



USAID
FROM THE AMERICAN PEOPLE

Close Out Report: Fiscal Reform in Support of Trade Liberalization

July 2006

This publication was produced for review by the United States Agency for International Development. It was prepared by Development Alternatives, Inc.

**CLOSE OUT REPORT:
USAID-FISCAL REFORM IN SUPPORT OF TRADE LIBERALIZATION
("FISCAL REFORM PROJECT")**

August 2003 – June 2006

**Technical Assistance Project
Funded By:**

**United States Agency for International Development
Contract # PCE-I-00-00-00015-00, TO # 3**

**Submitted to:
United States Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523-7100
USA**

**Prepared by:
Brandon Lundberg
Steven Rozner**

**Submitted by:
Development Alternatives, Inc.
7600 Wisconsin Avenue, Suite 200
Bethesda, Maryland 20814 USA**

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



TABLE OF CONTENTS

TABLE OF CONTENTS	III
LIST OF TABLES AND FIGURES	V
ACRONYMS.....	VII
GENERAL PROJECT INFORMATION	IX
EXECUTIVE SUMMARY	X
INTRODUCTION	1
SECTION I. PROJECT OBJECTIVES, DESIGN AND EVOLUTION	1
OUTREACH AND DONOR COORDINATION	1
FISCAL WEBSITE.....	1
APPLIED RESEARCH ON FISCAL ISSUES	1
ANNUAL WORKSHOP ON APPLIED FISCAL ISSUES	3
ANNUAL TRAINING IN FISCAL AREAS	3
DEMAND DRIVEN FISCAL ACTIVITIES FOR USAID FIELD MISSIONS	3
SECTION II. PROJECT ACTIVITY BY YEAR.....	1
YEAR 1 ACTIVITES	1
OUTREACH AND DONOR COORDINATION	1
FISCAL WEBSITE.....	1
APPLIED RESEARCH ON FISCAL ISSUES	3
ANNUAL WORKSHOP.....	4
ANNUAL TRAINING.....	5
FIELD REQUESTS.....	5
YEAR 2 ACTIVITES	9

OUTREACH AND DONOR COORDINATION	9
FISCAL WEBSITE	9
APPLIED RESEARCH ON FISCAL ISSUES	12
ANNUAL WORKSHOP	12
ANNUAL TRAINING.....	13
FIELD REQUESTS.....	13
YEAR 3 ACTIVITES	17
OUTREACH AND DONOR COORDINATION	17
FISCAL WEBSITE	17
APPLIED RESEARCH ON FISCAL ISSUES	19
ANNUAL WORKSHOP	21
ANNUAL TRAINING.....	21
FIELD REQUESTS.....	22
SECTION III. LESSONS LEARNED AND IMPLICATIONS FOR FUTURE USAID PROGRAMMING	1
ANNEX 1: TOTAL EXPENEDED LEVEL OF EFFORT (LOE) PER PERSON	1

LIST OF TABLES AND FIGURES

Table

Table 1: USAID Fiscal Reform “Success Stories”	2
Table 2: Project Year I Fiscalreform.net Web Statistics, Q4 2003 – Q3 2004	2
Table 3: India Field Activity: Country Site Visits.....	6
Table 4: Project Year I & II Fiscalreform.net Web Statistics for Q4 2003 – Q3 2005.....	11
Table 5: Project Year I, II, & III Fiscalreform.net Web Statistics for Q4 2003 – Q2 2006.....	19
Table 6: USAID “Success Stories” in Project Year III.....	20

ACRONYMS

AFTA	Asian Free Trade Agreement
BIDE	Boston Institute for Developing Economies
CBDT	Central Board of Direct Taxation
CEBA	Committee on Economics and Budgetary Affairs
COTS	Commercial Off-The-Shelf
CTO	Cognizant Technical Officer
CTPF	Technical Committee for the Fiscal Pact
DAI	Development Alternatives, Inc.
DOE	Department of Expenditure
DTEs	Developing and Transition Economies
EGAT/EG	Economic Growth, Agriculture, and Trade/Economic Growth
FPU	Fiscal Programming Unit
GAO	U.S. Government Accountability Office
OIESR	Office of International Economic Studies and Relations
GOG	Government of Guatemala
GOI	Government of India
GOP	Government of Paraguay
GST	General Sales Tax
GSU	Georgia State University
IDB	Inter-American Development Bank
IMF	International Monetary Fund
IQC	Indefinite Quantity Contract
IRS	U.S. Internal Revenue Service
ISTD	Income and Sales Tax Department
KOJ	Kingdom of Jordan
MCC	Millennium Challenge Corporation
MOF, MINFIN	Ministry of Finance
NEPs	New Entry Professionals
PPC	USAID's Bureau of Policy and Program Coordination

Q1, Q2, Q3, Q4	Project Quarter (based on calendar year)
RePEc	Research Papers in Economics
SARAs	Semi-Autonomous Revenue Authorities
SAT	Guatemala Superintendency of Tax Administration
SOW	Scope of Work
STD	Sales Tax Department
TRG	Training Resources Group, Inc.
USAID	United States Agency for International Development
USAID/W	USAID/ Washington
VAT	Valued Added Tax
WARP	USAID's West Africa Regional Program
WTO	World Trade Organization

GENERAL PROJECT INFORMATION

Project Name: Fiscal Reform in Support of Trade Liberalization

Project Acronym: Fiscal Reform Project

Contract No.: PCE-I-00-00-00015-00

Task Order No.: 03

Performance Dates: Original Period: June 2003 – June 2005
Extension Period: June 2005 – June 2006

Project Management: Mark Gallagher COP (June 2003 – Dec. 2004)
Sandra Hadler COP (Dec. 2004 – June 2006)

USAID CTO: Mark Gellerson (Aug. 2003 – July 2004)
Vic Duarte (July 2004 – June 2006)

USAID CO: Darlene Bullock

Funding Ceiling: Original Ceiling: \$3,473,353.00
Modified Ceiling (Sep. 27, 2004): \$5,665,518.00

Funding Obligated: \$4,990,600.00

Project Description: Fiscal Reform in Support of Trade Liberalization provided best practices research, training, workshops, and technical assistance to USAID/EGAT and overseas USAID Missions in all areas related to fiscal reform and the fiscal aspects of trade liberalization.

EXECUTIVE SUMMARY

This is the closeout report for the Fiscal Reform in Support of Trade Liberalization project (the “Fiscal Reform Project”), implemented by Development Alternatives, Inc. (DAI) via a Task Order under the SEGIR Macro I Indefinite Quantity Contract (IQC). The Project, based in Washington, D.C., received primary direction from the Office of Economic Growth in the United States Agency for Economic Development’s Bureau for Economic Growth, Agriculture and Trade (EGAT).

The Fiscal Reform Project was designed to provide technical leadership in the area of fiscal reform by strengthening USAID’s capacity to tackle fiscal issues in developing and transition countries. This was accomplished over a three-year span through (1) outreach and donor coordination, (2) a fiscal website, (3) applied research on fiscal issues, (4) annual workshops on applied fiscal issues, (5) annual training in fiscal areas, and (6) a field support mechanism through which the project provided selected USAID Missions short-term technical assistance to assess, analyze, and recommend action related to a wide range of fiscal issues.

The Project received “core” funding from USAID/EGAT as well as dedicated funds from specific USAID Missions where field requests were carried out. At the Project’s outset, some of these field requests were funded by EGAT, others were funded by the Missions requesting support, while others still were funded on a cost-sharing basis between Missions and EGAT. Core funding was originally estimated at \$1.7 million per year for two years, but ended up averaging just over \$800,000 per year as project activities increasingly focused on responding to field requests. In Project Year Two, in response to increasing demand for project services, the contract was extended for a third year and \$2 million was added to its funding ceiling. By the end of Project Year Three, Mission funded field requests represented over half of total project activity.

All aspects of the Project contributed to increased understanding and information exchange among members of the public finance community of practice, and among USAID Economic Growth Officers, including a corps of New Entry Professionals (NEPs) who received project training in fiscal policy and administration as part of their preparation for impending field assignments. The Project’s fiscal reform web site (www.fiscalreform.net) proved a popular and widely used resource, attracting nearly 90,000 hits per quarter by the time the Project drew to a close. Furthermore, through many of the field requests, the Project helped set the stage for new USAID programming, while for others it complemented existing activities or bridged previous activities with those planned for the future. Conclusively, the Fiscal Reform project offered a high value-added, cost-effective vehicle to test, develop, and disseminate new approaches and concepts for supporting fiscal reform activity in developing and transition countries.

This report constitutes DAI’s final report of project activity, accomplishments, and lessons learned in the course of implementing the Fiscal Reform Project. It is organized in three principal sections. Section I summarizes the concepts, objectives, and evolution of the project over its three-year duration. Section II outlines the principal activities of the Project, broken down by year. Section III considers lessons learned during the course of implementation and, where possible, their implications for future USAID programming.

INTRODUCTION

Macroeconomic stability is vital for achieving sustainable economic growth. The fiscal system plays a major role in ensuring a stable macroeconomic policy environment, influencing relative prices and the direct allocation of a fifth to a half of all resources in most countries around the world. Strong fiscal infrastructure (e.g., modern tax administration, transparent budget processes, a well-managed treasury, or sound intergovernmental fiscal arrangements) can serve fiscal policy by mobilizing revenues from the economy and facilitating the allocation of those resources to productive, poverty-reducing and growth-oriented investment. Weak fiscal infrastructure, however, can frustrate revenue collection and lead to poor investments and inadequate public services, and can foster corruption.

Economic integration and the rapid expansion of free trade regimes worldwide presents serious risks for developing and transition countries, not least of which is the loss of revenues from reductions in import duties. Strengthening macroeconomic foundations can better insulate an economy from the shocks that trade opening entail by providing alternative sources of revenue to finance government services. In this respect, fiscal reform is a necessary companion to, and perhaps a precondition for, successful trade liberalization.

Yet, fiscal reform is seldom easy. Knowing which fiscal tools exist and how to utilize them is crucial. In recent years, USAID's internal capacity to identify and prioritize fiscal interventions has declined. USAID has been able to access fiscal expertise on an ad hoc basis through existing contractual mechanisms, but it lacks a dedicated core staff of fiscal experts to advise USAID partner countries on fiscal solutions, develop institutional memory of activities and lessons learned across countries.

Within this framework, the objective of the Fiscal Reform in Support of Trade Liberalization ("Fiscal Reform Project") project was to strengthen USAID's understanding of fiscal issues confronted by developing and transition countries and assist Missions in identifying and implementing fiscal reform activities. The Project was specifically designed as a vehicle to provide a fiscal resource that is available to USAID/EGAT and USAID Missions and Bureaus around the world. As such, it allowed for both "core" funding from USAID/EGAT and specific funding from USAID Missions where field requests were carried out.

The Project was managed by a consortium led by Development Alternatives, Inc. (DAI) and including the Andrew Young School of Policy Studies at Georgia State University (GSU), Boston Institute of Development Economics (BIDE), and Training Resources Group, Inc. (TRG). Mark Gallagher, Chief of Party, and Steven Rozner, Economist, led the original team from project inception until December 2004, at which time Sandra Hadler, Chief of Party, and Christopher Hartwell, Economist, took over. Hartwell left the project in October 2005 and Brandon Lundberg assumed the role of Jr. Economist until the end of the project. Despite the changes in core project management staff, the transitions were smooth and the project continued to serve USAID and preserve the core mission effectively under the new leadership.

Broadly speaking, activities under the Fiscal Reform Project fell under the following categories: (1) Outreach and donor coordination, (2) fiscal reform website development and maintenance, (3) applied research on fiscal issues, (4) annual workshops on applied fiscal issues, (5) annual training for USAID officers in fiscal policy and management, and (6) in-field support to USAID Missions, primarily for purposes of technical assessment, analysis, and design, as well as training and institutional capacity building in fiscal areas. The initial requirements of the Task Order's Statement of Work and the types of activities that evolved under each of the principal categories above are described in Section I below.

SECTION I. PROJECT OBJECTIVES, DESIGN AND EVOLUTION

OUTREACH AND DONOR COORDINATION

An active program of dialogue and coordination with other donors involved in fiscal issues in developing countries, such as the US Treasury, IMF, World Bank, OECD and others was envisioned in the Task Order's Statement of Work. The results of these events would be discussed, as necessary, with USAID. Besides regular interaction with, in particular, staff from the World Bank and IMF, outreach events presented an opportunity to share research findings with organizations engaged in fiscal areas.

FISCAL WEBSITE

The SOW called for the development of a fiscal website that summarizes training activity, field activities carried out in partnership with USAID Missions, completed and ongoing research, links to other useful sites, and other useful developments relevant to fiscal and trade reform.

APPLIED RESEARCH ON FISCAL ISSUES

The SOW specified a minimum of three applied research papers during each year of the project on topics agreed upon at the beginning of each year. Nine original studies were completed during the life of the project, in addition to two policy notes, revisions to a tax benchmarking database, and eleven case studies on USAID support for fiscal reform. Research topics were selected with a view to helping USAID enhance its assistance programs around the world. The research was meant to have practical application for development practitioners and fiscal and trade reform implementers. The nine research pieces, described in greater detail in Section II, include:

Year 1

- “Assessing Tax Systems Using a Benchmarking Methodology,” by Mark Gallagher.
- “Are Semi-Autonomous Revenue Authorities the Answer to Tax Administration Problems in Developing Countries? – A Practical Guide,” by Arthur Mann
- “Corruption, Fiscal Policy, and Fiscal Management,” by Jorge Martinez-Vazquez, F. Javier Arze, and Jameson Boex¹
- “Trade Liberalization and Fiscal Reform: Evidence from Two Case Studies – Morocco and Jamaica – and a General Cross-Country Econometric Analysis,” by Joseph Pelzman

Year 2

- “VAT Revisited: A New Look at the Value Added Tax in Developing and Transitional Countries,” by Richard M. Bird and Pierre-Pascal Gendron
- “Fighting Poverty through Fiscal Decentralization,” by Jameson Boex, Eunice Heredia-Ortiz, Jorge Martinez-Vazquez, Andrey Timofeev, and Guevera Yao²

¹ A short technical note, “Fiscal Policy and Corruption: A Brief Introduction,” distills the important policy options and messages from this original research paper.

- “Pension Reform in Eastern Europe and Eurasia: Experiences and Lessons Learned,” by David Snelbecker

Year 3

- “Towards Fiscally Feasible and Efficient Trade Liberalization,” by Graham Glenday
- “Flat or Flattened?” A Review of International Trends in Tax Simplification and Reform,” by Sandra Hadler, Christine Moloi, and Sally Wallace
- “Assessment of IT Systems for Tax and Customs Administrations,” by Richard Ainsworth*

Worth noting, the tax benchmarking paper produced by Mark Gallagher during Year 1 provided a starting point for development of a tax benchmarking database, for which a dedicated page was added to the Project’s fiscalreform.net web site in December 2004.

In addition to the above, the Project produced eleven case studies profiling “success stories” from USAID assistance in the fiscal area. Table 1 lists the countries and areas of assistance that formed the focus of these case studies.

Table 1: USAID Fiscal Reform “Success Stories”

Country	Areas of assistance
Bosnia-Herzegovina	Treasury and payment bureaus
	Tax administration modernization
Egypt	Comprehensive tax reform
	Comprehensive customs reform
El Salvador	Comprehensive tax reform
Guatemala	Tax administration reform
Jamaica	Comprehensive tax reform
Kosovo	Comprehensive fiscal reform: tax and expenditure
Montenegro	Municipal financial management
Tanzania	Establishing the tax policy analysis department
Ukraine	Intergovernmental fiscal relations

To be sure, some projects are more successful than others in bringing about fiscal reform, and many different factors account for differences in outcomes. However, the projects highlighted in this “success stories” exercise all had the following factors in common:

² Here too, a shorter version based on the findings of the original paper was produced which highlighted the most important policy options and messages.

1. **Political and Social Environment:** Government policies governing taxes and expenditures are among the most direct and visible elements of public policy in any country. Thus it is to be expected that proposals for major fiscal changes will attract intense political interest. For this reason, an open and inclusive public dialogue on fiscal reform is often necessary to smooth the path politically.
2. **Government “Ownership” of the Project:** Most of the case studies describe the process by which the host governments, at appropriately high levels, took “ownership” of the projects. This simply means that government counterparts truly wanted the projects in order to be able to do a better job and show significant improvements.
3. **Relationship among USAID, Project Team and Host Government Counterparts:** High quality professional relationships and rapport between the project experts, local counterparts, and USAID staff often characterize successful efforts.
4. **Cooperation among donors:** Careful attention to donor coordination can help overcome serious obstacles where priorities for economic policy and administration reforms often converge.
5. **USAID Flexibility in Project Oversight and Management:** The flexibility of USAID oversight and management often makes it possible to change the emphasis to accommodate the evolving needs of counterparts. This is especially true in times of budget stringency or unusually intense congressional or other scrutiny of foreign assistance operations.

ANNUAL WORKSHOP ON APPLIED FISCAL ISSUES

The SOW anticipated an annual workshop on cutting edge thinking, latest trends, and best practices concerning applied fiscal issues. In consultation with EGAT/EG, the workshop would cover topics relevant to USAID/W and field missions. The workshop materials and relevant links would be made available on the Project website.

ANNUAL TRAINING IN FISCAL AREAS

The SOW envisioned a short-term training module offered once a year for USAID staff and/or key counterparts in fiscal areas or a fiscal topic agreed upon with USAID. USAID/W and/or Missions would identify attendees for the training and be responsible for covering travel and per diem costs.

DEMAND DRIVEN FISCAL ACTIVITIES FOR USAID FIELD MISSIONS

The Fiscal Reform Project’s design included a component that allowed for design, assessment, and evaluation of fiscal-related activities, as well as general “trouble shooting” of fiscal issues for USAID Missions. Some of these demand-driven activities were funded fully by EGAT; others were on a cost-sharing basis between Missions and USAID/W while others were funded fully by the Missions. In addition, towards the end of the Project funds left over following completion of programmed activities were reprogrammed in a number of cases to cover follow-on or new activities (which are recognized below with an asterisk). The following activities were carried out in response to Mission requests:

- *Support for Sub-National Fiscal Reform in India:* Objective of this Activity was to expose the Government of India’s (GOI) Ministry of Finance (MOF) and other interested parties to

international experiences in implementing sub-national fiscal reform and, based on these experiences, help identify options for the MOF to reform intergovernmental fiscal arrangements and impose greater fiscal discipline.

- *Taxpayer Services and Staff Training in India:* Assess the taxpayer services and training needs of the Central Board of Direct Taxation (CBDT) and recommend priority actions in view of international best practices in these areas.*
- *Tax and Investment Policy Reform in Guatemala:* Technical assistance to the Government of Guatemala (GOG), specifically the Ministry of Finance, and Superintendency for Tax Administration (SAT), to help the GOG implement tax benchmarking and other analytic tools to measure progress against the country's *Fiscal Pact*, a key component of the peace accords that ended 30 years of civil war in Guatemala.

Additional support under a reprogrammed budget and new technical request included: management training to SAT officers in management; design work related to the establishment of a taxpayer services office and call centers; an action plan for the implementation of a simplified tax regime to incorporate the informal economy; development of a methodology for strategic planning and budgetary formulation; and, design of a monitoring and evaluation system for budget execution.*

- *Economic Policy and Revenue Management in Sudan:* Support the design of systems and institutions for economic policy formulation with an aim to promote equitable development and poverty reduction and public revenue/finance management for the Secretariat of Finance and Economic Planning of Southern Sudan.
- *The Revenue Impact of Changes in Trade and Fiscal Policies in Vietnam:* Support in the creation and training of a research unit in the National Assembly to assess the impact of various policy changes on revenue flows.
- *Fiscal Programming in Angola:* Strengthening the capacity of the Ministry of Finance's (MINFIN) Office of International Economic Studies and Relations (OIESR) to set fiscal targets, monitor and coordinate fiscal performance in view of these targets, lead efforts at imposing fiscal discipline, and assist the MINFIN to develop measures for meeting targets.
- *Tax Reform in Jordan:* Prepare a tax reform plan to review current policies and the legal and regulatory frameworks for income tax and the general sales tax (GST), report on areas in need of improvement, and present these findings to the MOF and the Committee for the National Agenda. Develop a detailed work plan for an MOF tax-reform working group to draft revisions to the tax and related laws. To support the implementation of the amendments created from the draft revisions, a new request was submitted to analyze the social and economic impact of the tax reforms and provide assistance with developing a public awareness campaign. A final request was received to study the viability of taxing capital gains in terms of international best practices, advantages, disadvantages, impact, rates, and mechanisms of implementation.*
- *Workflow Reform in Egypt:* Assist the Sales Tax Department (STD) within the Egyptian MOF in developing an automated workflow system to improve the efficiency and productivity of the Department by streamlining workflows, with delegated decision making authority and minimal management intervention.
- *Tax and Formalization Components of the MCC Threshold Country Plan of São Tomé & Príncipe:* Assist the Government of São Tomé & Príncipe, USAID's Bureau of Policy and

Program Coordination (PPC), and USAID’s West Africa Regional Program (WARP) with the development of MCC-Threshold Country Plan components relating to tax and customs administration.

- *Tax and Formalization Components of the MCC Threshold Country Plan of Paraguay:* Guide the responsible Government of Paraguay (GOP) working groups and USAID/Paraguay with the development of MCC-Threshold Country Plan areas identified under “Institutional Strengthening to Formalize Economic Activities.”

SECTION II. PROJECT ACTIVITY BY YEAR

A concise description of activities by Project Year is provided below.

YEAR ONE ACTIVITIES

OUTREACH AND DONOR COORDINATION

Project Brochure: The Project prepared a brochure outlining project activity and services. The brochure helped and supplemented EGAT in distributing information about the project to field missions, donors such as the World Bank, IMF, IDB, and others in the public finance community of practice. 350 brochures in total were printed and distributed to USAID Missions in India and Egypt, at the outreach event held on February 25, 2004, and at the June 28-July 2, 2004 Economic Growth Officers' Workshop.

Outreach Event # 1: The Project hosted a brownbag luncheon, held in conjunction with the Society for International Development in Washington (SID/W) in early September 2003, to discuss the Project's launch, objectives, and other aspects of operation. The event was attended by about 20 guests, mostly from USAID/W.

Outreach Event # 2: On February 25, 2004, the Project hosted a half-day outreach session to present the Fiscal Reform Project, outlining its activities in Washington DC and in countries where the Project provided assistance through field requests. In attendance were the Project's core staff, as well as Project advisors, Jorge Martinez-Vazquez, Richard Bird, Joe Pelzman, several USAID officers, and fiscal experts from the IDB, World Bank, IMF and US Treasury. Bob Rafuse, a short-term consultant for the Project, presented the India field request activity, Jorge Martinez-Vazquez presented his framework for the research project on Anti-Corruption and Fiscal Reform, Joe Pelzman presented his framework for the research project on synchronizing fiscal reform adjustments to offset revenue losses from trade liberalization, and Mark Gallagher presented the benchmarking methodology from his own research efforts, as well as a few preliminary thoughts on the semi-autonomous revenue authorities research of Art Mann, who at the time of the event was in Tanzania gathering data for this effort. This outreach event benefited from valuable comments and insights from some of the best minds in the community of practice, while also providing a platform for showcasing USAID's role in supporting fiscal reform in developing and transition economies.

FISCAL WEBSITE

The Project website, www.fiscalreform.net, serves as a gateway for the exchange and dissemination of informative, practical research and experience concerning fiscal and trade issues among the fiscal reform community of practice around the world. Besides providing a forum to showcase the Project's research and success stories, field request activity, information on upcoming workshops, and seminars, the site features a web library that presents a broad cross-section of literature on latest trends, thinking, and best practices in fiscal areas.

In October 2003, less than three months into project implementation, the fiscalreform.net website was up and running. In subsequent months, "metatags" were developed and incorporated into the website to improve users' ability to access the website's contents via popular search engines, such as Google. Eight months into the project, a Google search for "fiscal reform and "trade liberalization" registered

the website in the number three position, while the first two positions were occupied by links to the project's workplan on www.dec.org and reference to the project on www.dai.com, respectively.

From the website's launch, the Project Team tracked website usage on a quarterly basis. Below is a brief summary of website hits for the first year of web site operation:

Table 2: Project Year I Fiscalreform.net Web Statistics, Q4 2003 – Q3 2004

		Q4:03	Q1:04	Q2:04	Q3:04
Statistics Hits	Entire Site (Successful)	1,292	3,640	12,646	17,453
	Average Per Day	14	40	138	189
	Home Page	92	185	381	677
Page Views	Page Views (Impressions)	261	943	2,138	3,044
	Average Per Day	2	10	30	33
	Document Views	261	943	2,133	3,044
Visitor Sessions	Visitor Sessions	107	484	2,792	3,365
	Average Per Day	1	5	30	36
	Average Visitor Session Length	4:58	7:28	10:40	10:56
	International Visitor Sessions	10.28%	23.34%	16.04%	22.02%
	Visitor Sessions of Unknown Origin	29.90%	33.47%	43.44%	36.25%
	Visitor Sessions from United States	59.81%	43.18%	40.61%	41.72%
Visitors	Unique Visitors	42	314	1,714	1,900
	Visitors Who Visited Once	17	267	1,441	1,540
	Visitors Who Visited More Than Once	25	47	273	360

From October 2003 to September 2004, average daily website usage increased more than thirteen-fold. Not only did the number of visitors and the average amount of time spent on the site increase; the number of “return visitors” also increased, from 25 at the end of 2003, to 273 in the second quarter of 2004, to 360 in the last quarter of 2004—more than a fourteen-fold increase in the span of one project year.

The web library quickly became a very important component of the site, with broad usage by visitors from around the world. Six of the first ten most downloaded files in the first project year were web library documents. The reporting of web library downloads greatly understated the importance of this feature of our website because our tracking system was unable to track the number of times our web library directed users to documents on other websites (such as the IMF and World Bank) that were not located on our server.

APPLIED RESEARCH ON FISCAL ISSUES

Research Paper: “Are Semi-Autonomous Revenue Authorities the Answer to Tax Administration Problems in Developing Countries? – A Practical Guide,” by Arthur Mann

This study began in the first year of the project and was finished by August 2004. The paper describes and analyzes the experiences of several developing countries that have adopted the growing trend toward establishing semi-autonomous revenue authorities (SARAs) to administer tax collections. By removing the basic tax administration functions from the traditional line departments in the ministry of finance and granting the SARA a greater degree of autonomy to administer its own internal systems, the expectation has been that real revenue collections will be enhanced, tax-related corruption and evasion will be reduced, and taxpayer services will be improved. After carrying out an in-depth analysis of five SARA cases and taking into account the results of studies done by others, this paper concludes that SARAs have neither lived up to expectations nor can they be categorized as having failed. Tax administration efficiencies have risen and receded, and SARAs have not proven to be quick-fix panaceas. They do provide a platform from which tax administration efficiencies can be generated, but their mere establishment offers no guarantee of success.

Research Paper: “Corruption, Fiscal Policy, and Fiscal Management,” by Jorge Martinez-Vazquez, F. Javier Arze, and Jameson Boex

This study began in the first year of the project and was finished in October 2004. The research piece seeks to assess the current state of knowledge and contribute to the understanding of how fiscal policies and management interact with corruption by integrating concrete and practical issues with theoretical and quantitative analysis of their nature and consequences. The study presents a comprehensive analysis of corruption that not only highlights the problems, but also potential fiscal solutions to the problems. The analysis and discussion is supported and clarified by relevant real-world examples and empirical analysis. In particular, country-specific examples prove to be quite useful to identify key issues or valuable lessons in minimizing corruption.

Research Paper: “Trade Liberalization and Fiscal Reform: Evidence from Two Case Studies – Morocco and Jamaica – and a General Cross-Country Econometric Analysis,” by Joseph Pelzman

This study began in the first year of project operation and was completed in October 2004. The research study seeks to answer a number of basic questions about the relationship between tariff liberalization and the domestic tax responses. First among these is the revenue impact of tariff liberalization. Second is the question about the domestic fiscal response: Will a country which undertakes a reduction in duties raise alternative trade taxes, widen the tax base, or find alternative

domestic taxes to substitute for tariffs? In order to answer these questions, this study evaluates the experiences of Morocco and Jamaica during their respective periods of tariff liberalizations. It also presents a cross-country econometric analysis of the impact of revenue losses associated with tariff liberalization.

Research Paper: “Assessing Tax Systems using a Benchmarking Methodology,” by Mark Gallagher

Research for this study began before the Project’s inception but was further developed and completed as part of the Project’s Year One research agenda. The paper provides a practical methodology for assessing tax system performance and capabilities that has broad application and relevance for governments, donor programs and international institutions such as the World Bank and IMF. The methodology is based on a series of indicators and benchmarks that can help put such assessments into an international perspective, set specific targets for performance, reform, and modernization, and monitor progress over time. This research effort provided a critical starting point for the development of a tax benchmarking database, for which a dedicated page was linked to the fiscalreform.net web site in January 2005.

ANNUAL WORKSHOP

From June 28 – July 2, 2004, USAID convened its Economic Growth Officers’ Workshop at the Jurys Hotel in Washington, DC with the support of the Fiscal Reform Project. Initial plans to hold a two-day fiscal reform workshop evolved into this weeklong event, and USAID issued an increase in funding for the Task Order to accommodate the broadened scope of the event.

The workshop, “Promoting Economic Growth in a New Era,” was the first such event held since EG Officers met in Annapolis in 1997. Over five days, more than 300 participants including representatives from USAID/W and overseas missions, USAID partners, the IMF, World Bank, IDB, and an assortment of US Government agencies and NGOs heard and discussed presentations from leading economists and development practitioners on major development challenges from failed states, corruption and fiscal reform to HIV/AIDS, agriculture policy, economic integration, and pro-poor growth.

Among notable presentations, Ambassador Randall Tobias addressed the devastating effects of HIV/AIDS on growth; Steve Radelet of the Center for Global Development presented interesting findings on the links between economic growth and aid effectiveness; Richard Bird led a lively discussion on the merits (and demerits) of fiscal decentralization; and, COP Mark Gallagher led a session on lessons learned from designing and implementing successful tax reform programs.

The 2004 workshop benefited from effective coordination between the Project and staff from USAID’s EGAT bureau. It was successful because it was well planned, presenters were given guidance on how to present, sessions were regulated and orchestrated, and the right presenters were chosen and given plenty of support. A key conductor in this process was Kathy Alison of Training Resources Group, Inc. (TRG), one of DAI’s SEGIR Macro I consortium members. Ms. Alison provided planning and facilitation assistance before, during, and in follow-up to the workshop. In addition, DAI headquarters offered the critical assistance of numerous several young professionals to support the planning, organization and logistics for the event, as well as to develop and manage an event website (www.econgrowth2004.net) which facilitated on-line registration and featured presentations, background literature, proceedings summaries, and a photo gallery with snapshots of the event.

The website was critical because it served as the main source of information for USAID officers and others as to the workshop's purpose, agenda, speakers, logistics, and perhaps most importantly, participant registration. From the date the website went live through June 30, 2004, the website received over 60,000 hits, averaging 702 hits per day. As the Fiscal Reform Project ended, domain registration for the workshop website expired, but the site's archived contents were conveniently hyperlinked to the fiscalreform.net website in the 'Events' section.

ANNUAL TRAINING

A week-long training program was hosted by the Andrew Young School of Policy Studies at Georgia State University (GSU) at their campus in Atlanta, Georgia from April 19 – 23, 2004. The course, "Fiscal Policy Reform: Principles and Trends," dealt with different aspects of fiscal policy and their implications for USAID activities. The course was attended by 17 USAID officials as well as the Project's Economist, Steve Rozner, as an observer.

The purpose of the course was to deepen USAID officers' technical understanding issues relating to fiscal policy and fiscal management. The course reviewed key principles and concepts and explored the implications of public finance and administration for the reform of fiscal systems in developing and transition countries. The course consisted of lectures, seminars, and roundtable discussions on: fiscal policy, taxation, fiscal architecture, public expenditure management, and fiscal decentralization. Sessions were presented by a number of GSU staff, including Roy Bahl, James Alm, Sally Wallace, Mark Rider, and Jamie Boex, as well as invited specialists Sam Skogstad and A. Premchand.

Overall satisfaction with the training event was high based on the raw scores of evaluations. Special attention was given to the lowest scoring sessions in the design of the next year's course.

FIELD REQUESTS

Support for Sub-National Fiscal Reform in India

The Ministry of Finance, Government of India (MOF/GOI) is in the process of implementing a program to restrain the country's growing fiscal deficit and introduce greater fiscal discipline at the state level. To help strengthen these efforts, in August 2003 the MOF's Department of Expenditure (DOE) requested USAID/India to provide assistance to facilitate learning from experiences in other countries that have recently dealt with issues relating to intergovernmental fiscal relations and reining in fiscal crises. Accordingly, the objective of this task was to present to the DOE third-country experiences in implementing sub-national fiscal correction and, based on these experiences, to help identify how the MOF and others, such as the Reserve Bank of India (the central bank) and the Finance Commission (the government's intergovernmental grant-making body), may strengthen the Indian fiscal reform program.

An initial team was sent to India, which included Steve Rozner and Bob Rafuse, to meet with USAID and Indian counterparts to clarify expectations and prepare a workplan. A multifaceted approach was taken which included a report on implementing sub-national fiscal change; a roundtable conference to discuss the "lessons learned" identified in the paper; development of an "extranet" website to continue the dialogue from the roundtable; site visits to 3 federally structured countries (Russia, Canada, and the U.S.) to investigate the processes, systems and methodologies used in implementing sub-national fiscal reform; and, an assessment report for the MOF with recommendations for

strengthening the implementation of their own fiscal reform program . The initial timeline for the activity was from the beginning of September 2003 through the end of May 2004.

Following the roundtable, which took place from December 6-7, 2003 in Agra, India, the workplan was revised to include a “literature mapping” exercise in response to the MOF’s request for literature relating to a list of 25 initiatives developed by the MOF; a second roundtable; continual website management and updating; and, a second exchange visit (to Australia and Brazil). With the revised workplan, the activity’s timeline was extended into 2005, when the final paper on sub-national fiscal reform was discussed at the second roundtable on April 2-4th in Jaipur, India.

Table 3: India Field Activity: Country Site Visits

Site Visits to Russia, Canada and US: From April 17, 2004 to May 2, 2004 Susan Powers (Logistics Support Manager) and Robert Rafuse (Public Finance Specialist) accompanied five members of the Indian Ministry of Finance, Department of Expenditure to Russia, Canada and the United States on the first of two planned site visits. The program included stops in Moscow and St. Petersburg; Ottawa, Victoria and Vancouver; and Washington D.C. The delegation was joined by Madhumita Gupta, USAID/India, who helped to facilitate the technical focus of the meetings and to align the experiences gained from the visits with the overall goals of the activity. Steve Rozner and Mark Gallagher provided oversight and general guidance from the Fiscal Reform Project headquarters in Washington, D.C.

In Russia, the Fiscal Reform Team worked closely with Galina Kurlyandskaya (General Director, Center for Fiscal Policy, Moscow) and her team from the Center for Fiscal Policy to coordinate a comprehensive and multi-faceted experience for the delegation. In Moscow, the delegation met with the Head and Deputy Head of Department, Department of Regional Programs, Ministry of Economic Development and Trade; the Deputy Minister, Ministry of Finance; and a Member of the Department of Internal Debt Management. Indian delegates and Russian participants exchanged experiences and lessons learned in fiscal policy and fiscal management in a seminar featuring experts from the Center for Fiscal Policy, officials from the Russian Ministry of Finance, Russian legislators, and regional government officials. In addition, the Center for Fiscal Policy sponsored several internal seminars for the Indian delegation concerning the structure of intergovernmental fiscal relations in Russia. In St. Petersburg, the delegation met with members of the Committee on Finance of Leningrad Oblast.

In Canada, the Activity Team worked closely with Richard Zuker, formerly a finance official in the Canadian Government, to program and plan the delegation’s visits to Ottawa and British Columbia. In Ottawa, the delegation met with officials from the Ministry of Finance specializing in federal-provincial fiscal relations, as well as representatives from Statistics Canada to discuss data collection at the federal and provincial levels. The delegation also participated in a day-long roundtable session at Queens University’s Institute of Intergovernmental Fiscal Relations in Kingston. In British Columbia, the team met with the Executive Director of the B.C. Municipal Finance Authority, and with members of the B.C. Provincial Government specializing in intergovernmental relations.

In Washington, D.C. the delegation participated in a seminar on the structure and practice of fiscal federalism in the United States, featuring fiscal specialists from George Mason University, the U.S. General Accounting Office, and members of the Fiscal Reform Project team. The delegation also heard from John Petersen, a renowned expert in sub national government debt financing, on the history and evolution of state and local debt markets in the U.S. Finally, the delegation met with the Chief Financial Officer of the District of Columbia to discuss the challenges of fiscal management at the municipal level.

Tax and Investment Policy Reform Project in Guatemala

To build on past efforts, USAID/Guatemala solicited the assistance of the Fiscal Reform Project to provide support in tax and investment policy reform. In January 2004, Mark Gallagher visited Guatemala to work with Alex Segovia (Tax Specialist), USAID staff, and government counterparts in developing a workplan for this activity. In developing a workplan, the Project Team outlined a number of priorities for the Government of Guatemala:

- First, the GOG must make clear to the Congress, the private sector, broader society, and the international community its commitment to sound fiscal management.
- Second, the performance of the SAT must be reviewed and new management appointments, if warranted, should be implemented, and quickly.
- Third, the Fiscal Pact process should be restarted, with the GOG as a partner. Congress or political parties should become partners in the Fiscal Pact process.

In December 2003 a new government was elected into office, inheriting an acute fiscal crisis. Under the outgoing government, tax revenues had declined due to a number of factors, including constitutional court decisions that reduced revenue inflows; changes in the SAT; and, Congress' failure to approve a budget, which left the MOF spending based on the previous year's budget allocations. Recognizing these deficiencies, the new government took decisive action and by February 2004 replaced the head of the SAT and publicly announced the revival of the Fiscal Pact. These actions paved the way for our Project Team to begin implementing the envisioned workplan. The activities included: updating the tax benchmarking study from 2001, a roundtable to discuss urgent revenue measures, building consensus through trainings, meetings, and outreach programs to the public, a comparative public expenditure study, and a study of tax aspects of the national constitution. Considering the short time frame (January 2004 – September 2004), this was an ambitious set of activities.

In April 2004, the benchmarking assessment of the tax system was undertaken during two waves of visiting consultants. The first wave took place in the beginning of April and included: Mark Gallagher, Art Mann (public finance economist), and Kevin Kyriss (computerization specialist). The second wave started at the end of April and lasted into June, comprising: Luis Alberto Arias (tax administration specialist), and Renato Paes (customs specialist). In addition, Alex Segovia, who resides in Guatemala, participated during both waves.

In July 2004, Alex Segovia prepared the public expenditure study, and initial plans were made to hold several public meetings in August 2004. However, the Project Team was unable to obtain a consensus from GOG counterparts on an appropriate set of dates, so after some negotiation, it was ultimately decided that we would hold two meetings in October 2004. With USAID/Guatemala consent and EGAT approval, the period of performance was extended to December 2004 to ensure sufficient leeway to accommodate any unforeseen changes in scheduling or additional requests arising from the proceedings of the two meetings.

Economic Policy and Revenue Management in Sudan

In April 2004, USAID/Nairobi/SFO requested assistance from USAID/EGAT in reviewing several scopes of work focused on assisting the newly formed Government of South Sudan in developing a civil service and in designing the basic fiscal institutions to underpin and support economic

governance in South Sudan. It was agreed that the Fiscal Reform Project would contribute ideas with respect to the fiscal SOW. The Project team suggested certain changes in resource requirements and some clearer definition of terms, and provided a consultant, Dr. Jitendra Modi (public finance economist), to carry out the work described in the SOW. It was initially anticipated that the work would be implemented under an IQC mechanism used by the US Department of Agriculture, but after some discussion it was decided that the Fiscal Reform Project was a better vehicle for this work. Technical instructions were then issued to move forward with the work.

Dr. Modi traveled to Kenya and Sudan from May to June 2004 to carry out the work. He met with USAID staff, other donors, and members of the Southern Sudanese nascent government apparatus, in particular the Finance and Economic Planning Secretariat, which was the main government counterpart. His final report, submitted in August 2004, defined the role of the Secretariat in ensuring sound management of the economy, highlighted staffing, training and physical infrastructure needs of the agency, and addressed specific technical issues, including taxation, revenue sharing, and budget management.

The Revenue Impact of Changes in Trade and Fiscal Policies in Vietnam

The main objective of this activity was to help develop a tax research capability that can support the legislative work of the National Assembly's Committee on Economics and Budgetary Affairs (CEBA). This work came at a time when Vietnam was vying for ascension to the Asian Free Trade Agreement (AFTA) and the WTO, and amid aggressive market-opening reforms in response to commitments it had made under a new bilateral trade agreement with the United States. These reforms inevitably entailed tax and tariff changes that would drastically affect the government's revenue structure. Against this backdrop, this Project activity was seen as an opportunity to give policymakers a better understanding of the revenue impact of various policy alternatives, and to strengthen their institutional capacity to carry out these types of revenue forecasts on their own.

The project involved four separate visits by Luc Noiset (fiscal policy expert). In the first visit, which took place from July 15-31, 2004, a workplan was developed for the project based on an initial assessment of data availability, staff capabilities, and institutional frameworks. The workplan was composed of four major components: identify and work with a core research group composed of CEBA staff to collect data, assist them in developing appropriate modeling techniques, and, through a series of workshops/presentations, relate practical experience on how the US develops and the US Congress supervises government budgets.

Fiscal Programming in Angola

USAID/Angola sought assistance from EGAT and the Fiscal Reform Project to help define a new scope of work to provide assistance to the Angolan MINFIN that would open the way to establish a comprehensive Staff Monitoring Program with the IMF. After meetings in Washington with the IMF and a second meeting with an official from the Angolan MINFIN, it was agreed that Mark Gallagher would travel to Angola in July 2004, to assist in developing a SOW to be implemented under the Fiscal Reform Project.

While in Angola, Dr. Gallagher met with Angolan officials of the MINFIN, Sonangol (the government's oil monopoly), and others to discuss the fiscal monitoring and reporting needs of the Government. Following his visit, Gallagher prepared a detailed work plan for supporting the organizational design of a proposed fiscal programming unit within the MINFIN. Based on the workplan, the project dispatched Steven Kyle (Economist) to Angola in September 2004.

YEAR 2 ACTIVITIES

OUTREACH AND DONOR COORDINATION

Four outreach events took place during the second year of project activity. The first event, held in November 2004, provided a forum to present and discuss activity of two of the field requests, India, Guatemala and Angola, with presentations by Mark Gallagher (on Angola and Guatemala) and Steve Rozner and Susan Powers (on India). The second event, held in December 2004, covered two research papers completed during the first project year: Art Mann's evaluation of semi-autonomous revenue authorities and Mark Gallagher's report on assessing tax systems using a benchmarking methodology.

In May 2005, Richard Bird and Pierre-Pascal Gendron presented their extensive research paper on "Rethinking the VAT," commissioned as part of the research agenda for the year. After their presentation, Richard Ainsworth, who was added in Year 2 to the Project's Board of Advisors, gave a brief presentation on utilizing new technologies for improved VAT implementation in developing and transition economies.

In June 2005, as a follow-on to the second annual workshop (discussed below), the Project held a half-day session, co-sponsored with the World Bank, to examine benchmarking for tax administration with presentations by Mark Gallagher and Luis Jaime Vazquez-Caro. An additional objective of this event was to seek greater coordination between the international financial institutions, international tax organizations, and tax practitioners on benchmarking practices—capitalizing on the fact that many representatives were in town for the annual workshop. The outreach session allowed for a more in-depth look at Dr. Gallagher's innovative work on tax benchmarking, reinforcing the messages delivered in his presentation to the audience attending the workshop earlier in the week. The same ran true for Dr. Vazquez-Caro, who provided further analysis and models of country practices.

With the exception of the first outreach in November 2004, which was attended primarily by USAID/W staff, a variety of officials from the donor community (World Bank, IDB, US Treasury, IMF, and US IRS) participated in the Year 2 outreach sessions.

FISCAL WEBSITE

Updating and maintenance of the Project website continued in the second year of activity. Besides monthly and ad hoc uploads of new articles to the web library, the site was regularly updated to reflect new activities and project outputs, such as: posting of the first installment of case studies of USAID fiscal reform assistance around the world, a link for information on the upcoming annual workshop, and posting of the new tax benchmarking database, including a list of indicators, notes on sources and links to the original benchmarking methodology paper.

Besides the efforts the team has made to improve the content and organization of the website, considerable progress was made in attracting greater use of the website by visitors from around the world. Six months into the project, a Google search for 'fiscal reform in support of trade liberalization' only listed the Project website at item number 23. Two months later, the same search listed the website in the number 3 position, preceded only by listings for the Project's workplan on www.dec.org and reference to the Project on DAI's corporate website. By the beginning of Project Year Two, the same search listed our website in the Number 1 position, and twelve of the first 15 listings were either links to specific pages on the Project website, or to references to the Project on the DAI (www.dai.com) and Georgia State University (www.isp-aysps.gsu.edu) websites. We also expanded our listing to sites regularly used by academics and practicing economists. Our original

papers from the Year 1 research agenda were made accessible on scholar.google.com, and on the Research Papers in Economics (RePEc) database (econpapers.repec.org). RePEc allows researchers in 44 countries to view our papers, thus reaching a potentially broader audience. For example, a search on scholar.google.com for “tax benchmarking” reveals Mark Gallagher’s paper in the number 2 and number 5 spot (the number 2 being our fiscalreform.net website and number 5 being a separate version of the paper which was published in *Public Administration and Development*).

In Year Two, the Project team continued to keep track of website usage on a quarterly basis. The website showed a marked and significant increase in usage during Q3 05: As the below table shows, there was a 38% increase in hits from Q2 05, with the home page experiencing 29% more hits in the third quarter than in the second quarter of 2005. Perhaps more impressively, the successful hits on the site in the third quarter of 2005 alone comprise more than all the hits on the site through the first 15 months of the Project. If we aggregate the quarterly data, the yearly figures are even more noteworthy, with a 92% increase in hits from 2003/2004 to 2005.

The web library continued to be a popular destination for site visitors. Some of the most-viewed pages on the website were offshoots of the web library, with the ‘Tax Policy’ sub-page registering the most hits, followed by ‘Fiscal Policy and Analysis’.

Table 4: Project Year I & II Fiscalreform.net Web Statistics for Q4 2003 – Q3 2005

		Q4:03	Q1:04	Q2:04	Q3:04	Q4:04	Q1:05	Q2:05	Q3:05
Statistics Hits	Entire Site (Successful)	1,292	3,640	12,646	17,453	24,950	38,339	46,367	63,810
	Average Per Day	14	40	138	189	271	425	509	693
	Home Page	92	185	381	677	755	900	929	1,201
Page Views	Page Views (Impressions)	261	943	2,138	3,044	3,872	5,480	7,185	9,161
	Average Per Day	2	10	30	33	42	60	78	99
	Document Views	261	943	2,133	3,044	3,868	5,477	7,185	9,158
Visitor Sessions	Visitor Sessions	107	484	2,792	3,365	4,540	6,422	6,104	9,255
	Average Per Day	1	5	30	36	49	71	67	100
	Average Visitor Session Length	4:58	7:28	10:40	10:56	12:15	6:28	5:39	8:08
	International Visitor Sessions	10.28%	23.34%	16.04%	22.02%	19%	0.60%	21.03%	14%
	Visitor Sessions of Unknown Origin	29.90%	33.47%	43.44%	36.25%	27.99%	98.27%	32.25%	39%
	Visitor Sessions from United States	59.81%	43.18%	40.61%	41.72%	52.99%	1.12%	46.7%	47%
Visitors	Unique Visitors	42	314	1,714	1,900	2,546	3,263	3,034	4,734
	Visitors Who Visited Once	17	267	1,441	1,540	2,024	2,510	2,426	3,837
	Visitors Who Visited More Than Once	25	47	273	360	522	753	608	897

APPLIED RESEARCH ON FISCAL ISSUES

Research Paper: “VAT Revisited: A New Look at the Value Added Tax in Developing and Transitional Countries,” by Richard Bird and Pierre-Pascal Gendron

This study began in Project Year Two and was completed in October 2005. Few fiscal topics are more important than the Value Added Tax (VAT). Should every country have a VAT? Is the VAT in place in many developing and transitional economies as good as it could be in economic, equity, and administrative terms? Can it deal adequately with the novel issues arising from digital commerce? Can it be administered sufficiently effectively by hard-pressed revenue administrations? In this report, the authors considered these and other critical questions about the design and performance of a tax that in recent years has become the mainstay of the revenue system in an increasing number of developing and transitional countries.

Research Paper: “Fighting Poverty through Fiscal Decentralization,” by Jameson Boex, Eunice Heredia-Ortiz, Jorge Martinez-Vazquez, Andrey Timofeev, and Guevera Yao

This study began in Project year two and was finished in January 2006. The research piece brings together the current state of knowledge of how fiscal decentralization – including the assignment of expenditure responsibilities, the assignment of revenue sources to subnational governments, intergovernmental fiscal transfers, and local government borrowing – can affect poverty levels. Based on a better understanding of how these thematic areas intersect, the study provides specific suggestions and recommendations on how development agencies and international financial institutions can support fiscal decentralization reforms in a more pro-poor manner.

Research Paper: “Pension Reform in Eastern Europe and Eurasia: Experiences and Lessons Learned,” by David Snelbecker

This paper, part of Project Year 2 research efforts, was completed in October 2005. USAID has been involved extensively in pension reform throughout the Europe and Eurasia region over the past decade. What have been the lessons learned from USAID’s work? Where has pension reform worked, and where has it failed – and why? The author examines these topics and draws on his own experience in Kosovo and Ukraine to highlight some best practices for USAID officers working in the field.

ANNUAL WORKSHOP

The 2005 USAID “Workshop for Practitioners in Tax and Pension Reform,” was held on June 27-29, 2005 at the World Bank. The purpose of the workshop was to reexamine key goals and challenges in reforming tax policy and administration and pension systems in developing and transition countries. Some of the key questions presenters sought to answer were:

1. What have been the results from countries’ experiences?
2. What have we learned from past experiences about best practices for the design and implementation of similar reforms in the future?

Approximately 65 USAID officers, as well as academics, practitioners and policymakers attended the Workshop. Also in attendance were government officials from Mongolia, Georgia, Tanzania, and Uganda as well as USAID mission staff from countries including Mozambique, Colombia, Mexico, Mongolia, Haiti, Romania, Ukraine, Kosovo, Serbia, and Morocco.

As with the previous year's workshop, a website devoted to the 2005 workshop was developed featuring on-line registration, an agenda, presenter bios, suggested readings, and copies of PowerPoint presentations. The Fiscal Reform team, including Sandra Hadler and Christopher Hartwell, led the planning and organization for the event, with support from DAI staff Susan Powers, David Oniani, Brandon Lundberg, Meral Karan, and Mark Habib. Erika Dougherty, also of DAI staff, designed and managed the workshop website.

ANNUAL TRAINING

Following the first year's successful training in fiscal policy and management, GSU ran training in Year Two from April 18-22, 2005 in Atlanta, covering the same themes. In November 2004 a USAID staff field survey revealed that there was a clear preference that the topic should again be the broader "Fiscal Policy Reform: Principles and Trends" course, rather than a proposed Fiscal Decentralization course that was being contemplated at the time. 25 USAID officers attended the course, in addition to Christopher Hartwell and Sandra Hadler. Dr. Hadler also led one of the sessions on tax administration reform.

FIELD REQUESTS

Support for Sub-National Fiscal Reform in India

From October 24, 2004 to November 9, 2004 Susan Powers (Logistics Support Manager) and Mark Rider (Public Finance Specialist) accompanied four members of the Indian Ministry of Finance, Department of Expenditure on the second planned site visit, to Australia and Brazil. The Australia program included stops in Canberra, Adelaide, Sydney and Hobart. The Brazil program included stops in Rio de Janeiro, Brasilia and Belo Horizonte.

Alan Morris, Chairman of the Australian Government's Commonwealth Grants Commission, coordinated a comprehensive and multi-faceted experience for the team in Australia. Sol Garson (formerly Treasurer for the City of Rio de Janeiro) arranged for the Brazilian portion of the site visit. The trip provided a more focused look at the specific topics that arose as paramount from the first site visit to Russia, Canada and the U.S. in April/May 2004.

From April 2-4th, 2005, a team of fiscal experts (Sandra Hadler, Jorge Martinez-Vazquez, Roy Bahl, and Mark Rider) traveled to India to participate in the second roundtable in Jaipur, India. The purpose of the roundtable was to present the comprehensive policy options paper produced by Mark Rider and the GSU team and to finalize and validate the recommendations put forth in the paper. The roundtable was attended by a broad mix of Indian Government officials, representatives from USAID/India and the DAI/GSU team. The final version of the paper was presented to the Government of India in May 2005, incorporating discussion and modifications agreed upon during the course of the roundtable.

Tax and Investment Policy Reform Project in Guatemala

In October 2004, Alex Segovia presented his paper on Guatemala's public expenditures before 90 interested participants at a conference funded by the Fiscal Reform Project, in Guatemala City. The report was well received and sparked the interest of the USAID mission in using the report's data and findings in its design of a social sector reform project. Joined by Mr. Segovia were Mark Gallagher and Susan Powers, who held meetings in Guatemala with USAID, the Technical Committee for the Fiscal Pact (CTPF) and the Superintendency for Tax Administration (SAT) to discuss future activities under this field request.

With additional funds remaining at the end of 2004, USAID/Guatemala extended the field request activity in Guatemala to March 31, 2005. Alex Segovia was invited by USAID/Guatemala to undertake an overall review and evaluation of the CTPF and the Fiscal Pact itself. This entailed putting together a report highlighting accomplishments of the Pact, as well as offering recommendations for going forward. In addition to Mr. Segovia's work, a new activity was added under this field request for March, with USAID/Guatemala requesting help in advising the SAT on legislation for the proposed modifications to the "Law of Free Trade Zones." The Project dispatched Juan Torrents, a specialist in this area, to review the laws on free trade zones and offer recommendations for promoting business within the zones through revisions to the legal and regulatory framework governing the zones.

The Revenue Impact of Changes in Trade and Fiscal Policies in Vietnam

Luc Noiset made a four-week visit to Vietnam in October and a two-week visit in December 2004. In October, Dr. Noiset presented the U.S. example of tax and tariff data availability to a large gathering of senior Vietnamese officials, and also made a presentation on the U.S. checks and balances system in relation to the U.S. budget process, emphasizing the role of the U.S. General Accountability Office (GAO). Subsequent to this presentation, the National Assembly passed legislation establishing a Vietnamese equivalent of the U.S. GAO. In December, Dr. Noiset presented prototype models for enterprise income tax and VAT that illustrated the approach to tax modeling that he was recommending, and made another presentation – this time on fundamental national accounting concepts and the relevance of these relationships for tax theory. On his final visit in July/August 2005, he worked with CEBA staff to integrate new data sets into the models and conduct a final seminar with senior officials from the Tax and Customs Departments, MOF, and National Assembly highlighting the data and modeling efforts.

Fiscal Programming in Angola

Steven Kyle traveled to Angola in September 2004 to assist in the project design for the Ministry of Finance's Fiscal Programming Unit (FPU), which included job descriptions and qualifications, recommendations for trainings and organizational structure, as well as recommendations for further work. Based in large part on Kyle's observations, a workplan was submitted and consultants were evaluated to ascertain the next steps in operationalizing the FPU in the first quarter of 2005.

In March 2005, Paul Beckerman (Fiscal Economist) traveled to Angola to assist with the creation of the FPU. Ultimately, the FPU would serve two broad purposes: first, to process, report and analyze monthly public-sector financial-performance data, using improved procedures (Angola's current public-sector financial data has significant inadequacies and inconsistencies); and second, to facilitate and coordinate the process of medium-term fiscal programming, and eventually broader macroeconomic programming, to enable the government to map out the development and poverty-reduction programs that will spur the country's social and economic recovery from decades of civil war. With the FPU's goals defined, Dr. Beckerman worked with MINFIN, World Bank and IMF officials to articulate FPU's position within the MOF.

During his second visit in August/September 2005, Dr. Beckerman continued to help with the development of the FPU. Beckerman worked with KPMG and MINFIN officials in staffing the FPU, taking an active role in candidate interviews and making hiring recommendations to the Ministry. In addition to this work, Dr. Beckerman and Alejandro Saavedra, an external advisor to MINFIN, jointly drafted a report detailing the processes by which revenue, expenditure and financing data are presently compiled in monthly reports on fiscal and financial performance, and provided recommendations on improving these processes under the new FPU.

Tax Reform in Jordan

USAID/Jordan requested assistance to undertake an urgent review of tax policy for Jordan in the context of the National Agenda to be presented to Parliament in September 2005. The broad goal of the tax policy review was to modernize and rationalize Jordan's income tax laws with a view to simplifying, updating and, to the extent possible, addressing equity concerns while increasing revenues and compliance. The review team also considered existing tax incentives and recommended proposals for their elimination or reform. The Tax Reform Plan was designed through a four-step process, starting in June 2005 and ending in September 2005:

- **Phase I – June/July:** The first step was to commission a team of consultants to conduct a review of Jordan's income tax policy and existing incentives, and to provide a synthesis of the recent reviews prepared by donors and their recommendations. The team then prepared and presented to the Minister of Finance an outline of preliminary recommendations for a Tax Reform Plan. The team was led by Duanjie Chen (Public Finance Economist), accompanied by Jack Mintz (Public Finance Economist) and Eric Zolt (Tax Policy Lawyer).
- **Phase II – July/August:** Following consultation with the MOF, the team prepared a draft Tax Reform Plan policy paper for the MOF, which was circulated to the Cabinet and the Committee for the National Agenda. Dr. Chen and Joe Hook (Tax Specialist) visited Amman in August to discuss with Government counterparts the report's recommendations and revenue estimations. Mr. Hook also addressed legal aspects, third party reporting requirements and the possibility of introducing a new Tax Administration Law. The final mission report was also submitted during this phase.
- **Phase III – early September:** High-level presentation by MOF on our recommendations for the Tax Reform Plan to the Committee for the National Agenda in early September.
- **Phase IV – end September:** Detailed work plan for implementation of the Tax Reform Plan, for MOF draft revisions to the tax laws and related laws that were intended to be completed during the fall /winter of 2005-06.

To support the implementation of the amendments recommended by the Fiscal Reform Team, USAID/Jordan and the Government of Jordan subsequently requested substantial additional follow-on work, including, inter alia, analysis of the social and economic impact of the tax reforms and assistance with developing a public awareness campaign. This work began in the last quarter of 2005 and finished in the first quarter of 2006.

Workflow Reform in Egypt

The Government of Egypt requested support from USAID/Cairo to provide financing for the procurement of expert services for the introduction of a workflow system in the General Sales Tax Department of the Ministry of Finance. This activity represented a continuation of USAID/Cairo's previous efforts to modernize tax administration in Egypt. USAID/Cairo requested assistance from the Fiscal Reform Team to prepare an SOW to assist USAID in their assessment of the proposed Workflow Reform project.

In February 2005, Dr. Hadler and Allan Robinson (Tax IT Specialist) traveled to Egypt to assess the feasibility of implementing a pilot project to introduce a management oversight system that could be rolled out countrywide. The pilot would be developed for a single District Office (to be determined prior to the tender) and would integrate its processes with the Region and Central Departments through a "bottom-up" process. The proposed assistance would confirm the existing, documented workflows for all tax administration activities in the Sales Tax Department, identify the client and

external interfaces, and provide recommendations for any possible streamlining of the workflows. A presentation was given to USAID/Egypt by Allan Robinson prior to his departure, and a report on the pilot's feasibility was prepared for the mission.

Tax and Formalization Components of the MCC Threshold Country Plan of São Tomé & Príncipe

Based on the approved Threshold Program Concept Paper by the Millennium Challenge Corporation (MCC), the Fiscal Reform Team was asked by USAID's Bureau of Policy and Program Coordination (PPC) and USAID's West Africa Regional Program (WARP) to provide technical assistance to the Government of São Tomé & Príncipe in the development of the tax and formalization components of their MCC Threshold Country Plan. The Threshold Country Plan is the second part of a two-step application process and is based upon an approved first step, the Threshold Program Concept Paper.

In July 2005, William Tyler (Tax Policy Expert/Team Leader) and Thierry Salmon (Customs/IT Expert) traveled to São Tomé & Príncipe to assist host country counterparts draft the tax and formalization components of their Threshold Country Plan. In addition, the Government requested assistance in updating and amending draft tax laws; and, in drafting of regulations for their implementation. Joe Hook (Tax Specialist) assisted Dr. Tyler in determining the adequacy of the drafted tax laws and provided recommendations on how the Threshold project could assist in implementing the laws. Lee Niederman (Tax Specialist/Trainer) provided input for the tax and customs training activities, as well as the external and internal audit activities, envisioned in Threshold Country Plan. The Team's joint analysis was submitted to MCC with the rest of the draft Threshold Country Plan in August 2005.

Tax and Formalization Components of the MCC Threshold Country Plan of Paraguay

The Fiscal Reform Team was asked by USAID/Paraguay to provide technical assistance to the Government of Paraguay (GOP) in the development of its Threshold Country Plan. Part of their Concept Paper highlighted formalization of economic activities as a primary focus of the Plan. The proposed components and activities included:

- A. Increasing the efficiency and transparency of revenue collecting institutions:
 - 1. Establish, train, and equip an agency specialized in auditing taxpayer liabilities
 - 2. Strengthen anti-smuggling surveillance in the customs office
- B. Increasing disciplinary measures for cases of fiscal and customs-related crimes:
 - 1. Establish, train, and equip internal audit units for customs, fiscal and financial crimes
- C. Reducing the number of days it takes to start a business
 - 1. Implement a "one-stop shop" facility to simplify procedures for starting a business
- D. Promoting the establishment of formal companies
 - 1. Implement a system to promote the establishment of assembly plant companies (*maquilas*) as an incentive to replace informal activities

Two IDB consultants were assigned to complete component A.1 of the work plan. An IMF customs expert provided assistance with component A.2, while a US Treasury specialist addressed component B. The Fiscal Reform Team contributed to components C and D, and furnished a local advisor, Esteban Almada (Project Development Expert) to support the advisors working on components A.1, A.2, and B. Jim Fox (Formalization Expert/Team Leader) and Sergio Sapena (Formalization Expert) worked together, along with a representative from the Maquila Council, to develop the GOP's proposal to promote maquilas abroad (component D). Fox led the proposal effort, which emphasized greater access to and use of special tax regimes as a tool to improve customs and tax controls while enabling private businesses to compete. Carl Aaron (Trade & Investment Expert) and Manuel Ferreira (Trade and Investment Expert) aided in producing a plan for component C to reform

commercial registration by analyzing the administrative and legal reform processes and providing recommendations for streamlining the business registration process. The Fiscal Reform Team's components were submitted with the rest of the Threshold Country Plan in September 2005.

YEAR 3 ACTIVITIES

OUTREACH AND DONOR COORDINATION

Three outreach events were held in Project Year Three. The first event was a brownbag at USAID/W by David Snelbecker of TSG. There were approximately 20 persons in attendance, with the majority coming from USAID. Dr. Snelbecker presented his paper, originally commissioned for the Annual 2005 Workshop, entitled "Pension Reform in Eastern Europe and Eurasia: Experiences and Lessons Learned", which assesses progress and impact of USAID programs in pensions reform.

The second outreach, a full-day event for USAID staff and the community of practice in the DC area, featured a presentation of the research by Professors Richard Bird and Pierre-Pascal Gendron on "Rethinking the VAT," commissioned as part of the Project's Year Two research agenda; a presentation by Prof. Jamie Boex of Georgia State University on GSU's paper on "Fighting Poverty and Fiscal Decentralization", also a product of the Year Two research agenda; Graham Harrison of the IMF's Fiscal Affairs Department presented his findings in the recent IMF paper titled, "VAT Refunds: A Review of Country Experience"; and, Richard Ainsworth presented on new technologies for revenue collection. The event was attended by 26 people, coming from the World Bank, IMF, IDB, USAID, and others among the public finance community of practice.

A third outreach was held in April 2006, to present the findings of Graham Glenday's paper, "Towards Fiscally Feasible and Efficient Trade Liberalization," a research piece commissioned for the Project's Year 3 agenda. The project also invited Michael Keen, Head of the Tax Policy Division of the IMF's Fiscal Affairs Department, to comment on Glenday's presentation. The event was attended by 25 people, including participants from the World Bank, IMF, IDB, and USAID.

FISCAL WEBSITE

Regular updating and maintenance of the Fiscal Reform Project website continued in Project Year Three with the uploading of additional articles to the library, new research outputs, and updates to the "Events" section to summarize outreach events and the annual workshop.

As with previous Project year activity, the Fiscal Reform Team continued to track website usage each quarter. Throughout the final year of the Project, each quarter witnessed a steady increase in site visits. A brief summary of the website hits for the current, and all previous reporting periods, follows below (see table 5). The most impressive quarter of Project Year Three was the first quarter of 2006, in which there was a 26% increase in average daily use from the previous quarter, with the entire site experiencing 22% more hits. Perhaps more impressively, the successful hits on the site in the first quarter of 2006 alone comprise more than all the hits on the site through the first five quarters of the Project, and nearly the first six quarters as well. Furthermore, as an indicator of the web site's usefulness, the number of return visitors (i.e. visitors who visited the site more than once) grew more than 38% from Q4 2005.

By Year Three, it was also clear that the web site was attracting considerable international attention. Indeed, in the Project's final , five of the top ten search phrases used to access the web site were in Spanish, and included phrases such as "sistema tributario de Guatemala" and "finanzas publicas de Guatemala," suggesting a strong interest among international visitors. Moreover, two of the site's most downloaded papers are in Spanish, both of which cover tax and broader fiscal themes.

In addition to the regular updating of the fiscalreform.net site, as the Project wound down activity in June 2006, the web sites for the India activity (www.fiscalroundtable.net) and the 2004 Economic Growth Officers' Workshop (www.econgrowth2004.net) were archived and hyperlinked to the fiscalreform.net site so that their contents would not be lost after domain registration for those sites expired.

Table 5: Project Year I, II, & III Fiscalreform.net Web Statistics for Q4 2003 – Q2 2006

		Project Year 1				Project Year 2				
		Q4:03	Q1:04	Q2:04	Q3:04	Q4:04	Q1:05	Q2:05	Q3:05	Q4:
Statistics Hits	Entire Site (Successful)	1,292	3,640	12,646	17,453	24,950	38,339	46,367	63,810	69,5
	Average Per Day	14	40	138	189	271	425	509	693	76
	Home Page	92	185	381	677	755	900	929	1,201	1,4
Page Views	Page Views (Impressions)	261	943	2,138	3,044	3,872	5,480	7,185	9,161	10,0
	Average Per Day	2	10	30	33	42	60	78	99	10
	Document Views	261	943	2,133	3,044	3,868	5,477	7,185	9,158	10,0
Visitor Sessions	Visitor Sessions	107	484	2,792	3,365	4,540	6,422	6,104	9,255	9,8
	Average Per Day	1	5	30	36	49	71	67	100	10
	Average Visitor Session Length	4:58	7:28	10:40	10:56	12:15	6:28	5:39	8:08	6:3
	International Visitor Sessions	10.28%	23.34%	16.04%	22.02%	19%	0.60%	21.03%	14%	19.5
	Visitor Sessions of Unknown Origin	29.90%	33.47%	43.44%	36.25%	27.99%	98.27%	32.25%	39%	25.1
	Visitor Sessions from United States	59.81%	43.18%	40.61%	41.72%	52.99%	1.12%	46.7%	47%	55.3
	Unique Visitors	42	314	1,714	1,900	2,546	3,263	3,034	4,734	4,9
Visitors	Visitors Who Visited Once	17	267	1,441	1,540	2,024	2,510	2,426	3,837	4,1
	Visitors Who Visited More Than Once	25	47	273	360	522	753	608	897	87

APPLIED RESEARCH ON FISCAL ISSUES

In Project Year Three, four of the success stories originally produced in 2004 were updated to reflect subsequent and ongoing activity, and three additional success stories were completed and added to

the “Success Stories” web page. Table 6 below summarizes the countries and areas of assistance profiled, separated updated and newly drafted case studies.

Table 6: USAID “Success Stories” in Project Year III

Country	Areas of Assistance
Updated	
Egypt	Comprehensive tax reform
	Comprehensive customs reform
El Salvador	Comprehensive tax reform
Kosovo	Comprehensive fiscal reform: tax and expenditure
New	
Bosnia-Herzegovina	Tax administration modernization
Guatemala	Tax policy and administration
Montenegro	Municipal financial management

Research Paper: “Towards Fiscally Feasible and Efficient Trade Liberalization,” by Graham Glenday

This paper is a response to concern in USAID stemming from the recent IMF paper ‘Tax Revenue and (or?) Trade Liberalization,’ which finds that lower- and middle-income countries have largely failed to recoup the revenue they once collected under high tariff systems, leading to a decline in aggregate revenues with trade liberalization. If this is indeed the case, it may have important implications for USAID assistance in the fiscal sphere. This paper expands on the IMF analysis by examining the structural realities of developing countries—particularly the existence of large, hard-to-tax informal sectors—that raise the costs of tax administration and taxpayer compliance and, therefore, impede effective revenue recovery. The paper concludes with a discussion of various fiscal options that lower-income countries should consider to offset the loss of trade tax revenues and move toward a fiscally feasible and efficient post-liberalization revenue structure.

Research Paper: “Flat or Flattened?” A Review of International Trends in Tax Simplification and Reform,” by Sandra Hadler, Christine Moloji, and Sally Wallace

There are many claims about the flat tax from both its proponents and detractors. Proponents claim that it will encourage compliance, raise real government revenues, and lessen distortions on the economy, while detractors postulate that the flat tax will actually harm government revenue collection and its impact will fall disproportionately on the poor. This technical note examines the issues that make the flat tax so appealing to transition and post-transition economies, and poses critical questions about its application to date. For example: Has the flat tax performed as planned? Which side of the flat tax camp is correct? And, how can lessons from CEE and FSU experiences inform other countries contemplating a flat tax?

ANNUAL WORKSHOP

The Fiscal Reform Project convened its third annual fiscal workshop for USAID officers on March 6-7, 2006. This year's workshop, on "IT Systems & Revenue Management in Developing and Transition Economies (DTEs)," brought together leading experts and international businesses involved in the development of IT systems for tax and customs administration around the world. Participants included USAID staff and implementing partners, IMF, IDB and World Bank staff, IT professionals working with revenue administrations, and senior revenue administration officials in USAID host countries, including Guatemala, Jordan, Rwanda and South Africa. Regrettably, lengthy lead time and changing regulations prevented many counterpart officials—and some presenters—from obtaining necessary visas to attend.

The first day addressed critical IT challenges for revenue management, including sessions on IT systems for revenue administration – past, present, and future -- and discussion of the role IT can play in improving the efficiency of revenue administration. The second day began with a session on the U.S.-IRS modernization experience with income tax, followed by sessions on streamlining sales tax administration among states in the U.S., developments in IT technologies for customs, E-filing, and country-level experiences in implementing new IT systems for revenue administration. The second day also featured two panel discussions, one on the contrasting outcomes of the IRS' IT modernization and the U.S. states' sales tax initiative, and the other on possible trends in regional/global IT solutions.

The workshop incorporated both formal presentations and panel discussions and provided the opportunity to hear international speakers, exchange country perspectives on major IT issues and deepen understanding through peer learning. The workshop explored future trends in tax and customs administration, including advances in "digital" solutions for revenue administration and the changing relationships between tax administration, businesses, and individual taxpayers. Several presentations showcased IT software packages that are now available for revenue administrations, while others reviewed the experience in implementing IT solutions for tax and customs in countries such as El Salvador, Rwanda and South Africa. One segment featured the experience of the US, with its IRS IT-modernization program in the 1990s and the ongoing Streamlined State Sales Tax Initiative, in modernizing and promoting increased efficiency and voluntary compliance.

There was consensus among presenters and participants alike that IT, while a factor in and a catalyst for tax reform, is not a quick-fix panacea. Strategic planning and management must lead the modernization process, and IT must serve the strategic objectives. Furthermore, there was consensus that IT is costly, whether you choose commercial off-the-shelf (COTS) packages or a bespoke system. Development and implementation of the integrated systems can take years, so advances in technology need to be anticipated and planned for. Finally, there was great interest among those present in regional cooperation in revenue administration to simplify and ease the burden of cross-border tax administration and compliance for both DTE governments and businesses.

ANNUAL TRAINING

Following on the successful 2004 and 2005 trainings in fiscal policy and management, GSU ran a third training session from February 27-March 3, 2006 in Atlanta, Georgia. In the run-up to the course, the Team assisted GSU in revamping the Year Two training by incorporating participants' feedback to ensure its relevance to participants and assist in selecting presenters. Regrettably, attendance at the Year Three course was considerably lower than in earlier years, due in large part to diminishing OE funds available to USAID staff for such training. Despite lower attendance, the training was robust and well received. Nine out of 10 sessions received an evaluation of 4.5 (out of

5.0) or higher from participants, both for relevance as well as for session quality. COP Sandra Hadler again gave the presentation on Tax Administration Reform.

FIELD REQUESTS

Taxpayer Services and Staff Training in India

Having completed a series of roundtables, study tours and policy papers relating to intergovernmental fiscal management for the Indian Ministry of Finance from late 2003 to mid-2005, USAID/India engaged the project once again during the first quarter of 2006 to carry out two further scoping activities related to tax administration:

- (1) Conduct a needs assessment for improving the range, quality, and coverage of taxpayer services provided by the Central Board of Direct Taxes (CBDT); and
- (2) Draft an SOW for a comprehensive needs assessment to strengthen the capacity of the Central Board of Direct Taxes (CBDT) to provide high quality and up-to-date training.

For the first activity, Jeff Rozwadowski (Taxpayer Services and Education Specialist), proposed a revised organizational structure as well as a functional model to expand the scope of and improve the effectiveness of the taxpayer services. For the second activity, Lee Niederman (Tax Administration Specialist) gave recommendations on how to improve the technical training of audit and management staff as well as training staff operations.

Tax and Investment Policy Reform Project in Guatemala

After the completion of the two short-term Guatemala field activities in the first and second quarter of 2005 (the review and evaluation of the Technical Committee for the Fiscal Pact (CTPF) and the review of the Guatemalan law on free trade zones), the Project responded to a request from USAID/Guatemala to implement five further tax-related activities in Project Year Three: (1) management training for the Superintendency of Tax Administration (SAT) officers; (2) design terms of reference for a project to strengthen taxpayer service delivery, implementing measurement tools to assess customer service quality, and instituting a call center for SAT and Customs; (3) design an action plan for implementing the SAT's proposed simplified tax regime for the informal sector; (4) develop a methodology for strategic planning and budgetary formulation and design a monitoring and evaluation system for budget execution; (5) and, support the training of senior MOF officials on Government financial management.

For the first SAT activity, DAI engaged INCAE Business School in Costa Rica, a highly regarded regional training institution to carry out the SAT training. The training sessions were conducted in mid-January and mid-February 2006, one on Management Information Systems and a second on Strategy Implementation for Public Sector Organizations, building on the five previous sessions that INCAE had presented to this same group of SAT officials. 49 trainees attended the courses. For the second SAT activity, Gonzalo Zuniga (Taxpayer Service Specialist) visited Guatemala in May 2006 to assist SAT staff in developing a terms of reference for strengthening taxpayer services provided by the SAT, and implementation of a call center for customs and internal revenues. Jose Antonio Nogales Zabala (Fiscal Specialist), traveled to Guatemala in May 2006 to design an action plan for the implementation of a simplified tax regime that would incorporate the informal economy. The regime, referred to as RTS, or *Monotributo*, would include individuals that participate in real-estate transactions, and other services that are currently not included in the formal sector. For the fourth activity, Robert Martirene (Fiscal Specialist) traveled to Guatemala on three different occasions in 2006, to develop a methodology to modernize budgetary formulation and design a monitoring and evaluation system for budget execution. His first trip to Guatemala for this assignment was

undertaken during the second half of March 2006. To support the training of senior MOF officials on government financial management, Mr. Martirene conducted four workshops on, “Budget Formulation – Foundations of Objectives and Results.” The first workshop took place during the first quarter of 2006, and was attended by chief officers of the Office of Budgetary Direction and the Secretariat of Planning and Programming of the President. The second, third, fourth and fifth workshops were held during the second quarter of 2006 for the Ministry of Health, Ministry of Agriculture and Communications, and the Ministry of Education.

Fiscal Programming in Angola

Paul Beckerman returned to Angola in October/November 2005 to continue assisting with the development of the FPU. A visit by Laura Zoratto, overlapping with Dr. Beckerman’s visit, complemented his technical assistance by providing initial training to the FPU and other MOF staff in basic quantitative methods using Excel.

With the newly recruited FPU staff in place, Dr. Beckerman returned to Angola twice in the first half of 2006 to assist with the design of the Unit’s technical systems and procedures. A draft manual was prepared and translated into Portuguese.

In May 2006, Beckerman, and Zoratto participated in the preparation and presentation of a two-week course on macroeconomic programming techniques in Luanda. Brandon Lundberg provided logistical and marketing support for the event. Course participants were from the Finance Ministry, the Banco Nacional da Angola (the central bank), the National Statistical Institute, and the economic policy unit of the Presidential support staff. Fifteen participants received certificates for course completion.

Tax Reform in Jordan

Following the successful work of Mintz, Zolt, Chen and Hook from June to September 2005, the Ministry of Finance requested further support from the Fiscal Reform Project to assess and quantify the social and economic impact of the proposed tax reforms, and to assist in developing a public awareness campaign.

In January 2006, Dr. Chen prepared and submitted a report addressing the impact of the proposed tax policy changes, as well as the proposed changes in fuel prices and subsidies. Simultaneously, Stephen Mongelluzzo, formerly a communications specialist with the IRS, provided guidance on the development of a public awareness campaign to accompany the tax reform package.

Following completion of Phases I & II of the work program to support the Government of Jordan in its Tax Reform Activity through January 2006, the Government requested assistance with short-term policy advice to support the Minister of Finance in preparing for the Extraordinary Parliamentary session in June 2006. The key aspect was a study presenting the viability of taxing capital gains in view of international best practices, advantages, disadvantages, impact, rates and mechanisms of implementation. Duanjie Chen and Jack Mintz completed this work in consultation with Ministry of Finance counterparts in May 2006.

SECTION III. LESSONS LEARNED AND IMPLICATIONS FOR FUTURE USAID PROGRAMMING

A number of valuable lessons were learned in implementing the Fiscal Reform Project that USAID should consider in its future programming.

- *Demand-driven projects such as the Fiscal Reform Project offer a convenient, rapid-response mechanism to bridge or complement existing USAID programs.* They represent a fluid, dynamic approach to respond to changing circumstances and priorities. Under the project, this demand-driven approach was evident in all nine field requests and in the research topics chosen each year.
- *Mission programming can benefit from specialized and rapid-response technical assistance.* A field support mechanism allows missions an easy and prompt way to access state-of-the-art services and to take advantage of technical oversight and leadership that pillar bureaus such as EGAT can offer.
- *Technical coordination between USAID/W (EGAT) and USAID Missions can improve development programming.* Most field requests completed under the Fiscal Reform Project had implications for the design of future USAID and/or MCC programming. Coordination in the strategy, assessment and design phases can help build consensus on appropriate interventions and help in the framing of consistent strategic policy.
- *In a technical leadership project, agility is critical.* The Project's core team was not only capable of developing activity goals, objectives and work requirements, but also had the breadth and depth of knowledge and experience to implement the work directly when the need arose. This the Project also benefited from the entrepreneurial spirit of the USAID/W CTO and Activity Manager, who actively marketed the Project's services to USAID missions where they detected an immediate need for assistance in addressing issues related to fiscal policy and management.
- *Applied research is most useful to USAID when framed in terms of best practices and practical applications.* The Project's studies on tax benchmarking and semi-autonomous revenue authorities are prime examples of concise, practical research that provided concrete tools for address fiscal issues. On some occasions, however, the research produced was overly academic, or otherwise lacked direct relevance to USAID activities. An effective research program must be led with clear guidance and oversight to ensure that the research is delivered on time and addresses the needs of USAID staff.
- *Specialized technical training for USAID officers can inform better development programming.* Focused training can provide USAID staff with the knowledge and tools necessary to design effective development assistance programs that follow best practices and accepted conventions, while also addressing the individual circumstances and needs of the host country environment. Despite the relevance and excellent content of the GSU training provided under the Fiscal Reform Project, Year Three saw a sharp decline in attendance due to shrinking OE funds and to difficulties in funding such training for USAID/W staff. Given this trend, it may be prudent to consider alternative options for financing USAID staff participation in such training, such as direct project funding for travel and other expenses, or tailored short courses conducted on or near the premises of the USAID trainees.

All aspects of the Project contributed to increased understanding and information exchange among members of the public finance community of practice, and among USAID Economic Growth Officers, including a corps of New Entry Professionals (NEPs) who received project training in fiscal policy and administration as part of their preparation for impending field assignments. The Project's fiscal reform web site (www.fiscalreform.net) proved a popular and widely used resource, attracting nearly 90,000 hits per quarter by the time the Project drew to a close. Furthermore, through many of the field requests, the Project helped set the stage for new USAID programming, while for others it complemented existing activities or bridged previous activities with those planned for the future. Conclusively, the Fiscal Reform project offered a high value-added, cost-effective vehicle to test, develop, and disseminate new approaches and concepts for supporting fiscal reform activity in developing and transition countries.

ANNEX 1: TOTAL EXPENED LEVEL OF EFFORT (LOE) PER PERSON

Name	Position	LOE Expended (Days)
Ainsworth, Richard	Presentor & Discussant (Tax Lawyer)	12
Alison, Kathleen	Inst. Development Specialist/Facilitator	10
Almada, Estaban	Project Development Expert	30
Arias Minaya, Luis Alberto	Tax Administration Specialist	14
Arze, Javier	Senior Research Associate	30
Ayerbe, Carlos	Communications Specialist	9
Bahl, Roy	India Roundtable Facilitator	10
Beckerman, Paul	Fiscal Economist	131
Bird, Richard	Economist Level 1	38
Bluett, Bethany	Conference Management Specialist	2
Boex, Jamie	Economic & Public Finance Experts	24
Bracho, Jose	Elec. Info. Management Specialist	2
Canelas, Cynthia	Institutional Development Specialist	2
Chen, Duanjie	Public Finance Economist	141
Dougherty, Erika	Elec. Info. Management Specialist	22
Fede, Courtney	Conference Management Specialist	3
Ferreira, Manuel	Trade and Investment Consultant	30
Fox, James	Formalization Expert/Team Leader	15
Gallagher, Mark	Program Manager, Economist	221
Gendron, Pierre-Pascal	Tax Specialist	30
Glenday, Graham	Fiscal Economist	25
Habib, Mark	Conference Management Specialist	0.5
Hadler, Sandra	Public Finance Economist	359
Hardin, Jaime	Conference Management Specialist	1
Hartwell, Christopher	Institutional Development Specialist	204
Heredia, Eunice	Economic & Public Finance Experts	35
Holt, Elizabeth	Conference Management Specialist	2
Hook, Joe D.	Tax Specialist	17
Karan, Meral	Conference Management Specialist	2
Kent, Joanne	Elec. Info. Management Specialist	35
Kurlandskaya, Galina	Intergovernmental Fiscal Relations	12
Kyle, Steven	Chief Advisor/Economist	18
Kyriss, Kevin	Elec. Info. Management Specialist	14
Lundberg, Brandon	Junior Economist	75
Mann, Arthur	Public Finance Economist	83
Martinez-Vazquez, Jorge	Economic & Public Finance Experts	98

Name	Position	LOE Expended (Days)
Martirene, Roberto	Fiscal Specialist	75
McKnight, Molly	Conference Management Specialist	22
Modi, Jitendra	Public Finance Economist	40
Mongelluzzo, Stephen	Tax PR Specialist	3
Morrison, Tom	Tax Specialist	13
Niederman, Lee	Tax Specialist/Trainer	14
Nogales-Zabala, Jose Antonio	Fiscal Specialist	15
Noiset, Luc	Fiscal Policy Expert	80
Obradovic, Natasa	Fiscal Analyst	9
Paes, Renato	Customs Specialist	14
Pelzman, Joe	Economic & Public Finance Experts	43
Pinto, Sol Garson	Exchange Program Consultant	12
Podkul, Tim	Conference Management Specialist	1
Powers, Susan	Conference Management Specialist	56
Rafuse, Roberto	Public Finance Economist	72
Rider, Mark	India Technical Advisor	66
Robinson, Allan	Tax IT Specialist	16
Rozner, Steve	Economist	365
Rozwadowski, Jeffrey	Institutional Development Specialist	10
Saavedra, Alejandro	Economist	9
Salmon, Thierry	Customs/IT Expert	20
Sapena, Sergio	Formalization Expert	30
Segovia, Alexander	Tax Specialist	82
Shilling, Kaitlin	Conference Management Specialist	1
Silva, Sonia	Communications Specialist	41
Sinclair, Michael	Public Financial Analyst	3
Skogstad, Samuel	Public Finance Economist	38
Thirsk, Wayne Robert	Economist Level 1	5
Torrents, Juan	Consultant/Free Trade Zone Specialist	20
Tyler, William	Tax Policy Expert/Team Leader	20
Wallace, Sally	Economic & Public Finance Experts	18
Zolt, Eric	Tax Policy Lawyer	10
Zoratto, Laura	FPU Consultant – Junior	57
Zuker, Richard	Intergovernmental Fiscal Relations	17
Zuniga, Gonzalo	Tax Payer Service Specialist	20
Total		3,073.5

