



Fiscal Reform in Support of Trade Liberalization Project

Third Quarterly Progress Report:

January – March 2004

Task Order No. 03 under SEGIR: EP, Contract No. PCE-I-00-00-00015-00

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Introduction

This is the third quarterly progress report. This report covers the period January to March 2004.

Although the COP has only devoted about half time to core activities, this has been an extremely busy quarter for the project. Website development and maintenance continue apace; all research projects have been initiated and considerable progress has been made; a new buy-in for Guatemala began operation in January; the India buy-in continues to keep our staff very occupied; a SOW for providing buy-in assistance with the Vietnam Mission was developed, agreed to, and now “technical instructions” have been provided; the project hosted a very successful outreach session with the wider public finance community of practice; and real progress is being made in workshop preparation.

The next quarter promises to be extremely busy for the Project, with the implementation of three buy-ins, delivery of USAID officers’ training in April, putting on the Economic Growth workshop in June, and finalization of all of the research activities for the first Project year.

The next section of this report discusses project progress according to the activity headings included in the detailed project workplan. This is followed by project financial information. Finally, this report includes a Tracking Gantt Chart that compares Project progress to the baseline planned activities.

Progress reported by activity heading

Outreach

Continuous outreach efforts have been made by the project team members plus EGAT staff Gellerson and Dod. Of particular note for this period, however, is the four-hour outreach session the project hosted at project facilities on February 25, 2004. The purpose of this outreach event was to share knowledge about the Fiscal Reform Project with others of the international and development public finance Community of Practice. In attendance were the Project core staff, as well as Project advisors Martinez, Bird, and Pelzman, several USAID officers, and fiscal experts from the Inter-American Development Bank, the World Bank, and the International Monetary Fund.

David Dod, USAID Activity Manager, and Mark Gallagher, COP, each welcomed the group and explained the purpose of the day’s meetings. Steven Rozner presented the Fiscal Reform Project, outlining its activities in both Washington DC and in the countries where we are providing assistance through buy-ins. Bob Rafuse presented the India buy-in activity. Jorge Martinez presented the framework for the research project he is leading

on Anti-Corruption and Fiscal Reform and Joe Pelzman presented the framework for his research project on the synchronization and adequacy of Fiscal Reform Adjustment in Support of Trade Liberalization. Mark Gallagher discussed the research project on Semi-Autonomous Revenue Authorities, being led by Art Mann, as well as discussed what the project is doing in terms of case studies, with some specific discussion of the Egypt case. Richard Bird discussed the role of Value-Added Taxes (VAT) in fiscal reform and a number of nuanced problems with respect to VAT application in emerging market countries. This is likely to result in a research project proposal for the next project year.

Discussion was lively and participation of the invited guests was quite productive. Mick Keen of the IMF provided considerable insight to the issue of SARAs. The World Bank's Anwar Shah provided confirmation of the need for a benchmarking system for tax system assessment, while Richard Bird provided some cautioned encouragement for the exercise, and later shared some literature on the topic. Carlos Silvani of the IMF discussed some of the tax administration, evasion and compliance indicators that could be of importance to both the SARA and the Benchmarking projects.

This was a very worthwhile event. It was an excellent way of getting comments and insights from some of the best minds in the community of practice, while also letting them know of USAID's concern that fiscal reform support trade liberalization and economic development. It was also a great way to connect with these colleagues in a serious but relaxed forum. We are already exploiting these connections to USAID's benefit. For instance, we are asking Anwar Shah to participate in the Economic Growth workshop in June.

Fiscal Website

The Fiscal Reform in Support of Trade Liberalization Project Website is complete and up and running. We have drafted a new page for buy-ins that should better showcase the work we are doing in these countries and to provide users with more direct information for accessing buy-in assistance from the project.

The website is being maintained on a monthly basis, with modifications to content, updates to the "in the news section" and new materials for the WebLibrary being uploaded.

We have made progress in bringing the website to more attention on the internet. This included, among other things, greater outreach by informing more people of its existence and improvements in the metatags. In the previous quarter, a google search for 'fiscal reform in support of trade liberalization' only listed the project website at item number 23. Today, the same search lists our website in the number 3 position, while the first 2 are the project's workplan on dec.org and reference to the project on dai.com.

DAI has been keeping track of website hits since October 1, 2003. A summary report on this website hits and analysis has been delivered to USAID/EGAT, however, a brief summary of the website hits for the reporting period follows:

Statistics Hits	Q4:03	Q1:04
Entire Site (Successful)	1,292	3,640
Average Per Day	14	40
Home Page	92	185
Page Views		
Page Views (Impressions)	261	943
Average Per Day	2	10
Document Views	261	943
Visitor Sessions		
Visitor Sessions	107	484
Average Per Day	1	5
Average Visitor Session Length	4:58	7:28
International Visitor Sessions	10.28%	23.34%
Visitor Sessions of Unknown Origin	29.90%	33.47%
Visitor Sessions from United States	59.81%	43.18%
Visitors Unique Visitors	42	314
Visitors Who Visited Once	17	267
Visitors Who Visited More Than Once	25	47

This table is quite telling; showing a great increase in hits and time on the Fiscalreform.net website, with average daily hits rising threefold over the prior quarter, daily printings rising fivefold, and average visitor length increasing by about 40%.

Continuing efforts to increase the usefulness of our website should lead to even greater hits over the next quarter. In part, this should come from the ever-expanding webLibrary offerings, which probably accounts for the fivefold increase in printings increases in user time spent at the site.

Applied Research Agenda

All four research projects have initiated. These are: Anticorruption and Fiscal Reform, led by Jorge Martinez; Trade Liberalization and Fiscal Adjustment, led by Joe Pelzman; Evaluation of Semi-Autonomous Revenue Authorities, Art Mann; and, USAID Success Stories in Fiscal Reform Assistance, Sam Skogstad. During this quarter, it was also suggested that we include Benchmarking as a Methodology for Assessing Tax Systems, to be carried out by Mark Gallagher.

In addition to the technical work for these studies, we are modifying the Fiscal Reform Project website to include a web page for these research activities and we will post each of the research papers on this web page.

The team working on the design of the June Economic Growth workshop has decided that several of the papers from this research series shall be included in workshop materials and that some of the researchers would be speakers at the workshop.

Anticorruption and Fiscal Reform: The lead author for the study is Jorge Martinez-Vazquez, supported by Javier Arze and Jamie Boex. The study is scheduled to be completed in April 2004. Significant progress has been made in drafting the study, as the study team is completing the first draft of the document. In addition to capturing the economic and conceptual underpinnings of corruption, the study will also provide an overview of the fiscal policy responses that could contribute to reduced levels of corruption. In addition to numerous real-world examples and cases, a longer case study will be included in the report that highlights the anti-corruption efforts in Tanzania. For the purpose of the latter case study, Jamie Boex gathered and reviewed relevant documentation and held discussions with several corruption experts in Dar es Salaam during March 2004.

Trade Liberalization and Fiscal Reform: Joe Pelzman is conducting this research. Pelzman is a professor at George Washington University and is working as a consultant for the Boston Institute for Developing Economies (BIDE). As of the end of the reporting period, Pelzman has completed first drafts of the two case studies, Morocco and Jamaica, has updated the overall “macro database” and is combining these data with those from the Trains trade data set. He has prepared an estimable model, written it up, and has begun making regression runs with part of the data.

Semi-Autonomous Revenue Authorities (SARAs): Art Mann now has prepared drafts of the SARA report sections dealing with Peru, Tanzania and Metropolitan Municipality of Lima cases, and has begun Guatemala (which he will update between April 12 and 23). He will soon initiate the Ecuador section, having just received responses to a survey he sent to counterparts in Quito. He will not be able to write up a section on Zambia, since while on travel to East Africa he became very ill. Information on Zambia may become available later, but probably not before the completion date of the study. Other sections that have been drafted are Introduction, Stages of SARA Development, Corruption, Performance Indicators, and several annexes. No conclusions/lessons will be prepared until all other research has been concluded.

Benchmarking: Mark Gallagher began research on benchmarking as a methodology for assessing tax systems long before this project began. It was decided that since this research was about to conclude that the final paper should be posted to the project website page devoted to our research activities. Several persons associated with the project, including David Dod and Richard Bird, provided very useful input. In addition, Mark Gallagher presented the paper at the March Annual Conference of the American Society for Public Administration. The paper will be posted in mid-April and will be sent directly to USAID Economic Growth officers.

USAID Success Stories: Preparation of the web page on fiscal reform is well under way. Draft case studies have been prepared for Ukraine (Wayne Thirsk), Kosovo (Sam Skogstad), Egypt (Mark Gallagher), El Salvador (Gallagher), and Tanzania (Art Mann). Drafts are in progress for Bosnia (Gallagher) and Jamaica (Skogstad). Of these, the editor

considers Egypt, El Salvador, and Kosovo to be in "Final Draft" form, and ready to go into the final editing. In addition to these, drafting is underway and at an advanced stage for the Jamaica study and travel arrangements are being made for a one-week visit to Macedonia to collect data and conduct interviews for that study.

DAI and the principal editor, Dr. Skogstad, recommend that the full narrative of the web page be drawn from the individual country studies to illustrate aspects of successful fiscal reform. For example, Jamaica represents a case in which the USAID assistance in tax reform was comprehensive--i.e. it included tax policy and structure, and all aspects of tax administration, from the drafting of the relevant laws to training revenue officers and constructing facilities for training and information analysis. Other case studies will illustrate developing sub-national government fiscal capability, and others the budgeting process. In this format links would be included to the full country studies so that those interested can read the entire papers. The country papers will be presented as authored papers, though the final versions of these will have been edited thoroughly to assure consistency of format and themes.

Drafting is also underway on the text of the web page proper.

First annual workshop

There has been considerable progress in putting together the first annual workshop. The workshop goes beyond fiscal concerns and instead will cover a variety of issues related to the broader areas of economic growth. A 26-session agenda for the final week June/July has been developed and speakers are being contacted to ensure their participation. The Fiscal Reform Project's Mark Gallagher is responsible for organizing three of the sessions: fiscal decentralization, tax reform, and budget system reform. The other sessions are being organized by a variety of USAID officers.

DAI is responsible for the overall logistics of the workshop, which includes the development of a workshop website that is used both to announce the workshop as well as to facilitate registration. As of end of period, 27 USAID officers had registered. The website URL is: <http://www.econgrowth2004.net/>.

First Annual Training in Fiscal/Trade Reform

As an integral part of USAID's Fiscal Reform Project, the Andrew Young School of Policy Studies at Georgia State University is preparing to deliver a week-long training program "Fiscal Policy Reform: Principles and Trends" from April 19-23, 2004. The course, which deals with the different aspects of fiscal policy and their implications for USAID activities, will be held on the campus of Georgia State University.

The weeklong course is specifically geared toward USAID managers in field missions and Washington who have responsibility for technical assistance projects or capacity building projects with implications in the area of fiscal policy. Response to the course

announcement has been extremely positive, and currently 20 participants (the maximum limit) have registered for the course.

The purpose of the Fiscal Policy Reform course for USAID officials is to refresh and deepen their technical and critical understanding of fiscal policy issues. The course reviews key principles and concepts in fiscal policy and explores the implications of public finance and public administration on the reform of fiscal policies in developing and transition countries as relevant for USAID officials. The course schedule has been finalized, and logistical preparations are in full swing. All GSU faculty experts and program instructors have extensive experience working with USAID and are currently in the process of developing presentations that are specifically tailored to the audience.

A large number of GSU faculty experts are involved in developing and delivering the weeklong program. Faculty instructors include Professor James Alm, Professor Roy Bahl, Professor Jamie Boex, Professor Mark Rider, and Professor Sally Wallace, with guest lectures by A. Premchand. The development and delivery of the program is being managed by Dr. Jamie Boex with support from Mr. Paul Benson and Ms. Shereen Bhan.

GSU has prepared a complete training schedule, which has been posted on USAID's intranet, and circulated to USAID officers. 19 USAID officers, including CTO, Mark Gellerson, and Activity Manager, David Dod, have signed up for the one-week course, which will take place April 19-23. Steve Rozner of the Fiscal Reform Project will participate to provide assistance as required.

Second Annual Training in Fiscal/Trade Reform

No action has been taken yet.

Buy-ins and potential buy-ins

India: The Team made considerable progress in planning the first of two scheduled site visits to expose MOF counterparts to different countries' approaches to managing intergovernmental fiscal relations and controlling subnational debt. The Team developed and delivered a draft agenda and itinerary for the trip – including visits to Russia (Moscow; St. Petersburg), Canada (Ottawa; Victoria; Vancouver) and the U.S. (Washington DC) from April 17 to May 2, 2004 – and hired local consultants in Russia and Canada to organize in-country sessions and logistics. As of March 31, the Team has confirmed most sessions with government and other institutions at each destination, and is currently coordinating travel booking and visa processing in close consultation with USAID and MOF counterparts. Robert Rafuse, the Team's Public Finance Specialist, and Susan Powers, Logistics Support Manager, will accompany the MOF delegation on the first site visit; Ms. Galina Kurlyandskaya (Russia Consultant) and Mr. Richard Zuker (Canada Consultant) will join the delegation in their respective home countries.

The Team researched and completed a "literature mapping" exercise in response to the MOF's request for literature relating to a list of 25 initiatives which the MOF developed after the December 2003 Roundtable in Agra, India. The resulting report provides brief

commentary on each of the listed initiatives and, where possible, identifies the location of published and unpublished literature dealing with each topic. The report was submitted to MOF and USAID on March 31, 2004.

The Team continued to update the Roundtable website (<http://www.fiscalroundtable.net>) with additional background literature as well as procedural notes and presentations from the Agra Roundtable.

The Team is evaluating the feasibility of completing all of the MOF's requested deliverables given the buy-in's currently approved ceiling. This uncertainty results from budgetary constraints created by the splitting of the original site visit into two site visits.

All of the research materials and information about the India buy-in have been posted on a website that the team developed for this activity.

The Team has prepared a separate quarterly progress report for the period ending March 31, 2004, which provides detail on this Buy-In.

Vietnam: USAID/Vietnam and their STAR Project (Support for Trade Acceleration) have received approval for the proposed work on the revenue implications of changes in tariffs from the STAR Steering Committee. The counterpart for this work will be the Committee on Economic and Budgetary Affairs (CEBA) in the National Assembly with the request that CEBA coordinate its work with the Ministry of Finance. This has good and less good points. The good point is that STAR has an excellent working relationship with CEBA, and CEBA (and the National Assembly) is taking over a stronger role in overseeing budgetary activity in the government.

As part of this buy-in, which is scheduled to be implemented place from April 2004 to January 2005, Dr. Luc Noiset, a GSU consultant and professor at Kennesaw State University in Georgia, will support the development of a research unit in Vietnam's National Assembly by strengthening the unit's ability to assess the revenue impact of changes in trade and fiscal policies.

The main counterpart for the activity will be the Vice-Chairman of the Economics and Budgetary Affairs Committee (CEBA) of the National Assembly, in cooperation with the Ministry of Finance. The project will be implemented in coordination with the STAR Project.

CEBA has a small staff and it does not have direct ownership of key data. Presumably, the request to coordinate and the increasing stature of the National Assembly will allow us to gain access to key data. One possibility would be to establish a research team led by CEBA but also including researchers from the MOF and others who could work under CEBA leadership on the modeling, including maybe key staff from the MOF, which might help on the data side. The head of CEBA is the former head of Customs and a key Vice-Minister is the former head of the Treasury in the MOF and the current head of the

Association of Accountants, so they are well connected in the MOF and they respect research.

Working closely with a core group of CEBA researchers, Dr. Noiset will identify and develop the appropriate modeling techniques, software and data for generating policy-relevant revenue estimates and projections of the revenue impact of changes in fiscal policies, particularly trade-related reforms. Of course, the modeling approach will be developed to fit with Vietnam's economic, fiscal and institutional conditions.

Guatemala: In January, the Project CTO issued technical instructions to begin the implementation of the Guatemala buy-in. This buy-in is referred to as the "Tax and Investment Policy Reform Project."

The buy-in will provide assistance to the Ministry of Finance and others in the Government of Guatemala, as well as the Superintendency for Tax Administration (SAT) in a number of areas related to improving the present fiscal system, as well as to setting targets for longer term fiscal adjustments that would cover the major negotiated targets comprising a reactivated "Fiscal Pact." The Fiscal Pact is a groundbreaking agreement among more than 150 organizations in Guatemala that was developed with the intention of improving the government's taxing and spending to enable the country to approach certain social and security results. The buy-in will also assist in a number of fiscal measures and analyses that will assist Guatemala in its trade liberalization.

Specific areas of focus include:

1. Assist the GOG to normalize fiscal structures for greater harmonization with the rest of Central America, especially in light of a Central America Free Trade Agreement.
2. Assist the GOG in achieving its revenue targets by means of policy and administrative reforms.
3. Assist the GOG improve the quality of public spending, improve the equity in public spending, and raise transparency.
4. Assist the GOG and the Legislature to strengthen the budgetary process.
5. Help to mobilize a constituency and build support for fiscal reform among key Guatemalan stakeholders.

Mark Gallagher visited Guatemala for a few days in January to work with USAID staff and government counterparts in the development of the buy-in workplan. One of the first activities of the workplan was to undertake the updating of a benchmarking study of the Guatemalan tax system that was conducted in 2001. It had been decided that this updating would not initiate unless the new government that was elected in December 2003 replaced the head of the SAT. Shortly after Gallagher's visit, the head of the SAT submitted his

resignation -- he is now on the lam – and a new Superintendent, Mr. Willy Zapata, has been installed.

Plans were then set in place to conduct the benchmarking updating study in the second half of March 2003. Unfortunately, as reported above, because Dr. Art Mann, who was to lead this activity, became very ill while traveling in Africa, the trip was postponed to the second and third weeks of April. Another setback is that Mr. Harry Allison, who was selected as customs expert, mainly because he had participated on the original benchmarking team, was informed by his physician that he was not well enough to travel. Mr. Renato Paes has been selected to replace Mr. Allison, but because of the procedures involved in salary approvals and DAI's own contracting processes, Mr. Paes will not be able to travel to Guatemala until later. He will work with Mr. Alex Segovia, who is on the project team and is resident in Guatemala.

Gallagher will also be required to play a more active role in the Guatemala buy-in than had originally been envisaged because Dr. Mann's workload and new projects restrict the amount of time he can make available for this activity.

While in Guatemala in April, Gallagher, Segovia, and Mann will also spend some time with GOG authorities in helping to evaluate a variety of fiscal measures, both policy and administrative, to get the country on the road to fiscal stability and to move toward an IMF Standby Agreement.

Project financial information

As of March 31 2004, 14.9% of the contract ceiling has been reached, while 37.5% of project time has elapsed. Taking into account that the project only began operation in August, rather than in mid-June, as was originally planned, then only 35.5% of project duration has passed.

	Budget amount	Prior periods' expenditures	Actual and accrued in current quarter	Cumulative to date	Remaining to end of contract
Direct labor	2,736,401	247,333	146,799	394,132	2,342,269
ODCs w/o G&A	680,828	55,136	58,782	113,918	571,108
G&A	56,124	4,521	4,825	9,346	47,127
TOTAL	3,473,353	306,990	210,405	517,395	2,955,958
of which: Core	1,600,000	183,916	136,580	320,496	2,507,857
of which: buy ins	645,000	123,074	73,825	196,899	448,101
India	395,000	123,074	62,966	186,040	208,960
Guatemala	250,000	0	10,859	10,859	239,141



