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ANNUAL PROGRESS REPORT

INVESTMENT CLIMATE IMPROVEMENT PROJECT

YEAR TWO (OCTOBER 1, 2011 TO SEPTEMBER 30, 2012)



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ANNUAL PROGRESS REPORT

INVESTMENT CLIMATE IMPROVEMENT
PROJECT

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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ACRONYMS

ADS	Automated Directives System
APS	Annual Program Statement
BEE	Business Enabling Environment
BizCLIR	Business Climate, Legal and Institutional Reform
CEO	Chief Executive Officer
COP	Chief of Party
CTT	Core Technical Team
ESAF	Expanded Access to Financial Services (Program)
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
ICI	Investment Climate Improvement (Project)
IPR	Intellectual Property Rights
IT	Information Technology
ITD	Income Tax Directorate
ITTC	Institute for Training and Technical Cooperation
LAD	Legal Affairs Directorate
LTPO	Large Tax Payers Office
MONE	Ministry of National Economy
MOF	Ministry of Finance
MTIT	Ministry of Telecommunications and Information Technology
NGO	Non-Governmental Organization
NTF	National Task Force
PA	Palestinian Authority
PACE	Palestinian Authority Capacity Enhancement (Project)
PACPA	Palestinian Association of Certified Public Accountants
PSO	Private Sector Organization
RFA	Request for Application
SPS	Sanitary and Phytosanitary
STTA	Short-Term Technical Assistance
TAT	Technical Advisory Team
TRIPS	Trade-Related Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
USAID	United States Agency for International Development
VAT	Value-Added Tax
VATD	Value-Added Tax Directorate
WBDB	World Bank Doing Business (Report)
WTO	World Trade Organization

EXECUTIVE SUMMARY

The Investment Climate Improvement (ICI) Project is pleased to present the accomplishments achieved and challenges overcome during its second year of operation, October 1, 2011 to September 30, 2012. The Project made significant progress and achievements in its second year, operating within a context of political instability, funding limitations, and uncertainties.

Fiscal year 2012 began with a total decline in project activities due to funding limitations. Vacant short- and long-term positions were not filled, and by the end of the quarter, the project had moved toward closeout: staff had been terminated; property disposition plans had been implemented; and remaining project materials had been moved to storage. However, on the day that the ICI Project's final staff member departed the program, December 29, 2011, the project received Modification No. 4 to the task order, which included an additional but limited obligation of funds. Therefore, Quarter 2 began with a re-start of project activities as long-term staff members were re-hired and Mr. Maher Hamdan became chief of party (COP). At the same time, the ICI Project co-located with the USAID-funded Palestinian Authority Capacity Enhancement (PACE) Project to share staff resources and save funding. Recruitment for other staff positions and short-term technical assistance occurred during February and March. The ICI Project team revised its Year 2 work plan for February-September 2012, based on the limited resources received via the new contract modification. As new long-term staff were hired, activities began to accelerate in Quarter 3. In April, the Project received Modification No. 5 to the task order, providing additional incremental funding. Modification No. 5 also extended the period of performance through August 31, 2013; made administrative changes to the Project's grants program, key personnel, and contracts clauses; and modified the Project's authorized geographic code. Quarter 4 represented ICI's most prolific quarter of implementation in its two years of existence, as additional funding allowed for more staffing, more activities, and more results.

- Year 2 was successful for the policy reform component as the ICI Project's support for trade-related stakeholders led the West Bank and Gaza closer to World Trade Organization (WTO) compliance, Ministry of National Economy (MONE) staff upgraded their skills through extensive general and technical trainings, the Core Technical Team was implemented, and legislative reviews and revisions took place.
- The ICI Project's fiscal component moved the Palestinian Authority (PA) closer to tax automation, unified tax procedures, and tax reorganization in Year 2. Additionally, extensive awareness activities and training activities improved the capacity of Ministry of Finance (MOF) staff to collect more revenues than in the past and to broaden the tax base.

- ICI hired a grants staff in Quarter 3, began soliciting grants proposals, and moved to evaluating and awarding grants in Quarter 4. Work completed in Year 2 in the grants component has prepared the ICI Project to award up to \$1 million in grants in Year 3.

PROJECT BACKGROUND AND CONTEXT

The Investment Climate Improvement (ICI) Project is designed to respond to the unstable political environment in West Bank/Gaza that has served to undermine the Palestinian Authority's (PA) capacity to sustain effective governmental institutions and policies. Although the PA is officially committed to facilitating sustainable economic growth, its capacity to build and sustain the institutional infrastructure required for substantial economic reform is weak and uneven and requires capacity building in numerous areas.

Responding to this need, the ICI Project is working to foster the legal and regulatory frameworks, transparent procedures, and private-sector participation that are crucial for both economic reform and international relationships. ICI is working in cooperation with the Ministry of National Economy (MONE), the Ministry of Finance (MOF), private-sector organizations (PSOs), governorate and municipal officials, and other key stakeholders to address the priority areas of trade, fiscal, and business enabling environment reform.

The Project has two components: Policy Reform and Fiscal Reform. The Policy Reform component has two subcomponents: Preparing the PA to achieve World Trade Organization (WTO) Compliance and Improving the Business Enabling Environment. The expected overall project results are:

- The PA will achieve a WTO-compliant trade regime;
- The Palestinian private sector will be prepared to participate with the PA to fulfill the requirements for WTO compliant;
- The ranking in the *World Bank Doing Business Report's* indicators for West Bank/Gaza will be improved; and
- PA revenues will increase progressively, reducing the large gap that exists between PA fiscal revenues and expenditures.

Additionally, through grants and subcontracts, the ICI Project is implementing four cross-cutting activities:

- A grants under contract program supporting policy advocacy and institutional development on the part of PSOs, universities, and NGOs.
- As part of ICI's gender plan, gender-related activities meant to increase the role of women and women-owned/managed businesses in the Palestinian economy are being implemented.
- A public information and outreach campaign to increase public awareness and support for reforms being addressed by the project through all its activities and goals.
- Institutional capacity-building and training programs for public and private counterparts in order to increase knowledge and skills needed for effective policy analysis and advocacy.

Donor coordination at MOF and MONE is extensive as both Ministries receive technical assistance from several donor organizations. In the areas of concern to ICI, the principal donors are the International Monetary Fund (IMF), the German Society for International

Cooperation (GIZ), the International Finance Corporation (IFC), Department for International Development (DFID), and the European Union (EU). ICI staff members regularly meet with or contact representatives of those organizations and, in the case of MONE, carry out consultations through the Ministry's Aid Coordination Unit. As a result of this coordination, the ICI Project has been able to identify ways in which assistance can be provided on a collaborative basis to address Project objectives with efficiency and increased effectiveness.

COMPONENT ONE: POLICY REFORM, WTO SUBCOMPONENT

Summary

The WTO Subcomponent built upon its Year 1 efforts through continuing to focus on assisting the MONE and the National Task Force (NTF) and Technical Advisory Team (TAT) in understanding, discussing, and reforming the West Bank and Gaza international trade regime. By providing trainings, facilitating workshops and dialogues, and contracting legal reviews, the ICI Project helped create a culture of reform at MONE. Local counterparts are more engaged in the reform process than in the past, and they have begun to undertake reform efforts themselves. Additionally, specialized and general skills trainings have equipped MONE staff with skills necessary for a body managing a country's international trade regime. Work in this subcomponent was also complemented by a study tour to Geneva where local stakeholders were able to build international relationships and learn about the WTO and trade reform firsthand. The ICI Project's collaboration with the WTO Resource Center was also noteworthy, since it is an organization that has become immensely important to the West Bank and Gaza's goal of WTO achieving compliance.

Highlights

Supporting the WTO NTF and TAT.

The ICI Project continued to support the NTF and TAT in FY 2012. It organized a retreat for NTF and TAT members in June in Jericho, where NTF and TAT members adopted the foreign trade memorandum and reviewed and discussed the matrix of WTO obligations and the NTF/TAT Management Action Plan. Sixty NTF/TAT members, including the new Minister of National Economy, H.E. Dr. Jawad Naji, attended the two-day event.



NTF and TAT members during the Jericho Retreat on June 22-23, 2012.

Throughout the year, the NTF and TAT continued to discuss plans for WTO observership and compliance and the reforms necessary to attain those goals. Additionally, the ICI Project facilitated discussion on trade standards, transparency, telecommunications, and the agricultural sector. Members of the NTF and TAT have been part of many of the ICI Project's other capacity building activities such as workshops, general skills, and technical trainings. The ICI Project also upgraded the website of the NTF and TAT, creating a functional web portal that allows members to share and disseminate information. Upgrade of the portal was followed by the provision of a tailor-made users' manual and two training workshops on its use.

Promoting transparency. The ICI Project supported the MONE's institutional transparency initiative through initially preparing a draft ministerial decision creating the TAT Transparency Subcommittee. The purpose of the subcommittee is to facilitate transparency in the PA by examining its current level of international transparency compliance, as this topic is a major component of WTO regulations. The ICI Project additionally supported this initiative by developing General Agreement on Tariffs and Trade (GATT) and sanitary and phytosanitary (SPS) questionnaires used to create baseline transparency data, and by assisting with an awareness campaign. A major highlight of the Transparency Awareness Campaign is the transparency short video developed by the ICI Project. The video promotes awareness among public and private sector institutions as well as the general public on WTO transparency rules and their importance to the business-enabling environment. Several key stakeholders, including AMAN Commissioner Dr. Azmi Shuaibi, MONE Deputy Minister Mr. Abdel Hafiz Nofal, PADICO holding company Chief Executive Officer (CEO) Mr. Samir Huleileh, and PalTrade CEO Ms. Hanan Taha were interviewed in the development of the video. The video can be seen at http://youtu.be/czuWwc_pyaE.

WTO Resource Center. The ICI Project supported MONE to develop its WTO Resource Center, which was originally staffed by only one person, into part of a newly established four-staff WTO Unit that is functioning as the Secretariat for the NTF and TAT. The ICI Project has supported the procurement of reference materials in the form of books and electronic media, as well as furniture and equipment necessary for its functionality. The enhanced WTO Resource Center will be of great help to the NTF and TAT as well as local and foreign investors who need to research foreign trade issues. The Resource Center will promote WTO compliance by establishing an official inquiry point on trade-related matters in the West Bank and Gaza.

MONE capacity building. The ICI Project continued working to build the capacity of MONE in Year 2 by providing a variety of trainings. The ICI Project has focused on two specific areas to provide training interventions to support MONE's growth into an institution that can capably manage its trade-related responsibilities: general skills and technically-focused trainings.



IPR Directorate and other public sector staff during IPR Training Program in September 2012.

In the area of specialized technical training, the ICI Project provided international trade-related trainings in Year 2 to its stakeholders in government and the private sector. It provided WTO agreements training to counterparts on the following topics:

- WTO Marrakech Agreement;
- Agriculture and Government Procurement Agreements;

- Trade remedies (Safeguards, Subsidies, Anti-Dumping Agreements); and
- Trade facilitation.

ICI also began a three-part intellectual property rights (IPR) training program at the end of Year 2. The subcontractor that provided the training, Abu Ghazaleh Intellectual Property, is an internationally-renowned firm on the topic; the participants who complete all three courses (which will end in Year 3) will receive the distinguished Certificate of Arab-Certified Intellectual Property Practitioner.

In the area of general skills, the ICI Project has delivered English language training to MONE staff and to several public and private sector employees through AmidEast. Additionally, in May 2012 it provided through local subcontractors a communications skills training session for MONE WTO Unit, IPR Directorate, and Legal Affairs Directorate staff. Three months later, the ICI Project also provided skills training on preparing and writing reports, memos, and administrative correspondences to MONE staff. The purpose of these general skills trainings was to build the capacity of MONE staff and stakeholders to advance their professional development and to enable them to more easily work together and communicate with international institutions.

WTO Public Forum and request for observer status. With the assistance of the ICI Project, the MONE finalized a request for observer status in the WTO. Additionally, the ICI Project facilitated a study tour for members of the NTF and TAT and two ICI Project staff members to participate in the WTO Public Forum at WTO Headquarters in Geneva, Switzerland. During the Forum, which was held September 24-26, 2012, participants had the opportunity to learn firsthand about the global multilateral trading system. To enrich their knowledge and increase their capacity on trade-related matters, participants attended sessions on topics including formulating new approaches to multilateral trade openings in areas such as trade facilitation; addressing 21st century issues and identifying areas in need of new regulations; and assessing the role of non-state actors in strengthening the multilateral trading system.



NTF/TAT members in Geneva at the WTO Public Forum.

The study tour also provided the participants with the opportunity to create international connections and to meet with international trade organizations, such the United Nations Conference on Trade and Development (UNCTAD) to increase awareness of trade-related issues and discuss the UNCTAD's technical assistance in Palestine. The group also met with the Palestinian Mission in Geneva to share progress made to-date by the PA to reform its trade regime as well as the technical assistance and capacity building needed to sustain these efforts. Furthermore, the delegation met with representatives of the Jordanian Mission in Geneva, the Sultanate of Oman, and the Caribbean Regional Negotiating Machinery who shared their experiences in reforming their respective trade

regimes to bring them in line with WTO requirements. These representatives also stressed the importance of building national institutions to develop trade regimes and they emphasized the importance of coherent national institutions. An additional meeting took place with the WTO Institute for Training and Technical Cooperation (ITTC) to discuss potential technical assistance and training to the PA on WTO-related matters.

Draft Industrial Property Law. The ICI Project contracted an international subcontractor with extensive legal reform qualifications to review and finalize the Draft Industrial Property Rights Law and legislative memoranda. In conjunction with the revisions, the ICI Project facilitated workshops in Ramallah, Hebron, and Nablus on the law; a roundtable to discuss the draft and raise comments will be used in the production of a final draft. ICI Project experts will produce a final version of the Draft IPR Law and submit it to MONE, thereby enabling MONE to formally initiate the PA legislative process by submitting the draft to the Council of Ministers. The Draft Law is compliant with the Trade-Related Intellectual Property Rights (TRIPS) Agreement and is development-driven; furthermore, the legislative memorandums required under the PA legislative process accompany it.

MONE Services Guide. The ICI Project completed the revision and translation of the MONE Services Guide, which is a valuable tool for foreign investors to familiarize themselves with registration and licensing requirements for services provided by MONE, such as starting a business or protecting industrial property.

Looking Forward

In Year 3, the ICI Project will continue to build on its WTO work with MONE. Project staff will provide extensive technical expertise as the project designs and implements targeted trainings on the WTO and its agreements and regulations for the MONE, NTF, TAT, and other trade-related ministries with active private sector involvement and representation. Additionally, the ICI Project will focus on developing sustainability of its efforts with MONE: empowering counterparts to embark on self-improvements, building awareness, and developing dialogues among stakeholders from which business enabling reforms and steps toward WTO compliance will naturally flow.

The ICI Project will support the PA's efforts in Year 3 by providing assistance in the review of legislation, rules, and regulations, specifically in the areas of IPR, trade in goods, and trade in services as they relate to the WTO. Therefore, the ICI Project will help the PA to strengthen its legislative and regulatory framework and help its trade-related institutions to operate transparently, efficiently, and in accordance with international standards. The ICI Project will work with all stakeholders to develop a community consisting of public sector, private sector, and academic experts who will lead dialogues, develop priorities, and develop a trade strategy for the PA. This community will eventually be the catalyst for future policy reform in the West Bank and Gaza. More specifically, the ICI Project's Year 3 technical assistance plans include the following: developing a core computable general equilibrium model to assist PA policymakers; organizing a conference on trade policy and development for the PA to discuss trade policy options within WTO framework; reviewing compliance with GATT

and SPS transparency requirements; reviewing SPS legal regime, foreign trade law, and draft trade remedies legislation; building individual and institutional capacity and promoting TRIPS-compliant industrial property rights laws; and assisting key sectors to undertake impact assessment studies of WTO rules on the economy.

The project will aim to build WTO and IPR awareness, using such tools as public billboards, policy papers, and radio spots to reach the general public and key constituent groups. The ICI Project also will engage private sector institutions in the awareness process.

COMPONENT ONE: POLICY REFORM, BEE SUBCOMPONENT

Summary

The Business Enabling Environment (BEE) Subcomponent in Year 2 focused on a two-pronged approach to improving the business environment in the West Bank and Gaza. First, it focused on creating immediate improvements to the legislative framework by contracting for legislative reviews and revisions. Second, in the medium- and long-term ICI Project assistance developed local capacity to generate and identify needs for future reform by facilitating the creation of the Core Technical Team (CTT) and by providing training to the Legal Affairs Directorate at MONE. The BEE Subcomponent used the *World Bank Doing Business Report* as a guide in many ways in Year 2, and it created strategies to improve West Bank and Gaza's ranking, which will translate to BEE reform.

Highlights

World Bank Doing Business Report and establishment of the Doing Business Reform Core Technical Team. The ICI Project contracted short-term consultants to review and analyze the *World Bank Doing Business (WBDB) Report* and to develop a strategy paper to improve the West Bank and Gaza's ranking. Afterwards, stakeholders held a roundtable discussion in Ramallah, the main action of which was the recommendation to develop the CTT. Upon this recommendation, the Minister of National Economy officially endorsed the idea and established the CTT in order to prepare and implement a strategy to improve the business environment in the West Bank and Gaza, thereby improving its ranking in the *WBDB Report*. The CTT is composed of members from public and private sector institutions, including MONE, the Palestinian Investment Promotion Agency, the Chamber of Commerce, the Palestinian Federation of Industries, the Bar Association, and the Palestinian Monetary Authority. This organization will report to the Minister of National Economy, recommending concrete actions to implement the ICI Strategy Report, which was endorsed by MONE. The team will focus on implementing interventions that will increase the West Bank and Gaza's ranking in the short- and medium-terms that are based upon the ICI Project's recommendations included in the CTT action plan. This plan covers specific activities and actions to be accomplished by the CTT during the 12-month period from November 2012 through October 2013. It is focused on baseline data that goes into the *WBDB Report*, and focuses on short-term actions that will result in significant positive improvements in Palestine's

scores and rankings in all ten of the WBDB topics. The plan also covers medium- and long-term improvements. The first meeting of the CTT was held in September 2012.

Debt Resolution Law. West Bank and Gaza ranked last in the 2012 *WBDB Report's* “resolving insolvency” indicator. As a result of that ranking, the ICI Project has the opportunity to assist the PA to create tangible changes that will be reflected in measurable improvements to West Bank and Gaza’s ranking, such as an improved Debt Resolution Law. Work on this law will include intensive public and private sector dialogues on the proposed reform. Review of the law is expected to be finalized by the end of 2012. The ICI Project will produce a base-version of the draft law and legislative memoranda that will be ready for the MONE to take through the PA legislative process.

Legislative support and training. The ICI Project provided extensive support to the MONE Legal Affairs Directorate (LAD) in Year 2. Following a meeting in which the PA Legislative Agenda and LAD needs were discussed, the ICI Project embarked on providing the assistance necessary for the LAD to meet its legislative goals for the next several years.

Consequently, the ICI Project developed and implemented workshops for the technical staff from LAD. In October 2011, the ICI Project held a two-day training on “How to Develop a Legislative Agenda.” The workshops discussed the need for, among other topics, proper planning; drafting of a financial and economic policy document supporting legislative proposals; the Ministry’s priorities set forth in the legislative agenda; and public and private sector stakeholder consultations. The ICI Project also worked with the LAD to create an implementation calendar, set BEE and WTO priorities, and establish a legislation tracker indicating where individual legislative proposals were in the PA approval and enactment process.

To build on the legislative planning workshop, the ICI Project held a workshop for LAD staff on legislative drafting. Meeting participants discussed the fundamentals of legislative drafting as outlined in the Legislative Plan Agenda 2008-2012 and the Birzeit University drafting manual, including principles of legislative drafting, the components of legislation, the hierarchy between norms, and legislative explanatory memoranda.

BEE survey. The ICI Project engaged the Palestine Federation of Industry, PalTrade, and the Business Women Forum to survey 50 companies on issues such as perceptions of the Palestinian business enabling environment; impediments to women’s participation in the Palestinian economy; and the quality of services provided by the MONE and other public sector entities. Each organization compiled the results of their survey in a final report and PowerPoint presentation in both English and Arabic. In November 2011, the ICI Project delivered the reports to MONE.

Compendium of key commercial laws. The ICI Project continued its work to create an online searchable index of key commercial laws, to be made publicly available in Arabic and English. The compendium will be an invaluable resource to domestic and international investors, and it will promote better WTO-compatible transparency

practices in the PA. In Year 2, the ICI Project continued its work on developing translations and identifying laws for the index. It also submitted an Automated Directives System (ADS)-548 request to USAID for approval to contract with an information technology (IT) firm to develop the database and to conduct trainings for the ICI Project's stakeholders that choose to be holders of the compendium.

Looking Forward

The BEE subcomponent of the ICI Project will continue to work with MONE staff, counterparts in trade-related ministries, and private sector representatives to address key policy, legal, regulatory, and procedural constraints that have been identified in the USAID-funded BizCLIR (Business Climate, Legal and Institutional Reform) report and the *WBDB Report*. The ICI Project will build on its Year 2 review of the *WBDB Report* and the strategy of the CTT recently established by the Minister of National Economy to adopt and implement the actions necessary to improve the West Bank and Gaza ranking. Illustrative BEE subcomponent initiatives include: reviewing additional key commercial laws and regulations; completing the repository of commercial laws in English and Arabic; supporting the implementation of a movable property registry (in coordination with the USAID-funded Expanded Access to Financial Services (ESAF) Program); and improving contract enforcement to allow businesses to start up more easily, run more effectively, and receive domestic and foreign investment more readily.

The ICI Project's BEE subcomponent will also target key public and private sector stakeholders for capacity enhancement activities. The ICI Project will work with MONE to increase service delivery and enhance daily function through the integration of IT. Year 2 included IT assessment and evaluation work regarding MONE's IT needs, in preparation of procurement work in Year 3. The ICI Project will support private sector organizations (PSOs) through subcontracts, grants, and direct technical assistance to increase their ability to become part of the legislative reform process. Additionally, the ICI Project will support PSOs in their effort to increase corporate governance within the private sector in West Bank and Gaza, thereby increasing transparency and attractiveness to investors.

COMPONENT TWO: FISCAL REFORM

Summary

The ICI Project's major accomplishments in the area of fiscal reform in FY 2012 were related to its extensive efforts to prepare the PA for tax automation and unify the tax administration and procedures code. The groundwork laid for those efforts and for the ICI Project's upcoming hardware procurement for MOF will culminate in the project's Year 3 activities targeted at implementing the extensive reforms at the MOF; likewise, they will prepare MOF for the implementation of the taxation self-assessment. Other highlights of Year 2 activities include promoting tax awareness through the use of billboards, radio spots, brochures, and other media, and building the capacity of revenues

directorate employees through extensive training programs on value-added tax (VAT) and income tax.

Highlights

Tax code unification and reorganization. The ICI Project has worked extensively with the MOF to unify the tax authority and to create a unified tax procedures code. The reorganizations are scheduled to take place in Year 3. The ICI Project has already developed key job descriptions for the MOF and a new structure that streamlines the work of revenues directorates. The head of the Palestinian Tax Authority has informed the ICI Project that this reorganization is his top priority for 2013.

Application of IT to facilitate tax collection and efficiency. The ICI Project worked with the MOF to develop tax automation systems and databases for receipt, processing, and storage of manually- and electronically-submitted tax return data and to develop requirements for e-filing and a master file. This is a major procurement activity that will not be completed until well into Year 3. However, the ICI Project laid the groundwork for this major activity by achieving the following major accomplishments in 2012:

- Developed an automation plan for income tax self-assessment and shared it with MOF employees, thereby receiving their feedback and buy-in of the new system;
- Gathered information about the processing of VAT and income tax declarations to explore the feasibility of alternative processing schemes;
- Reviewed how the new electronic system will fit into local office workflows and where taxpayer service centers will potentially be located;
- Obtained property tax information for inclusion in the automated master file;
- Discussed IT requirements for the master file with relevant stakeholders; and
- Liaised with relevant directorates regarding priorities and action plans.

Tax awareness workshops. In October 2011, the ICI Project conducted a tax awareness workshop for MOF employees that focused on steps to prepare an effective communication framework supporting all four tax revenue collection functions of the MOF. Topics included analysis of the status quo, selection of target groups and communication goals, development of communication messages, communication tools, evaluation



New Income Tax Law workshop for auditors and accountants in Hebron.

criteria, and follow-up. The workshop resulted in a successful interaction among team members and resulted in a clear framework for future communication plans in tax awareness. Following the workshop, the results were published and distributed to participants for comments.

The ICI Project also focused on building awareness with private sector stakeholders on the new income tax law and regulations. During June to August 2012, more than 350 auditors and accountants from Jenin, Tulkarem, Qalqiliya, Tubas, Jerusalem, Ramallah, Al-Bireh, Bethlehem, Hebron, and Jericho attended workshops. These workshops were held in conjunction with the Palestinian Association for Certified Professional Accountants (PACPA), building its capacity to continue educating and training its members on legal reforms.

Tax awareness campaigns. The ICI Project facilitated two major awareness campaigns for the MOF, which focused on building the general public's awareness of VAT and Income Tax. The campaigns began late in Year 2 and will continue into Year 3. The campaigns used many types of media such as billboards, radio spots, foam boards, roll-ups, mail inserts, text messages, and web banners to educate people across all the cities of the West Bank on the benefits of taxation and the benefits of the new Income Tax law.



Tax Awareness Campaign design.

Increasing tax collection capacity of Large Taxpayers Office (LTPO) through procurement. The ICI Project embarked on two major procurements key to building the LTPO's capacity to collect revenues in FY 2012. The processes for both of these procurements began in 2012, but will not be completed until 2013. Those two main activities are:

- Procuring four vehicles for the use of tax collection staff that will enable them to more efficiently conduct onsite appraisals and audits. As the need for these vehicles was immediate, the ICI Project has rented four vehicles for the MOF for use until the procurement process is complete.
- Contracting with engineers and construction firms to restructure the MOF LTPO office in Ramallah. The refurbishment will allow the office to house more employees, increase the number of large tax files, and facilitate the service delivery to large taxpayers, and broaden the tax base.

Income tax judges' study tour. The ICI Project assisted the Legal Department at MOF with preparations and the facilitation of a study tour in which the three judges of the Income Tax Court and the MOF legal advisor traveled to Amman, Jordan to visit the Jordanian Tax Court of First Instance and the Tax Court of Appeals, where they learned from Jordan's experience with tax courts. The delegation met with the President of the



The Income Tax Judges met with the Head of the Jordanian High Judicial Council in Amman during a study tour.

Jordanian High Judicial Council, who emphasized the need for cooperation and exchange of knowledge. The delegation learned about several very important topics while in Amman:

- Working procedures of the Jordanian Tax Court;
- Tools to increase the PA courts' efficiency in the area of taxation, and;
- Building the structure of efficient tax courts.

In addition to the knowledge imparted upon the attendees of the study tour, the event was an opportunity for Palestinian MOF employees to

develop professional connections with Jordanian counterparts.

VAT capacity building activities. To alleviate current issues associated with lack of knowledge of VAT regulations among revenue directorate employees, the ICI Project conducted extensive trainings on VAT regulations for MOF employees across the West Bank. In July, August, and September 2012, VAT and Income Tax employees and senior staff completed advanced trainings on VAT regulations in Nablus, Tulkarem, Jenin, Qalqiliya, Salfet, Tubas, and Ramallah. Based on the success of these training sessions and at the request of Directors General from other Directorates in MOF, the ICI Project is tailoring additional workshops to the needs of additional directorates.

The ICI Project provided VAT regulations review and gap analysis through the use of short-term consultants. Based on those findings, the ICI Project conducted roundtables with the VAT Directors in MOF to discuss steps forward and recommendations. Additionally, the ICI Project developed a VAT Users' Instruction Manual and subsequently held a workshop in Ramallah to discuss its use and implementation. In July 2012, the ICI Project collaborated with the Head of the Stone and Marble Union to conduct a workshop for stone and marble businesses. The main goal of the workshop was to provide clarifications and discussions on the unclear issues in the new income tax law and regulations, as well as on the VAT regulations within the economic businesses sector. More than 60 participants from the private sector attended the workshop. The ICI Project aims to continue conducting sector-specific tax-related trainings to public and private sector counterparts in Year 3.

In September 2012, the ICI Project conducted two new four-day training seminars on bookkeeping for VAT employees in the MOF's north and central West Bank offices. Fifty-five VAT employees attended the seminars in Ramallah and Nablus.

Income tax capacity building activities. As the new Income Tax Law and related legislation were implemented in early 2012, much of the ICI Project's work in this area focused on building awareness and understanding the new law. Income tax work completed by the ICI Project in Year 2 includes:

- Translation into English and dissemination of the new Income Tax Law in the form of 1,000 book copies and soft copy to the MOF and international stakeholders;
- Development of the Income Tax Users Manual, with the assistance of a Jordanian tax expert, which was printed as a book and also made available in soft copy; and
- Implementation of new Income Tax Law workshops from May to June 2012 in which approximately 180 tax employees from all regions of the West Bank participated. Each workshop introduced the new law and provided an opportunity to discuss the changes in the law and regulations.

On-the-job technical capacity building. To increase income tax auditing skills, the ICI Project provided training sessions in the offices of 40 MOF employees from all major cities in the West Bank. Such technical assistance given in the work environment proved to be very valuable and may be a technique used again in Year 3.

Looking Forward

Efforts for the ICI Project in this component for Year 3 will focus on assisting the MOF in completing activities and reforms that it has already initiated in three specific areas: (i) improving PA financial management processes, (ii) increasing tax collection, and (iii) increasing tax awareness. The implementation of an electronic filing and payment system and institutional restructuring within MOF have been well-publicized initiatives, for which efforts have already begun but have not been completed. The ICI Project will assist the MOF to complete these reforms, which have been highly recommended by other international donors.

Additionally, the ICI Project's technical and training experts will work directly with MOF employees to increase capacity within the ministry. Such capacity building efforts will increase the PA's ability to collect revenue, run more efficiently, and broaden the tax base. The ICI Project will use technical expertise to train the Computer Tax Directorate, Value-Added Tax Directorate (VATD), and Income Tax Directorate (ITD) employees on how to fully implement existing taxation policy. For example, in the case of self-assessments, a policy has already been approved to increase the efficiency of ITD employees, but the MOF has been unable as of yet to reap the benefits. The project will also work with the MOF to increase its capacity to advocate both for reform and to institute such reform when it is passed. Technical experts will work with MOF to conduct assessments on policy, brainstorm alternatives, and work with policymakers to improve the policy framework. The ICI Project will provide technical assistance to assist in the unification of tax administration and development of a more efficient administrative structure. Also, the ICI Project will assist in developing the tax procedures code. The ICI Project will assist MOF to implement an integrated tax information system through technical assistance and providing the hardware. To increase transparency and taxpayer participation, the ICI Project will focus efforts on tax awareness. This will include making information available online, adding to the transparency of the taxation process and making tax paying easier.

GRANTS COMPONENT

Summary

Year 2 began with the ICI Project terminating its grants team due to budget constraints. It was not until Quarter 3 that the ICI Project again had funding for a grants program. Therefore, the project hired a grants team in late Quarter 3, revived its grants program, released solicitations, and began evaluating bids in Quarter 4. The very last days of Quarter 4 brought USAID approval on two grants agreements that will be signed at the beginning of Year 3.

Highlights

Cultivation of potential grantees. The grants team conducted two “Getting to Grants” workshops in July and August 2012 in cooperation with the Hebron and Nablus Chambers of Commerce. The first workshop was held in Hebron and over 50 people attended. The second workshop was held in Nablus and 90 people attended. The attendees represented civil society organizations, the private sector, business institutions, and international non-governmental organizations (NGOs). The workshops provided the participants with an overview of the grant mechanism, rules and regulations, and the main themes of the ICI Project’s components. They also addressed the previously released Annual Program Statement (APS) and encouraged attendees to apply for grants.

Applications received:

- APS (issued June 12, 2012): 27 concepts were received and 4 were approved to start the full application process.
- APS (issued July 21 2011): 18 concepts were received and 3 concepts were approved for full application status. The ICI Project intends to award grants to the International Chamber of Commerce and PalTrade as a result of this solicitation. The ICI Project is also awaiting a full application from the Palestinian Federation of Industries.
- Request for application (RFA) “Regulatory Framework” (issued July 21, 2011): 5 concepts were received and 1 was approved for full application status. The ICI Project awarded a grant to PITA in early FY 2013 as a result of this solicitation.
- RFA “Youth and Intellectual Property Rights” (issued July 21, 2011): 11 concepts were received and 4 were approved for full application status.
- RFA “Intellectual Property Rights, Training Judges and Attorneys” (issued July 21, 2011): 5 concepts were received and 1 applicant is preparing a full application.
- RFA “Impact Assessment of WTO – Compatible Trade Regimes” (issued June 21, 2012): 9 concepts were received and 1 applicant has been approved for full application status.

Looking Forward

The efforts of the ICI Project's grants program staff in Year 2 paved the way for the signing of four grants at the beginning of Year 3. Through its efforts to solicit grants through RFAs and APSs, the ICI Project anticipates awarding up to \$1 million in grants in Year 3 to support policy advocacy and institutional development on the part of PSOs, universities, and NGOs.

CHALLENGES, LESSONS LEARNED, AND AREAS FOR IMPROVEMENT

Uncertain financial situation. The uncertainty surrounding FY 2011 and FY 2012 funds has been the ICI Project's largest obstacle in its implementation of 2012 activities. In Quarter 1, the ICI Project focused on drawing down its activities and closing out the project. It received limited funding on December 29, 2011 and began re-mobilizing and re-hiring staff in January 2012. The project operated on limited funding until late April 2012 when it received its current obligation. It has been a challenge to manage stakeholder expectations as well as plan and implement long-term activities in this current situation.

Ministry turnover. The ICI Project was fortunate to face few difficulties in maintaining its relationships with the MONE and MOF due to the change in ministers. The ICI Project worked diligently to build new relationships and received work plan buy-in from new counterparts. Luckily, the project was not forced to deviate from its work plan and was able to gain credibility with counterparts quickly. Another challenge that arose from such turnover was dealing with the updates within the administrative hierarchy structure of the revenues directorates in the MOF.

Utilizing regional capacity. Rather than focus solely on expatriate short-term consultants, the ICI Project has been able to use regional resources, specifically from Jordan, to provide expert technical assistance. Jordan's reform efforts have been valuable as the PA embarks on its own reforms, as the ICI Project's subcontract with IBLAW and the recent study tour to Jordan have demonstrated. The ICI Project intends to continue using regional support whenever possible.

PA fiscal crisis. The ongoing fiscal crisis for the PA has created difficulties for the ICI Project's fiscal policy component as the project attempts to focus on the medium- and long-term solutions to debt and the MOF is forced to focus on month-to-month finances. Additionally, this crisis has prompted public sector employees and others to strike, which led to postponements and cancellations of project activities.

ANNEX A: SUMMARY TABLE OF MANAGEMENT INDICATORS¹

<u>PE Code</u>	<u>PE Name</u>	<u>GEO MIS Indicator Code</u>	<u>ICI PMP CODE</u>	<u>Indicator Name</u>	<u>Type of modification</u>	<u>Baseline</u>	<u>PMP Indicator Type</u>	<u>Outcome/ Output</u>	<u>Target FY12</u> <u>Achieved FY12</u>	<u>Target FY13</u> <u>Achieved FY13</u>	<u>Reasons of deviation</u>
<u>OUTCOME INDICATORS</u>											
TBD	Fiscal Reform	TBD	TBD	Percentage increase of income tax collection	NEW	FY 2010: US\$1.15 B	Mgmt	Outcome	10% ² ----- 37.8%	15% ----- 0	-Implementation of the new Income Tax Law -Advanced payments from large companies -Increase in NIS value compared with \$US value
TBD	Fiscal Reform	TBD	TBD	Percentage increase of VAT collection – domestic and clearance combined	NEW	FY 2010 (domestic & clearance combined): US\$5.51 B	Mgmt	Outcome	10% ³ ----- 15.4%	15% ----- 0	-Field auditing of large taxpayers -Increase in NIS value against \$US value
TBD	Fiscal Reform	TBD	TBD	Percentage increase in revenue from Large Tax Payers Office	NEW	FY 2010 (IT\$222M) (VAT established in Jun2011)	Mgmt	Outcome	NA ----- NA Revenues increased by 76% in Income tax collections at LTPO	20% ----- 0	-Implementation of new Income Tax Law -Advanced payments from large companies -Increase in NIS value compared with \$US value - New administration for LTPO

¹ The grants are still in the preparation stage, thus some inputs from the grants are not incorporated in the targets.

² This figure represents the increase of income tax collection from October 2011 to September 2012.

³ This figure represents the increase of VAT collection from October 2011 to September 2012.

TBD	Trade and Investment Capacity	TBD	TBD	PA is technically prepared for WTO observer status ⁴	NEW	Mgmt	Outcome	PA is technically prepared for WTO observer status ----- PA is technically prepared for WTO observer status	
TBD	Trade and Investment Capacity	TBD	TBD	PA is prepared for TRIPS compliance ⁵	NEW	Mgmt	Outcome	PA is prepared for TRIPS compliance-- ----- PA is prepared for TRIPS compliance	
TBD	Trade and Investment Capacity	TBD	TBD	PA is prepared to adopt GATT-compliant transparency rules ⁶	NEW	Mgmt	Outcome	NA	PA is prepared to adopt GATT-compliant transparency rules
TBD	Trade and Investment Capacity	TBD	TBD	PA is prepared for SPS-compliance ⁷	NEW	Mgmt	Outcome	NA	PA is prepared for SPS-compliance
TBD	BEE	TBD	TBD	PA is prepared to improve West Bank and Gaza's ranking on the World Bank Doing Business Report	NEW	Mgmt	Outcome	NA	PA is prepared to improve West Bank and Gaza's ranking on the World Bank Doing Business Report

⁴ Application is ready.

⁵ Draft laws are ready.

⁶ Draft Laws are ready.

⁷ Legal framework reviewed and recommendations are ready.

TBD	BEE	TBD	TBD	PA prepared to reform legal and regulatory framework for resolving insolvency ⁸	NEW		Mgmt	Outcome	NA	PA prepared to reform legal and regulatory framework for resolving insolvency	
4.2.1	Trade and Investment Capacity and BEE	TIE016	1.1.5	Percentage increase of organizations with gender-specific activities participating in ICI economic development activities	Modified	Two grantees were engaged in gender-specific activities	Mgmt	Outcome	NA	20%	
<u>OUTPUT INDICATORS</u>											
4.1.1	Fiscal Reform, Trade and Investment Capacity and BEE	TBD	TBD	Number of participants trained and participated in fiscal policy, trade and investment capacity and BEE provided through USG assistance (total) ⁹	Modified		Mgmt	Output	735 ----- 850	850	Number of total participants and training increased due to requests of counterparts
4.1.1	Fiscal Reform, Trade and Investment Capacity and BEE	TBD	TBD	Number of participants trained and participated in fiscal policy, trade and investment capacity and BEE provided through USG assistance (women)	Modified		Mgmt	Output	147 ¹⁰ ----- 166	160	Number of women participants and training increased due to requests of counterparts
4.1.1	Fiscal Reform, Trade and Investment Capacity and BEE	TBD	TBD	Number of participants trained and participated in fiscal policy, trade and investment capacity and BEE provided through USG assistance (men)	Modified		Mgmt	Output	588 ----- 684	690	Number of men participants and training increased due to the requests of counterparts
4.1.1	Fiscal Reform, Trade and Investment Capacity and BEE	TBD	4.3.7	Number of activities (e.g. training, workshops, focus groups, seminars, symposiums, public-private dialogues, technical discussions, courses, on-the-job training, roundtables) to address fiscal reform, trade and investment capacity and BEE subjects	Modified		Mgmt	Output	26 ----- 43	10 ----- 0	Number of activities due to requests of counterparts and need of participants

⁸ Draft laws prepared.

⁹ This indicator includes number of participants in PR components, however the number is already included in OPE0050 in OP indicators.

¹⁰ 20% out of the total number of participants.

4.6.1	Fiscal Reform, Trade and Investment Capacity & BEE	TIC028	2.1.2	Number of Palestinian delegations to regional and international events to increase understanding of fiscal reform, WTO and BEE	Modified		Mgmt	Output	2 ----- 2	2 ----- 0	
4.1.1	Fiscal Reform	TIC026	3.3.1	Percentage of increased understanding among Palestinian public of obligation to pay taxes ¹¹	No Change	Jun12:11.8%	Mgmt	Output	NA ¹²	8% ----- 0	
4.2.1	Trade and Investment Capacity	TIE011	1.3.1	Percentage of increased awareness of importance of WTO among Palestinian public, business, and academic community	Modified	Jun12:33.7%	Mgmt	Output	NA	20% ----- 0	
TBD	Trade and Investment Capacity, BEE	TBD	TBD	Percentage of increased awareness of intellectual property among Palestinian public, business, and academic community	NEW	Jun12:49.2%	Mgmt	Output	NA	5% ----- 0	
4.6.1	Trade and Investment Capacity, BEE	TBD	4.2.4	Number of laws, regulation, and administrative procedures that have been drafted, simplified and presented for public/stakeholder consultation in accordance with international standards as a result of USG assistance.	Modified		Mgmt	Output	14 ----- 1	5 ----- 0	Due to reduced funding available to ICI and long period of operation with very limited and restricted resources, and a hold on the project, ICI reduced number of activities under this indicator. In addition to need to obtain nationality waiver for ICI subcontractor, planned laws could not be submitted during this planned period. Also the absence of a Minister to make a decision to establish the core team responsible for this task resulted in delays.

¹¹ Base year will be June 2012.

¹² VAT and IT awareness campaigns are still in progress; this indicator will be measured upon the completion of the campaigns.

ANNEX B: SUMMARY TABLE OF OP INDICATORS

PE Code	PE Name	GEO MIS Indicator Code	ICI PMP CODE	Indicator Name	Indicator Format	PMP Indicator Type	Outcome / Output	Baseline Value	Starting Fiscal Year	Planned Value for FY1	Actual Value for FY1	Planned Value for FY2	Actual Value for FY2	Planned Value for Y3	Achievements % in Y2	Justification of Deviation
4.1.1	Fiscal Policy	TIC024	C-OP	Number of policy reforms/regulations/administrative procedures drafted and presented for public/stakeholder consultation as a result of USG assistance	Integer	OP_std	Output	0	FY11	10	2	8	3	4	38%	Due to reduced funding available to ICI, the long period of operation with very limited and restricted resources, and a hold on the project. In addition, Ministry of Finance newly appointed head of tax authority decided to postpone work on VAT Law, so ICI had to reduce the number of activities under this indicator.
4.1.1	Fiscal Policy	OPE143	D-OP	Number of key personnel in fiscal policy and fiscal administration trained with USG assistance	Integer	OP_std	Output	0	FY11	50	38	100	24	0	24%	Due to reduced funding available to ICI, the long period of operation with very limited and restricted resources, and a hold on the project, ICI had to reduce the number of activities under this indicator. In addition, Israeli Ministry of Finance (IMOF) delayed training for VAT employees in Jerusalem.
4.1.1	Fiscal Policy	OPE145	D-OP (F)	Number of key personnel in fiscal policy and fiscal administration trained with USG assistance (women)	Integer	OP_std	Output	0	FY11	10	3	20	3	0	15%	Due to reduced funding available to ICI, the long period of operation with very limited and restricted resources, and a hold on the project, ICI reduced the number of activities under this indicator. In addition, Israeli

																Ministry of Finance (IMOF) delayed training for VAT employees in Jerusalem.
4.1.1	Fiscal Policy	OPE144	D-OP (M)	Number of key personnel in fiscal policy and fiscal administration trained with USG assistance (men)	Integer	OP_std	Output	0	FY11	40	35	80	21	0	26%	Due to reduced funding available to ICI, the long period of operation with very limited and restricted resources, and a hold on the project, ICI reduced the number of activities under this indicator. In addition, Israeli Ministry of Finance (IMOF) delayed training for VAT employees in Jerusalem.
4.1.1	Fiscal Policy	TBD	4.3.1	Tax administration and compliance improved (% increase in tax collections) as a result of USG assistance	%	OP_std	Outcome	US\$1.9 B	FY12	0	0	16%	12%	15%	75%	This figure represents the increase of tax collection from Oct 2011 to Sep 2012 compared with tax collection from Oct 2010 to Sep 2011 based on ICI FY. Due to reduced funding available to ICI, the long period of operation with very limited and restricted resources, and a hold on the project, ICI reduced the number of activities under this indicator.
4.2.2	Trade and Investment Capacity	OPE0050	A-OP	Number of participants in USG supported trade and investment capacity building trainings	Integer	OP_std	Output	0	FY11	100	0	100	85	72	85%	The shortfall is attributed to a decrease in the number of MONE employees expected for IPR training.
4.2.2	Trade and Investment Capacity	TIC022	A-OP (F)	Number of participants in USG supported trade and investment capacity building trainings (women)	Integer	OP_std	Output	0	FY11	33	0	30	32	27	107%	
4.2.2	Trade and Investment Capacity	TIC021	A-OP (M)	Number of participants in USG supported trade and investment capacity building trainings (men)	Integer	OP_std	Output	0	FY11	67	0	70	53	45	76%	The shortfall is attributed to a decrease in the number of MONE employees expected for IPR training.

4.6.1	BEE	TIC023	B-OP	Business Enabling Environment improved number of changes made to business enabling environment	Integer	OP_std	Output	0	FY11	3	3	7	1	5	14%	Due to reduced funding available to ICI, the long period of operation with very limited and restricted resources, and a hold on the project, ICI reduced the number of activities under this indicator. Also, the absence of a Minister to decide to establish the core team that will be responsible for this task contributed to this shortfall.
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ANNEX C: SUMMARY TABLE OF OP INDICATORS MODIFICATIONS

PE Code	PE Name	GEO MIS Indicator Code	ICI PMP CODE	Indicator Name	Indicator Format	PMP Indicator Type	Outcome/ Output	Justification of dropping/adding OP indicators
4.1.1	Fiscal Policy	OPE143	D-OP	Number of key personnel in fiscal policy and fiscal administration trained with USG assistance	Integer	OP_std	Output	ICI recommends to drop this indicator because it does not reflect well the efforts made to achieve the fiscal reform results.
4.1.1	Fiscal Policy	OPE145	D-OP (F)	Number of key personnel in fiscal policy and fiscal administration trained with USG assistance (women)	Integer	OP_std	Output	ICI recommends to drop this indicator because it does not reflect well the efforts made to achieve the fiscal reform results.
4.1.1	Fiscal Policy	OPE144	D-OP (M)	Number of key personnel in fiscal policy and fiscal administration trained with USG assistance (men)	Integer	OP_std	Output	ICI recommends to drop this indicator because it does not reflect well the efforts made to achieve the fiscal reform results.

ANNEX D: DELIVERABLES TABLE

Deliverable	Submission Date in Contract	Submission Date	Status
Initial Annual Work Plan	Within 45 days of Task Order execution	11/12/2010	Approved
Annual Work Plan Y2	Within 30 days before completion of each year	10/6/2011	Approval pending
Performance Monitoring Plan (PMP)	Within 45 days of Task Order execution	11/14/2010	Approved
Gender Strategy	Within 45 days of Task Order execution	11/14/2010	N/A
Weekly Progress Reports	Weekly	Weekly since 10/29/2011	N/A
Quarterly Performance Reports <i>(Q4 is Annual Report. See Below)</i>	30 days after the end of each quarter	Q1: 1/30/2011	N/A
		Q2: 4/30/2011	
		Q3: 7/30/2011	
		Q1: 1/31/2012	
		Q2: 4/30/2012	
Quarterly Financial Accrual and Projections Reports	By the 20th of the final month of the quarter or as requested by COR	Q1: 12/15/2011	N/A
		Q2: 3/20/2011	
		Q3: 6/20/2011	
		Q4: 9/9/2011	
		Q1: 12/14/2011	
		Q2: 3/19/2012	
		Q3: 6/18/2012	
Annual Performance Reports	In lieu of a 4 th quarterly report each year	10/31/2011	Delivered
		10/31/2012	Delivered
Grants Manual	No later than 90 days from award	No submission requested by USAID	Not required
TraiNet Reporting	TraiNet Database should be updated immediately after an applicable training takes place	ICI updates TraiNet after every applicable training	Updates completed
Geo-MIS	Monthly	*Most recent update includes revised indicator as of 10/24/2012	Updates completed

Deliverable	Submission Date in Contract	Submission Date	Status
Success Stories and press releases	As appropriate when successes arise and subject to the COR's review and approval	Increasing Private Sector Tax Awareness: 6/24/2012	Delivered
		Vehicles Facilitate Tax Collection: 6/28/2012	Delivered
		A Record Breaking Month: 7/11/2012	Delivered
		Building WTO Compliance: 8/8/2012	Delivered
		Increasing Income Tax Employees Tax Awareness: 8/8/2012	Delivered
		Income Tax Judges Learn from Jordanian Counterparts: 9/27/2012	Delivered