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Fiscal Reform and Economic Governance: Technical Leadership and Field Support

Fifth Quarterly Progress Report
Covering the period October 2007 through December 2007

January 2008

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Fiscal Reform and Economic Governance (Fiscal Reform II)

1. INTRODUCTION

Fiscal Reform and Economic Governance is a Task Order (TO) under the SEGIR Macro II Indefinite Quantity Contract. The TO was signed by USAID on September 29, 2006. Fiscal Reform and Economic Governance is a follow-on activity to the earlier Fiscal Reform in Support of Trade Liberalization (Fiscal Reform I) Task Order, which was implemented by Development Alternatives, Inc. (DAI). Fiscal Reform I was completed on June 19, 2006.

This first annual workplan covers the period October 2006 through December 2007. The workplan was approved by USAID/EGAT on December 21, 2006.

This progress report reports on work and achievements during the fifth quarter of operations (i.e., Q4:07, or October 1 through December 31 2007) and is structured to mirror the first annual workplan.

Among the highlights of the fourth quarter, the project helped USAID/EGAT successfully organize and host the 2007 USAID Economic Growth Officers Workshop in Washington, DC from October 15-19th. Proceedings from the weeklong event are documented on the workshop website (<http://www.egworkshop2007.net>), which features presentations, session summaries, audio recordings, reference materials, and photos.

The project produced a new publication on *Rebuilding Fiscal Infrastructure in Post-conflict Societies*, both as a book and in electronic form. The study quickly became one of the most popular items on the project's fiscalreform.net website, registering more than 1,400 down-loads in December alone.

Planning began for the 2008 Fiscal Policy and Management Course at Georgia State University in Atlanta. The project worked closely with GSU and the USAID Activity Manager to refine the 2007 curriculum and nailed down June 9-13 as the likely dates for the 2008 course.

The project continued its research into Cuba's public finances, possible transition paths, and their impact on government expenditures, financing, and service delivery and subsidies.

In addition to the above, the fiscalreform.net website continued to be a popular destination for fiscal reform and economic governance-related tools, literature and other information.

A detailed discussion of these and other developments follows below.

2. BEST PRACTICES NOTES

Four potential best practices papers/notes were contemplated in the first annual workplan. These are: 1) Procurement Reform, 2) E-Government and the Fiscal Sector, 3) Strengthening (or Creating) Fiscal Management in Post-Conflict Countries, and 4) Decentralization in Post-Conflict Countries. Following approval of the first annual workplan, the original E-Government topic was refined to focus more specifically on Integrated Financial Management Information Systems (IFMIS).

Two best practice notes were completed in the spring: including Procurement Reform and one which had not been contemplated in the annual workplan (on Building Capacity in Revenue Policy and Administration). During the final quarter of 2007, the best-practice paper on Building Fiscal Infrastructure in Post-conflict Societies was completed, as was the paper on Fiscal Decentralization in Post-Conflict Countries. At the end of the reporting period the remaining paper, on developing and implementing Government IFMIS, was in the final revision stage and should be ready for publication by January 2008.

Strengthening Fiscal Management in Post-Conflict Countries. In early December, the project published its third best-practice study, *Building Fiscal Infrastructure in Post-conflict Societies*. COP Mark Gallagher was the primary author, with country inputs from Paul Banerjee and Steve Lewarne on Afghanistan and Kosovo, as well as research and editorial assistance from DCOP Rozner. The final version also incorporated comments from a number of reviewers. The study presents seven case studies focusing on the building or rebuilding of fiscal institutions and infrastructure in countries that recently emerged from devastating conflict, including: Afghanistan, Angola, Bosnia and Herzegovina, El Salvador, Guatemala, Kosovo, and Liberia. Based on the country cases, the paper concludes with several pointers for developing and sequencing assistance programs in post-conflict settings. The key findings of the paper were presented at the October EG Officers Workshop as well as in December at EGAT's post-conflict EG seminar. An electronic version was posted to the fiscal reform website in pdf. In addition, a color, bound print version was produced as a book for distribution within USAID and at project and outside events. A brief best-practice note based on the longer study will be produced and distribute widely in both print and electronic form.

Fiscal Decentralization in Post-Conflict Countries. The best-practice paper on fiscal decentralization in post-conflict countries, prepared by Dr. William Fox of University of Tennessee, was completed in late December and posted to the fiscal reform website. The USAID Activity Manager subsequently circulated a message to USAID staff in Washington and the field announcing the new publication. A short best-practice note based on the paper will be produced for publication in electronic and print form in January.

Integrated Financial Management Information Systems. Work on the IFMIS paper, authored by Edwin Rodin-Brown, was substantially completed by end of December. At

the time of this writing, Rodin-Brown was in the process of incorporating comments and suggestions from a handful of USAID reviewers. The paper will be completed by January 2008. When completed, the paper will be published on the fiscalreform.net website and distributed widely. In addition, the paper's executive summary will be published as a stand-alone document and posted to the [fiscal reform.net](http://fiscalreform.net) website as one of the "tools and best practices" produced by the project. The project plans to hold an event in spring 2008 featuring a presentation by Rodin-Brown and a panel discussion on the topic of designing and implementing government IFMIS. The date and format have yet to be decided.

3. TOOLS

The project has made substantial progress on one of its main tool kits: expansion and updating of the Tax Benchmarking database originally published in 2004. The 2007/08 update relies on newer data (i.e., 2004 and more recent) and features several new indicators, including total social contributions (i.e. labor tax) burden and the "tax wedge." Despite delays due to personnel changes, the updated database is nearly completed, and will be published in February 2008. In October 2007, the project brought on a part-time Research Assistant, Ms. Adanna Taylor, to help complete data collection for the 2007/08 update. At the end of December, data collection had been substantially completed for roughly 130 countries. In the coming year, Ms. Taylor will complete benchmarking of remaining countries, in close collaboration with Gallagher and Rozner.

The project's research on assessing and comparing public expenditure management (PEM) systems remained on hold during the quarter. However, current plans are to begin this effort in the first half of 2008, after the tax benchmarking has been completed.

Finally, "**eLearning Tools**" for tax and budget modernization remained available for use on the fiscalreform.net website. These tools include a series of technical training materials, prepared recently as PowerPoint presentations, on topics including tax policy analysis, tax administration and customs reform, budgets and budget classification, and taxpayer service. These presentations are adapted from materials that have been previously presented to USAID officers, to host country clients in developing and emerging market countries, or in international organizations and universities around the world. The tax policy presentation was used in a training seminar for USAID EG Officers in Washington, DC in July.

4. SUCCESS STORIES

No new success stories were under development in the final quarter of 2007. However, the project continues to consider possible candidate success stories from USAID's experience in supporting fiscal reform around the world.

5. IN-HOUSE EXPERTISE FOR USAID

During the quarter, the project continued to provide ongoing, ad hoc assistance to USAID/W and field missions on selected queries and requests. For instance, COP Gallagher continued to engage in regular exchanges with USAID staff and others on proposals for tax modernization in Liberia.

Rozner provided research assistance on a query from USAID/PERU concerning best practices in public procurement reform.

The Fiscal Reform team also continued to assist EGAT in developing a database and a macro-fiscal model of the Cuban economy. DAI's Christina Erickson, with guidance from Gallagher, continued compilation of data for the model into early 2008. The model will allow us to link macroeconomic variables to both government spending and revenues, and link expenditure items to real outputs or amounts spent on subsidies for basic consumer goods.

6. ANNUAL WORKSHOP

From October 15-19 2007, the Fiscal Reform team helped USAID organize and implement the 2007 Economic Growth Officers Workshop, the first such event since Economic Growth (EG) Officers met in Washington in 2004. The workshop was organized around four themes—thinking strategically about economic growth, programming in post-conflict areas, business climate reform, and the state of the EG profession. Among the key presentations:

- Henrietta Holsman Fore, Director of U.S. Foreign Assistance and USAID's Acting Administrator, gave the opening remarks.
- Carl Schramm and Bob Litan of the Kauffman Foundation delivered the keynote address, touching on key messages from their new book, *Good Capitalism, Bad Capitalism, and the Economics of Growth and Prosperity*.
- World-renowned economist Arnold Harberger spoke on training host-government counterparts, tax reform in Latin America, and the "resource curse."
- Simeon Djankov, head of the World Bank-International Finance Corporation's Doing Business Project, offered a preview of the Doing Business 2008 report.
- H.E. Anwar-ul-Haq Ahady, Afghanistan's Minister of Finance, highlighted progress in laying the foundations for private sector-led economic growth in his country.
- Steve Hadley, outgoing Director of EGAT's Office of Economic Growth, introduced the agency's new economic growth strategy.
- Mary Ott, incoming Director of EGAT/EG, offered "tips" for EG Officers for being successful in their work.

From Fiscal Reform II, Mark Gallagher presented on priorities for assisting tax reform in Central and Eastern Europe and on rebuilding fiscal infrastructure in post-conflict societies. Gallagher also moderated a session featuring Profs. Arnold Harberger and

Richard Auty on addressing the “Resource Curse” in resource-rich developing countries.

More than 300 people attended over five days, including staff from Washington, DC and overseas missions, USAID partners, the International Monetary Fund, the World Bank, and various U.S. Government agencies and nongovernmental organizations. Workshop evaluations and informal feedback were widely positive with respect to both the organization and the content of the course.

Fiscal Reform II’s Steve Rozner led the planning and organization from the project’s side, with extensive logistic support from DAI staff in the Bethesda office. DAI’s Krista Baptista facilitated the event. The project team also created a stand-alone workshop website—<http://www.egworkshop2007.net>—featuring presentations, audio recordings of selected sessions, session summaries, background papers, and a gallery of photographs capturing images from each day of the event.

7. ANNUAL TRAINING COURSE

The project’s annual Fiscal Policy & Management Training for USAID Officers and Host-Country Government Counterparts was successfully held from April 2-6 2007 at George State University’s facilities in Atlanta.

In November and December, the project laid plans for the 2008 Fiscal Policy and Management Course at Georgia State University in Atlanta. The project worked closely with GSU and the USAID Activity Manager to refine the 2007 curriculum and tentatively settled on a week in mid- to late June for scheduling the 2008 course.

8. QUARTERLY SEMINARS

No seminars were held in the current reporting period. In December, however, Gallagher delivered a presentation on fiscal issues at an EGAT seminar on EG programming in post-conflict countries.

Plans to resume quarterly seminars in 2008 remain on hold pending evidence of field demand for them. Topics that could be covered in future seminars include: 1) tax policy analysis, 2) tax administration and customs reform, 3) government budgets and budget classification, 4) reforming government procurement, and 5) taxpayer service.

9. FIELD REQUESTS

No field requests have yet been initiated. Discussions with the USAID Mission in Liberia continue on proposals for tax modernization, but nor formal instructions have been issued to the project for assistance. The project also awaits instructions from USAID in

Vietnam, which has reviewed the report from Gallagher's September trip and has expressed interest in following up on his recommendations.

Other missions, including Egypt and the Philippines, have expressed interest in accessing the project's services, but possibilities remain to be explored. The USAID Activity Manager is looking into these and other opportunities.

10. OUTREACH

The project did not hold any outreach events this quarter. Instead, the team focused its attention on supporting the October 15-19 Economic Growth Officers Workshop (see #6 above) and post-workshop follow-up efforts.

In addition, COP Gallagher met during the quarter with various staff at the World Bank and IMF to discuss project activities, common interests and opportunities for potential collaboration.

11. FISCAL WEBSITE

The fiscalreform.net website continues to be a popular destination for literature, tools, best practices and other information concerning fiscal reform and other economic governance topics. During the current reporting period, new project outputs (e.g., studies on post-conflict fiscal reform and on decentralization in post-conflict countries) were added to the site; proceedings from the EG Officers Workshop were linked to the site; new websites were added to the 'Useful Links' section; and several new documents were added to the Web Library.

A brief summary of website usage for the current reporting period follows below. Included are overall statistics for the quarter ending December 31, as well as statistics for the previous four quarters for comparison purposes.

Overall, we had more than 130,000 hits for the quarter, or approximately 1,400 hits per day. This number is up sharply from the number of hits recorded in the previous two quarters. Whatever the reasons for the surge in website traffic, the project will continue to explore ways to make the site even more user-friendly and attract an even wider audience to the site. The project will also continue to track website use statistics in future quarterly reports.

Table 1: Summary data on website usage

Statistics	Q4: 06 10/1/06-12/31/06	Q1:07 1/1/07-3/31/07	Q2:07 4/1/07-6/30/07	Q3:07 7/1/07-9/30/07	Q4:07 10/1/07-12/31/07
Hits					
Entire Site (Successful)	52,982	178,728	100,789	82,690	130,851
Average Per Day	575	1,985	1,107	898	1,422
Page Views					
Page Views (Impressions)	9,445	51,588	54,825	50,017	76,747
Average Per Day	102	573	602	543	834
Document Views	9,443	10,239	8,210	7,178	7,062
Visitor Sessions					
Visitor Sessions	8,678	13,645	12,648	11,429	29,446
Average Per Day	94	151	138	124	320
Average Visitor Session Length	7:53	23:12	47:33	37:30	28:28
International Visitor Sessions	16.58%	16.12%	9.47%	11.22%	16.57%
Visitor Sessions of Unknown Origin	19.11%	25.65%	17.93%	10.42%	9.74%
Visitor Sessions from United States	64.3%	58.22%	72.59%	78.34%	73.68%
Visitors					
Unique Visitors	3,969	6,383	4,342	3,669	9,207
Visitors Who Visited Once	3,106	5,028	3,366	2,552	6,370
Visitors Who Visited More Than Once	863	1,355	976	1,117	2,837

12. PROJECT TEAM

In October, the project brought on a part-time Research Assistant, Ms. Adanna Taylor, to help complete data collection for the 2007 update of the tax benchmarking database and to start data collection for proposed public expenditure systems benchmarking

work. Adanna is working for the project on a half-time basis over six months, between end-October 2007 and end-April 2008.

13. ADMINISTRATION AND REPORTING

In December, the project completed and submitted to USAID a draft of its second year workplan for discussion. The team met with USAID to review the workplan and develop and refine the proposed activities.

Meanwhile, the project is exploring options for office space after the current lease expires at the end of January 2008, such as signing a multiyear lease/sub-lease on another office, if doing so would be cost-effective and practical. A decision will be made by early January.

14. FINANCIAL PERFORMANCE

The first annual workplan includes a financial plan that anticipates total expenditure for the period October 2006 through December 2007 of \$1,308,988, of which it was anticipated that \$898,801 would be funded by EGAT and \$417,187 would be funded by missions for field requests.

The following table presents overall budget operations for the period October 1, 2006 through December 31, 2007 on an accrual basis. This table compares accrued expenses to the ceiling amount and to the current obligated amount. Under the ceiling amount, we have separated funding ceilings into (i) Labor and (ii) ODCs/G&A, based on the assumption of an 80-20 split between these two categories.

To date, all expenditures, including those for Liberia and Vietnam, have been funded directly by EGAT. No field-funded activities have yet been initiated.

Table 2: Financial performance

Fiscal Reform and Economic Governance: billed and accrued					
	Maximum Budget amount	Billed as of 12/31/07	Accrued but not billed*	Cumulative to Date	Remaining to end of task order

*Accruals estimates include December labor of Gallagher, Rozner, Erickson, Taylor and Kent as well as unbilled labor of Bill Fox and Edwin Rodin-Brown. In addition, unbilled costs related to the EGAT Economic Growth Officers Workshop are accrued as ODCs.

15. GANTT CHART

The following Gantt Monitoring Chart shows the percentage of completion for each task and subtask attained during the quarter as related to the first year annual workplan.



