



Fiscal Reform in Support of Trade Liberalization Project

Sixth Quarterly Progress Report:

October - December 2004

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

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1. Introduction

This is the sixth quarterly progress report. This report covers the period October to December 2004.

During the quarter the project remained very active. Two research projects were completed: one on "Corruption, Fiscal Policy, and Fiscal Management" by Jorge Martinez-Vasquez and Jamie Boex of GSU, and another on "Trade Liberalization and Fiscal Reform," by Joseph Pelzman of BIDE. Additional fiscal reform research activities completed by team members and supported by the project (such as Arthur Mann's study on Semi-autonomous Revenue Authorities) was presented at two separate events in the Ronald Reagan Building.

Turning to field requests, Dr. Steven Kyle of Cornell University visited Angola to produce the first deliverable of that Request; a design of the Fiscal Planning Unit of the Ministry of Finance. The USAID/Angola mission has endorsed the project's proposals and plans to significantly increase the resources and effort that would be expended on the activity.

A second observational/exchange tour for the India Field Request was undertaken this quarter. This included five Indian counterparts, together with Ms. Madhumita Gupta of USAID/India, and was facilitated by Dr. Mark Rider of GSU and Ms. Susan Powers of DAI/Bethesda. The trip included visits to appropriate institutions in Australia and Brazil. Dr. Mark Rider is continuing to work on the Field Request with the preparation of a document on intergovernmental fiscal relations and with suggestions for reform in India. A second roundtable in India is being planned under the project for February 2005 to discuss this analysis and the recommendations.

The Project also saw an end of an era and the beginning of a new one, as Mark Gallagher and Steven Rozner passed on their respective responsibilities as Chief of Party and Project Economist to Dr. Sandra Hadler and Christopher Hartwell. Mark and Steven have moved on to Bosnia to support USAID's tax administration modernization work in Sarajevo, and Dr. Hadler and Mr. Hartwell look forward to continuing their work, as well as putting their own unique stamp on the Project.

Looking ahead, it appears that the Project will be very active in 2005, with field requests from Jordan and Egypt already beginning to take shape, and a possible extension of field work in Guatemala. Outreach work on presenting the results of our research will continue, as will the active promotion of the website and its contents.

2. Progress reported by activity heading

2.1. Outreach

During the sixth quarter, the Project team put on two events. One was a learning session for SEGIR EP participants and was held in USAID's Ronald Reagan Building on Tuesday, November 22nd. This session included presentations on three of the Project's Field Requests: Guatemala and Angola, by Mark Gallagher, and India, by Steve Rozner and Susan Powers.

The Project put on a second outreach event on December 13th, to present two of the research activities; Mark Gallagher's work on tax system indicators, and Arthur Mann's work on Semi-autonomous Revenue Authorities. The conference was held in the USAID library in the Ronald Reagan Building and was attended by about 25 participants, from IMF, World Bank, Inter-American Development Bank, US IRS, and other members of the International Public Finance Community of Practice. The session was also attended by Dr. Sandra Hadler, who will be the new Project COP beginning January 1, 2005, and Mr. Christopher Hartwell, who has just joined the Project as an economist and who steps into the position that Steve Rozner vacated. The discussions at the session were quite animated and raised many new ideas.

2.2. Fiscal Website/WebLibrary

Updating and maintenance of the Fiscal Reform in Support of Trade Liberalization Project Website has continued apace. During the sixth quarter, the Project team completed and posted the first installment of case studies of USAID fiscal reform assistance around the world on the "USAID TA" page. The team also reorganized the WebLibrary to list literature alphabetically by author (instead of by title).

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 regularly.

The team drafted a "pop-up" electronic questionnaire to survey users while visiting the website (having first confirmed that such surveying methods are compliant with relevant federal regulations). The questionnaire was refined and submitted to the Activity Manager and CTO for approval and then was posted to the site. When visitors enter the web site, the questionnaire pops up in a separate window, allowing visitors the option of completing it or of closing the window and thus opting out of the survey.

Besides the efforts the team has made to improve the content and organization of the website, we have made considerable progress in bringing the website to

more attention on the Internet. Two quarters ago, a Google™ search for ‘fiscal reform in support of trade liberalization’ only listed the Project website at item number 23. In the previous quarter, the same search listed our website in the number 3 position, preceded only by listings for the Project’s workplan on dec.org and reference to the Project on DAI’s corporate website

Today, the same search lists 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. Moreover, a more basic search for ‘fiscal reform *and* trade liberalization’ listed our Project website in the top three positions as well.

The Project team has continued to keep track of website hits since the website went on-line in October 2003. A brief summary of the website hits for the current, and all previous, reporting periods follows:

Statistics	Q4:03	Q1:04	Q2:04	Q3:04	Q4:04
Hits					
Entire Site (Successful)	1,292	3,640	12,646	17,453	24,950
Average Per Day	14	40	138	189	271
Home Page	92	185	381	677	755
Page Views					
Page Views (Impressions)	261	943	2,138	3,044	3,872
Average Per Day	2	10	30	33	42
Document Views	261	943	2,133	3,044	3,868
Visitor Sessions					
Visitor Sessions	107	484	2,792	3,365	4,540
Average Per Day	1	5	30	36	49
Average Visitor Session Length	4:58	7:28	10:40	10:56	12:15
International Visitor Sessions	10.28%	23.34%	16.04%	22.02%	19%
Visitor Sessions of Unknown Origin	29.90%	33.47%	43.44%	36.25%	27.99%
Visitor Sessions from United States	59.81%	43.18%	40.61%	41.72%	52.99%
Visitors					
Unique Visitors	42	314	1,714	1,900	2,546
Visitors Who Visited Once	17	267	1,441	1,540	2,024
Visitors Who Visited More Than Once	25	47	273	360	522

This table shows a 43% increase in average daily use from the previous quarter, and more than a 19-fold increase since the final quarter of 2003. Not only did the number of visitors and the average amount of time spent on the site increase, the number of “return visitors” increased as well, from 25 at the end of 2003, to 273 in the second quarter of this year, to 360 in the third quarter, to 522 in the final quarter of 2004.

The WebLibrary continues to be a popular destination for site visitors. Behind the home page and our research, the next three most-viewed pages on the website all come from the WebLibrary, with tax policy being the most popular, followed by decentralization and fiscal policy. In fact, 44% of all visitors to the site visit the library, with most spending nearly 5 minutes on each subject in the library.

As mentioned in the last quarterly progress report, the reporting of WebLibrary downloads greatly understates the importance of this feature of our website because our tracking system is unable to track the number of times our WebLibrary directs users to documents on other websites that are not located on our server (such as IMF or World Bank sites).

2.3. Applied Research

2.3.1. Year 1 Research Agenda

The final two research projects from the Project's first year were completed and posted to our website in October of this quarter. These are Anti-Corruption, Fiscal Policy, and Fiscal Management, by Jorge Martinez-Vazquez, F. Javier Arze, and Jameson Boex; and, Trade Liberalization and Fiscal Reform: Evidence from Two Case Studies — Morocco and Jamaica — and a General Cross-Country Econometric Analysis, by: Joseph Pelzman, George Washington University and Boston Institute for Developing Economies

2.3.2. Year 2 Research Agenda

Two research projects were proposed and tentatively approved with the submission of the Year 2 project workplan. These are: A New Look at VAT, led by Richard Bird of BIDE; and Poverty Reduction and Fiscal Reform, led by Jorge Martinez and Jamie Boex of Georgia State University.

These studies are in their early stages; completion is scheduled for summer 2005 for both projects.

2.3.3. Fiscal Sector Indicators

As part of an ongoing effort, the core Project staff has been expanding the coverage of tax system benchmarks, as defined in the Gallagher research project. Currently, more than 100 countries are now included in the database, which holds observations on 15 indicators. The new Fiscal Reform core team will continue to broaden coverage, adding countries and indicators, and they will post the database on the website during the first quarter of 2005.

2.4. Annual workshops

2.4.1. First Annual Workshop--Economic Growth Officers' Conference

The conference website continues to attract wide interest, with over 1,500 visitor sessions during the last quarter and nearly 2,500 downloads of presentations, proceedings summaries, and other conference-related documents in the same period.

2.4.2. Second Annual Workshop in Fiscal Reform

Preliminary planning for the second annual workshop has begun. The Activity Manager, David Dod, sent a survey seeking USAIDOFFs interest in a second annual workshop. The Project Team has received only a few responses so far. However, respondents were more interested in the topic of tax system benchmarking indicators than any other specific topic. Pension reform has also been discussed as a potential topic, and most likely will feature prominently in the workshop.

2.5. Second Annual Training in Fiscal Reform

Following on last year's successful trainings in fiscal policy reform, GSU has tentatively scheduled another training this year for April 18-22, 2005 in Atlanta. A USAID staff field survey in November revealed that there is a clear preference that the Topic should again be the broader Fiscal Reform course, rather than a proposed Fiscal Decentralization course that was being contemplated. At least 20 people have already expressed a desire to attend the course.

2.5.1. Field Requests

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. The team was also joined again by Madhumita Gupta, USAID/India, who helped to facilitate the technical focus of the scheduled meetings and to provide consistency between the goals of the Field Request activity and lessons learned from both site visits.

Our Australian expert, Alan Morris (Chairman of the Australian Government Commonwealth Grants Commission) coordinated a comprehensive and multi-faceted experience for the team in Australia. Sol Garson (Independent Consultant and former Treasurer for the City of Rio de Janeiro) arranged for the Brazilian portion of the site visit. Once again the trip was very well-received by both the Indian delegation and Ms. Gupta. The trip provided a more focused look

at the specific topics that arose as paramount from the first site visit in April and May 2004. By the conclusion of the visit Dr. Rider was able to devise an outline for a comprehensive options paper to be drafted prior to the February 2005 Round Table with input from Ms. Gupta and the Indian delegation.

The second roundtable is scheduled for early 2005, with the final draft of the options paper to be concluded at the same time.

Vietnam: Professor Luc Noiset of Georgia State University continued to help the Government of Vietnam develop a tax policy research and modeling capacity within the National Assembly and the Ministry of Finance. Professor Noiset made a four-week visit to Vietnam in October and a two-week visit in December.

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 major 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 (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 that illustrated the approach to tax modeling that he was recommending, and made another major presentation - this time on fundamental national accounting concepts and the relevance of these relationships for tax theory. Subsequently, Dr. Noiset was invited to make a similar presentation to professors and students of the Financial Institute, a university affiliated with the Ministry of Finance.

Guatemala: Alex Segovia presented his paper on government spending before about 90 interested participants at a conference funded by the Project, in Guatemala City. The report was well received and the USAID mission is interested in using the reports data and findings in its design of a social sector reform project.

From October 4th through 7th, Project staff (Gallagher, Powers, and Segovia) held meetings in Guatemala with USAID and Technical Committee for the Fiscal Pact (CTPF) and the Superintendency for Tax Administration (SAT) to discuss future activities under this Field Request. A number of possible actions were discussed and proposed, but our Guatemalan counterparts had requested that any new work be initiated only after the new year. Meanwhile, USAID is investigating the feasibility and usefulness of conducting an overall review and evaluation of the CTPF and the Fiscal Pact. This review or evaluation would be conducted in the next quarter. USAID/Guatemala has already extended this Field Request to March 31, 2005.

Angola: Dr. Steven Kyle traveled to Angola on September 24th for the first of several technical assistance TDYs. He produced a trip report and the first

deliverable, a “project” design for the Fiscal Planning Unit (FPU) of the Ministry of Finance, which includes job descriptions and qualifications, recommendations for trainings, and organizational structure, as well as recommendations for further work should the money be available.

Recently, USAID/Angola has indicated that it will increase the support provided to this Field Request and asked the Project to prepare a proposed set of activities that the Project would carry out if it had the money. This proposal, based in large part on Kyle’s original trip report, has been submitted and consultants are being evaluated to ascertain the next steps in operationalizing the FPU in the first quarter of 2005.

3. Project financial information

Modification No. 03 to Fiscal Reform in Support of Trade Liberalization Task Order, dated September 28 2004, increased the Task Order ceiling price to \$5,665,518 and extended the project for 12 months, to June 19 2006. Based on the new ceiling, as of December 31 2004 only 35% of the contract ceiling has been reached, while roughly 50% of project duration has elapsed.

	Budget amount	Prior periods' expenditures	Actual and accrued in current quarter	Cumulative to date	Remaining to end of contract
Direct labor	3,982,285	1,003,691	350,502	1,354,192	2,628,093
ODCs w/o G&A	1,479,944	410,072	185,824	595,895	884,049
G&A	203,289	33,954	15,386	49,340	153,949
CEILING	5,665,518	1,447,716	551,711	1,999,427	3,666,091
<i>of which: Core*</i>	2,231,838	906,707	178,350	1,085,057	1,146,782
<i>of which: field requests</i>	1,082,848	541,009	373,362	914,371	168,477
<i>India**</i>	395,000	309,322	181,998	491,321	(96,321)
<i>Guatemala</i>	250,000	162,883	18,521	181,404	68,596
<i>Vietnam</i>	131,173	0	124,140	124,140	7,033
<i>Sudan</i>	106,674	68,804	0	68,804	37,871
<i>Angola</i>	200,000	0	48,702	48,702	151,298
CURRENT OBLIGATION	3,314,686			1,999,427	1,315,259

*Overall Core funding is calculated as residual.

**New incremental funding of \$200K+ is pending.

4. Gantt chart







