavily Indebted Poor Countries (HIPC) in various stages of the HIPC debt relief and financial reform process.

Tracking progress and achieving successful outcomes is a challenge for any organization that provides *technical support* but has no direct *operational control*. Yet making progress and achieving successful outcomes is the standard against which all assistance programs should be judged. OTA defines progress in terms of establishing strong partnerships that bring about change in laws, institutions, systems, processes, procedures, practices and technical capacity of counterpart governments; success is when counterparts no longer need our assistance and we move on.

### **Regional and Country Projects**

In total, OTA had projects in 78 countries (including those carried out under regional initiatives) in 2007, representing \$39 million. Of this total, 31 projects representing \$22.3 million were financed either wholly or partly by TIATA funds. As for regional distribution, about a third of OTA projects are in Africa; a third in Latin America and the Caribbean; and a third throughout the rest of the world. Tables A and B provide additional data on OTA's sources and uses of funding in 2007.

OTA successfully completed and closed out nine projects in 2007 and initiated seven new projects. Regarding TIATA-funded activities, OTA completed six projects and initiated seven projects in 2007. TIATA-funded projects were initiated in Latin America (Costa Rica, Latin America Regional), Africa (Mozambique, Niger, East Africa Regional) Asia (Vietnam), and the Near East and North Africa (Tunisia).

The following are illustrative examples of projects that made noteworthy progress in 2007 or, in some cases, did not live up to expectations. Additional information on specific projects appears in the main body of the report.

- **Ghana.** Collaboration between OTA's government debt advisor and officials in Ghana resulted in that country's debut \$750 million Eurobond to market on September 27, 2007. This was the first sub-Saharan Euro bond in 30 years. The issue was very well received by

investors and, if managed prudently, will be a major step toward Ghana having access to a broad array of financial instruments and markets. Such access will facilitate Ghana's ability to finance its development program.

Complementing this first project, OTA's budget team is supporting Ghana's efforts to develop and implement a framework for sound fiscal decentralization, thereby giving effect to provisions in Ghana's constitution that have a strong decentralization focus. The framework provides a roadmap for the decentralization of functions, revenues, and required financial management capacity to support the orderly transfer of responsibilities from the central government to local levels.

- **Afghanistan.** In 2007, OTA's financial enforcement team helped Afghanistan develop its financial intelligence unit (FIU), strengthen regulatory and enforcement ability, establish a cross-border currency declaration system, and participate more effectively in global and regional Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) bodies. Evidence of progress includes the following: By end 2007, the Afghan FIU, FinTRACA, had over 200,000 suspicious transactions reports in its data base; over one hundred hawaladars (informal channel money senders) had been licensed; FinTRACA began receiving its first hawala transaction reports; and the first arrests for money laundering were made.
- **Costa Rica.** In 2007, an OTA tax project showed a second year of remarkable, measurable results helping Costa Rica's tax administration to enhance revenue collection through systems modernization and increased efficiency, and with no increase in tax rates. In 2006, 16.9 billion colones (\$34.6million) more were collected than in 2005, a 157 percent increase. In 2007, through September, local tax offices had collected 3.96 billion colones (\$8.1 million) more than planned, a 47 percent increase over the plan – a remarkable increase considering the improvements in 2006. The Costa Rica tax administration cites multiple recommendations made by the Tax project as the primary cause of these increases in collections from taxpayers who up until this project had avoided payment and whose accounts had gone delinquent.
- **Paraguay.** OTA's government debt team assisted Paraguay in changing the currency composition of domestic debt issuance from U.S. Dollars to 100% local currency, thereby completely removing foreign currency risk to the country's domestic debt portfolio.
- **Indonesia.** In 2007, with the support of OTA's government debt advisor, Indonesia's Ministry of Finance developed and launched the country's first primary dealer system for domestic government securities. The auction-based distribution system enables the market determination of interest rates, and provides liquidity to investors through market-making by well-capitalized and governed intermediaries. A related initiative introduced short-term Treasury Bills as a component of the Ministry's domestic capital market development plan. The T-Bill program provides the government with a low cost funding instrument that can be valuable during periods of instability or crisis, when longer term instruments are not in demand. The T-Bill program also broadens the investor base for government securities by introducing a new class of securities for investors.
- **Zambia.** OTA Banking and Financial Services resident advisors assisted the Bank of Zambia (BoZ) in bank supervision, implementation of Basel II standards, development of risk based

supervision prudential regulations, termination of failed bank receiverships, and the design of a deposit insurance law with accompanying policy and implementation procedures and regulations.

Inevitably, a number of projects were suspended or terminated without achieving their original objectives. Projects can fall short of expectations for a variety of reasons – a difficult work environment, limited absorption capacity by recipients, a change in host-country leadership, difficulty in establishing a good working relationship between the advisor and his/her counterpart, a lack of commitment to reform, or reform fatigue. Sometimes deterioration in the broader bilateral relationship spills over into the assistance arena. Projects that did not progress or come to fruition in 2007 for one reason or another included the following.

- The Tax Team closed its project with the Namibia Inland Revenue Directorate after a year and a half. The project was designed to be comprehensive, with consulting provided in Strategic Planning, Audit, Enforced Collections, Returns and Payment Processing, Taxpayer Service and Education, Administrative Law, and Information Technology. However, a project review in late 2007 revealed that the Directorate -- characterized by able individuals beleaguered by high personnel vacancy rates and consequent severe understaffing, a crisis in its IT systems, and an inability to effect legislative change – was not able to assimilate the assistance offered. In closing the program, OTA offered to re-engage whenever the IRD is able to solve the infrastructural problems standing in the way of an effective program of technical assistance.
- In the fall of 2007, the Government of Bolivia unilaterally ended a project that was making considerable progress. OTA's Government Debt team had provided assistance to the Ministry of Finance for the restructuring of domestic debt that leveled out the annual debt service requirements; reduced the roll-over (refinancing) and foreign currency risks in Bolivia's dollar denominated debt portfolio; introduced new instruments for investors that helps deepen the market; and enhanced staff capacity for debt management, analysis, accounting and reporting.

### **Key Program Developments**

In addition to project-specific outcomes, there were certain developments in 2007 that were important for the overall program.

- In 2007, OTA and the Millennium Challenge Corporation (MCC) strengthened their ongoing collaboration. Of particular note, OTA was selected by MCC as the prime implementing agency for a two-year, \$7.3M Threshold Country Plan project focusing on tax reform and customs modernization in São Tomé and Príncipe. This work began in November. This builds upon other collaborative efforts. Since 2005, OTA's financial management expertise has been helpful to MCC in analyzing, evaluating, and monitoring prospective and on-going projects. OTA works as an implementer on MCC Threshold Country Programs in Malawi - where a multidisciplinary team is working in the areas of budget, tax, financial enforcement, government debt, and banking – and in Paraguay where OTA is providing assistance in budget, debt, banking and financial enforcement.

- Over the course of 2007, OTA took steps aimed at strengthening the AML/CFT capacity of so-called FATF-style regional bodies (FSRBs), regional entities that work in collaboration with the global Financial Action Task Force, and seek to advance FATF objectives. With varying degrees of success, the FSRBs review compliance with international AML/CFT norms by countries in their region, and in that process can play a role in building AML/CFT capacity. OTA is working with several FSRBs to help them build the capacity to play this role effectively. In 2007, OTA provided assistance to FSRBs in South America (GAFISUD), West Africa (GIABA), and Eastern/Southern Africa (ESAAMLG).
- In 2007 the Department of Defense invited agencies to collaborate in the creation of a new combatant command dedicated to Africa -- AFRICOM. Recognizing AFRICOM's desire to support a range of security and stability related activities, OTA agreed to detail an official to work with AFRICOM on the financial sector capacity building aspects of security and stability. (This detail is not funded by TIATA sources.)

## Public Financial Management and Aid Effectiveness

One of the central issues in development is aid effectiveness. What kinds of aid, and what approaches for providing aid best support development and help ensure that aid will be effective and sustained?

Treasury's experience is that technical assistance directed toward strengthening the financial management capacity of recipient governments is a vital complement to other forms of aid and a necessary element in overall aid effectiveness. Without financial management capacity the odds are low that aid recipients will capably manage and make good use of any assistance, whether financial or material. Strengthening debt management skills of a government reduces the likelihood of its falling back into unsustainable indebtedness. Increasing budget management and revenue generation capacity improves the likelihood that capital projects will be sustained with maintenance and upkeep. The absence of such tools and skills requires donor-funded maintenance, or the risk of seeing costly investments deteriorate. History is replete with cases of roads, schools, hospitals, air bases, debt relief, and other major development initiatives not being sustained by recipients.

There is strong evidence, however, that financial management capacity can be improved with focused assistance, patience, and commitment to reform -- Poland, the Czech Republic, Ghana, South Africa and Costa Rica are such cases. But such capacity is still sorely lacking in many developing and transition countries. The main body of this report provides additional examples of progress in building the skills and systems necessary for short and long-term financial management success.

Though improved public financial management does not guarantee the effectiveness of other forms of development assistance, its absence will mortgage the future dreams and expectations for sustained results. Strengthening government financial operations seldom produces headlines, but such advances are the foundation on which stable civil society is built. What public order and a fair justice system bring to the physical security of citizens, sound management of the public purse and effective oversight of financial institutions bring to the economic health and well-being of a country.

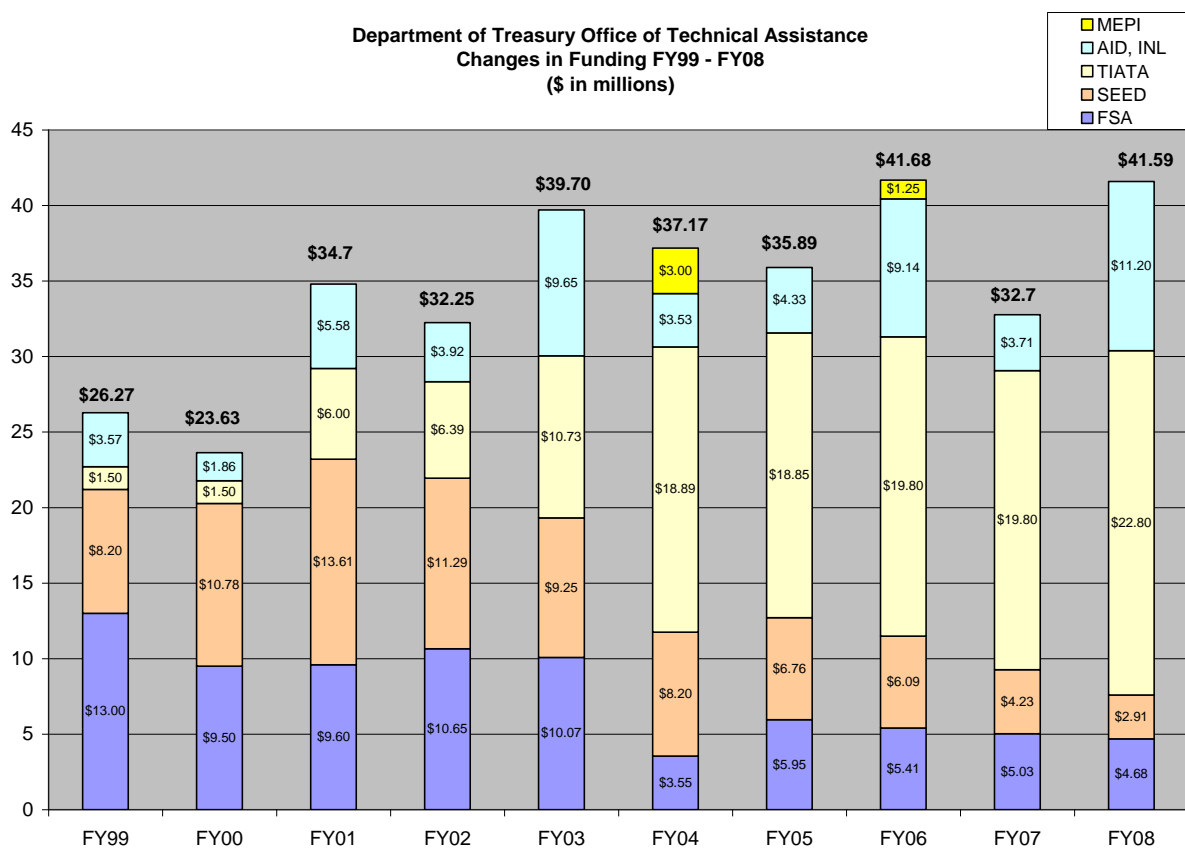


## 2007 REPORT

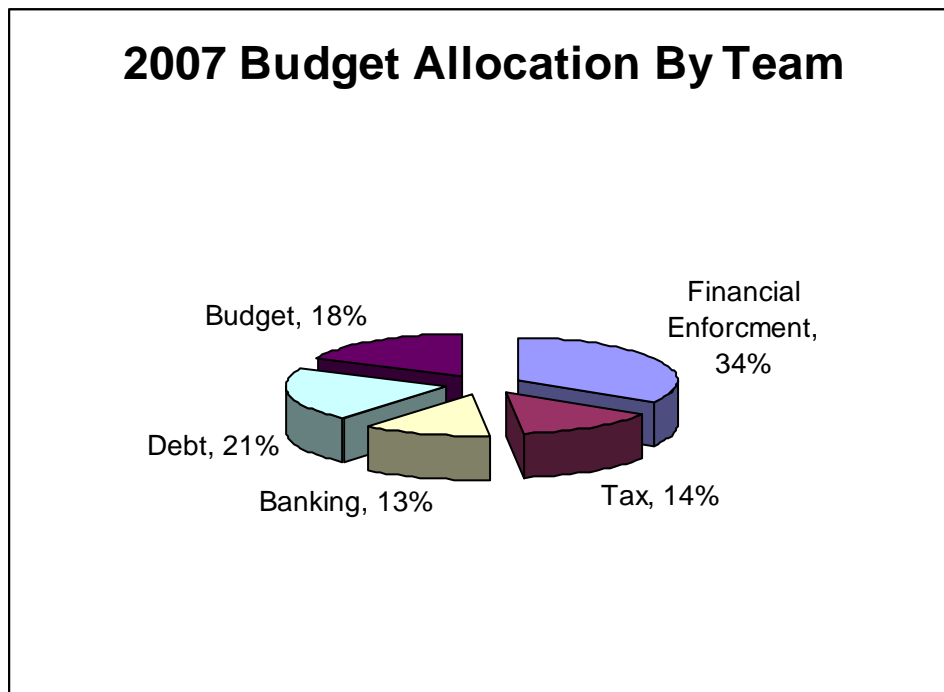
### PROGRAM ORIGINS, FUNDING AND MANAGEMENT

In 1991, Treasury established the Office of Technical Assistance (OTA) as the operational office through which it delivered financial technical assistance. Beginning with the initial appropriation from Congress in FY1999, Treasury created the TIATA program and expanded the reach of its technical assistance operations outside of its traditional base in Eastern Europe and the Former Soviet Union to include countries in Africa, Asia, Latin America and the Middle East. It is in these four regions that Treasury now sees its primary responsibility for the future.

As the chart below indicates, 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. TIATA funding can sometimes be used to co-fund projects with USAID, INL, and from other sources. 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. Table B – provides Fiscal Year 2007 Non-TIATA Sources of Funding.



Among OTA's five core assistance areas, the breakdown in terms of project funding in 2007 was as follows: Financial Enforcement 34%; Debt 21%; Budget 18%; Tax 14%; and Banking/Financial Institutions 13%. The chart below shows the allocation of OTA project funding by team.



## STRATEGIC OBJECTIVES

The many projects and initiatives that OTA pursues should be understood both in terms of their individual merit and in terms of their alignment with and support for broader strategic objectives. OTA's points of reference for strategic objectives are the Treasury Department's international economic, financial and AML/CFT policy priorities, as well as broader USG foreign policy and national security goals. To a substantial degree, OTA's activities on the ground reflect an effort to give special attention to the following policy priorities:

- Support for post-conflict and failed states that are U.S. foreign policy/national security priorities.
- Support for regions and countries that are especially important in the fight against terrorist financing and money laundering.
- Support for countries that have fallen deeply into poverty and where development assistance needs are compelling, notably in Sub-Saharan Africa and parts of Latin America, the Caribbean and Asia.
- Collaboration with other assistance providers, such as the Millennium Challenge Corporation, in an effort to leverage our and their efforts.

It is not the case that literally every OTA project falls into one of the above categories, though most do. To the extent possible, OTA tries to be responsive to requests that are meritorious in

terms of need for assistance and commitment to reform even if the country is not at the top of the U.S. foreign policy agenda today. This seems both right and prudent. A judicious investment today in a country that is weak and out of the foreign policy spotlight but trying to implement sound policies may help prevent that country from entering the spotlight tomorrow as a failed state requiring major investments.

The following sections expand upon each of the above strategic objectives.

### **Support for Post-Conflict Countries and Failed-States**

Over the years, OTA has been a first responder in many countries or regions emerging from military conflict and civil strife, or struggling to avoid collapse as a result of weak institutions of state. In 2007, OTA was active in Iraq, Afghanistan, Kosovo, Haiti, Liberia and Bosnia. The following paragraphs elaborate on this experience.

#### Iraq

In 2007, about half a dozen (at times slightly more or less) OTA advisors worked in Baghdad providing support to Treasury's Financial Attaché and engaging with Iraqis on budget execution, governmental accounting, bank supervision, bank restructuring, and electronic payments system. The primary focus of the OTA mission is on budget execution which requires obtaining and documenting consensus on investment budget execution policies and procedures; training Iraqis (central ministries and provincial governments) on investment budget execution; and training U.S. personnel deployed or deploying to Provincial Reconstruction Teams (PRTs). In addition an electronic payments system connecting the Central Bank and other financial institutions was completed and is operational within Baghdad. With financial resources and support from State and DoD, OTA is trying to increase its technical assistance support by about twelve advisors.

#### Afghanistan

Building on the previous year's successful Paris Club debt agreement with several creditors, OTA Government Debt Issuance and Management assisted the Ministry of Finance in the review, negotiation, and execution of an agreement with Russia, Afghanistan's major creditor, to receive immediate forgiveness on approximately \$10.3 billion in debt that has not been serviced in many years. This agreement is expected to lead to further debt relief for Afghanistan in future years when the country reaches Completion Point under the HIPC initiative.

#### Kosovo

OTA placed a Budget Team advisor in Kosovo in July 2007. The objectives of the mission included introducing accounting standards consistent with International Public Sector Accounting Standards (IPSAS), introducing application of these standards, improving public procurement practices, developing the capacity for fiscal impact analysis of legislation, improving the external audit function of the office of Auditor General, and strengthening budget analysis and reporting capacity. As of the end of the year progress was good, although elections, the establishment of a new government (including the appointment of a new Minister of Economy and Finance), and issues of the country's status all contributed to diverting attention from technical matters and toward broader national issues.

## Bosnia

As Chair of the Direct Tax Committee, the Tax team Resident Advisor in Bosnia, led the work to build support for new, harmonized, corporate and personal income tax laws. This effort has required liaison with international and local officials to review draft legislation and to harmonize conditions among entities and meet steadily with stakeholders such as business associations to solicit their views and enlist their support. The personal income tax and corporate tax laws were passed by the Bosnian parliament in early 2008, replacing a patchwork of laws, systems and rates that differed by canton and municipality, significantly improving consistency and fairness for taxpayers and moving the country closer to internationally recognized standards.

The OTA Government Debt Issuance and Management team assisted Bosnia as it prepared to issue frozen foreign currency bonds to extinguish a liability claim to its citizens for foreign currency deposits stolen prior to the war. Abruptly on 6 December 2007, the Republika Srpska (RS) General Assembly passed legislation that provided for the RS Ministry of Finance to issue its own bonds directly to its citizens, circumventing issuance through the state. This was in direct conflict with the BiH Constitutional Court decision. The initial result of this action was to block further progress towards complying with the initial time deadline of 31 March 2008.

## Liberia

OTA Government Debt Issuance and Management provided intermittent technical assistance in the preparation of the National Domestic Debt Resolution Strategy (still pending legislative approval), as well as providing guidance for an implementation plan for the strategy. Additional assistance addressed the early stages of the design and establishment of the Liberia Trust Fund. Once fully operational, this fund will be the primary vehicle for handling payments for restructured debt. Technical assistance also helped establish an appropriate database and process to verify and begin to pay valid domestic claims against the government.

## Haiti

In 2007, a Terms of Reference (TOR) was signed between the U.S. Government and the Government of Haiti (GoH). With financing from the State Department's International Narcotics and Law Enforcement Affairs (INL) Section, OTA Financial Enforcement Advisors, in cooperation with AMEMB Haiti's Narcotics Affairs Section and Haitian Government counterparts, began development of a formal Work Plan. Advisors will assist the Haitian Government to develop a Financial Crimes Unit (FCU) and train its analysts, as well as prosecutors and judges. OTA Advisors will coordinate efforts with Advisors from the World Bank and a USAID-funded Canadian NGO, who are working on parallel projects, to avoid duplication of efforts and maximize efficacy. The project was met with enthusiastic support from Haitian President, René Préval.

## **Anti-Terrorist Activities**

OTA is a participating member of the interagency Terrorist Finance Working Group, chaired by the Department of State. The Group supports the implementation by State of a training and technical assistance program to develop or enhance capacity of certain countries whose financial sectors have been used, or are vulnerable to being used, to finance terrorism.

In 2007, OTA continued to support anti money laundering and counter terrorist financing efforts with resident Financial Enforcement advisors in Afghanistan, Albania, Armenia, Bulgaria, the

Philippines, Jordan, Montenegro, Namibia, Sri Lanka, and Zambia. OTA resident Financial Enforcement advisors also worked in FATF1-Style Regional Bodies, including GAFISUD in South America, and EAG2 in Eurasia, with proposals for GIABA in West Africa, and ESAAMLG, covering Eastern 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 conducted an assessment mission in Pakistan and anticipates placing a resident advisor there in summer 2008 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/ICE3 on the establishment of a Trade Transparency Unit to monitor flows of goods and cash.

Employing global TIATA funds, OTA Financial Enforcement advisors provided intermittent assistance and/or training during 2007 to the governments of Antigua, Botswana, Chile, Croatia, Dominican Republic, El Salvador, Ethiopia, Georgia, Guatemala, Haiti, Honduras, Jamaica, Kyrgyzstan, Lesotho, Malawi, Mexico, Paraguay, Peru, Poland, Serbia, Seychelles, and South Africa, and to Kosovo. In addition, in cooperation with ESAAMLG and DHS/ICE and DHS/Customs Border Protection (DHS/CBP), OTA provided a four-day regional cross-border cash courier training in February 2007 for all fourteen ESAAMLG countries in Livingstone, Zambia. In September 2007, OTA and DHS provided this training to Customs and Law Enforcement Officers from GIABA member countries.

OTA's Financial Enforcement projects are able to draw on experts from the other four OTA disciplines. Tax Policy and Administration advisors, working with Financial Enforcement advisors, provided training and technical assistance to gaming industry regulators in several countries Banking and Financial Services works with Financial Enforcement to create financial services regimes which are consistent with international standards. And, the Budget Policy and Management program works with Financial Enforcement in the areas of internal audit and fighting procurement fraud.

### **Compelling Assistance Needs**

Examples of compelling assistance needs can be found in virtually every region of the globe. A substantial number of those countries are in Sub-Saharan Africa. Latin America and Asia have generally gone far in terms of achieving macroeconomic stability but still, with the exception of certain countries, have far go in terms of broad based poverty reduction. Accordingly, about one third of OTA's core program (i.e., not counting exceptional supplemental funding) is devoted to Sub-Saharan Africa and slightly less than a third to Latin America and the Caribbean. In the past two years, OTA has increased its activities in East Asia, notably in Indonesia, where poverty remains widespread, and in Vietnam.

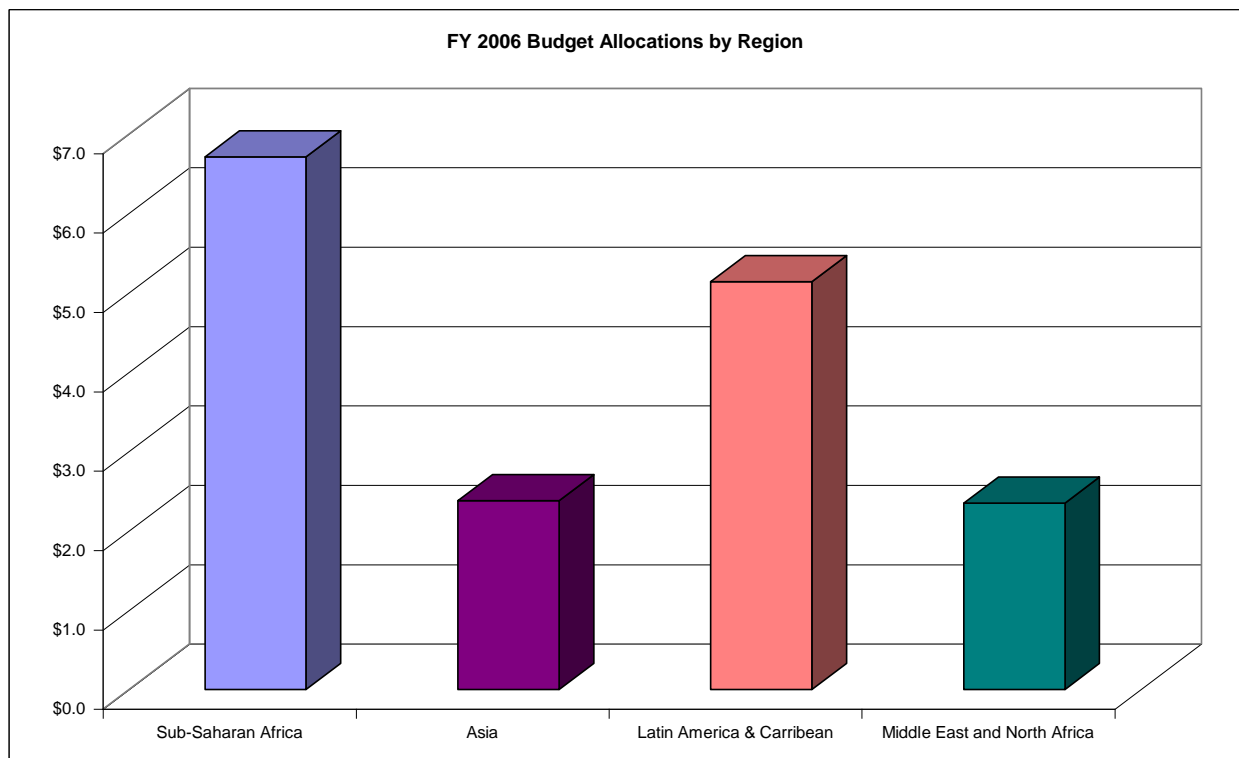
Details on specific regional and country projects appear below and in the Executive Summary.

---

<sup>1</sup> FATF: Financial Action Task Force

<sup>2</sup> EAG: Eurasian Group on Combatting Money Laundering and Terrorist Financing (Moscow)

<sup>3</sup> DHS/ICE: Department of Homeland Security / Immigration and Customs Enforcement



### **Cooperation with the Millennium Challenge Corporation**

During 2007, OTA continued to build on a mutually beneficial relationship with the Millennium Challenge Corporation (MCC) begun in 2005. OTA's financial management expertise has been valuable to MCC in analyzing, evaluating, and monitoring prospective and on-going projects. Through an interagency agreement, MCC has been able to move its efforts by tapping the expertise of advisors from OTA's Budget, Banking, Enforcement, and Debt Teams.

2007 was a hallmark year for OTA's support to the Millennium Challenge Corporation in assessing banks as potential depository and payments and disbursement agents under the MCC-Country Compact. Five countries were visited including Lesotho, Mongolia, Morocco, Mozambique, and Tanzania. Namibia, Burkina Faso and possibly two other countries are scheduled for early-mid 2008. To date, the banks and banking systems of ten countries had undergone UST/OTA assessment for the MCC- Country Compact operations.

The success of OTA's support to the MCC has further expanded OTA's scope of work under the 2005 UST/OTA - MCC Interagency Agreement to include assessing the economic and financial feasibility of proposed projects/programs in line with the country assistance strategy under the MCC-Country Compact Agreement (MCC-CCA) including but not limited to: (i) financing components and flow of funds; (ii) access and bottlenecks to on-lending finance by eligible financial institutions and financially viable private enterprises; (iii) loan eligibility requirements; (iv) on-lending arrangements and Apex arrangements; (iv) project/program operational functions and responsibilities; and (v) monitoring and implementation arrangements. Namibia and Burkina Faso will be the first countries in 2008 to undergo the new MCC assessment requirements.

OTA has also continued to work as an implementer on MCC Threshold Country Programs

(TCPs), notably in Malawi - where a multidisciplinary team is working in the areas of budget, tax, financial enforcement, government debt, and banking – Paraguay where OTA is implementing the financial enforcement component of that country's TCP. OTA was selected by MCC as the prime implementer for a two-year, \$7.3M Threshold Country Plan project focusing on tax reform and customs modernization in São Tomé and Príncipe, and began work in November. Financial Enforcement, which is carrying out the customs portion of the plan, is also conducting a separate anti money laundering project there. In addition, OTA continues to explore additional opportunities to support MCC's efforts. Discussions are currently underway regarding potential engagements in Niger, and Tanzania.

## **CROSS-TEAM PROJECTS**

One of OTA's internal strategic objectives is to emphasize cross-team projects -- broad-based engagements that cover multiple aspects of public financial management and financial sector oversight within a given country, and that draw upon expertise from across OTA's program. The objective is to take advantage of synergies across teams and to maximize impact. Historically this has been a proven approach for OTA, one that was the typical model in the 1990s in Central and Eastern Europe and the Former Soviet Union where the USG assistance programs were more robustly funded. In 2006, OTA operated a number of multi-disciplinary programs, including: Zambia (with four resident advisors working in the areas of banking, enforcement, and government debt); Paraguay (with four resident advisors working in the areas of banking, enforcement, budget, and government debt); and Malawi (an MCC-funded engagement comprised of four residents and one intermittent advisor working in the areas of banking, budget, enforcement, tax, and government debt – with an additional resident advisor added in early 2007).

## **PROJECT IDENTIFICATION AND SELECTION**

The most successful TA projects (those that produce significant beneficial and sustained change) are based on a thorough and accurate problem diagnosis that has the concurrence of the counterpart. In addition, the best projects have the potential to bring about change at the systems level (i.e. more than changes in processes or procedures). This is not to say that projects with more modest goals are not worthwhile. In some cases, any beneficial change that results in operational improvement is an important and valuable step forward.

Fiscal Year 2007 TIATA funds were used to support projects 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 2007 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 projects that had demonstrated substantial results. (The Fiscal Year 2007 preliminary financial plan contained nearly 115 proposed projects with an estimated cost of \$46.3 million, an amount well above the resources which later became available. This represented a growth of 35 projects and \$17.7 million over the preliminary Fiscal Year 2006 financial plan.)

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 solely on its own resources.

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 2007 Budget Execution Plan. Seventy-two separate projects (compared with 59 in Fiscal Year 2006) 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, and 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 2007 Budget Execution Plan consists of \$21.8 million TIATA funds (or a \$2.4 million increase over the \$19.4 million for Fiscal Year 2006) leveraged by an additional \$456 thousand (\$3.05 million less than in Fiscal Year 2006) contributed by USAID missions and others.



## 2007 COUNTRY-SPECIFIC HIGHLIGHTS

### Africa

#### Algeria:

- OTA Government Debt Issuance and Management assisted counterpart officials in the development of a modern financial information technology infrastructure. The improvements update and integrate systems used by Algeria's Treasury, central depository, stock exchange and central bank, with the objective of increasing market transparency and reducing operational risk. GDIM also assisted in the development of a new capital market development strategy to combine public and private funding through the introduction of new classes of securities; with the goal of attracting more private capital and to diversify and sustain growth in the Algerian economy.

#### Ghana:

- OTA Government Debt Issuance and Management assisted the Republic of Ghana as it became the first post-HIPC country to enter the international bond market. Ghana launched a 10-year, \$750 million benchmark that is first sub-Saharan sovereign bond issued over the last thirty years. The strategic objectives of the bond issue are to ensure the sustainability of Ghana's overall financing portfolio, to ensure benchmark status and inclusion in an emerging market index, and to raise long-term capital for large scale infrastructure needs such as energy and roads. Ghana's sovereign bond issue won two International Financing Review Roll of Honor awards: Best Emerging Market Bond and Best EEMEA Bond (a regional category). Ghana was also named the Best New Borrower by Euroweek, based upon a poll by bankers.

#### Kenya:

- OTA Government Debt Issuance and Management assisted Kenyan officials in introducing a benchmark bond program as part of an overall strategy to improve market liquidity and efficiency. Complementary initiatives were begun to introduce government securities market-making activities, including an expanded capacity to carry out repurchase agreement transactions that will enable dealers to finance their market-making obligations.

#### Malawi:

- The U.S. impact and influence in Malawi has been highly successful and well received. Perhaps the most notable achievement for the country is that, through the help and assistance by the U.S. via a team of resident advisors in a variety of different areas, Malawi was able to achieve eligibility for MCC Compact Status on December 12, 2007. Under the auspices of the Millennium Challenge Corporation (MCC) a resident advisor was detailed to the Reserve Bank of Malawi (RBM) to help improve the quality of the supervision of Malawi's financial sector. The specific thresholds relating to the RBM included government effectiveness, control of corruption (which encompassed money laundering and terrorist financing), and regulatory quality. Great strides have also included: the beginning of a comprehensive bank examination to be concluded within the next few months; an Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) Examination Manual developed and implemented; several (AML/CFT) training sessions conducted for the RBM examiners and staff, as well as representatives from the financial sector including internal auditors;

establishment of an FIU and to ensure consistency and appropriate interactions between the two agencies in their fight against AML/CFT; development of a comprehensive Risk Based Supervisory Examination Manual; and increased staffing levels at the RBM. The final phase of the project will include providing assistance in the annual reform update process to ensure sustainability in the future.

#### Mauritius:

- OTA Government Debt Issuance and Management assisted in maintaining the investment grade bond ratings for Mauritius' local currency and foreign currency obligations (Moody's Investors Service Baa-1 and Baa-2 respectively), which had been placed on review for a possible downgrade. Moody's was reassured that Mauritius credit quality is stable and the outlook bright for continued economic growth. Maintenance of the investment grade ratings reduces the country's borrowing costs and, along with reforms in debt management practices, helps ensure that the country will continue to manage its debt burden in a timely manner. Mauritius graduated from the GDIM program in 2007.

#### Namibia:

- An OTA resident Financial Enforcement Advisor was placed in Namibia to continue work begun by an intermittent advisor to assist the FIU in reaching operational status and to increase the capacity of Namibian law enforcement in the area of financial crimes. The resident advisor assisted in finalizing implementing regulations for the AML legislation, provided training to the insurance, securities and bank regulatory agencies, and facilitated the acquisition of data base and case management software from the United Nations to prepare the FIU for operational status in July 2008. In April 2008, a comprehensive financial analytical training course will be provided to FIU, law enforcement, and regulatory personnel.

#### Niger:

- In Niger, the Budget Team supported government efforts to identify benchmarks against which to measure progress related to public sector expenditures. These efforts occurred in five "priority" ministries, including health and education. During the second year of the team's engagement, all five ministries had developed reasonable indicators, and the effort was being expanded government-wide. In addition, the Budget Team assisted the government in investigating means to develop an effectively operating inventory and asset management system (the government currently has little capacity to monitor or manage publicly-owned items and equipment). OTA is now helping the government identify funding sources to launch a comprehensive inventory and asset management system reform program.

#### Nigeria:

- OTA Government Debt Issuance and Management assisted Nigeria in further expanding the secondary market for Federal Government of Nigeria Bonds, through enhancements and new requirements for the primary dealer system which was initially introduced in 2006. The improvements have enhanced transparency and price discovery, resulting in greater liquidity for market makers and investors. Secondary market improvements have flowed through to the primary, or new issuance, market for government securities; enabling the government to regularly issue long maturity bonds (3, 5, and 10-year). The longer bonds better match the demand of investors, and provide reference rates for private issuers.

#### Rwanda:

- OTA Government Debt Issuance and Management assisted in the development and phased introduction of an enhanced debt management program to support Rwanda's first issuance of a government bond, and the country's longer-term financial system development needs.

#### South Africa:

- The OTA Budget Team advisor in South Africa is helping the National Treasury improve monitoring of government performance, build a capacity for spending and program evaluation, and improve budget execution monitoring systems for Parliament. The main achievements include completing a framework for managing program performance information and developing an improved tool for analyzing budget execution
- OTA Financial Enforcement and the National Prosecuting Authority (NPA), Directorate of Special Operations (DSO) provided financial investigative techniques training to over 160 law enforcement and regulatory officials. In addition to the DSO, participants were from the Financial Intelligence Center, Special Investigations Unit, South Africa Reserve Bank, the NPA Asset Forfeiture Unit, and NPA Commercial Crimes Unit. OTA participated in a training program for thirty forensic investigators from the Special Investigations Unit, which is mandated to investigate official corruption, and funded presenters from the U.S. Department of Homeland Security, Immigration and Customs Enforcement (ICE) who provided cross border cash courier training to fifty South African Customs and law enforcement officials.

#### Tunisia:

- OTA Financial Enforcement placed a new resident advisor in Tunis at the African Development Bank (AFDB) to continue the work of her predecessor in providing anti-corruption assistance. She is joined by a new intermittent advisor who will provide expertise on helping establish and train officials of an anti-corruption office in the Bank. The advisors will also assist the Bank in developing a technical assistance strategy for enhancing member countries' program accountability and transparency. The OTA program has been instrumental in assisting the Bank develop a Hotline and a "whistle blower" policy, as well as the means for their implementation.

#### Uganda:

- OTA Government Debt Issuance and Management assisted Uganda in developing a comprehensive securities regulatory framework to help address the impacts of increased government securities market activity, increased off-shore capital inflows, and the introduction of new products in the market. The improved regulatory framework is designed to reduce the increasingly problematic volatility from these factors, as well as their negative impact on interest rates and foreign exchange rates.

#### Zambia:

- The Republic of Zambia graduated from the GDIM program in 2007. Over the two-year life of the program Zambia completed important initial steps for its first functioning Treasury. Creation of the Treasury enables the country to better forecast and manage cash balances, and consolidates multiple accounts into a Treasury Single Account System. A debt law covering external and domestic government debt issuances, including guarantees, was completed and awaits legislative approval. It sets out the procedures for debt creation, establishes debt limits, and is harmonized with the annual budget process. Zambia's first debt

strategy was developed, contributing to improved debt sustainability in the future.

- OTA Banking and Financial Services resident advisors provided guidance to the Bank of Zambia (BoZ) in Bank Supervision, implementation of Basel II, development of Risk Based Supervision prudential regulations, termination of failed bank receiverships, and the design of a Deposit Insurance law with accompanying policy and implementation procedures and regulations. Progress, although slow, has been steady and continues. BoZ counterparts, supported by senior management have displayed the political will to take actions recommended by OTA advisors. In the area of Deposit Insurance, the draft law has been written and is now undergoing vetting by the BoZ legal division for final approval and conversion into the proper legislative format. Parliamentary approval and implementation is expected during 2008. In 2007 the liquidation process was completed for three of ten banks in receivership. There remain seven banks, for of which will be liquidated during 2008. The remaining three banks are economically viable and the receivership process is not expected to be completed until 2009. The Bank of Zambia has requested continued OTA assistance in the areas of banking supervision - including an introduction to Islamic Banking - and resolving of the liquidations processes.

## **Asia and Near East**

### Egypt:

- OTA Government Debt Issuance and Management continued to provide intermittent technical assistance to enhance secondary market trading in government securities. Although many positive improvements to the legal framework and operational infrastructure have been implemented in recent years, secondary market trading remains anemic. High banking system liquidity and strong risk aversion by banks have been a disincentive to trading; and the lack of an efficient, timely settlement and ownership registration process continues to be an obstacle to further secondary market development.

### Indonesia:

- The Tax Team worked closely with the Director General-Tax at the Ministry of Finance throughout 2007 to review and develop standard operating procedures, user manuals, and a final business model document for all aspects of operation of a proposed “document processing center” (“DPC”) for tax returns and correspondence – from physical architecture to manual processes to technology issues. Establishment of a DPC is an important step in corruption control – depersonalizing the tax return submission process, centralizing processing in a high-production setting, and using IT-enabled rules. The Indonesian Ministry of Finance has been the driving force behind the program and, based on the experience of the pilot DPC which has just been put into operation, has a goal of establishing 19 DPCs throughout the country,.

### Jordan:

- OTA Government Debt Issuance and Management provided technical assistance to the Ministry of Finance as it developed its strategy to buy-back some of its bi-lateral debt obligations. Using money accrued through Jordan's privatization program, the objectives of the on-going negotiations are to reduce Jordan's external debt by 20%; reduce its currency exposure (Jordan's Dinar is fixed to the U.S. Dollar) to the Japanese Yen; shrink its annual interest payments; allow more budgetary resources for poverty reduction; and improve the Kingdom's credit standing to the point that it will reduce future debt service costs. Jordan

graduated from the GDIM program in 2007.

- OTA Financial Enforcement and Justice's Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT) jointly sponsored an AML/CFT conference in February for all relevant stakeholders in Jordan. With the passage of AML legislation, which went into effect in July, and assistance of the OTA advisor, the FIU began implementing the provisions of the AML legislation and moving toward a fully functional FIU. Training assistance to AML/CFT stakeholders included the Jordanian Insurance Commission, the Securities Commission, and personnel from the Bank of Jordan Supervision Department as they prepare to address their regulatory responsibilities under the legislation.

#### Oman:

- OTA Government Debt Issuance and Management provided intermittent technical assistance to Omani authorities, primarily the Capital Market Authority, on developing the country's very nascent debt market. Early work has focused on developing a framework for the securitization of assets; primarily research related to the Omani housing market and housing finance, and training about credit bureaus and credit rating agencies.

#### Philippines:

- OTA Financial Enforcement continued its resident project begun in 2005, providing mentoring to the Anti-Money Laundering Council (financial intelligence unit) of the Philippines and assisting in training Law Enforcement Agencies in anti-money laundering and the control of terrorist financing. OTA assisted in training approximately 1000 law enforcement personnel from over twenty-five agencies, and began assisting in the training of personnel of the new Anti-Terrorism Council. New procedures and training of Philippine border agencies, conducted by OTA and DHS on impeding bulk cash smuggling, resulted in increased seizures and arrests. The Philippines began working with Anti-Corruption authorities to target the laundering of proceeds by corrupt officials, and a number of high profile prosecutions were initiated, as well as several terrorist financing investigations. This program will be closed in 2008.

#### Sri Lanka:

- OTA Financial Enforcement continued to provide assistance resulting in the establishment of a basic administrative Financial Intelligence Unit (FIU) within the Central Bank. The reporting regime for suspicious transactions and large cash transactions was implemented, and Central Bank compliance officers and regulators were trained. In collaboration with other donors, including the Commonwealth Secretariat, the World Bank, and the Asia/Pacific Group on Money Laundering, FIU analysts, prosecutors and financial crimes investigators were trained in the basic methods and techniques for conducting financial investigations. This project will be closed in 2008.

#### Vietnam:

- OTA Financial Enforcement conducted two weeks of Financial Investigative Techniques training in Hanoi, and worked with the resident representative of the UN Office of Drugs and Crime to plan further intermittent assistance in 2008 that will be co-sponsored and co-funded by the UN. The work in Vietnam is the first stage of OTA's planned Mekong regional initiative that will include intermittent assistance to Cambodia and Lao PDR in 2008.

## Latin America and the Caribbean

- *Latin America Regional.* In 2007, OTA launched a Small Business Lending (SBL) Initiative in Latin America in partnership with the Multilateral Investment Fund (MIF) and the Overseas Private Investment Corporation (OPIC). The specific role of OTA is to identify legislative and regulatory obstacles to SBL in targeted Latin American countries and to recommend measures to ameliorate and overcome those obstacles. MIF is providing grants to selected banks in those countries to fund training in SBL techniques, while OPIC is providing guarantees to U.S. banks that provide funding to local banks as well as direct lines of credit to several local banks that have partial U.S. ownership. The roles of the three agencies are complementary. The SBL initiative was presented to the Latin American Bankers Association (FELABAN) in November, 2007. Wherever possible, OTA missions to Latin American under the SBL initiative will be timed to coincide with MIF and OPIC missions to the target countries in order to maximize synergy among the three agencies.

### Caribbean:

- In October 2006 OTA – Tax conducted a training workshop for 13 participating countries of the Caribbean Organization of Tax Administrators (COTA) which covered management and planning issues, the results of OTA assessments of most of the countries' tax administration practices, and the best way to proceed in the future. OTA and COTA reached a consensus that the best means of improving the identified practices was through improved management capabilities. As a result three additional management training workshops were conducted covering the areas of audit management, collection management, taxpayer (customer) service management, human resources management and general management (leadership and change management). At the final workshop in October 2007, each country was requested to complete an analysis of accomplishments. Eleven countries responded and an analysis of those comments indicated the following results:
  - Three countries indicated that there was improved networking with other tax administrations in the region;
  - One country indicated they had initiated a tax administration law;
  - Seven countries stated that they had initiated a strategic planning process or had made improvements to their annual planning processes;
  - Two countries have undertaken an overall reorganization of tax administration and partial reorganizations were taken to create or improve functions as follows: audit (4) and taxpayer service (3);
  - Training of managers and employees had been accomplished in: audit (4), collection (2), taxpayer service (4), and general management training (1);
  - Improved audit processes including improved audit selection had been achieved in 5 countries, and Jamaica developed an Audit Managers' Guide based on the OTA audit advisor's managers' manual; and.
  - Seven countries improved their collection processes and procedures, and five countries improved their taxpayer service processes and services.

### Chile:

- OTA Financial Enforcement, in cooperation with the U.S. Justice Department's Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT), delivered a

combined Financial Investigative Techniques/Mock Trial course to prosecutors within Chile's Attorney General's Office, the Public Ministry, the State Defense Counsel, and elements of Chile's Investigative Police. In addition, as part of an outgrowth of the bilateral engagement with Chile, and under the auspices of GAFISUD, OTA conducted basic and advanced Gaming courses for GAFISUD's ten member countries. The Chilean Superintendent of Casinos graciously agreed to the courses being delivered in a regional format so that its benefits would reach the largest possible audience.

#### Costa Rica/Central America:

- One of the principal areas of concentration during 2007, as in 2006, was that of providing assistance in streamlining the collection of delinquent tax accounts. Among the innovations put in place was the use of the authority to initiate closure of businesses with protracted delinquencies. Use of this authority serves as a deterrent to businesses considering becoming delinquent. During the last six months of 2007, for example, this process was started for 63 taxpayers. Seventeen of these either paid or agreed to installment agreements, several businesses were closed and several more remain pending. OTA further promoted initiation of a program of special concentration on monitoring the largest tax debtors. As a result of this concentration, of the 58 largest debtors, 26 either fully paid or went to installment agreements, the accounts of 28 were corrected and 4 were transferred to the courts for action. For these taxpayers, 1.07 billion Colones (over \$2 million) were either collected or corrected for 96 % resolved. For the last half of 2007, the local tax offices collected over 50% -- about \$8.5 million -- more in delinquent taxes than in the corresponding period of 2006.
- The Budget Team helped the Costa Rican government present its first-ever medium-term fiscal strategy as part of the 2008 national budget. This multi-year perspective in fiscal planning, expenditure, policy, and budgeting has helped the government to maintain fiscal stability by demonstrating the future implications of current policy decisions on revenues and expenditures. The Budget Team also helped the government of Costa Rica better measure the effectiveness of the use of public resources and the performance of government programs through the formation of a performance indicators database that includes 239 indicators for five priority sectors (agriculture, health, education, infrastructure, and security). The results of this project are evidenced by the improved quality of the performance indicators included in the government's 2008 budget.

#### Dominican Republic:

- OTA Government Debt Issuance and Management provided intermittent technical assistance to the National Treasury as it took its initial steps toward the development and implementation of a Treasury Single Account that will ultimately lead to more efficient cash management of government accounts (benchmarks have been defined and time frames for their completion have been set). Assistance to the Public Credit Office in the Ministry of Finance focused on institutional capacity building to satisfy recent reform legislation and regulations; including the design of a new organizational structure, identifying staffing and equipment requirements, training for new staff, and creation of an investor relations program. Successes in this intermittent project resulted in an OTA decision to continue technical assistance through the fielding of a resident advisor in 2008.

#### El Salvador:

- OTA Financial Enforcement assisted with the creation and implementation of a Tax Investigative Unit and an Internal Investigative Unit within the Executive Directorate of

Revenue (DEI), the latter expected to combat internal and external crime and corruption-related matters, and Financial Investigative Techniques training was provided to new DEI and customs investigators. Implementation of an OTA-designed system for the secure exchange of sensitive anti money laundering information was completed.

#### Guatemala:

- The tax emphasis in Guatemala has been on administration of tax laws relative to the petroleum industry. Based on advice from the OTA advisor, Guatemala stood up a Petroleum Compliance Unit of the Tax Administration (“SAT”), designated the Special Operations Division. Concrete accomplishments included: SAT personnel were assigned to the terminals, and the Division prepared and delivered training to the terminal storage personnel. The training covered measuring tank volumes, customs regimes, petroleum product tax calculation, tax legal issues and risk and security issues associated with petroleum product terminal storage. Terminal measuring equipment was acquired and provided to the terminal personnel. Terminal inventories were measured for major petroleum importers. The Division makes periodic inspections of terminal activities and provides supervision of terminal personnel. The Division, through a formal exchange agreement with the Ministry of Energy and Mines (MEM) obtains reviews and reconciles daily terminal inventory volumes. The Division developed training manuals for all aspects of petroleum product controls and taxation. SAT institutionalized the Division which is now responsible for all matters related to the control and taxation of petroleum product imports. The Division completed the review of import tax paid for the period June 05 through June 06 for all petroleum product importers. Division management visited the Guatemala City offices of each petroleum product importer to initiate a relationship intended to foster voluntary compliance.
- OTA Financial Enforcement and Guatemala’s Superintendence of Tax Administration (SAT) signed a Terms of Reference to improve criminal enforcement of tax and customs laws. OTA coordinated the design and implementation of a Criminal Investigative Unit within the Superintendence of Tax Administration (SAT); developed identification, investigation, and data analysis techniques for detecting criminal tax and customs violations; and developed awareness of criminal tax and customs violations on the part of those outside of SAT; and assisted the Criminal Investigative Unit in serving as a model of integrity.

#### Honduras:

- OTA Government Debt Issuance and Management assisted the Ministry of Finance in improving its domestic bond issuance program by introducing new three- and five-year bonds in regular, market-based auctions. The provision of new instruments helps to meet the demands of investors and intermediaries, and reduces Honduras’ reliance on external financing. OTA also assisted in the development of a National Indebtedness Plan that is the basis for debt management policy that improves risk management and debt sustainability. Working with the Central Bank of Honduras, OTA helped introduce new regulations and procedures that govern the short-term interbank market with the objective of increasing transparency and liquidity, and reducing operational risks.
- Following up on a regional workshop including Guatemala, Nicaragua and Honduras, and based on Treasury recommendations regarding the form of organization and the numbers of staff required, the Honduran tax administration (DEI) also created a Petroleum Unit, which has begun activities aimed to take a path similar to that taken in Guatemala. The audit function in Honduras had been selecting taxpayers for audit manually with no automated



records. By working with Audit, IT, and the Executive Director's Office Treasury was able to secure the hiring of two programmers. As a result, presently all data on the electronically filed corporate returns became available in electronic format to all headquarters personnel and all auditors. Access to electronic data enables cases to be selected for audit based on objective criteria, thereby increasing the effectiveness of audits and vastly diminishing the role of human discretion from the selection process. Also, based on Treasury advice, the DEI agreed to change their tax returns to make them more "compliance" friendly. The combination of adequate tax return data and the ability through IT to access the data represents the key to objective, risk-based selection. The U.S. Treasury assisted with the training and oversight of all incumbent auditors in auditing, including a new audit manual update. A new training course was developed by Treasury in conjunction with Honduras for new auditors, including an OJT component. Treasury also assisted in designing and implementing a Training Branch for the approximately 120 new auditors hired. For the first time Honduras now has a basic training program for auditors (including managers) along with an organizational structure to accommodate it. Instructor training was held with the majority of the auditing training conducted by Honduran personnel.

- OTA Financial Enforcement and Guatemala's Superintendence of Tax Administration (SAT) signed a Terms of Reference to improve criminal enforcement of tax and customs laws. OTA coordinated the design and implementation of a Criminal Investigative Unit within the Superintendence of Tax Administration (SAT); developed identification, investigation, and data analysis techniques for detecting criminal tax and customs violations; and developed awareness of criminal tax and customs violations on the part of those outside of SAT; and assisted the Criminal Investigative Unit in serving as a model of integrity.

#### Nicaragua:

- OTA Government Debt Issuance and Management provided technical assistance the Government of Nicaragua in its \$1.3 billion cash buy-back of its commercial external debt. By reducing its external debt burdens, Nicaragua hopes to attract new foreign direct and portfolio investment. The outlook for future debt sustainability is also significantly improved.
- The Nicaragua Tax Administration presented its report on tax collections for year 2007, which includes voluntary payment plus all actions carried out by the Tax Administration such as examination, enforced collection and others. Total collections were C\$12,864.5 billion Cordobas in 2007, compared with C\$11,009.70 billion in 2006: a 17 percent increase over 2006. Tax Team audit and collections advisors contributed to this success by assisting the development and implementation of planning and management processes as well as providing guidance for improved technical skill levels in audit and enforced collections operations.

#### Paraguay:

- OTA's budget project made substantial progress in key areas in 2007, although substantial room for improvement remains. Work in 2007 focused on improving budget analysis, improving the tools for managing financial administration and enhancing the transparency of budget materials. OTA worked with the Paraguayan Finance Ministry to perform in-depth budget analyses of the Ministry of Justice and Work and the Secretary of Social Action, participated in an on-going re-engineering of the country's financial management information system, developed a converter to link the country's chart of accounts to the IMF's system of government financial statistics, and implemented a budget department web site to make budget materials widely available. In these and other projects, the OTA worked

closely with Finance Ministry staff, achieving a level of integration that was a key element of success. Work remaining to be done includes better integration of budget analysis into the formulation of the government's budget, introducing tools such as a Treasury Single Account to support execution of the government's budget, and improving the coordination and documentation of revenue estimation to enhance the predictability of the budget.

- OTA Financial Enforcement continued to provide Financial Investigative Techniques training to the Anti-Terrorism Investigators of the National Police and prosecutors of the Public Ministry, and to mentor the prosecutors in financial crimes cases related to money laundering, terrorist financing, and corruption. Pursuant to a request from Paraguay's Superintendent of Insurance, OTA completed an assessment of the insurance sector and initiated a program for the GoP Superintendent of Banks to improve its anti-money laundering compliance and inspection system. A train-the-trainer system was developed for private bank functionaries to recognize suspicious activity related to money laundering and terrorist financing, and procedures, guidelines, manuals and training were provided for examiners.
- (Millennium Challenge) - OTA Financial Enforcement continued to work in coordination with a Department of Justice Resident Legal Advisor to focus OTA's technical assistance on combating money laundering and financing of terrorism by groups operating in the tri-border area (Brazil-Argentina-Paraguay). OTA assisted in the creation, vetting, training, and mentoring of investigative units in the Customs and Tax Administrations, an Internal Investigations Unit in the Ministry of Finance, the Intellectual Property Rights Investigative Unit in the Ministry of Industry and Commerce, and the Financial Crimes Investigative Unit of the Anti-Drug Secretariat.

**STRATEGIC PLAN 2006-2010**  
**U.S. DEPARTMENT OF THE TREASURY**  
**OFFICE OF TECHNICAL ASSISTANCE**

**Mission.** The mission of the Treasury Department’s technical assistance program, managed by the Office of Technical Assistance (OTA), is to support the development of strong financial sectors and sound public financial management in countries where assistance is needed and there is a strong commitment to reform.

OTA pursues this mission in support of the Treasury Department’s overall mission “*to promote the conditions for prosperity and stability in the United States and encourage prosperity and stability in the rest of the world*” as well as broader U.S. Government international objectives, such as increasing transparency and accountability, reducing corruption, and strengthening the development of market-based policies and practices.

**Vision.** OTA aims to build upon its reputation as a high-quality provider of comprehensive financial sector technical assistance and policy advice. It intends to be recognized as the provider of choice wherever its multi-disciplinary assistance model best addresses country needs and Treasury or U.S. Government objectives.

The foundation of OTA’s program will continue to reside in five core disciplines – Banking and Financial Services; Budget Policy and Management; Financial Enforcement; Government Debt Issuance and Management; and Tax Policy and Administration, complemented by the ability to support other aspects of financial sector strengthening.

**Values.**

- OTA will continue to place the highest priority on capacity building and developing country self-sufficiency.
- OTA exits countries when project objectives are accomplished or if country commitment to reform is not sustained.
- OTA program engagements are distinguished by flexibility, selectivity, and responsiveness.
- OTA recognizes that its core strength lies in the dedication, adaptability, and expertise of its advisors.

**Programmatic Goals**

- *Encourage depth of engagement and an integrated, multi-discipline approach.* Where circumstances warrant, deeper, stronger, more comprehensive engagements may improve the prospects for material impact.
- *Encourage an approach that targets geographic regions and common financial or economic problems.* Look for opportunities to place advisors in countries with common needs by virtue of location, financial structure (e.g. significant dependence upon donor revenue), or dislocations (e.g. highly affected by extractive industry income).

- *Provide specialized multi-discipline programs and rapid response teams to support key Treasury and U.S. Government priorities. React quickly to: needs in post-conflict/post crisis/failed state countries; opportunities to combat terrorist funding and corruption; requirements for access to financial services; country requirements to address revenue deficiency; and development of financial management information systems.*
- *Recruit, retain, and support a cadre of advisors that manifests OTA's tradition of excellence.*
- *Continue to strengthen OTA coordination within Treasury and with other parts of the U.S. Government.*
- *Enhance awareness of Treasury's technical assistance program.*
- *Ensure that OTA's management systems fully support the achievement of our mission. For example, appropriate access to current financial data, timely human resources processes, program evaluation and management, and ability to be responsive to standard and ad hoc reporting requirements are essential to supporting OTA's mission and advisor corps.*

### **Geographic Goals**

The following points note broad geographic/regional goals. More detailed regional and country-specific objectives will be set out in annual implementation plans.

- *Sub-Saharan Africa (SSA).* Recognize the acute need for assistance in this region, and seek opportunities to initiate or strengthen engagements with reform-minded countries.
- *Broader Middle East/North Africa (BMENA).* Seek opportunities to strengthen or initiate engagements in BMENA countries, with special attention to countries that are key to U.S. foreign policy priorities.
- *Latin America and Caribbean.* Given the importance of encouraging stability, growth, and friendly relations within this hemisphere, identify opportunities to support reform-minded countries and sub-regions.
- *Asia.* Identify opportunities to engage in those countries where Treasury and the U.S. Government have substantial interests.

Former Soviet Union/Central and Eastern Europe (FSU/CEE). Manage the phase-out and shift of OTA activities from the FSU and CEE to regions where needs are greater. As this process continues, support selected sub-regions and countries in the FSU/CEE area where significant needs still exist.

**TABLE A - FISCAL YEAR 2007 BUDGET EXECUTION PLAN**

Treasury International Affairs Technical Assistance  
(TIATA)

**Project Allocation from Fiscal Year 2007 Budget**

	<u>Team</u>	<u>Advisor Category</u>	<u>Co-Financing Amount</u>	<u>TIATA Amount</u>	<u>Total</u>
<b><u>SUB-SAHARAN AFRICA</u></b>					
Botswana	Tax	Project Coordinator + Intermittent	\$0	\$263,500	\$263,500
Ethiopia	Tax	Project Coordinator + Intermittent	\$0	\$263,500	\$263,500
Ghana	Budget	Resident	\$0	\$442,000	\$442,000
	Gov't Debt	Resident	\$0	\$272,000	\$272,000
Guinea	Budget	Resident	\$0	\$442,000	\$442,000
Madagascar	Budget	Resident	\$0	\$467,500	\$467,500
Namibia	Tax	Intermittent	\$0	\$263,500	\$263,500
	Enforcement	Resident	\$0	\$442,000	\$442,000
Niger	Budget	Intermittent	\$0	\$212,500	\$212,500
Nigeria	Gov't Debt	Resident	\$285,078	\$255,000	\$540,078
RegAFR Uganda	Gov't Debt	Resident	\$0	\$450,500	\$450,500
Senegal (GIABA)	Enforcement	Resident	\$0	\$467,500	\$467,500
South Africa	Budget	Resident	\$0	\$442,000	\$442,000
Zambia	Banking	Resident + Intermittent Support	\$0	\$442,000	\$442,000
	Enforcement	Resident	\$0	\$442,000	\$442,000
	Banking	Resident + Intermittent Support	\$0	\$442,000	\$442,000
	Gov't Debt	Resident	\$0	\$442,000	\$442,000
<b>Subtotal Sub-Saharan Africa</b>			<b>\$285,078</b>	<b>\$6,451,500</b>	<b>\$6,736,578</b>

**Table A - FISCAL YEAR 2007 BUDGET EXECUTION PLAN**

**Project Allocation from Fiscal Year 2007 Budget**

	<u>Team</u>	<u>Advisor Category</u>	<u>Co-Financing Amount</u>	<u>TIATA Amount</u>	<u>Total</u>
<b><u>MIDDLE EAST AND NORTH AFRICA</u></b>					
Algeria	Gov't Debt	Intermittent	\$0	\$297,500.00	\$297,500
	Banking	Resident + Intermittent Support	\$0	\$442,000.00	\$442,000
Jordan	Enforcement	Resident	\$171,321	\$442,000.00	\$613,321
Tunisia (African Development Bank)	Enforcement	Resident	\$0	\$442,000.00	\$442,000
<b>Subtotal Middle East and North Africa</b>			<b>\$171,321</b>	<b>\$1,623,500</b>	<b>\$1,794,821</b>

**Project Allocation from Fiscal Year 2007 Budget**

	<u>Team</u>	<u>Advisor Category</u>	<u>Co-Financing Amount</u>	<u>TIATA Amount</u>	<u>Total</u>
<b><u>ASIA</u></b>					
Afghanistan	Banking	Resident	\$0	\$510,000.00	\$510,000
Philippines	Enforcement	Resident	\$0	\$442,000.00	\$442,000
Sri Lanka	Enforcement	Resident	\$0	\$442,000.00	\$442,000
Vietnam	Multi-Team	Mix	\$0	\$510,000	\$510,000
<b>Subtotal Asia</b>			<b>\$0</b>	<b>\$1,904,000</b>	<b>\$1,904,000</b>

**Table A - FISCAL YEAR 2007 BUDGET EXECUTION PLAN**

**Project Allocation from Fiscal Year 2007 Budget**

	<b><u>Team</u></b>	<b><u>Advisor Category</u></b>	<b><u>Co-Financing Amount</u></b>	<b><u>TIATA Amount</u></b>	<b><u>Total</u></b>
<b><u>LATIN AMERICA AND CARIBBEAN</u></b>					
Argentina (GAFISUD)	Enforcement	Resident	\$0	\$442,000	\$442,000
Bolivia	Gov't Debt	Resident	\$0	\$442,000	\$442,000
Costa Rica	Tax	Project Coordinator + Intermittent	\$0	\$340,000	\$340,000
	Budget	Resident	\$0	\$442,000	\$442,000
Dominican Republic	Tax	Project Coordinator + Intermittent	\$0	\$255,000	\$255,000
Guatemala	Tax	Intermittent	\$0	\$255,000	\$255,000
Honduras	Gov't Debt	Resident	\$0	\$442,000	\$442,000
	Tax	Resident + Intermittent Support	\$0	\$442,000	\$442,000
Jamaica	Enforcement	Intermittent	\$0	\$127,500	\$127,500
Mexico	Tax	Intermittent	\$0	\$170,000	\$170,000
Nicaragua	Tax	Project Coordinator + Intermittent	\$0	\$212,500	\$212,500
	Gov't Debt	Resident	\$0	\$255,000	\$255,000
Paraguay	Gov't Debt	Resident	\$0	\$442,000	\$442,000
	Budget	Resident	\$0	\$442,000	\$442,000
	Banking	Resident + Intermittent Support	\$0	\$442,000	\$442,000
RegLAC (COTA)	Tax	Intermittent	\$0	\$255,000	\$255,000
RegLAC (Money Services Program)	Enforcement	Intermittent	\$0	\$212,500	\$212,500
<b>Subtotal Latin America and Caribbean</b>			<b>\$0</b>	<b>\$5,618,500</b>	<b>\$5,618,500</b>

**Table A - FISCAL YEAR 2007 BUDGET EXECUTION PLAN**

**Project Allocation from Fiscal Year 2007 Budget**

	<u>Team</u>	<u>Advisor Category</u>	<u>Co-Financing Amount</u>	<u>TIATA Amount</u>	<u>Total</u>
<b><u>SENIOR AND REGIONAL ADVISORS</u></b>					
Warsaw, Poland	Enforcement	Resident	\$0	\$442,000	\$442,000
Cairo, Egypt	Enforcement	Resident	\$0	\$442,000	\$442,000
Dubai, United Arab Emirates	Gov't Debt	Resident	\$0	\$476,000.00	\$476,000
	Banking	Resident	\$0	\$442,000.00	\$442,000
U.S.-based	Banking	Resident	\$0	\$233,750	\$233,750
	Budget	Resident	\$0	\$276,250	\$276,250
	Budget	Part-time	\$0	\$148,750	\$148,750
	Enforcement	Resident	\$0	\$255,000	\$255,000
	Gov't Debt	Resident	\$0	\$297,500	\$297,500
	Tax	Resident	\$0	\$510,000	\$510,000
<b>Subtotal S/R Advisors</b>			<b>\$0</b>	<b>\$3,523,250</b>	<b>\$3,523,250</b>
<b><u>OTHER FUNDED ACTIVITIES</u></b>					
Global (FIT Training)	Enforcement	Intermittent	\$0	\$212,500.00	\$212,500
First Responders Initiative	Multi-Team	Mix	\$0	\$42,500	\$42,500
Close Out (Budget)	Budget	n/a	\$0	\$204,000	\$204,000
Close Out (Gov't Debt)	Gov't Debt	n/a	\$0	\$187,000	\$187,000
Close Out (Enforcement)	Enforcement	n/a	\$0	\$1,751,000	\$1,751,000
Close Out (Tax)	Tax	n/a	\$0	\$170,000	\$170,000
Close Out (Banking)	Banking	n/a	\$0	\$136,000	\$136,000
<b>Subtotal Other</b>			<b>\$0</b>	<b>\$2,703,000</b>	<b>\$2,703,000</b>
<b>GRAND TOTAL</b>			<b>\$456,399</b>	<b>\$21,823,750</b>	<b>\$22,280,149</b>



**TABLE B - FISCAL YEAR 2007 Non-TIATA Sources of Funding**

<u>Fiscal Year 2007</u>			
<u>Purpose</u>	<u>Source</u>	<u>Transfer Category</u>	<u>Amount</u>
TA to countries of Eastern Europe (SEED Act-funded)	USAID	632(a)	\$4,230,000
TA to countries of the Newly Independent States (FSA-funded)	USAID	632(a)	\$5,200,000
TA to Iraq under War On Terrorism Supplemental	DOD	632 (a)	\$2,750,000
TA to Gov't of Afghanistan	USAID	632 (b)	\$1,387,540
TA to Gov't of Paraguay under MCC Threshold Country Plan	MCC	632 (b)	\$1,000,000
TA to Gov't of Malawi under MCC Threshold Country Plan	USAID	632 (b)	\$600,982
Government Debt TA to Gov't of Liberia	USAID	632 (a)	\$500,000
Government Debt and Tax TA to Gov't of Nicaragua	USAID	632 (a)	\$500,000
Government Debt TA to Gov't of Nigeria	USAID	632 (b)	\$285,078
Government Debt TA to Gov't of Egypt	USAID	632 (b)	\$200,000
Financial Enforcement TA to Gov't of Jordan	USAID	632 (b)	\$171,321
Tax TA to Gov't of Tanzania	Gov't of Tanzania	n/a	\$98,987
Financial Enforcement TA to Gov't of Mexico	STATE/INL	632 (b)	\$80,000
<b>TOTAL</b>			<b>\$17,003,908</b>