

**DEPARTMENT OF THE TREASURY  
INTERNATIONAL AFFAIRS TECHNICAL ASSISTANCE  
2008 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).

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## Report to Congress

### **Executive Summary**

This report details FY 2008 program developments and resource expenditures of the Treasury Department's international technical assistance program, managed by the Office of Technical Assistance (OTA). Several developments were especially noteworthy.

- *Financial Crisis Response.* OTA has increasingly turned its attention to countries affected by or vulnerable to the financial crisis. As the international community takes steps that will allow for the provision of extraordinary levels of financial support, there is an urgent need for complementary financial technical assistance to help countries determine the extent of their vulnerability, address immediate crisis-related challenges, and lay the groundwork for recovery. Such assistance will also improve the chances that external funding will be managed in a way that avoids the build-up of unsustainable debt. For countries that were heavily indebted until only recently, and for donors that provided debt relief, this is an important consideration.
- *PEPFAR.* The 2008 legislation re-authorizing the President's Emergency Plan for AIDS Relief (PEPFAR) provided that OTA is authorized to provide assistance "to finance, health, and other relevant ministries to improve the effectiveness of public finance management systems in host countries to enable such countries to receive funding to carry out programs to combat HIV/AIDS, tuberculosis, and malaria and to manage such programs." This provision reflects a recognition that sustaining the benefits of PEPFAR depends in part on strengthening the capacity of counterparts to manage resources and programs well. OTA continues to seek PEPFAR funds to implement this provision.
- *Iraq and Afghanistan.* As part of the broader civilian surge, OTA more than doubled its advisor presence in Iraq over the course of 2008. Currently, OTA has 12 resident advisors in Baghdad working with the Finance Ministry and Central Bank. Their work has focused on public financial management, in particular strengthening implementation of the national budget and increasing effectiveness of the banking system. While technical in nature, the strategic importance of such work for broader stabilization and reconstruction objectives has become increasingly evident. Treasury foresees an increase in its presence in Afghanistan where there is currently one OTA resident advisor.

"It's an appreciation that needs to be made public: The best technical assistance I received was from the U.S. Treasury."

- Former Afghan Minister of Finance Ashraf Ghani

"The best-qualified staff were those who had been seconded or recruited by the U.S. Treasury...They understood the need to focus on human technical parameters that made projects successful, as well as good policies."

- Former Iraqi Finance Minister Ali A. Allawi

- *Program Evaluation and Management.* OTA undertook three initiatives in 2008 to evaluate and improve its own program management and delivery. The first involved an evaluation of OTA's project progress and assessment process, which led to a new system for measuring individual project "traction" and overall program progress. This approach was selected as a Case Study in Program Management and OTA presented it at the annual Excellence in Government Conference. OTA also conducted a broad survey of its finance ministry and central bank clients to collect information on their satisfaction (or dissatisfaction) with Treasury technical assistance. The results indicated a generally high level of satisfaction and provided some useful suggestions for improvement. Finally, OTA asked the Department of the Treasury of the Government of Australia to carry out a professional peer review of its program. Over a period of eight months Australian financial technical assistance professionals reviewed OTA projects in six countries. The final report provided both high praise and useful suggestions for further improvement.

In its effort to support countries dealing with the financial crisis or facing other challenges, Treasury's assistance program draws upon experience accumulated over the past twenty years. OTA began working in Eastern Europe and the former Soviet Union with the fall of communism. There it helped countries transition to market economies and built a reputation for rapid response, flexibility, and results. The Asian financial crisis of 1997, and concerns about its global impact, moved Congress to pass an amendment to the Foreign Assistance Act, section 129, which created the Treasury International Affairs Technical Assistance program (TIATA) and gave OTA a mandate to assist developing and transition countries worldwide. Since that time, OTA has helped finance ministries, central banks, and financial law enforcement agencies in their efforts to develop government bond markets, strengthen revenue collection, improve budget systems, strengthen oversight of financial institutions, and reduce the financial sector's vulnerability to financial crimes and terrorist financing.

In addition to its traditional work in developing and transition countries, OTA has been a first responder in countries emerging from conflict. Treasury sent technical advisors into Bosnia just after the 1995 Dayton Peace Accords were signed. Advisors deployed to Kosovo in 1999 with the signing of UN Security Council Resolution 1244. In 2002 the first U.S. Government civilian technical assistance advisor in Afghanistan was an OTA advisor. In 2003, a team of OTA advisors followed U.S. troops into Baghdad.

During FY 2008, OTA conducted 120 projects in 58 countries throughout Latin America, Africa, Asia, the Middle East, Central and Eastern Europe, and the Former Soviet Union. The main body of this report provides detailed information on specific projects, on the allocation of OTA resources (by region and by assistance area), on the process by which OTA identifies and delivers projects, and a discussion of OTA's funding picture.

The importance of sound public financial management has seldom been as clear and urgent as it is today. For all governments, effective oversight of public monies -- whether domestic revenues or development assistance -- is a concern of the highest order. A recent OECD report on aid effectiveness put it succinctly: "Successful development depends in large part on the efficiency, integrity, and effectiveness with which the state raises, manages, and expends public resources. Therefore, improving the formal and informal rules and institutions that govern these activities, and strengthening the related human and technological capacities, should be a major component of any development approach."

## 2008 Report

### Mission and Background

OTA's core mission has remained constant since its creation in 1991: *to develop strong financial sectors and sound public financial management in countries where assistance is needed and there is a strong commitment to reform.* Government financial management in all countries performs a dual function separate and unique from other executive activities – laying down a framework for national economic growth on one hand, and providing fiscal governance on the other. These responsibilities, when well executed, create the pre-conditions for stability and sustainable progress. Where public financial management is weak, success in public projects is unlikely at best. OTA directs its financial technical assistance efforts to giving countries the foundation on which prosperity and social progress can be built.

Early in OTA's history, its mission was directed toward providing support to former communist countries in Eastern Europe and the former Soviet Union as they transitioned from centrally controlled to market-based economies. In 1998 Congress amended the Foreign Assistance Act to authorize funds (Treasury International Affairs Technical Assistance – TIATA - funds) “for appropriate expertise to advance the enactment of laws and establishment of administrative procedures and institutions in such countries to promote macroeconomic and fiscal stability, efficient resource allocation, transparent and market-oriented processes and sustainable private sector growth.” In this way, the OTA mandate was extended world wide.

The TIATA legislation stipulated that “technical assistance shall include elements designed to combat anti-competitive, unethical, and corrupt activities, including protection against actions that may distort or inhibit transparency in market mechanisms and, to the extent applicable, privatization procedures.” With the events of September, 2001, the OTA mission expanded to include criminal activities that provided financial support for international terrorism.

Though its mission has remained fixed, the conditions under which the mission has been carried out have, at times, been extraordinarily challenging. For example, OTA sent advisors into Bosnia in early 1996, just after the December, 1995 Dayton Peace Accords were signed. Advisors were sent to Kosovo in 1999 with the signing of UN Security Council Resolution 1244. The first U.S. Government civilian technical advisor into Afghanistan in 2002 was an OTA advisor. In 2003, a team of OTA advisors followed U.S. troops into Baghdad and were instrumental in setting up a process for paying Iraqi civilian employees, and getting cash into circulation.

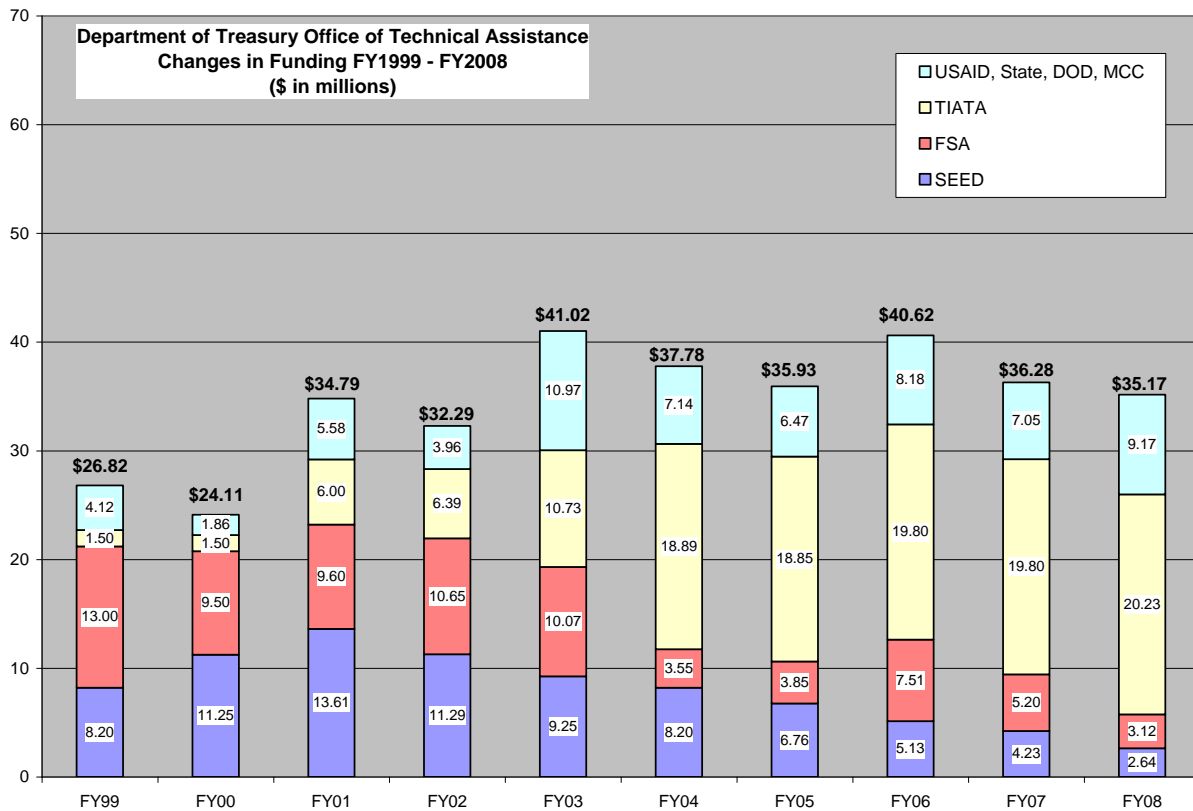
### Program Management and Funding

During FY 2008, OTA conducted projects in 120 projects in 58 countries (including those carried out under regional initiatives) representing \$48.6 million in costs. Of this total, 60 projects representing \$21.5 million were financed either wholly or partly by TIATA funds. About a third of the projects were 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 FY 2008.

OTA completed 29 TIATA-funded projects and initiated seventeen projects in 2008. TIATA-funded projects were initiated in Latin America (Colombia, Costa Rica, Ecuador, Haiti,

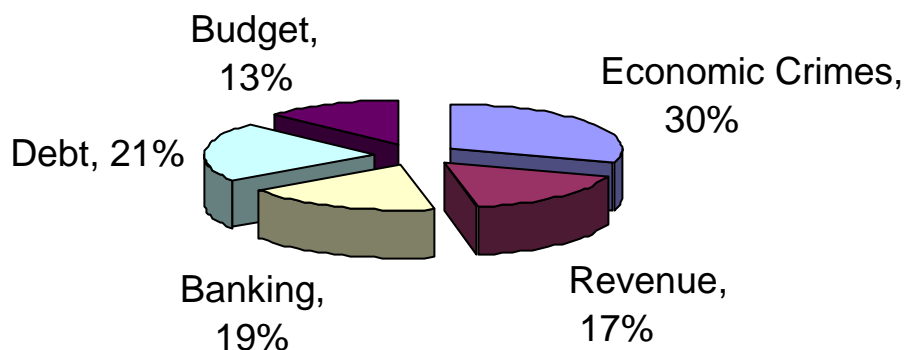
Honduras, and a Regional Small and Medium-Size Enterprise project), Africa (Mozambique, Niger and Zambia), Asia (Indonesia, Vietnam, and an Economic Crimes Regional project), and the Near East and North Africa (Algeria and Pakistan).

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 Support for East European Democracy (SEED) Act and the Freedom Support Act (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, State’s Bureau of International Narcotics and Law Enforcement (INL), and from other entities. OTA also receives funding through occasional supplemental appropriations. This funding, which has been used for countries such as Afghanistan, Haiti, Iraq, and Liberia, is 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 2008 Non-TIATA Sources of Funding.



Among OTA’s five core assistance areas, the breakdown in terms of project funding in 2008 was as follows: Economic Crimes 30%; Debt 21%; Budget 13%; Revenue 17%; and Banking/Financial Institutions 19%. The chart below shows the allocation of OTA project funding by team.

## 2008 TIATA Budget Allocation By Team

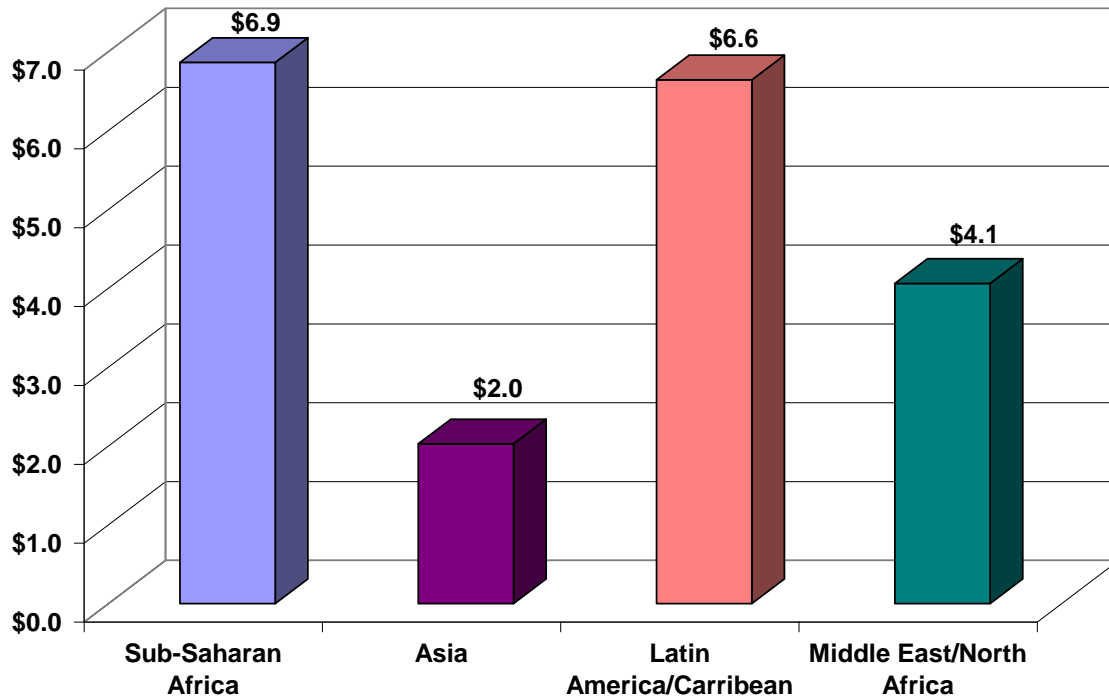


In addition to their individual merit, OTA projects and initiatives also support broader strategic objectives. Points of reference for strategic objectives are the Treasury Department's international economic, financial and anti-money laundering/countering the financing of terrorism (AML/CFT) policy 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 developing and transition countries affected by the financial crisis.
- Support for countries that are U.S. foreign policy or national security priorities.
- Support for regions and countries that are especially important in the fight against terrorist financing and money laundering.
- Support for countries 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 MCC, USAID, State/INL in an effort to leverage complementary efforts.

OTA makes every effort to respond to requests that have merit in terms of need for assistance and commitment to reform. This is true even if a country is not at the top of the U.S. foreign policy agenda at the moment. 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 troubled state requiring major investments.

**FY 2008 Budget Allocation by Region  
(dollars in millions)**



### OTA Business Model

TA projects that produce significant beneficial and sustained change are based on a thorough and accurate needs assessment with which the counterpart agrees. To ensure success, every OTA project begins with an on-the-ground assessment mission carried out by subject matter experts. The assessment results are shared with potential counterpart management. No project begins without agreement on the part of country officials that project goals are mutually understood and supported. In our experience, goals and objectives that are not “owned” by the counterpart country are irrelevant. As a rule, the most noteworthy projects have brought about change at the systems level (i.e. beyond changes in processes or procedures). Yet projects with more modest goals are often worthwhile as well. A step toward reform may provide momentum that carries the country on to wider efforts. For instance, building specific country capacity in financial crime detection can be critical in establishing and building an effective regional network. Following assessment, OTA goes through an internal selection process through which projects with the most promise for capacity building and reform are ranked. An estimate of anticipated funding determines which projects will be supported, and which will be deferred unless additional resources are identified.

FY 2008 TIATA funds were used to support projects selected according to the following process. OTA prepared an initial internal FY 2008 financial plan comprised of summary information on projects that 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 projects already begun that had demonstrated substantial results. (The FY 2008 preliminary financial plan contained nearly 94 proposed projects with an estimated cost of \$40 million, an amount well above the resources available.)

Treasury reached out to other USG agencies and in some cases found partners that were both committed to project objectives and willing to provide co-financing in selected countries.

OTA then conducted an internal selection process to identify projects with the greatest potential for accomplishing results 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. OTA was able to fund 64% of the number of proposed projects. The final results of the project selection process are displayed in Table A, Fiscal Year 2008 Budget Execution Plan. Sixty separate projects (compared with 72 in FY 2007) are grouped geographically or as global projects in the following categories: Sub-Saharan Africa, Latin America and the Caribbean, Middle East/North 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 FY 2008 Budget Execution Plan employs \$23.9 million of TIATA funds.

### OTA Delivery Model

Over the years, OTA has come to realize that two elements have been especially important to our effectiveness. One is the fact that we are part of the Treasury Department. This establishes an immediate institutional "kinship" with ministries of finance, central banks, revenue administrations, and other financial institutions around the world. This institutional association, coupled with OTA's exclusive focus on financial TA, facilitates the creation of a working relationship of trust between the advisor and the counterpart.

The second critical element has been the dedicated TIATA account established under the Foreign Assistance Act and funded by annual appropriations acts. This funding channel, while very small as a share of total USG funding for economic governance TA, has allowed Treasury to have a reasonable degree of confidence that some funding will be available to develop a core program addressing specialized financial sector needs and to support the Secretary's international policy priorities.

OTA carries out technical assistance projects based on three basic designs: residential; intermittent; and post-conflict. All of the projects require advisors to carry out their work in the country where the project is located. With the exception of rare study tours to other countries in order to get first-hand experience of exemplary practice, OTA does not work with counterparts outside of their country. We consider this to be critical to our success. The small administrative

staff in Washington, D.C. is focused on supporting projects in the field (travel, contracting, pay, personnel administration, project oversight and management review, finance, program representation and response, and executive oversight).

### *Residential Projects*

Residential projects are based on an in-country assessment as described above. Once a residential project is selected for funding, a terms of reference (TOR) is agreed upon and signed. The TOR describes the broad goals of the project and represents a bilateral agreement between the U.S. Treasury and a country institution (typically a Ministry of Finance, Central Bank, or Tax Administration). Experience verifies the special nature of this relationship in the eyes of counterpart countries – the credibility and widely recognized prominence of the U.S. Treasury are particularly valued, and the status of counterpart managers working with the project is openly viewed as special and desirable.

Within a short period (normally six to eight weeks) a workplan is developed and agreed upon between the resident advisor and the working counterpart. This plan specifies objectives and planned completion dates, and is the primary basis for regular monthly progress reports to headquarters. The monthly reports are shared with counterpart institutions, U.S. Embassy staff, other bureaus and offices in Treasury, and other interested partners such as USAID, MCC, and the International Financial Institutions (IFIs). The reports form the information base for responses to project queries generated by U.S. Government offices and officials.

Treasury bears the cost of advisor salary, travel, and personal support. It also pays for office equipment and a local national program assistant. Its projects transfer no funds or capital to the counterpart country. The institution with which the TOR is signed must provide office space for the advisor in its own headquarters building. It must also provide adequate electrical and communications connections. OTA is firm on this point, and has ended projects where the TOR was not kept. We are convinced that working side-by-side in the same workplace as counterparts is an important element in building trust over time. Often the counterpart organization begins to think of the advisor as “one of us” during the course of a project. The counterpart relationship with an OTA advisor is qualitatively different from that formed with international financial institution (IFI) representatives (e.g. World Bank, IMF) who clearly have their primary relationships and performance concerns with their parent organizations.

Completing objectives of a residential project typically requires two to four years. Intermittent advisors are often called upon to provide specialized expertise for technical aspects residential projects. Occasionally new or different problems will present themselves as opportunities for a new project, and longer engagements in a country often contributes to sustained effort of the counterpart government.

### *Intermittent Projects*

Intermittent projects are similar in many ways to residential projects. Both have assessment missions, terms of reference, workplans, and reporting requirements. Intermittent projects compete with all other projects in the annual budgeting process. The “intermittent” quality of the project lies in the timing and nature of the advisor(s) assignment. An advisor, or group of advisors, may typically spend periods of two to three weeks at a time over the period of a year or two working with counterparts. Between these direct engagements the counterparts are usually expected to carry out planned activities that are directed toward the objectives stated in the workplan. Contact between intermittent advisors and counterparts by email, phone, or other means are common and often frequent. Though the counterpart institution often provides working space, and OTA often hires a permanent, full-time program assistant in country to support a project, such conditions are spelled out in the project TOR and are not always specified obligatory as they are in the case of residential projects.

The central factor controlling whether a residential or intermittent project model is selected lies in the mutual understanding between the counterpart and the advisor of the nature of the problem to be solved, and agreement on what are likely to be the best and most practical solutions to that problem. A project might, for instance, use one advisor who was in country for a total of three months over the course of a year. Another intermittent project might use two intermittent advisors who rotated, providing uninterrupted contact with counterparts. Several intermittent advisors, each with different technical specialties, might be present at any one time.

On rare occasions OTA will provide advisors for engagements to requesting countries where the scope of assistance needed is narrow, the need is specific, and the time required short. There are also occasions when training is provided to a country or a region outside of the *project* framework. While this is a common delivery model for many technical assistance providers, OTA does not classify such activities as projects. Though conferences, colloquia, and training sessions do have value in providing information and professional interaction, they lie outside of the definition OTA uses for technical assistance.

### *Post-conflict Engagements*

OTA has engaged frequently and widely over the years in post-conflict activities. What sets these engagements apart, aside from the physical danger and poor working/living conditions, is the absence of bilateral terms of reference. Post-conflict engagements are also usually funded by Congressional budget supplements. Treasury is called on to assist with an action agenda that could be specified by the U.S. military presence, a special U.S.G. authority, a State Department mission, or under the sponsorship of an international financial institution. In such cases the project work and objectives are specified by the requesting institution.

On occasion, what begins as a post-conflict engagement becomes, in time, a financial technical assistance project. Such was the case in Bosnia, Kosovo, and Afghanistan. At the time of the submission of this report OTA has fourteen budget and banking advisors in Iraq. OTA sent a team that followed troops into Baghdad, and operated under the direction of the Coalition Provisional Authority. Since the establishment of the Iraqi Interim Government advisors have worked under the direction of the Treasury Attaché in close coordination with DoD and the Department of State.

## Iraq

In 2008, OTA activities in Iraq evolved to a greater degree than in any year since 2003 when coalition forces moved into Iraq. As part of the broader civilian surge, OTA more than doubled its advisor presence. Currently, OTA has 12 resident advisors in Iraq, which is more than at any time since 2003 when OTA deployed 20 advisors to work as part of the Coalition Provisional Authority (CPA). In addition to a larger advisor presence, 2008 saw important changes of the organization and focus of our assistance effort. While OTA continues to work with the Finance Ministry and Central Bank to strengthen capacity in public financial management, banking sector reform, and monetary policy, beginning in 2008 there was an intensive focus on strengthening the Iraqi government's capacity to implement the national budget. This was driven in part by the escalation in oil prices, leading to greater revenues, and in part by the Government of Iraq's difficulties to execute the budget effectively (in particular the capital budget), and to strengthen the delivery of public services.

The U.S., for its part, saw a need and an opportunity to re-organize the delivery of assistance to support budget execution. U.S. Treasury advisors and military personnel partnered to create the Public Financial Management Assistance Group (PFMAG). A growing number of Treasury advisors (some with military as well as financial management background) brought additional subject-matter expertise to the effort, while U.S. military personnel (some with financial management as well as military experience) facilitated access to Iraqi ministries in Baghdad, to sub-national government entities, and to Provincial Reconstruction Teams across the country. This innovative civilian-military structure aims, in sum, to strengthen Iraq's budget formulation and execution processes, broaden the budgetary framework to spending ministries, provinces, and municipalities, and to integrate coalition public finance technical assistance across all levels of the Iraqi Government. Over the course of 2008 and into 2009, Iraqi institutions have improved their budget execution performance, though significant challenges remain, especially in provinces where security and "connectivity" with the central government are problems. With the drop in oil prices, OTA advisors have assisted their Iraqi counterparts in dealing with the impact of declining revenues.

In addition to work in the budget area, OTA banking advisors assisted with the restructuring of the two largest state-owned banks, expanded the network of electronic payments, assisted with security upgrades to the Central Bank, and continued to work closely with Iraq's monetary authorities in a largely successful effort to control inflationary pressures. This latter effort – largely unnoticed -- has been one of the most important aspects of maintaining a stable macroeconomic framework in Iraq, a necessary condition for sustained economic growth.

### **2008 Program Evaluation**

Evaluation is the process by which OTA learns from its past about what is required to improve future performance. Anecdotal feedback over the years consistently confirmed that OTA was superior among providers of technical assistance, but did not provide the objective and systematic evidence that encourages analysis, self-critique, and change. In 2008 OTA began a thorough and comprehensive review of processes to evaluate its program. The effort comprised three separate and rigorous initiatives: review and strengthening of its project progress and assessment process; initiating an outside professional peer review; and conducting a broad client

survey designed to systematically collect information on “customer satisfaction.”

OTA has worked systematically for the past five years to improve collection and use of measurable performance information. Early efforts moved the organization from an activities focus to an objectives and results focus. Finding performance indicators that were relevant, credible to organization members, and rigorous was more difficult. In 2008 OTA designed and implemented a new measurement system that calls for 100% project reporting and participation at every management level from execution to executive review. So innovative was this approach that it was one of three Case Studies in Program Management selected to be presented at the 2008 annual Excellence in Government Conference.

The Department of the Treasury of the Government of Australia cooperated with OTA in a professional peer review of the OTA program. The review both assessed OTA program effectiveness; and provided a template for peer review that could be used for program evaluation by others. Two senior Australian Treasury employees with extensive experience in financial technical assistance reviewed on-going and past projects in six different countries (Ethiopia, Zambia, Honduras, Paraguay, Romania, and Kosovo) between February and June 2008. The countries were selected to provide a cross-section of OTA engagement, and over twenty different projects were represented in the six-country sample. The evaluation of OTA’s performance was made against broad criteria that have emerged over the past few years in the development literature and in other reviews of the performance of technical assistance provided by development agencies. The report identified several points which present opportunities for improvement, particularly by increasing involvement for longer terms, and providing a broader range of OTA specialties in the same country. Many of the recommendations pointed to possible organization effectiveness that simply requires a higher level of funding. In other cases there are issues that require thorough review, discussion, and hard management decisions. Overall OTA was gratified, enlightened, and energized by the results of the report.

The review finds that OTA advisors are very experienced and skilled professionals who are working with hosts building capacity and in many cases producing sustainable outcomes. They are mostly working in critical areas and have substantial influence on policy design and implementation within the narrow functional areas within which they are engaged...In contrast to some other development partners, OTA offers practitioners who are nested within host agencies to provide long-term technical support in designing and implementing financial management reforms. It is a small and flexible organisation and can respond quickly to developments.

- from the 2008 Peer Review by Australian Treasury

In order to be more rigorous in collecting and reporting customer satisfaction, OTA provided a professionally-designed survey form to advisors and host ministries. The survey was translated into local languages for cases where English was not comfortable for respondents. We sought thoughtful and candid responses from knowledgeable sources. At the beginning we identified sixty potential respondents. Though we continue to use the survey to collect information, by the cutoff date for this report OTA had a response rate over 50%, quite high for voluntary returns.

After normalizing the response to accommodate a scale of 1-5 (1 low – 5 high), we found that the average response was 4.5. This number seems surprisingly high when one considers the range and considerable challenges that projects face around the globe. At the same time, the highly favorable response confirms the high praise OTA has received anecdotally over the years. One open-ended survey item asked what changes the respondent would recommend in OTA projects. Of the fifteen specific suggestions, all had to do with increasing the level and range of OTA assistance, much as the Australian Treasury report had recommended.

## **Regional and Country Projects**

Though most of its projects respond to single country requests, OTA is also prepared to act on a wider basis where problems requires regional solutions.

### Latin America Small Business Lending Initiative (LASBLI)

In the United States, one in two people or 50 percent of the American workforce is employed by a *small business*. With all its high-profile multi-national companies, the backbone of the U.S. economy remains small business. In Latin America and other regions of the developing world, small and medium sized enterprises represent engines of economic growth that offer opportunities to significantly expand employment and, thereby, lift people out of poverty. At present, small and medium-sized enterprises (SMEs) are financed either by microfinance institutions or by friends and family members. Each of these market participants is limited in the volume of financial resources that they can make available. The result is that SMEs have access only to operating capital (i.e. funds needed to make payroll and purchase inputs), not capital investments. Banks need to play a greater role in financing in order to make a sufficient volume of financial resources available. However, banks in Latin America have, for a variety of reasons, historically focused lending on large borrowers (large, existing enterprises and other parties considered “good credit risks”).

Although in general the banking sectors in most Latin American countries are presently in a relatively developed stage, the emphasis given to small business lending varies considerably from country to country, mainly owing to shortcomings in the legal, regulatory, and financial infrastructure framework under which financial institutions operate. Often, banking legislation is not well harmonized with other laws, such as those relating to ownership, and registry of moveable assets and real estate. Other issues include access to financial services, which goes beyond access to credit per se, the quality of credit information, the appraisal and valuation of collateral, and the enforcement of creditors’ rights

In 2007, the U.S. Treasury launched the Latin America Small Business Lending Initiative (LASBLI). LASBLI is supported by the Multilateral Investment Fund. This fund, managed by the Inter-American Development Bank, has a non-reimbursable \$20.5 million line of credit to promote small business lending. The credit lines are supervised by financial intermediaries in Latin America and the Caribbean (LAC). The small lending institutions themselves comprise commercial banks, non-bank financial

institutions, finance companies, and select micro-finance institutions that will target small, profitable firms with growth potential. The overall objective of LASBLI is to increase the number of loans made to small businesses and micro-finance institutions. The role of OTA has been to assess and make recommended modifications to existing bank regulatory regimes with the goal of enabling banks to play a more active role in SME financing.

OTA is now launching the second phase of the project which will develop and implement a structured technical assistance engagement anchored around a Resident Banking Advisor and specialized intermittent assistance. Based on the experience of the Phase I LASBLI assessment missions, Guatemala has been selected as the advisor's post for Phase II implementation.

### Middle East North Africa (MENA)

An OTA Debt Team regional representative based in Abu Dhabi travels throughout the MENA region advising national authorities. Within the past year, as world economic events have underlined the importance of UAE and its emirates, complex risk management issues have arisen stemming from the country's rapid development, federal system and weak institutional development. Rapid growth in sovereign debt without sufficient monitoring or coordination at the central level, lack of financial instruments, institutional investors and other fundamentals complicate fiscal and monetary policy implementation and accentuate risk. To begin to mitigate these issues the advisor has worked with the federal authorities and the individual emirates to improve debt management and coordination among the emirates. In this regard, he is advising Dubai Department of Finance on creation of a debt management function. He has also successfully encouraged use of the debt capital markets, including advice to Abu Dhabi on its first ratings and debut Eurobond issuance, Dubai on its first domestic currency straight issuance, a five-year medium term note, and UAE Ministry of Finance as it develops a domestic benchmark program. This exposure to the capital markets is having a positive effect in that individual emirate policymakers are conscious of market perception and risk premiums associated with their actions. In addition, the advisor is responsible for the eventual establishment of a regional bond market association as a permanent contributor to sound policy.

Projects in single countries may involve more than one OTA specialty area, and take place over time. Afghanistan provides a good example. Earlier in this report we noted that an OTA advisor began service in Kabul in 2002 to help in setting up basic government budget tracking systems. Other teams have followed since then. Addressing the many immediate challenges in Afghanistan has been and will continue to be among the highest U.S. priorities. The medium to long-term future of the country, however, will depend on building strong and sustainable institutional infrastructure. Most public attention given to Afghanistan focuses on military action, but efforts to bring about broad shifts in the country's economic base, and political developments within the government are the actions that will build long-term sustainability. OTA's financial technical assistance is critical to this effort.

## Afghanistan

When OTA's Debt Team first engaged in Afghanistan in August, 2003, problems facing the country included reconciling past sovereign debt, improving the cash management process of the country, and reporting debt data in both a timely and accurate way. Beginning with that engagement Debt Team Resident Advisors have provided debt management training and advice to the Ministry of Finance's Debt Management Unit. The Afghans successfully reconciled and restructured old sovereign debt including Paris Club and bilateral debt. Technical assistance has also supported improved cash management processes, and the implementation of an accurate, timely and consistent reporting cycle for the country's debt data. A major goal was reached during FY 2008 with the first publication of a quarterly debt report by the Debt Management Unit. The report was for the 4<sup>th</sup> quarter of Afghan fiscal year 1386 (ended March 19, 2008) and included loan disbursements, repayments, service charge capitalization, accrual of service charges (interest) and debt stock at the end of the reporting period. The Ministry of Finance intends to publish the debt report for Afghan fiscal year 1387 by the end of August, 2008, and to regularly publish quarterly debt reports within 90 days of the end of each quarter. This is a significant milestone because continuous, timely publication of debt data is one of several benchmarks required by the IMF and World Bank for Afghanistan to be granted Completion Point status under the Highly Indebted Poor Country (HIPC) initiative.

To provide assistance in the short term and to build a solid and sustainable base for long-term stability, OTA's Economic Crimes Team has directed its efforts toward building institutional capacity to prevent and fight economic crime, remove incentives for corruption, build personal and systems integrity, and discourage the conditions that foster terrorism.

OTA's economic crimes team's efforts have included developing a financial intelligence unit staffed and trained to develop, populate, and access a database that detects and regularly reports on large cash transactions and suspicious activities, and strengthening the regulatory regime for preventing money laundering and terrorist financing in order for the regime to conform to international norms. This included strengthening compliance abilities of those who report potentially suspicious activity: bankers and other formal financial sectors institutions, hawaladars, real-estate dealers, jewelry and precious metals dealers, and lawyers.

Treasury efforts have resulted in greater regional and international information exchange and cooperation such as: membership in Asia Pacific Group on Money Laundering; observership in Eurasian Group on Money Laundering; observership requested in MENA FATF (the regional body for the Middle East); MOU's signed with a dozen FIUs, including, SOCA (UK FIU), Russia, and Japan; MOU requested for information sharing with FinCEN; and Egmont membership application submitted with the U.S. and Malaysia as sponsors.

Yet another model of OTA team applications occurs when multiple teams pursue separate projects in the same country simultaneously. This was a common OTA model during the early years in post-communist countries. OTA currently has projects in Paraguay run by the budget,



debt, banking, and financial crimes teams. In addition, the financial crimes team leads a project that is backed by the MCC.

Paraguay:

- While the Government of Paraguay's budget formulation, execution and evaluation systems have successfully constrained spending within revenue limits, they had not lead to a budget that was an effective strategic planning or execution tool. Specific areas needing improvement included: a budget formulation process that was not closely linked to Ministry plans or activities, budgets produced by the Legislature that exceeded likely revenue collections, cash management processes that hindered flexibility in budget execution, and a lack of decision making information produced by the budget evaluation process.

Historically the Budget Department has consolidated budget requests and implemented top-down directives. It has not analyzed the programmatic implications of the proposed budget nor its relationship to government priorities. Changing this approach requires both training of budget analysts and the introduction of new processes that introduce systematic analysis of government programs into the budget formulation process.

To address these shortcomings, the Budget Team Project conducted a strategic planning session for senior budget department staff to identify progress made towards strategic goals in recent years and to identify next steps for the upcoming year. It worked with budget staff to analyze "natural growth" estimates in the university system and to develop capacity in identifying cost drivers and analyzing growth. It also initiated a process of periodic, in-depth budget reviews with Finance Ministry staff. Teams consisting of the Resident Advisor and three to five budget analysts identified key government programs and analyzed them in regards to their consistency with government priorities, historic budget trends, multi-year budget impacts, performance evaluation data and programmatic effectiveness.

The in-depth budget reviews included analyses of the Ministry of Justice and Work's job training and youth shelter programs, the Secretary of Social Action's conditional cash transfer and affordable housing programs, the National University of Asuncion, the Health Ministry, the Agriculture Ministry, Interior Ministry, and Foreign Relations (embassies and consulates).

The in-depth program reviews have allowed for on the job training of budget staff and introduction of common budget analysis techniques, such as identification of cost drivers and definition of base budgets. The program reviews continued after submission of the 2009 budget, with four new work groups in ministries that have not yet been analyzed.

To increase transparency of budgetary information available for citizens, legislators and policy makers, the budget website was improved. The improvements included providing budget information by entity, function, state, and budget results.

The Single Treasury Account (TSA) working group is coordinating the necessary steps to prepare for implementation of a TSA in January 2010. The TSA is a critically important tool for budget execution and cash management. Once implemented, it will increase the efficiency of the government's financial operations, improve transparency of Treasury activities and permit the use of idle cash balances. The Finance Ministry's Legal

Department began analyzing the revenues to be included within the TSA to identify any legal obstacles to their inclusion. The TSA working group agreed to the development of an interface between the tax and treasury information systems to facilitate information flows between the departments. This interface will shorten a process that currently takes more than a month and allow it to be completed in a matter of days.

- Paraguay lacked an updated legal framework for issuing government debt; its data collection and recording systems were inadequate; cash management was weak; it did not have an international credit rating, a debt-sustainability model, nor did it have adequate organization in its debt office organization. OTA's Debt Team began a project in 2004 that has supported the Paraguayan Treasury and Central Bank of Paraguay in revisions to the public debt legal framework; upgrades to the debt data collection system; upgrades to the book-entry payment system; training for cash management, and reserve and investment management; obtaining international credit ratings; development of a debt sustainability model; debt office reorganization; the first non-compulsive issuance of Treasury obligations in over a decade (with regular market-based auctions after that); development of debt service schedules; and publication of debt issuance calendars. A major goal was reached in FY 2008 following GDIM training to Central Bank and Ministry of Finance directors for risk management and debt sustainability. This training contributed to improved operations and policy coordination between the two institutions that resulted in the development of a National Debt Strategy that was reviewed by the incoming Minister of Finance in August, 2008.
- One of the critical issues for effective governance is maintaining public confidence and trust in the financial system. Recent economic events in the U.S. and around the world underline the critical role that banks play in providing assurance to their depositors that savings are safe. In late 2006, the OTA resident advisor at the Central Bank of Paraguay set up within the bank a working group on financial sector stability to address the issue of analyzing and reporting the state of financial stability in the country.

The project helps ensure that the central bank takes a comprehensive view that not only considers the traditional focus on monitoring individual banks carried out by the Superintendence of Banks, but also looks at broader factors that will further buttress sound sector performance-- such as availability of liquidity facilities to banks and maintenance of appropriate levels of indebtedness in the corporate and retail sectors

In 2007 the group produced a draft of Paraguay's first-ever Financial Stability Report. In 2008 the process was institutionalized within the Central Bank in the form of a Committee on Financial Stability. One of the on-going responsibilities of the committee will be overseeing the twice-yearly publication of the report.

“The level of trust that I developed with ...the OTA-US Treasury organization was something that was instrumental during my tenure as head of the Central Bank of Paraguay. I was able to leverage on their collective expertise on several matters, ranging from: Monetary Policy issues, inflation measurements, reserve management, Central Bank Bill issuance, re-capitalization of Central Bank matters, amongst others. The trust factor is key between local government officials and OTA advisors.”

- Monica Perez dos Santos, President, Central Bank of Paraguay, from May 2005 to March 2007

- One of the less-apparent mechanisms for laundering money occurs in the insurance sector – for instance, purchasing insurance vehicles with proceeds of criminal activity and cashing them in for “clean” payouts.

The Paraguay project for insurance was requested by the Superintendent of Insurance in the Central Bank of Paraguay and provided for technical assistance from OTA to establish compliance with AML standards in the insurance sector. The project lasted one year and provided assistance that resulted in the Superintendent formulating, testing and adopting procedures to examine companies for compliance with regulations designed to deter money laundering. This project also provided training to government regulators for enforcement of AML compliance through the examination process and to the insurance industry for regulatory requirements. The project concluded with a highly-praised regional AML conference, opened by remarks by the U.S. Ambassador. There were more than 250 registrants including representatives from eleven countries. The conference fostered excellent government relations that resulted in Paraguay requesting additional enforcement assistance relating to insurance, and an invitation from Panama for OTA to participate in a large AML/CFT conference in August 2008.

- MCC program goals in Paraguay called for three investigative units being tasked with specific objectives. The three investigative units within the Ministry of Finance were tasked with meeting objectives consisting of the number of cases presented correctly to the public prosecutor's office, the quantity of merchandise/taxes collected/seized, and the number of complaints of corruption by public officials received, investigated and presented to the public ministries office.

With OTA's assistance, three investigative units were formed: a tax unit, a customs unit and an internal affairs unit. Each team is comprised of a minimum of 15 officers. All were equipped with the latest in investigative gear, cameras, binoculars, computers, etc, and the latest version of I2, an investigative link analysis software package. The special agent basic criminal/financial investigative techniques course of the Federal Law Enforcement training center was obtained and presented to all three units. All of the units were organized by presidential decree giving them the maximum authority allowed by Paraguayan law. All met and or exceeded their program goals.

## 2008 COUNTRY-SPECIFIC HIGHLIGHTS

### Africa

#### African Development Bank – Integrity and Anti-Corruption Project

- Pervasive corruption undermines economic development throughout Africa. Working in partnership with the African Development Bank, this project builds capacity to combat fraud and corruption. The Bank requested assistance from the US Treasury to implement a two part anti-corruption and fraud strategy in the 53 African states to which the bank provides loans and grants. Phase One (2006-2008), now near completion, built investigative and training competencies within the Bank, specifically within the Bank’s new Integrity and Anti-Corruption Division (IACD). The second phase extends the program’s impact outside the Bank, to regional member countries, and is scheduled to be completed by May, 2009.

Since the beginning of the project, IACD has addressed a majority of the substantive complaints received. The President of the Bank took action on most of the reports which resulted in disciplinary action (dismissal) or other sanction. Additional achievements include establishing an office with state-of-the-art investigative software and equipment, and a forensic laboratory; standing up the investigative operation with standard operating procedures based on UN and sister multi-national bank best practices; providing due process guarantees consistent with administrative proceeding and confidentiality safeguards; managing dedicated hotline services that address complaints which are immediately registered in a case management system; implementing a whistle-blower policy that ensures full protection against retaliation, and developing training and awareness programs for borrowing countries and the Bank’s field offices.

The work accomplished so far has prepared the Bank to fight corruption, fraud and AML/CFT within its own operations. The project will soon begin to realize a “multiplier effect” as growing expertise and IACD training in the Bank’s Field Offices and Regional Member Countries shape financial management, and anti-corruption and anti-money laundering practices throughout Africa for years to come.

### Algeria:

- Facing a major reorganization in its revenue collection function, and with little experience in such an effort or the contracting and project management skills required, the Directorate Générale des Impôts (DGI) of Algeria requested assistance in the \$35 million effort to move from paper-based to electronic taxpayer records as part of a larger DGI modernization. In preparation for what will be an extensive and ambitious re-organization and expansion, an OTA advisor has been assigned to help: (1) negotiate with the successful bidder on contractual terms; and (2) assist senior and mid-level staff enhance their program management skills through consultations, training, and provision

of written guidance. The advisor is also providing advice on staffing needs and software testing standards. DGI staff has been trained in project management in order to carry out their oversight of the private contractors. Another advisor provided consultation on public relations, and conducted workshops on media interview skills and presentation skills.

2008 has been a year devoted to orientation and preparation for the coming changes. DGI staff has already been trained in project management in order to carry out oversight of the private contractors. Training in public relations has taken place.

## Ghana

- Ghana made a strong commitment to the development of a fiscal decentralized framework within its multi-donor budget support program. The Ghana Poverty Reduction Strategy, as well as the Ministry of Public Sector Reform's Work Program to Coordinate the Implementation of Public Sector Reforms, highlights decentralization and capacity building.

A critical element of the fiscal decentralization involved establishment of an intergovernmental fiscal decentralization framework. The Budget Team Project in Ghana focused sustained effort on assisting in this initiative. The Ghanaian Constitution directs that local governments be independent, yet the central government still controls the majority of district financial resources and performs many functions that should be moved to the district level. This posed an obstacle to the success of the constitutionally directed reform. The Budget Team Project developed a strategy and implementation plan that laid out the vision for fiscal decentralization identified and harmonized the fiscal decentralization reform efforts currently underway; presented the gaps between the current situation and the vision for the future; and developed strategies and priorities for moving forward. The framework was approved by the Cabinet in May 2008.

A central element of the capacity building of the Public Sector Reforms was cash management. A Cash Management Implementation Committee was formed to explore different ways to meet cash management objectives. The objectives are to safeguard cash, minimize the volume of idle balances and number of accounts, match the timing of cash inflows and cash outflows, increase the certainty that payments are made and receipts are deposited on time, streamline the different flow of funds, and increase the predictability of the release of funds and reduce the cost of borrowing. The Committee is reviewing best practices, developing a vision for the future, identify the gaps and developing an implementation plan. The Budget Team Project will address the regulatory environment, organization and business processes.

- When OTA's Debt Team first went to Ghana in 2002, the challenges that faced the country were great: the infrastructure of the Ministry of Finance and Economic Planning (MOFEP) and the Bank of Ghana (BoG) were weak, cash forecasting and debt management capacity were low, and the country had not yet opened its long-term debt markets to both national and foreign investors. Since that time the Debt Team project has

helped MOFEP and the BoG to improve their institutional infrastructure, cash forecasting and debt management capabilities, and open their debt markets to both national and foreign investors by issuing long-term fixed-rate benchmark securities. In the fall of 2007 the Republic of Ghana became the first post-HIPC country to enter the international bond markets. The 10-year \$750 million benchmark issue was issued to finance energy and transportation infrastructure, and was the first sub-Saharan sovereign bond issued in the last 30 years. The sovereign bond provided a critical benchmark instrument that subsequently enabled Ghana Telecom to privately place a \$200 million medium-term bond with foreign investors. The process of actually issuing sovereign bonds was a positive first step toward reaching the MOFEP's objective to build capacity in project financial analysis. Ghana's Treasury Single Account project will implement the new T24 system in Q4-2008, and it will provide real-time balance information and improved GoG cash management. Significant revisions to primary dealers' guidelines, including a more balanced relationship between privileges and obligations, will foster more market liquidity and support broader market development. MOFEP and BoG staff were trained in the newly acquired Bloomberg system, and the BoG research department now includes Bloomberg data and graphs in its weekly public reports.

#### Kenya:

- Across this region of Africa, money markets are characterized by severe structural illiquidity. A few large banks, which dominate the markets, do not engage in uncollateralized interbank transactions with the rest of the market - largely due to their concerns about credit. This impedes the development of money markets and the efficacy of the central banks' monetary operations. Since money markets are the foundation of a market yield curve, this has tended to retard the effective development of securities markets and price discovery across the curve. For these reasons, the development of a horizontal repo program (inter-dealer repurchase agreement) – one in which institutions can exchange liquidity on a collateralized basis - has been at the top of the IMF's agenda in Kenya for several years. The Debt Team advisor guided counterparts on the requirements for developing a repo program to support the efficient functioning of the domestic money market. He developed the operational guidelines and market code of conduct for the repo program; and advised the IT staff on the business requirements of an IT link to the central depository, necessary to assure delivery versus payment, which is essential to the program. The advisor also worked with legal staff to adapt the global master repurchase agreement to meet domestic market requirements.

#### Lesotho:

- Like many governments, the Kingdom of Lesotho found, upon examination, that some of its functions had become bureaucratized to the point where they neither served the citizens nor effectively carried out their missions. The Lesotho Revenue Authority (LRA), the government agency responsible for collecting revenues, was one chosen for reorganization and reform.

US Treasury was asked to assist in helping management move the LRA to a more customer-oriented agency. OTA has been called on to provide a broad range of technical assistance for the purpose of building a more effective and efficient Investigative and Intelligence Unit at LRA and improving the overall performance of the Revenue Compliance Unit.

To date OTA has provided ongoing technical and management advice to the LRA Commissioner Revenue Compliance on issues involving balancing of civil vs. criminal approaches on ongoing investigations. Advice has also been given to the LRA Legal staff concerning the appropriate manner to issue press releases on court proceedings. A formalized Fraud Information Item Referral procedure and reporting format has been developed that will enable public sources to report suspicious activity and alleged tax frauds to the LRA. To enhance operations of the LRA Investigation function, a Prosecution Policy has been proposed for implementation. Though there may be exceptions, the policy contains general guidelines that might be followed in the selection of the most egregious cases for criminal investigation and potential recommendation for prosecution.

Additional matters on which advice has been given for systems improvement include: ongoing investigative and technical guidance on numerous investigative matters including a “high profile” investigation of alleged evasion of income tax and non-declaration of Value Added Tax (which could recover up to \$1 million); guidelines on Fraud Referral Procedures for LRA Audit and Debt/Collection functions; Case Initiation Procedures; use of diaries in investigations; and development and use of an LRA investigative credential.

#### Liberia:

- The Liberian Government requires assistance in all aspects of administration as it attempts to reconstruct itself from the ashes of war. With significant timber, rubber, and minerals, the Liberian Government in Monrovia has the revenue potential to flourish, if it manages them correctly. OTA Revenue has been providing assistance to strengthen the technical ability of auditors as well as to create procedures that minimizes the cost of compliance for private business. An audit manual and related training have been completed -- along with refresher courses in accounting, basic audit techniques, and interview skills. In addition, based on information provided by an OTA advisor’s review, the Minister of Finance is investigating 15 audits from the Large Taxpayer Unit for malfeasance.
- Liberia has no legal provisions for restructuring its debt. An OTA Government Debt Issuance and Management project 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.

## Madagascar:

- The Republic of Madagascar’s strategy for achieving the Millennium Development Goals is articulated in the “Madagascar Action Plan” (the MAP). In addition to outlining a number of steps to achieve the Millennium Development Goals, the MAP also establishes a wide variety of performance measures to monitor the development of the government’s different functions. The broad goals of the Treasury engagement in Madagascar with the Ministry of Finance and Budget were to improve the government’s budget process, and to increase the quality and quantity of public information related to the management of public finances.

The 2008 budget was significantly improved by lengthening the budget process, developing a calendar with clear deadlines, and allowing more input into spending decisions between and among the different stakeholders of the government. The lengthened process allowed for analysis of spending requests of government ministries to ensure they were in line with the MAP. While the budget process was not perfect it was a vast improvement over the prior year.

As a companion to the budget the Ministry of Finance and Budget also produced a “Practical Guide to the Budget” which was an important step to publicize the work of the Ministry as well as to educate Parliamentarians on the budget. The Guide was also an important document for informing the general public about the work of the Ministry of Finance and Budget.

In addition to the Guide, an analysis of the results of the execution of the current year’s budget was published. This quarterly review which was done for the first time in CY 2007, allowed both external and internal stakeholders of the government to review, in summary form, narrative and statistics concerning the financial performance of the budget. Considering that no intra-year reporting had ever been done before, this is an important achievement.

## Malawi:

- Countries like Malawi have increasingly had to deal with a wide range of specialized, sophisticated financial and economic crime and fraud. They have particularly had to counter money laundering (and terrorist financing frequently tied to such money laundering). In order to address these issues, Malawi called on US Treasury to assist it in writing laws and regulations that met international standards that authorized the establishment of a central Financial Intelligence Unit (FIU), and prescribed the mission of the unit designed to centralize functions associated with economic crime.

OTA then was asked to aid in the establishment and development of the Malawi FIU as a key institution in the development and implementation of an effective AML/CFT regime, including the operational status and efficiency of the FIU. The FIU quickly became operational, and assumed the task of developing and implementing the AML/CFT Regime. Banks and Customs are currently reporting to the FIU, and preparations for



reporting by other financial and non-financial sectors are ongoing. Domestic cooperation has been established and the FIU is in the process of signing its first Memorandum of Understanding with a foreign FIU.

The project has delivered extensive on-site mentoring and assisted the FIU to travel to the Financial Intelligence Centre in South Africa and at the Mauritius FIU, for further practical on-the-job training. The FIU staff also received training by the World Bank, IMF, the African Development Bank, FATF-Styled Regional Bodies, and others. Knowledge and expertise acquired are also being successfully used by the FIU to assist other institutions in Malawi with their AML/CFT roles. Efforts by the FIU have succeeded in raising awareness that a concerted effort is needed, and domestic cooperation is much improved. All objectives of the project were achieved. Scheduled to end in June 2008, the project was extended to September 30, 2008 in order for OTA to purchase the remaining necessary software and arrange for training of FIU personnel on its use.

#### Mozambique:

- Despite remarkable economic growth since the end of the civil war, Mozambique remains an extremely poor country with pressing economic development and HIV/AIDS treatment and prevention needs. In coordination with the IMF and a donor's coordination group, OTA has assisted the strategic planning efforts of the Central Revenue Authority (ATM) as it attempts to fulfill its role in improving state finances. OTA advisors have guided the formulation of the ATM Strategic Plan as well as the tactical plans for its fulfillment. Initial progress has been made in upgrading the technical abilities of auditors focused on key revenue sources for the country: the oil, gas and mining industries.

#### Namibia:

- Having passed the Financial Intelligence Act (FIA) in 2007, Namibia was faced with the challenge of implementation. In 2008 this involved establishing regulations in support of the law, providing specialized training to professionals who were charged with implementing the law, establishing relations with partner Financial Intelligence Units (FIUs) in other countries, and disseminating guidance on reporting responsibilities to accountable institutions and supervisory bodies within the country.

Accomplishments during 2008 included the development of Namibia's AML legal regime, consisting of the regulations, exemptions, and determinations under the Financial Intelligence Act; the training of prosecutors (in cooperation with the UN Office on Drugs and Crime) which focused on the enterprise theory of investigating and prosecuting organized crime; providing the new OTA Financial Analysis Techniques Course (offered to Financial Intelligence Centre personnel and to representatives of the Namibian Police Force, Inland Revenue, Customs, the Prosecutor General's Office, and the Office of the President [Intelligence]); the delivery of three weeks of AML training to banking

institutions, securities firms, and insurance companies, agents and brokers, as well as the governmental supervisors thereof; and the development of a supervisory strategy, including the design of new legislation, for the gaming industry

In addition, cooperative arrangements and procedures were set up with other countries, primarily through MOUs, to enable the FIU to exchange information with its counterpart FIUs; and guidelines to assist the first phase of accountable institutions and supervisory bodies were developed.

#### Niger:

- The Republic of Niger is the fourth poorest country in the world and has historically had weak tax systems and an inability to effectively administer its tax laws through registration, voluntary compliance, audit, and collection – the standard tools of tax administration. A modern tax administration, by broadening the base of compliant taxpayers, creates a fair playing field in which small and medium-size firms can help diversify the economy, and mitigates the cyclical effect of fluctuating resource prices on government coffers. Likewise, a stable tax base is necessary preparation for the day when donor flows eventually dry up.

In collaboration with the OTA Revenue Team, the Nigerien tax administration (DGI) created, approved and implemented a collection manual. A nationwide training program exposed collection staff to the new, standardized procedures and policies contained in the manual. OTA is assisting DGI in conducting regional reviews of the implementation of the new manual. Officials give significant credit to OTA assistance in helping revenue collection increase by 22% in 2006 and by 30% in Q1 2007 compared to a year earlier. As a percentage of GDP, tax revenues have shown a steady increase, from 10.3% on average in the 2002-04 period to 11% from 2005-07, with the 2007 figure rising yet again to 11.7%, according to the IMF. The communications and public relations training the DGI employees received made a great impact in how they deal with taxpayers and, as a result, in taxpayer compliance and increased revenue. A new Code of Conduct was submitted to DGI management and the employees' union for final validation. Final approval of the Code was delayed so that recommendations from OTA could be considered. The DGI included in the Code a section on communications and public relations echoing the concepts that were previously provided in the training.

#### Nigeria:

- Nigeria has suffered in the Government Debt arena from weak debt recording procedures, and an extended period during which no domestic debt had been issued. Since 2001 Debt Team projects have provided debt management training and advice to the Nigerian Debt Management Office. After reconciling and improving existing debt recording practices, advisors have enabled Nigeria to restructure its debt portfolio and to issue long term domestic debt after an absence from the market of eighteen years. Regularly scheduled bond offerings of two and three year maturities were introduced and marketed through a

network of Primary Dealer banks who also assumed the obligation of making two-way quotes in the secondary market. The development of the secondary markets attracted international investors, in substantial numbers, to the Nigerian government bond market for the first time in 20 years. A major milestone in the development of the market was reached during 2007/2008 when an advisor developed a system that enabled the Debt Management Office to re-open previously issued bonds. This led to the development of highly liquid benchmark issues in three, five and ten year maturity sectors that will eventually serve as reference points for the development of the private sector (corporate and sub-national) debt markets.

#### Rwanda:

- Lack of monetary operations flexibility in the Central Bank of Rwanda (CB) hindered its ability to manage and contributed to a distortionary effect in fixed rate operations. An OTA Debt Team project has led to the overhaul of the CB's monetary operations and related issuance program, by developing a program that replaced the CBs fixed deposit facility and weekly deposit auction program for banks, with a flexible, multi-tenor CB repo program. This has given the CB more flexibility to manage monetary operations and will reduce the distortionary effect of its fixed rate operations in the market. As a result, the CB is now a price taker. The project also developed a program for the issuance of treasury bonds. The government of Rwanda now issues two and three year bonds. This has set the stage for the first corporate issuance in Rwanda in which a corporate issuer issued a 5 year bond.

The project has encouraged the development of an enhanced registry, to record secondary market sales and transfers, which is needed to accommodate the enhanced issuance program, featuring coupon instruments, as well as the emergence of secondary market transactions.

#### Uganda:

- Uganda had a financial regulatory framework that limited increased activity in government bonds. The OTA Debt Team developed a new financial regulatory framework for Primary Dealers, to cover increased activity in the government fixed income securities market - including swaps and other derivative transactions and the attendant impact on money market liquidity and volatility. The new financial regulatory framework also applies to non-bank financial institutions which were not subject to central bank regulatory oversight and encourages uniform compliance for banks and non-banks using Basel-type risk-based financial capital regulations.

## Zambia:

- The revenue, expenditure, cash management and accounting processes within the Ministry of Finance and National Planning (MFNP) are fragmented, weak in internal controls and inefficient. As a result, financial information is not provided to decision makers in a timely or accurate fashion. This is especially true in reporting the Government's cash position. The lack of timeliness in consolidating information on available cash balances has resulted in the Government having to borrow funds, despite idle balances in spending agency accounts. The MFNP issues T-bills to finance the budget, and the Bank of Zambia currently issues term deposits to, essentially, ration cash.

The Budget Team Project worked to develop and strengthen the different treasury functions that are managed by the MFNP's Budget Office, Investment and Debt Department, and the Accountant General's Office. It assisted in outlining relationships with relevant institutions/departments within and outside of MFNP towards the goal of establishing a Treasury Department in MFNP and placing the treasury functions in it.

An effective cash planning and funding management system ensures smooth budget execution and avoidance of unnecessary borrowing on the part of the government. A cash management training course for controlling officers of spending agencies was developed and provided to director-level staff of MFNP, Bank of Zambia, and Zambia Revenue Authority. The Budget Team Project worked with the Integrated Financial Management Information System (IFMIS) project team on the cash management functionality of the IFMIS, as well as cash forecasting and improvements to non-revenue collection procedures.

The Budget Team Project provided technical assistance on the creation of an implementation plan for payroll direct deposits to go through MFNP-controlled accounts, rather than through individual spending agency accounts. This will decrease the need for the individual spending agency accounts to handle the payroll cash, and increase the Government's control over its available cash balances.

A Treasury Single Account (TSA), once implemented, will increase the efficiency of the government's financial operations, improve transparency of Treasury activities and permit the use of idle cash balances for the government's benefit. The Budget Team Project assisted in drafting a Cabinet Memoranda to establish a TSA and Treasury Department.

## **Asia and Near East**

### Indonesia:

- When the OTA Debt Team initially placed a Resident Debt Advisor in the Ministry of Finance of Indonesia in June 2001, the country suffered from a lack of efficiency in its debt issuance and management practices, lacked a sovereign debt law, had no Primary Dealer System, and did not issue Treasury Bills. Major accomplishments of the Debt Team project included reprofiling of \$19.1 billion of securities held by state-owned banks and the passage of a sovereign debt law. In November of 2006, the Team placed a new

resident advisor at the MoF. Global and domestic factors have amplified certain classes of risk and raised legitimate concerns about the cost and availability of market based finance. Accomplishments of the current project include the design and introduction of the Primary Dealer System. The system contained a two-tiered capital adequacy requirement specifically designed to accommodate smaller domestic institutions along with the large international banks. All domestic government securities are now sold via auction with competitive market based pricing using this mechanism. Auctions are now routinely oversubscribed and a secondary market has developed for government securities. The introduction of first Treasury Bills was another project milestone that provided a new class of securities previously unavailable to investors. The project supported the Ministry's work on its international and Islamic (sukuk) bond programs. The advisor worked with the Ministry on a comprehensive approach to identify and manage the components of risk facing the Directorate General of Debt Management. Two GDIM specialist advisors working on risk modeling, sustainability analysis, and IT design supported this effort.

- The decision by the Director General Tax (DGT) to implement a pilot Document Processing Center (DPC) and, based on that experience, to build additional DPCs, presented several major challenges in management, coordination, contract management, IT development and implementation, and system conversion.

USAID and the US Embassy in Jakarta requested OTA assistance in planning and implementation of the pilot Document Processing Center, and preparation for the establishment of additional facilities and organizational processing capability. Technical assistance began in May 2007. DGT identified an IT contractor, established a production facility, and laid the necessary legal groundwork in time for the pilot DPC in Jakarta to begin operations in January 2008. OTA advisors reviewed the staffing plan at the Jakarta DPC and successfully advocated for additional contractors to be hired for the 2009 March filing season and for the development of an in-house information technology capacity. The OTA Revenue Team has conducted assessments and provided recommendations on the layout and structure of proposed sites in Medan, Surabaya, Makassar, and Jambi for subsequent DPCs that will begin operations in mid-2010.

In February and March, the OTA project reviewed and redesigned the Value Added Tax (VAT) and individual taxpayer forms to ensure they would be easily and accurately read by the scanning equipment. In November, a follow-up forms design workshop was conducted for 20 DGT officials based on the tax analysis and forms design manual developed by OTA. Feedback provided during the workshop was used to draft seven new Withholding Tax Forms based on the recently passed legislation on withholding taxes.

In cooperation with the World Bank, OTA conducted two project management classes to provide participants with the tools and concepts to facilitate and document the initial planning of the next DPC sites. OTA advisors are also supporting efforts for the DGT to move from a collaborative in-office tax assessment system to a self-assessment tax declaration system. To date, OTA has conducted assessments of the technical program and strategic management capability of the Directorate of Tax Counseling Service and

Public Relations including strategic direction, operating plans, and overall program direction as well as the public relations and media affairs capacity of this department. Based on the results of this assessment, OTA conducted three training sessions for 20 participants, including senior-level DGT officials.

In December, OTA initiated a review of the nascent electronic filing program and developed recommendations to meet the DGT's target that 80 percent of all taxes will be filed electronically by 2013. These recommendations include developing a year-by-year action plan as well as targeted informational campaigns, skills that were further honed by the OTA workshops on project management and public relations.

Jordan:

- Defining, detecting, prosecuting, and punishing various forms of economic crime have direct benefits to the order and governance of any country. Beyond domestic benefits, however, building the capacity to be an effective partner in such matters with other countries benefits the entire international community. The Economic Crimes Team project in Jordan not only assists that government in establishing an effective Anti-money Laundering/Countering the Financing of Terrorism (AML/CFT) mechanism that meets international standards, but also makes Jordan a partner capable of contributing to the prosecution of complex US criminal cases that have ties to criminal activity in that region.

Jordan began receiving OTA technical assistance in March 2006, when a Treasury Terrorist Financing and Financial Crimes (TFFC) representative was placed at the U.S. Embassy in Amman. These efforts resulted in Jordan passing an AML law that went into effect on July 17, 2007. The law created a unit staffed by personnel previously assigned to the Central Bank of Jordan (CBJ) Suspicious Transaction Follow-up Unit. Since passage of the law, OTA has delivered numerous training programs and mentoring exercises as well as assisted criminal investigators, prosecutors, financial sector regulators and customs officials in developing their agencies' capacity to combat money laundering and terrorist financing. By the end of FY2009: all criminal investigators and prosecutors will have received financial investigative techniques basic training; train-the-trainer programs for police and prosecutors will be in place to continually update AML/CFT training; the Anti Money Laundering Unit (AMLU) will have sufficient analytical capacity and will have satisfied other requirements to become a member of the Egmont Group of Financial Intelligence Units; Jordan Customs will have embraced an internal task force approach to investigating customs violations relating to major criminal activity connected to money laundering and terrorist financing; obligated entities will understand the need for reporting suspicious activity to the AMLU; and, the government will have recognized the need for specific legislation criminalizing terrorist financing and strengthening asset forfeiture provisions of AML and anti-terrorism statutes.

## Philippines:

- Since 2005 OTA has assisted the Government of the Philippines in a wide variety of initiatives addressing economic crime and law enforcement. The OTA advisor was a mentor to the Anti-Money Laundering Council of the Philippines and assisted them in providing training to Law Enforcement Agencies on Anti-Money Laundering and the Control of Terrorist Financing. The project came to an end on December 30, 2008.

During these three years, several key accomplishments highlighted the success of the project. The Philippines was removed from the Non-Cooperating Countries and Territories list in 2005 and became an Egmont member as well. The Philippines is now a member of the Steering Committee of the Asia Pacific Group (FATF). Since January 1, 2007, approximately 1000 law enforcement personnel from over 25 enforcement agencies have been trained, including personnel being assigned to the Anti-Terrorism Council set up under the newly enacted Human Security Act of 2007. OTA has assisted in the training of Philippine border agencies on procedures for impeding bulk cash smuggling. Seizures and arrests have increased because of this training. The Philippines is now working with anti-corruption authorities to target the laundering of proceeds by corrupt officials. Several high-profile prosecutions and several investigations involving terrorist financing are under way.

## Vietnam:

- The economic growth and success of Vietnam are of special interest to the U.S. – in part because of our historical ties with that country – and in part because Vietnam stands as an example, if not model, of movement from a centrally managed people’s republic to a market economy. Treasury is particularly gratified that the Vietnamese government has turned to it for financial technical assistance. Beyond sharing our knowledge and experience with Vietnamese counterparts, OTA learns much about how it may become more effective and relevant to the needs of the countries and people of Southeast Asia. Beyond technical knowledge transfer, OTA has found that implementing new management practices (such as management of the public trust) can represent cultural changes more challenging and profound than new technical processes.

A new tax project began in March 2007 to assist in institutionalizing anti-corruption controls and behavior and supporting the new functional organization through an enhanced human resources structure. The General Department of Taxation (GDT) has approved a Code of Employee Conduct and an associated Table of Discipline. From May-August, the GDT Human Resources conducted ten sessions for provisional tax office heads on the new Code of Conduct and associated table.

A new internal investigations function for investigating allegations of employee misconduct has been established, along with position descriptions and an operational manual for this function. The staff of the new Internal Inspection Department (IID) has been quick to adopt the skills and resources made available by the OTA Revenue Team project. For example, IID heads from provincial tax offices reported that they had

successfully used the interviewing skills from an OTA October 2007 workshop to obtain confessions in an employee corruption case. OTA has also worked closely with the IID on the development of audit and inspection regulations and procedures as well as performance criteria. In December, OTA advisors conducted an investigations training program for 71 top managers from all of Vietnam's 64 provincial tax offices. The workshop was recorded and copies will be distributed for viewing by the remaining IID staff auditors in offices throughout Vietnam.

For the primary functions of the GDT, positions descriptions to define the tasks, duties, skills, knowledge, education, and experience for a three-tier technical career track have been drafted for 20,000 employees. These descriptions will form the foundation for recruitment, training, evaluation, and promotion in the future.

The OTA Revenue Team and the Debt Collections and Enforcement Department at the Tax College finalized a debt collection manual and curriculum for training design and development. Leadership skills trainings continued and were based on assistance provided by OTA in 2007; GDT trainers taught over 200 local office managers in 2008. In December, OTA advisors and instructors from the Tax College co-taught a pilot train-the-trainers course, based on the new manual, for 15 debt collections managers from provincial tax offices. The participants will form the cadre of future trainers and be a significant step in the Tax College's efforts to develop career-training programs.

A new HR infrastructure has been created to support the functional organization of GDT. Position descriptions have been prepared for the four primary functions that will serve as the foundation for recruitment, training, and career development. Once the government has approved this international best practice, plans are to pilot test the new PDs in selected field offices in 2009.

## **Latin America and the Caribbean**

### COTA (Caribbean Organization of Tax Administrators):

- Professional training activities often conclude with high participant ratings of material they have just received, but without follow-up or verification that any relevant improvement in performance has actually taken place.

In October 2007 in Antigua, OTA advisors led a workshop on Leadership, Managing Change, and Human Resources Management for 23 participants from 12 countries in the region. This was the fourth and final workshop in a project that comprised a training series for regional tax administrators. Previous workshops had focused on planning and management, as well as management of specific functions such as audit, collection, and taxpayer service. All these sessions received very high post-class evaluations from



participants. In preparation for the final workshop, each country was requested to complete an analysis of accomplishments stemming from the project. Eleven countries responded, with the following results: 7 had initiated a strategic planning process or had made improvements to their annual planning processes; 7 countries improved their collection processes and procedures and 5 improved their taxpayer service processes and services. Two agencies had undertaken a reorganization of tax administration; and partial reorganizations were taken by 4 agencies to improve audit, and by 3 agencies to improve taxpayer service. Improved audit processes including audit selection had been achieved in 5 countries.

#### Chile:

- Illegal or unregulated gambling provides a stimulus to criminal activity wherever it is practiced. Gaming is virtually unregulated throughout all of Central and South America. US Treasury has been working with the government of Chile through the Superintendencia de Casinos de Juego (Chilean Gaming Board) to make this organization a world-class gaming regulator which, it is hoped, will serve as a model for all of the Spanish-speaking Americas.

Over the past two years Treasury has assisted with the licensing process for new casino operators in Chile to assure that licensees meet suitability standards and that only fit and proper applicants receive licenses. OTA has also provided assistance with gaming regulations and formal Internal Control Standards as well as extensive training classes for the regulators. Training for the Gaming Board has been given in Las Vegas and as a result mutual cooperation agreements have been signed with several US gaming jurisdictions. Upcoming efforts include developing the Gaming Board's audit and investigations programs along with assistance with statistical programs and statistical analysis.

The impact of Chile as a regional model has already been seen. Several South American countries and Mexico sent representatives to OTA training sessions and have observed the benefits of sound gaming regulation as well as how Chile has developed its gaming regulatory regime. We hope this is a solid indicator that the Chilean model will be adopted in other countries.

#### Colombia:

- In late 2007, the Director General of Colombia's Dirección de Impuestos y Aduanas Nacionales (DIAN) requested assistance from the OTA-Revenue Administration Program in internal controls, internal security, and transfer pricing. In March 2008, the OTA Revenue Team conducted an assessment and shortly thereafter began working with counterparts at DIAN to develop a Code of Ethics, identifying topics, reviewing codes used by other tax administrations, and analyzing existing laws and procedures. The Director General required that all staff attorneys at the DIAN's Labor Relations

Department work full-time on the code, an indicator of its importance as well as the level of commitment from DIAN. The draft was finalized in September, and in November, the new Code of Good Governance, which includes the Code of Ethics, was adopted.

The introduction of the Code of Good Governance coincided with the announcement of a broad reorganization of the DIAN into six management functions. The restructuring implemented a key OTA recommendation to move the Office of Internal Control so that it reports directly to the DIAN Director General, thus maintaining its autonomy, increasing the professional integrity and accuracy of the audit function, and serving as a deterrent to corruption.

OTA conducted a two-phase internal control training for 28 tax officials from the Directorate of Organizational Management and the Office of Internal Control, including its newly appointed Director. The training focused on the types of audits that can be performed with the units' current staffing and resource levels as well as the role of these units in developing new applications and systems for audits.

OTA is also supporting DIAN's efforts to establish an Office of Disciplinary Investigations within the Ministry of Finance that will be responsible for investigation of serious allegations of employee misconduct and corruption. OTA developed a series of recommendations that, if implemented, would streamline the current investigative process, improve the detection and prosecution of corruption (rather than minor administrative infractions), and create a mechanism to solicit information from DIAN employees.

In 2009, OTA will continue working with DIAN to establish the Office of Disciplinary Investigations and to provide training and support for the newly created Office of Internal Control. OTA and DIAN will develop and implement a training program to familiarize employees with the Code of Ethics. OTA advisors will also conduct an assessment of the newly formed International Audit Section, with particular emphasis on assistance with Transfer Pricing.

### Costa Rica:

- The Minister of Hacienda and the Government wanted to improve efficiency and transparency of its institutions and to increase the capacity of its technical staff. All phases of the budget cycle – formulation, execution, accounting, reporting and auditing – needed improvement. The reforms of 2007, such as multi-year budgeting, utilization of performance information in the budget and strengthening of audit and control functions, were further fortified in 2008. Costa Rica's public financial management system was at a critical stage where recent reforms and newly established fiscal discipline needed to be solidified and used as a base for further reforms.

The Budget Team Project worked with four high profile ministries (Ministry of Public Works and Transportation, Ministry of Public Safety, Ministry of Health, and Ministry of Agriculture) to improve the quality and quantity of performance information in the

annual budget. Eighteen improved performance indicators were included in the Government's 2009 national budget proposal. So satisfied was the Ministry of Hacienda with the project's accomplishments that it provided assistance to additional ministries in late-2008 using the same tools and techniques employed during the original Budget Team Project.

Building on technical assistance provided in 2007, additional training and guidance were provided to the Ministry's forecasting team that allowed for the use of more sophisticated tools and techniques in estimating revenues for the 2009 national budget and having the capacity to develop medium-term revenue estimates.

The Ministry committed to implement a multi-year budgeting process. This involves the publication of the Government's first-ever "fiscal strategy document" that will discuss the country's medium-term macroeconomic situation and fiscal direction and include an analysis of the Government's debt sustainability. As a sign of the Government's seriousness regarding these reforms, the 2009 proposed budget committed the Ministry of Hacienda to publish multi-year baseline and budget estimates beginning in 2009.

The Ministry of Hacienda's Budget Execution and Control Unit executed a new and improved audit program with a focus on evaluating the effectiveness and efficiency of Government programs (i.e. operational auditing). The Unit successfully completed audits of eight programs, including education, health, housing, science, and labor programs. It improved communication between the Unit and the central budget staff. To follow up on formal audit, execution, and control training that was conducted in 2007, the Budget Team Project held work sessions with the Unit to review their progress in moving toward operation auditing and to provide feedback and recommendations.

- Costa Rica provides a good example of a country not only committed to improvement and reform, but one that is also aware of the importance of follow-through on the change process so that reforms have a greater likelihood of long-term sustainability.

After 5 years of successful partnership for change, the Costa Rica revenue project is scheduled to close in early 2009. In 2008, the project focused on: improving planning and management within the Tax and Customs administrations; tax audits; collection of delinquent accounts; internal investigations; and management of the Digital Taxation Project. Through OTA assistance the first tax administration (DGT) tactical plan was established, under which strategic improvements were managed during 2008. In Customs (DGA), OTA assisted the establishment of an approved strategic plan for the years 2008-2011 and the preparation of a tactical plan. In tax audit, an improved system of risk-based audit selection was implemented. In enforced collections, DGT began exercising its authority to close businesses of delinquent taxpayers, forcing 27 percent of noncompliant business taxpayers to either pay or agree to installment agreements. In Internal Investigations, the first Internal Affairs Unit was authorized by the Minister of Finance with targeted full implementation in January 2009. The Ministry of Finance adopted the Internal Affairs' employee Code of Ethics, and continued to develop the Operational Handbook in 2008. As of November 2008, 3 cases have been closed with findings and 22 cases remain open. Finally, in Information Technology, OTA reviewed a major business re-engineering contract (estimated value \$20 million) and identified

several major coordination, communication and management issues that led to the Vice-Minister's direct involvement in contract implementation.

#### Guatemala:

- The historical lack of transparency in the tax administration (SAT) in petroleum product import audits and Human Resource operations is now becoming largely overcome, and increasingly effective investigations of ethics violations can be attributed to OTA assistance.

Strong counterpart engagement by the tax administration (SAT) enabled continued development of the Petroleum Unit, demonstrated by its ability to deliver training on petroleum product control and taxation to neighboring OTA Revenue Team project counterparts in Honduras and Nicaragua in November 2007. Additionally, OTA continued to advance SAT's efforts to reform Human Resources by establishing new occupational positions, career paths and a compensation system, and committing business functional units to assign personnel to design and deliver technical training. SAT reduced the number of factors used to evaluate employees from 40 to a more manageable total of 19 and initiated the process to standardize the screening and selection process for promotions. In ethics and transparency, OTA assisted SAT eliminating adjudication of misbehavior from the functions of the unit charged with internal investigations, forming an Inspector General (IG) office, writing policy and procedures for SI and approving a revised Code of Ethics (COE) and revisions to misconduct and ethical violations reports.

The OTA success in a project in 2006 resulted in USAID approval of co-funding for the first time in FY08.

#### Haiti:

- Haiti has presented some of the most intractable challenges in this hemisphere. Poverty, instability, political volatility, and crime have all contributed to breakdowns in orderly governance and social order. Treasury's approach has been to be patient, persistent, and alert for any areas in which it seems potentially possible to bring about positive change. Opportunities have most recently occurred in the arena of tax administration.

Co-funded by USAID, the OTA Revenue Team project resumed its third year of activities in Haiti with the Direction Générale des Impôts (DGI). Advisors completed a review of all tax laws and provided DGI officials with observations and recommendations for improvement. These recommendations were also shared with the IMF, Canadian International Development Agency (CIDA), and the Inter-American Development Bank. OTA advisors have conducted training sessions on audit, course development, and instructor training for more than 40 DGI and Ministry of Finance officials. In June, five alumni from the training sessions co-taught an auditing course with the project manager.

With roughly 80 percent of the population living below the poverty line, Haiti's meager resources have been further exacerbated by the hurricanes that struck in August and September that damaged critical infrastructure, including DGI facilities. In spite of these challenges, work continued apace on the Haiti Revenue Project.

In September, the Tax Audit Manual Working Group completed a draft manual that incorporated OTA recommendations as well as training materials from the May and June workshops. Mandatory use of the audit manual will improve the transparency of the process, reduce the opportunities for human discretion and provide the basis for evaluation of auditors and audit programs.

OTA finalized recommendations to improve management skills of DGI officials, based on a survey of senior and mid-level officials and an assessment of the Human Resources and Training Functions at the DGI. These recommendations aim to institutionalize management training and a basis for OTA's further consulting on tax administration management.

In December, OTA conducted Advanced Audit Techniques for Financial Institutions training for twenty DGI officials, including the five tax auditors who co-taught the Basic Auditing Course and are being groomed to form the training cadre within the DGI. That same month, the OTA project initiated assistance to the DGI on its master computerization plan. This component of the project will be implemented by an official on detail to OTA from the Treasury Inspector General for Tax Administration (TIGTA).

In 2009, manuals for Audit, Collection, and Internal Control will be finalized and training courses will be developed and delivered. OTA advisors and their DGI counterparts will co-teach pilot courses based on material from these manuals, in addition to conducting the functional management training for senior and mid-level officials.

#### Honduras:

- In 2006 the Public Credit Department of the Central Bank of Honduras was largely disorganized and inefficient. Its capacity to raise funds was severely impaired by these limitations and a lack of effective processes. The OTA mission in Honduras began in 2006 under a dual Terms of Reference with the Ministry of Finance and the Central Bank of Honduras. Since that time several important projects have been advancing with both entities. In the Ministry, OTA Debt Team has reorganized the Public Credit Department into front, middle and back offices, introduced a Procedures Manual and Code of Ethics and is in the process of developing position descriptions and annual employee evaluations to improve the efficiency and professionalism of the department. The 2008 bond program is on track to raise almost \$300 million in local currency, a portion of which was used to recapitalize the ailing government owned energy company (a much more transparent solution than government guaranteed bonds). In 2008 a special task force was created to get a handle on contingent liabilities and guarantees. At the same time, the task force compiled information on municipal debt that will be input into the public debt database.

Best practices in debt management are becoming entrenched as high level meetings of the Public Credit Commission are held regularly with frequent sub-committee meetings to prepare materials for the Commission. A special seminar was held to evaluate debt sustainability and to prepare the first draft of the National Indebtedness Plan for 2008-2012. This Plan, plus a Recommendation for the Resolution of the Cuasi-fiscal Deficit prepared by another sub-committee of the Commission, will be submitted to the Commission for approval with the final versions incorporated in the National Budget and submitted to Congress.

- Though the economy of Honduras has grown over the past few years, distribution of wealth is quite unequal, and the country remains one of the poorest in the Western Hemisphere. Nonetheless, tax collection has improved. As the tax function is one of a very few positive stories in Honduras' financial picture, maintenance and strengthening of this function continues to have a high priority. Treasury's Revenue project in 2008, co-funded by USAID, provided assistance in internal investigations, audit, enforced collections and taxpayer service.

Achievements in internal investigations include completion of a draft manual for the Internal Investigation Unit, review of and recommendations concerning, the Anti-Evasion Law awaiting legislative approval, and completion of the drafting of a Code of Conduct and Table of Sanctions that are awaiting legal review.

In audit, a Petroleum Unit consisting of auditors, engineers, and customs deputy administrators was established in February 2008 and has closed three audits and assessed an additional 768.6 million Lempira (40.6 million USD) due from the petroleum product importers as of November 2008. An auditor time reporting system has been implemented, improving the audit function's management of information systems, and an automated selection system for identifying taxpayers for audit has been implemented, providing transparency and integrity to the system.

In enforced collections, OTA recommendations to (1) increase regional office staffing; (2) begin actively collecting taxes from segments other than large taxpayers; and (3) implement standardized management reports so the Collection Function can begin to track its productivity, led to increased collections of delinquent accounts from 2007 to 2008 by 19 percent.

In January 2008, a Civil Service Reform pilot project began in the Honduras tax administration Executive Directorate of Revenue (DEI) for eventual rollout nationwide. This project is scheduled for completion in October 2009 and receives funding from the Honduran government. Accomplishments include drafting legislation for HR authority, including legal prohibition for non-merit based HR decisions (e.g. political appointments below the Director General Level), budget authority, and independent HR regulatory authority. Reforms will include standardized hiring procedures for professional positions, development of new position descriptions and career ladders for the major occupations at DEI, completion of a salary comparability study, submission of a proposal for Pay Reform to the Minister of Finance, development of a Bonus Program, development and approval of a Performance Management System, and design and approval of Performance Management training.

## Nicaragua:

- Nicaragua is classified as a Highly Indebted Poor Country (HIPC) and is the second poorest country in the Western Hemisphere after Haiti. It represents, however, yet another example of how even countries in severe straits and with limited opportunities can benefit from progress achieved with the support of targeted financial technical assistance.

USAID co-funds this OTA project, which is scheduled to end in 2009. The project has made significant impact on basic audit capability, and will wrap-up with assistance visits in two targeted areas: intermediate audit techniques and enforced collections. OTA assisted the Direccion General de Impuestos (DGI) auditors' skills development, demonstrated by the DGI auditors' ability to instruct other tax auditors in the regional Audit Phase 2 training in September 2008, and their capability to prepare a manual for advanced, larger case audits in 2009. Further, OTA assistance guided the Enforced Collection function to prepare more effective management reports with monthly and cumulative tax debt recovery data at various levels, and enabled DGI trainers to train 80 Enforced Collection staff, managers, analysts and lawyers, in collections interviewing and negotiating techniques. At the recommendation of OTA, the Director General provided cellular phones to Enforced Collection heads nationwide to establish an additional communication channel to contact delinquent taxpayers. The result of these efforts is a 34 percent (\$10.6 million USD) increase in enforced collections from January to August 2008 over the same period in 2007.

- OTA's Debt Team has been engaged in Nicaragua since October, 2002. Since that date, Debt Team projects have supported both the Ministry of Finance (MoF) and Central Bank (CB) in creating a Public Debt Law; reorganizing the Debt Management Office; promoting coordination between the MoF and CB to avoid market fragmentation of debt issuance; institutionalizing communication channels between the government and private investors; negotiating a US\$150 million stand-by liquidity facility with a multilateral institution for the CB to mitigate a potential liquidity crunch during the presidential elections; executing a US\$ 1.4 billion external-commercial debt repurchase operation (November 2007); and issuing, for the first time in Nicaragua's history, standardized, non-compulsory government bonds. In 2008, the government for the first time published a yearly issuance plan and calendar; however, a decision by the government to suspend servicing certain government securities issued in favor of local banks and later renegotiating payment terms under conditions viewed as unfavorable to the holders brought to a halt the debt issuance program for the year. Notwithstanding, a major milestone was reached with the approval by the President of the first National Debt Strategy (2008-2011), which lays out the strategic initiatives necessary to reach debt sustainability and reduce dependence on external financial assistance over the medium term. The Advisor has also made arrangements to provide GDIM training on managing risk to the Debt Management Office and on strengthening cash management processes to the Treasury.

## Europe

### Albania:

- OTA's GDIM has been resident in Albania since August 2004 with two successive advisors supporting both the Ministry of Finance and the Bank of Albania. Goals of the project have included lengthening the average maturity of debt, moving toward an electronic auction system, and opening domestic government securities market to international participation. In the last two years, GDIM has worked with the Government to more than double the average maturity of debt to approximately 450 days from under 200. This maturity extension, which mitigates refinancing risk, was accomplished by introducing both 7-year fixed rate notes, and 5-year fixed and floating rates notes. At the same time the Ministry has moved to a completely electronic auction system using the Reuters auction platform. The electronic auction system has contributed to better market transparency and increased efficiency at both the Bank of Albania and the Ministry of Finance. In early 2008 the Ministry closed on its first syndicated bank loan, opening a new financing alternative and further reducing financing risk. The Government has also opened its domestic government securities market to international participants and has attracted foreign investors to the domestic local currency debt market. Within the Ministry, a reorganization of the debt department has resulted in the creation of a Debt Directorate which will permit the hiring of a more professional staff and elevate the importance of debt and capital market activities. The Ministry has also begun quarterly reporting of statistical information related to debt issuance, interest payments and risk parameters. Non-competitive participation in government securities auctions continues to increase and now comprises nearly 8% of the domestic market.

### Eurasian Group:

- Economic crime respects no political borders. In order to effectively battle money laundering, terrorist financing, and other financial crime, regional and international cooperation and coordination are necessary. US Treasury is assisting the Eurasian Group (EAG) in advising its member countries in how to comply with international best practices and standards in the AML/CFT area. OTA is specifically making contributions in the areas of operational standards and principles for analysis, information security, and information exchange. Other partners have stepped forward to lend credibility and support to the EAG. Rosfinmonitoring (the Russian FIU), for instance, has committed at the highest level to implement the analytic standards and has already outlined an HR program for translation of the standards into position descriptions, candidate assessments, and performance evaluations. These are very likely to become best practice models for other EAG members.

OTA has initiated the procurement process for a multi-course, analytic training curriculum development contract using \$500K granted by State/INL for this purpose.



**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 2008 BUDGET EXECUTION PLAN**

Treasury International Affairs Technical Assistance (TIATA)

**Project Allocation from Fiscal Year 2008 TIATA Budget**

	<u>Team</u>	<u>Advisor Category</u>	<u>Co-Financing Amount</u>	<u>TIATA<sup>1</sup> Amount</u>	<u>Total</u>
<b><u>SUB-SAHARAN AFRICA</u></b>					
African Development Bank	FE	Resident	\$0	\$600,000	\$600,000
East Africa Regional (Kenya)	GDIM	Resident	\$0	\$545,000	\$545,000
East Africa Regional (Uganda)	GDIM	Resident	\$0	\$545,000	\$545,000
Eastern and Southern Africa AML Group (ESAAMLG)	FE	Intermittent	\$0	\$150,000	\$150,000
Ethiopia	FE	Intermittent	\$0	\$300,000	\$300,000
Ghana	BUD	Resident	\$0	\$580,000	\$580,000
Ghana	GDIM	Resident	\$173,386	\$306,000	\$479,386
Guinea	BUD	Resident	\$0	\$121,000	\$121,000
Madagascar	BUD	Resident	\$0	\$349,675	\$349,675
Mozambique	TAX	Project Coordinator + Intermittents	\$0	\$410,000	\$410,000
Namibia	FE	Resident	\$0	\$580,000	\$580,000
Niger	TAX	Project Coordinator + Intermittents	\$0	\$320,000	\$320,000
Nigeria	GDIM	Resident	\$285,078	\$275,000	\$560,078
Zambia	BUD	Resident	\$0	\$634,000	\$634,000
Zambia (Blagg)	BFS	Resident	\$0	\$570,000	\$570,000
Zambia/South Eastern Africa (Morris)	BFS	Resident	\$0	\$575,000	\$575,000
<b>Subtotal Sub-Saharan Africa</b>			<b>\$458,464</b>	<b>\$6,860,675</b>	<b>\$7,319,139</b>

	<u>Team</u>	<u>Advisor Category</u>	<u>Co-Financing Amount</u>	<u>TIATA <sup>1</sup> Amount</u>	<u>Total</u>
<b><u>GREATER MIDDLE EAST</u></b>					
Afghanistan	BFS	Intermittent	\$0	\$350,000	\$350,000
Afghanistan	FE	Resident	\$0	\$700,000	\$700,000
Algeria	BFS	Resident	\$0	\$750,000	\$750,000
Algeria	GDIM	Intermittent	\$0	\$300,000	\$300,000
Algeria	TAX	Project Coordinator + Intermittents	\$0	\$300,000	\$300,000
MENA Resident (Jordan)	FE	Resident	\$0	\$659,200	\$659,200
Pakistan	BFS	Intermittent	\$0	\$300,000	\$300,000
Pakistan	FE	Resident	\$0	\$700,000	\$700,000
<b>Subtotal Middle East and North Africa</b>			<b>\$0</b>	<b>\$4,059,200</b>	<b>\$4,059,200</b>

	<u>Team</u>	<u>Advisor Category</u>	<u>Co-Financing Amount</u>	<u>TIATA Amount</u>	<u>Total</u>
<b><u>ASIA</u></b>					
Indonesia	TAX	Project Coordinator + Intermittents	\$0	\$475,000	\$475,000
Philippines	FE	Resident	\$0	\$300,000	\$300,000
RegANE	FE	Intermittent	\$0	\$200,000	\$200,000
Vietnam	TAX	Project Coordinator + Intermittents	\$0	\$450,000	\$450,000
Vietnam	BFS	Combination (Res + Int)	\$0	\$600,000	\$600,000
<b>Subtotal Asia</b>			<b>\$0</b>	<b>\$2,025,000</b>	<b>\$2,025,000</b>

	<u>Team</u>	<u>Advisor Category</u>	<u>Co-Financing Amount</u>	<u>TIATA Amount</u>	<u>Total</u>
<b><u>LATIN AMERICA AND CARIBBEAN</u></b>					
CAM Regional Training	FE	Intermittent	\$0	\$430,000	\$430,000
Colombia	TAX	Intermittent	\$0	\$117,647	\$117,647
Costa Rica	BUD	Resident	\$0	\$413,000	\$413,000
Costa Rica	GDIM	Resident	\$0	\$550,000	\$550,000
Costa Rica	TAX	Project Coordinator + Intermittents	\$0	\$350,000	\$350,000
Dominican Republic	GDIM	Intermittent	\$0	\$347,291	\$347,291
Ecuador	FE	Resident	\$0	\$300,000	\$300,000
Guatemala	TAX	Project Coordinator + Intermittents	\$0	\$300,000	\$300,000
Haiti	TAX	Project Coordinator + Intermittents	\$250,000	\$80,000	\$330,000
Honduras	BUD	Intermittent	\$0	\$205,325	\$205,325
Honduras	GDIM	Resident	\$0	\$450,000	\$450,000
Honduras	TAX	Project Coordinator + Intermittents	\$0	\$375,000	\$375,000
Latin America SME Initiative	BFS	Intermittent	\$0	\$320,000	\$320,000
Mexico	TAX	Project Coordinator + Intermittents	\$0	\$182,353	\$182,353
Nicaragua	GDIM	Resident	\$300,000	\$255,000	\$555,000
Nicaragua	TAX	Project Coordinator + Intermittents	\$200,000	\$200,000	\$400,000
Paraguay	BFS	Resident	\$0	\$575,000	\$575,000
Paraguay	BUD	Resident	\$0	\$568,000	\$568,000
Paraguay	FE	Intermittent	\$0	\$146,700	\$146,700
Paraguay	GDIM	Resident	\$0	\$475,000	\$475,000
<b>Subtotal Latin America and Caribbean</b>			<b>\$750,000</b>	<b>\$6,640,316</b>	<b>\$7,390,316</b>

	<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>					
Regional Advisor DC-Based	BFS	Regional	\$0	\$100,000	\$100,000
Regional Advisor	BUD	Resident	\$0	\$250,000	\$250,000
Regional Advisor MENA	BFS	Regional	\$0	\$350,000	\$350,000
Regional Advisor: MENA	GDIM	Regional	\$0	\$625,000	\$625,000
Regional Advisor: Africa/Middle East	FE	Regional	\$0	\$650,000	\$650,000
Regional Advisor: Europe & Asia	FE	Regional	\$0	\$550,000	\$550,000
Regional Advisor: Latin American Caribbean	FE	Regional	\$0	\$307,500	\$307,500
Regional Advisor: DC-Based	FE	Intermittent	\$0	\$282,500	\$282,500
Regional Advisors	TAX	2 Regional Advisors	\$0	\$570,000	\$570,000
Senior Advisor	GDIM	Regional	\$0	\$360,000	\$360,000
<b>Subtotal S/R Advisors</b>			<b>\$0</b>	<b>\$4,045,000</b>	<b>\$4,045,000</b>
<b><u>OTHER FUNDED ACTIVITIES</u></b>					
Global FIU Analysis & Architecture	FE	2 full-time advisors	\$0	\$300,000	\$300,000
<b>Subtotal Other</b>			<b>\$0</b>	<b>\$300,000</b>	<b>\$300,000</b>
<b>GRAND TOTAL</b>			<b>\$1,208,464</b>	<b>\$23,930,191</b>	<b>\$25,138,655</b>

Table B

**FISCAL YEAR 2008 Non-TIATA Sources of Funding**  
Treasury International Affairs Technical Assistance (TIATA)

**Fiscal Year 2008**

<b><u>Purpose</u></b>	<b><u>Source</u></b>	<b><u>Transfer Category</u></b>	<b><u>Amount</u></b>
TA to countries of Eastern Europe (SEED Act-funded)	USAID	632(a)	\$2,641,000
TA to countries of the Newly Independent States (FSA-funded)	USAID	632(a)	\$3,115,000
Government Debt TA to Gov't of Afghanistan	USAID	632 (b)	\$650,000
Tax TA to Gov't of Haiti	USAID	632(a)	\$250,000
Government Debt TA to Gov't of Ghana	USAID	632(b)	\$173,386
Government Debt and Tax TA to Gov't of Nicaragua	USAID	632 (a)	\$500,000
TA to Gov't of Paraguay under MCC Threshold Country Plan	USAID	632(b)	\$850,000
Budget and Banking TA to Gov't of Iraq	STATE	632(b)	\$1,250,000
Economic Crimes TA in Middle East/North Africa	STATE	632(b)	\$500,000
Economic Crimes TA to Gov't of El Salvador	STATE/INL	632(b)	\$76,000
Economic Crimes TA to Gov't of Haiti	STATE/INL	632(b)	\$350,000
Economic Crimes TA to Gov't of Mexico	STATE/INL	632 (b)	\$922,482
TA to Gov't of Sao Tome & Principe under MCC Threshold Country Plan	MCC	632 (b)	\$4,330,947
OTA Liaison to AFRICOM (Stuttgart)	DOD	MIPR	\$125,000
Economic Crimes TA to Gov't of Cayman Islands	Gov't of Cayman Is.	n/a	\$9,479
Tax TA to Gov't of Honduras	Honduras	n/a	\$293,016
Tax TA to Gov't of Lesotho	Gov't of Lesotho	n/a	\$144,182
<b>TOTAL</b>			<b>\$16,180,492</b>