



**USAID** | **WEST BANK/GAZA**  
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**MID-TERM EVALUATION OF INVESTMENT  
CLIMATE IMPROVEMENT PROJECT:  
FISCAL AND POLICY COMPONENTS**

David Dod  
Senior Economist (E3/EP)  
Paul Fekete  
Senior International Trade Advisor (E3/TRR)

**October 2012**

## West Bank/Gaza

### Mid-Term Evaluation of Investment Climate Improvement Project:

#### Fiscal and Policy Components

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# Mid-Term Evaluation of West Bank/Gaza Financial Sector Initiatives

## Executive Summary of Findings and Recommendations

### Findings:

**Regarding the Fiscal Component** of the ICI project, the team felt that the initial concept in 2010 for the Fiscal Reform component had benefitted from a well-defined, medium-term IMF roadmap for the PA's key legal, procedural, TA, and training efforts that logically would have been the backbone of the work plan for donor assistance—primarily through ICI—for a comprehensive program of reform of the PA's tax system and for building the Ministry of Finance (MoF) administrative capacity to mobilize a badly needed increase in tax revenue. In contrast to the MoF's reluctance during 2010-11 to implement the critical tax administration reforms relating to income and VAT taxes, the new PA Minister of Finance who was appointed in June 2012 and his new General Tax Director who was designated in August, now seem committed to begin implementing several critical administrative reforms during Year 3 of the ICI project. In support, it seems that the ICI Contractor is now poised to make extremely valuable contributions during Year 3 to:

- a. develop a Tax Procedures Law that will be critical to the MoF's future ability to reduce tax evasion and enforce compliance by taxpayers,
- b. make initial progress on building a new IT system, beginning with an integrated data base of tax information—to replace the weak and fragmented data bases that currently exist within the MoF, and,
- c. if the Minister decides to begin implementing the 'self-assessment' approach to income taxpayers for the 2013 tax year, provide technical assistance and training of tax officials and taxpayers that will be important to achieve a successful outcome of that pilot program.

Indeed, the ICI project has already responded quickly to provide TA that will help accelerate progress by the MoF in each of these areas.

Unfortunately, implementation of the program had been stalled in Years 1 and 2 by a lack of political will to reorganize functions and procedures within the MoF tax departments or to develop an adequate taxpayer information data base—which represent critical initial steps for high-impact reform of the tax administration.

As a result of that delay, ICI is very unlikely to be able to help the MoF achieve measurable progress by end of project toward the project's higher level Intermediate Result of increased tax collection (as a contribution to a reduced PA budget deficit). The most relevant high level indicator for the ICI Fiscal Component is the PA's 'domestic tax revenue'—a category which excludes the

'clearance revenue' collected by Israeli authorities and for which the outcome would be most plausibly attributable to the PA's own tax policies and tax administration actions. Domestic tax revenue of the MoF amounted to 4.9 percent of GDP in 2009, had declined to 4.8 percent of GDP by 2011 and, based on results for the first eight months of 2012, will decline to about 4.6 percent of GDP for the full year. This result reflects ongoing weakness in revenues from the income tax and domestic VAT taxes that are the largest sources of PA domestic tax revenue.

**Regarding the Policy Component** of the ICI Project, the main findings of the team were that ICI, as with the fiscal component of the project, has been significantly hampered by its suspension in 2011 which has led to a significant discontinuity in its work and ability to engage with the MoNE and other stakeholders. The timing of the project's development and implementation of a logical and cohesive workplan has been sharply delayed and the prospects for achieving its envisioned workplan will need to be reassessed.

There would also be value in refocusing the ICI project to having a greater emphasis on moving forward with business environment issues. Improving the business environment framework consistent with WTO requirements—while an important component leading to WTO membership—has significant value even in the absence of achieving the goal of WTO membership in terms of the business opportunities and improved investment environment that such reforms will bring.

The team also found that many of the policy issues with which the ICI project deals are cross-cutting in nature—ones that impact work being done by other USAID/WBG projects. For example, the recently initiated COMPETE project which focuses on strengthening the competitiveness and export potential of key sectors in the Palestinian economy, could also address policy constraints specific to the four sectors in which it works.

There is also significant opportunity for overlap in the activities of the Trade Project—which will soon be awarded and implemented—and the ICI project, in its' current incarnation. As a result, the Mission will need to give significant thought to greater integration among these efforts, focused on how to ensure that these projects collaborate and complement each other. This will be of special importance in the design of a follow on project to ICI which will present the Mission with an opportunity to further integrate a number of activities focused on economic reform and modernization that, until now, have been carried out under different projects and by varied implementing partners

### **Recommendations:**

**For the Fiscal Reform component**, the three elements of the draft ICI work plan for Year 3, noted above, are well-aligned with the needs and priorities of the

medium-term IMF plan for reform of the tax administration. Moreover, the leadership of the MoF now seems committed to implementation of several of the key building blocks for that reform program – so that a high level of ICI effort for TA and training seems warranted for those elements in Year 3.

However, the evaluation team would urge USAID/WBG to consider action related to the following issues concerning the October 1 draft Work Plan for Year 3:

1. General Tax Director for the MoF wishes to narrowly focus the Ministry's current energies on the tax information system, departmental reorganization, and (in the first half of 2013) improved data-sharing with Israel, per the Paris Protocol and a PA agreement of July 2012 with Israeli authorities, in order to collect more revenue quickly. In contrast, the view of the IMF and of the resident DFID Revenue Advisor at the MoF is that the Minister must persuade the Director to put additional parts of the program for reform of the tax administration on a faster track for 2013. The evaluation team agrees with the plan of IMF and DFID experts to encourage the Minister to accelerate action in additional areas.
2. The ICI work plan suggests two additional work areas where the MoF should be pressing ahead – to implement in 2013 the pilot for self-assessment of corporate income tax; to expand and strengthen the Large Taxpayer Office (LTPO). But the General Tax Director does not consider the pilot for self-assessment of income tax to be a priority; and the Directors General for the Income and VAT/Customs Departments seem disinclined to assign additional staff to the LTPO or to empower it with a director in 2013.
3. The ICI Contractor is proposing for Year 3 to help the MoF
  - To conduct further 'taxpayer awareness' activities and
  - To establish one to three taxpayer service centers that would be focus on assisting small and medium size taxpayers with general inquiries as well as routine service requests

Tax awareness was a priority of the ministry. One of the awareness activities that was completed in conjunction with the new income tax law was with the auditors and accountants community, who for the first time had the chance to discuss the changes to the law with the ministry. In terms of general tax awareness, the need was realized when ICI conducted a baseline survey on how much business and public knew about the tax system. ICI conducted a limited tax awareness on VAT (encouraging people to request receipts), and a general one focusing on the new income tax to highlight some of the benefits and changes in the law.

For the next five years, USAID is in the best position among donors to meet the expected need of the MoF for a high level of external technical assistance and

training that will be needed for the reform of the PA's tax administration and significant improvement of revenue performance. The MoF has comprehensive needs for organizational restructuring and for development of the new business processes, information systems, and trained staff; and the available staff in MoF revenue departments is only about half the level typically required in other countries. The required scale for such USAID assistance would be sufficient to warrant a separate USAID tax project—as a follow-on to the fiscal component of ICI and to the components of the Trade Facilitation Project's work with Customs that will end in 2013.

Alternatively, future USAID tax assistance could be provided in a project that combines both tax and business regulatory components (such as had been the design for ICI and has been done for similar recent USAID projects in Georgia and Moldova). However, in the West Bank, the potential synergy between the two components is rather limited to a few areas – such as (a) simplifying combined registration requirements for business licensing and tax purposes (for example, implementation of one-stop shops) and (b) development of data interfaces and exchanges between the MoF revenue authorities and other PA ministries (including MoNE and Mol).

#### **For the Trade and Economic Policy component,**

ICI's mandate in the policy area covers extensive territory, made more challenging by the high levels of expectation from various elements within the NoME and other parts of the PA. Many topical areas have been identified through joint consultations with Ministry officials but there has been minimal prioritization of activities and the lack of consensus with the PA on the way forward has often led to additional requests for technical assistance and other donor support. The short timeframe remaining for ICI requires a greater emphasis on identifying clear and achievable goals before the project expiry in August 2013.

One of the key tools to engage the private sector directly is the grants program which restarted in May 2012. Since then, ICI made great progress in moving forward with several private sector bodies to engage them in the reform process. Prior to the grants program, ICI has engaged the private sector in developing surveys about the business environment and in participating in all of the workshops and events on WTO and BEE issues.

While the WB Doing Business indicators have served as a catalyst for action within the PA, the preoccupation with WBG's ranking should be lessened so that reforms in the business enabling environment can be pursued in a comprehensive but logical fashion. Other policy focused efforts—for example that undertaken by the IFC—have embarked upon reforms in narrowly defined areas. While there is consensus that policy reform will be necessary in all of the areas identified in the Doing Business reports, progress is more likely to be made by focusing limited resources and capacity on issues in a logically sequential

fashion and at a deeper level so as to achieve meaningful progress in the time remaining for the ICI project.

## Overview, Purpose, and Use of the Evaluation

At the request of USAID/WBG, a team comprised of David Dod (E3/EP) and Paul Fekete (E3/TRR) supported the Mission in conducting an evaluation of the Investment Climate Improvement (ICI) project being implemented by Chemonics. The field portion of the assessment took place October 2-12, 2012.

The evaluation had the following primary objectives:

- 1) Review, analyze, and evaluate the impact and effectiveness of USAID's ICI project in achieving program objectives and deliverables designed to strengthen the policy-making capacity of the Palestinian Authority (PA).
- 2) Provide specific recommendations that inform the design of one or two follow-on projects in the areas of fiscal reform and economic policy reform.

During the assessment the team met extensively with USAID/WBG personnel and participated in meetings with USAID contractors, regulatory authorities, staff from key ministries, private sector representatives, and other donors active in the area of fiscal and policy issues.

## Background

USAID is providing technical assistance to the PA in the facilitation of regulatory and institutional reform with the goal of improving the overall economic enabling environment of West Bank and Gaza. This assistance was informed by both the annual World Bank Doing Business report and USAID's BizCLIR assessment completed in March 2010 which provided a detailed analysis of the weaknesses in the business climate in West Bank and Gaza. At the same time, the PA has placed a high priority on eventually achieving membership in the World Trade Organization (WTO), the first step of which is to achieve observer status in the WTO General Council. The policy and institutional reforms required for WTO membership overlap to a considerable degree with the recommendation of the BizCLIR assessment and the reforms necessary to improve Palestinian rankings in the Doing Business indicators.

To help deal with a yawning fiscal deficit (which had amounted to 25 percent of GDP in 2008 and had created an unsustainable dependence on budget support from donors), USAID also decided during the first half of 2010 to offer expanded assistance to the PA for improvement of the MoF's tax revenue performance – an area where USAID had been providing limited assistance for the property tax and customs directorates for the previous two years.

In September 2010, USAID West Bank and Gaza began implementing the ICI project. The ICI project is a USAID West Bank and Gaza financed Task Order under the General Business Trade and Investment (GBTI) II Indefinite Quantity Contract (IQC) awarded to Chemonics International. In the third quarter of 2011, the project was suspended due to budgetary constraints, but was restarted at the end of 2011. While the period of suspension was not lengthy, its impact on the continuity of the project was significant in that all staff had been released from their commitment when the suspension took place. Upon restart of the project, only two members from the earlier incarnation of the project returned. As a consequence, the project has essentially been launched twice, with all of the administrative and logistical issues ramping up a project typically entails. This is important to keep in mind in reviewing the activities and accomplishments of the project at the time of this assessment in October 2012. The project is scheduled to end in August 2013, giving it only 10 months more for achieving its objectives before it comes to an end.

This contract is expected to be completed in August 2013, with a Task Order ceiling price of \$24,932,833.

### **Investment Climate Improvement**

The ICI project provides the technical assistance needed to respond to necessary business enabling environment reforms within the West Bank and Gaza, as well as assist in transforming the Palestinian Authority's fiscal sector. Given the need for the MoF to increase revenue generation and to reduce the PA's dependence on heavy budgetary transfers from donors, USAID has recognized that this revenue should be generated in a manner that imposes as few burdens and distortions on decisions of business taxpayers as possible. ICI is designed to strengthen the governing authority's capacity to sustain effective governmental institutions and policies. As well, ICI is committed to strengthening the institutional infrastructure and capacity of the PA in order to achieve its commitment of sustainable economic growth.

Responding to this need, the ICI project is working to foster the legal and regulatory framework, transparent procedures, and private-sector participation that are crucial for both economic reform and international relationships. ICI is working in cooperation with the Ministry of National Economy (MoNE), the Ministry of Finance (MoF), private-sector organizations (PSOs), and other key stakeholders to address the priority areas of trade, fiscal, and business enabling environment reform. In addressing these issues, the ICI project has set the following goals:

- To assist the PA to adopt and implement laws, regulations, policies, and procedures required to bring it into compliance with the multilateral trade framework of the World Trade Organization (WTO);

- To improve the business climate in the West Bank and Gaza in order to support increased domestic and foreign investment;
- To support the PA to develop fiscal capacity and policy to increase revenues and begin moving in a more sustainable, secure balance between government spending and revenue..

In order to achieve these goals, the ICI program contains a policy reform and fiscal reform component. Under the policy reform component, ICI is working with the PA to support its bid for WTO Observer Status and to prepare for future accession to the WTO. The program is also working with the PA, especially the MoNE and private sector associations, to improve the framework and implementation of commercial laws, establish user friendly and transparent business procedures, and strengthen the capacity of PA regulatory units and the private sector to implement and advocate for reform.

Under the fiscal reform component, the goal of the ICI has been to assist the MoF to improve revenue yield from domestic taxes in order to build capacity of the Ministry to collect more revenue. This was to be accomplished through the provision of specialized technical assistance and training, focusing on the large VAT and Income Tax directorates—to supplement previous niche areas of assistance that were in place in 2010 from two other USAID projects (to support the MoF’s customs and property tax departments), an EC assistance program to upgrade the ASYCUDA customs data system, and a JICA project to strengthen the property tax.

ICI has four cross-cutting activities, implemented through grants and subcontracts:

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

Donor coordination at the MoF and MoNE is extensive as both ministries receive technical assistance from several donor organizations. In the areas of concern to ICI, the principal donors are the International Monetary Fund (IMF), the German Society for International Cooperation (GIZ), the International Finance Corporation (IFC), Department for International Development (DFID), and the European

Union (EU). ICI staff members regularly meet with or contact representatives of those organizations and, in the case of MoNE, carry out consultations through the Ministry's Aid Coordination Unit. At the MoF, most donor assistance has been provided in the areas of budget and expenditure management, whereas – during the project period—USAID has been the principal donor in the revenue areas.

Other projects under the Private Enterprise Office's mandate in the West Bank Gaza Mission.

## **COMPETE**

The Compete Project focuses on strengthening the competitiveness and export potential of key sectors in the Palestinian economy. The project is working to improve the performance of businesses in targeted sectors—Agriculture and Agribusiness, Stone and Marble, Tourism, and Information Technology. Compete is encouraging initiatives that will help enterprises add value in these and other key value chains in order to accelerate economic performance in the West Bank/Gaza.

## **ESAF**

The Expanded and Sustained Access to Financial Services (ESAF) project focuses on strengthening the financial sector through the provision of technical assistance, training, and strategic partnerships and increases access to financial services for Palestinian households and micro, small, and medium enterprises (MSMEs). The program targets weaknesses at multiple levels of the financial system, increases access to finance, encouraging economic growth. There are three sub-sectors within the financial industry that the project addresses—banking, insurance, and microfinance. In addition, project activities include support for consumer protection and financial literacy, financial sector regulatory capacity, and nonbanking financial services. The ESAF project will be ending in December 2012.

## **TFP**

The Trade Facilitation Project (TFP) focuses on addressing trade and movement restrictions which are among the most critical constraints on Palestinian competitiveness, international investment, and overall economic development. Checkpoints and other obstacles within the West Bank restrict movement and result in transfer delays and higher transaction costs which affect the economic vitality of the entire private sector. The project has also focused on strengthening the capacity of Palestinian Authority Customs. The TFP project is scheduled to end in August 2013.

## **The Trade Project**

The Trade Project which is currently being procured will serve as the follow-on to the TFP project. The Trade Project will be a three-year program (two-year option) that will focus improving access and movement in the West Bank/Gaza and on expanding private sector growth through increased trade and investment. The project will also be responsible for building the capacity of the Palestinian private and public sectors to overcome trade and investment constraints.

## **PACE**

In addition to these PEO projects, the WBG Democracy and Governance office also oversees implementation of the Palestinian Authority Capacity Enhancement (PACE) project to help strengthen the perception and the performance of public institutions, including the Ministry of Finance tax departments, and to improve their services and to increase citizen satisfaction. The PACE project has been providing assistance to the MoF property tax and income tax departments that predate the startup of ICI and has cooperated with ICI through refurbishment of office space required for the Large Taxpayer Office and through a joint assessment for IT hardware and software needs of the MoF.

## **Current Activities—Fiscal Component**

### **IR 3 Reduce the Budget Deficit<sup>1</sup>**

The primary objective of the Fiscal Component was to help reform tax administration procedures and enable the PA to generate a higher level of tax revenue, as a contribution to reducing the PA budget deficit. Achievement of this objective will require a higher level of tax compliance by Palestinian enterprises that are currently not paying taxes or are underreporting their taxable transactions and incomes.

**Reform of Tax Administration Functions and Procedures.** At the outset of the ICI Project in 2010, USAID and the IMF had reached strong agreement on the outlines of a medium-term program for reorganization and reform of operations of the six revenue departments within the Ministry of Finance. After further consultations with MoF and the Prime Minister’s office, a team of IMF tax administration experts visited the West Bank and elaborated this program into a phased, 3-year roadmap of December 2010<sup>2</sup> —that included capsule

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<sup>1</sup> Note: The 2010 Project Results Framework described the IR 3 objective as “Increase Fiscal Transparency and Reduce the Budget Deficit.” However, for purposes of the current evaluation report, transparency issues are not reviewed. It seems a conceptual error to link these two ideas together as a single higher-order objective in the Results Framework – since they are separate goals that could conflict and since taxpayer awareness alone is likely to make very little contribution to increased revenue collection.

<sup>2</sup> IMF/FAD, Thomas Story, William Crandall, Darryn Jenkins, *Completing the Foundations of Modern Revenue Administration*.

descriptions of the key procedural, TA, and training efforts that logically would have been the organizing backbone of work plan priorities for USAID's ICI Fiscal contractor.

Unfortunately, during 2011 and the first half of 2012, it proved impossible for the Ministry of Finance to commit to implementing the key administrative reforms required for the early stages of the reform roadmap—namely,

1. drafting and adoption of a Tax Procedures Law that will clarify powers of the tax authorities to act (e.g., to compel the provision of financial and transactions data, to seize assets) as needed to enforce compliance by taxpayers,
2. commencement of a major consolidation and improved functionality of the taxpayer information database and its IT system,
3. reorganization of departments along functional lines (e.g., registration, collections, audit), rather than by type of tax,
4. introduction of a 'self-assessment' approach for income tax payers, rather than the current approach of face-to-face assessment and negotiation of liability,
5. integrated operations of the VAT and Income Tax Departments,
6. build-up of the staffing of the Large Taxpayer Office (LTPO) – to ensure that the most skilled staff and an adequate concentration of resources is focusing on audit and collections from the largest potential sources of revenue.

Largely as a result of the delays in counterpart decisions to implement these reforms, the contractor was only able to commence an effective program of Fiscal TA and training activities in the Spring of 2012, once the disruption of USAID budget resources for the project (October 2011-February 2012) had ended.

During October 2010-May 2012, three strategic USAID activities to advance the goals of the roadmap<sup>3</sup> were:

- toward objective 2, to be conducted in 2011, with assistance of a home office IT specialist, an independent assessment of IT needs for the Value Added Tax, Income Tax and Computer Tax Directorates of the Ministry of Finance;
- toward objective 6, to have the PACE project refurbish space in an MoF building to provide a home for an initial staff of up to 20 at the LTPO in Ramallah;
- toward objective 4 for self-assessment for income taxpayers, to help the Income Tax Directorate (during February-September 2012) draft a set of

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<sup>3</sup> Note: The IT assessment and refurbishment of space for the LTPO were done in association with the USAID PACE project that had providing assistance for the MoF's Income Tax Directorate in 2010, before the fiscal component of the ICI project had been staffed up.

five new forms that would be suitable for use by taxpayers when the pilot program for self-assessment is ready to be launched.

**Recent counterpart commitment to reform program.** Since appointment of a new Minister of Finance in May 2012 and his designation of a new General Tax Director in July, the MoF now seems to be making a firm commitment to:

- develop and introduce a robust new Tax Procedures Law (objective 1);
- procure a local IT contractor to help implement an integrated central database of taxpayer information (objective 2);
- move forward with part of the functional reorganization and merger of tax departments that has been recommended by the IMF for several years (objective 3).

In those three areas, the ICI project team has responded quickly to provide initial assistance and a work plan for Year 3 of the ICI project that bodes well for significant progress on reorganization and for finalization of the Tax Procedures Law for legislative or emergency action during the final ten months of the project.

**Development of the tax procedures code.** The primary purpose of a new law on tax procedures is to strengthen enforcement powers of the MoF revenue authority – so as to be able to compel information from taxpayers and from third-party sources and to collect funds from delinquent taxpayers with less burden on the MoF to prosecute formal court actions against non-filers and non-payers.

Starting in September, ICI began to work with MoF legal staff to develop a draft law following successful models in developing countries and utilizing international best practices. During September-October 2012, the project mobilized an experienced tax legal expert to draft a new Tax Procedures Law who will submit an initial draft by end-October. Following the development of the draft, ICI will help the Ministry organize public reviews and education on the new procedures, and subsequently assist with the first steps of implementation. This process should be substantially completed by the end of the ICI project, although final enactment and availability of new enforcement powers may not occur until later.

**Implementation of the PA Revenue Management System (RMS).** This integrated tax IT system is intended be a repository of information from taxpayer declarations and tax payments, as well as information about taxpayers from other sources. It will assist the revenue authority in processing declarations, selecting and conducting audits, collecting delinquent payments, pursuing enforcement actions, and handling of appeals cases and related activities.

To support this effort (for which MoF's internal IT-program management capabilities are weak), ICI is intending, within Activity 3.1.1, to hire a highly qualified local IT consultant to provide oversight for an external IT system contractor that the MoF will procure and pay for. The new contractor to be procured in coming weeks, in turn, will be expected to provide up to 15 IT

experts—to set up an integrated central database of taxpayer information and to develop programming applications over the next ten years will be the keys to steady improvements in tax compliance.

The ICI Contractor is well-prepared to play this role in helping MoF to develop its ‘custom-built’ tax administration information system, given its successful assistance in developing similar IT systems in Georgia and Albania. However, given the poor ‘starting conditions’ on the amount taxpayer data within current fragmentary databases at the PA MoF, it seems unrealistic to expect that MoF tax assessors and auditors will be able to use the new database to effect higher tax collections before the end of the ICI project.

Apart from technical assistance, ICI also plans to assist the MoF’s capability to operate the RMS by

- procuring from local IT vendors additional hardware and software (in line with the needs assessment that has been done)and
- providing technical IT trainings on the use of that hardware and software – such as training for Computer Tax Department employees in Java programming language and in web programming.

**Functional reorganization of the tax administration.** The MoF revenue departments are now structured inefficiently around specific taxes, with a separate directorate for each tax type. This structure produces duplication of functions and inadequate communication among directorates. For example, taxpayers must register separately for income tax and VAT and data on their declarations and payments are stored in separate data bases. During 2011-12, the MoF has taken initial steps toward eventual reorganization along functional lines – assignment in 2011 of 17 staff from the VAT and Income Tax Directorates to a combined Large Taxpayer Office; the merger of the Customs Directorate into the VAT Directorate in September 2012.

At the request of the General Tax Director, ICI has been providing advice to him on how to move forward with the functional reorganization, to develop position descriptions, and to plan further reorganization and mergers of tax departments that will lead to the functional organizational structure in the future. A critical phase of the reorganization will be the combination of the VAT and the Income Tax Departments – which together collect the bulk of PA domestic revenue. As one change under the new structure – when it occurs—taxpayer audits should deal simultaneously with the VAT and income-tax liability of the taxpayer – so that cross-training of VAT and income-tax officials will become increasingly important. Depending on the speed and nature of the reorganization, the ICI project seems well-placed to provide assistance with planning, training, and ‘change management’ for the restructuring – insofar as the General Tax Director may request assistance.

**Development of Large Taxpayers Office (LTPO).** On paper, The LTPO was created in 1996 by the MoF as an income tax administrator, although it currently

does not have the capacity to effectively manage the level of taxation it is meant to oversee. By 2010, 13 staff had been drawn from the Income Tax and VAT directorates to join the LTPO. This is a small number of staff, given their responsibility for the 175 largest taxpayers; the size of the office has not grown since that time; and the DG for income tax expects that, to avoid creating staff shortages in other offices, only 5 more people will be hired/moved into the LTPO in 2013.

Given stronger support for the LTPO from the MoF, the ICI project would logically allocate substantial resources toward improving the capabilities of this unit – through audit training and other means. However—given the staff ceilings that affect the MoF and its VAT and income-tax directorates, the lack of salary incentives to join LTPO, and the MoF reluctance so far to appoint an LTPO Director with substantial authority—ICI’s planned support for the LTPO in Year 3 is fairly limited. The draft work plan proposes the following modest areas of support --which seem appropriate, given the slow pace of MoF plans toward building up the LTPO:

- selected, on-the-job technical assistance targeted towards specific needs of the LTPO.
- proposed provision of four vehicles, so that the LTPO staff can conduct field audits at taxpayer premises;
- proposed renovation of additional office space in Ramallah, so that the building can accommodate 40 staff, rather than 20.

**Training for VAT and income tax officials.** During May-October 2012, the Project began providing substantive programs of training for staff of the VAT (60 junior employees) and Income Tax (up to 100 more senior employees and auditors) directorates that the heads of the respective directorates feel will be extremely valuable and that, in the estimation of the VAT D/G, will lead to both greater revenue and improved relations with taxpayers.

Most of the week-long trainings have been led by a highly regarded Palestinian CPA who teaches at Hebrew University. The topics have primarily been devoted to

- explanation of the applicable Israeli VAT law of 1994 (which was never well-translated into Arabic) and clarification of the tax bookkeeping regulations that apply to taxpayers but, in general, are very poorly understood by tax officials and need to be more strongly enforced on taxpayers and;
- training for tax officials on the bookkeeping requirements that are required for taxpayers but are widely disregarded by taxpayers and should be enforced by MoF tax assessors.

ICI has proposed for Year 3 a continuation of a high level of training activity (per Activity 3.2.2) for “*basic VAT and income tax law skills and advanced VAT and income tax law skills for MoF employees in all regions of the West Bank. ICI will*

*develop training materials, and conduct training courses for attendees. Additional, more targeted trainings in areas such as legal and technical skills may be developed and implemented as the need arises.”*

**Documenting existing procedures.** During Years 1 and 2, the project also undertook for the MoF some ad hoc assistance activities with the VAT and Income Tax directorates to develop operational manuals, to disseminate them to their respective staffs and, for the Income Tax Directorate, to assist with smooth introduction of the new Income Tax Law of 2011 that became effective for the 2012 tax year. In conjunction with the new income tax law, the project also supported a “tax awareness” campaign for the income tax – related to both the new law and, via mass cellphone messages, reminders to (frequently delinquent) taxpayers to declare and pay their taxes promptly before the April 2012 deadline.

**Tax Awareness Activities.** Following the needed tax awareness efforts pertaining to the new income-tax law, ICI has become involved in a broader tax awareness publicity campaign to encourage better compliance (such as through greater use of transactions receipts by VAT taxpayers). Further, for Year 3, the ICI draft Work Plan (activity 3.3.1) proposes to continue “additional measures to increase general public awareness and to explore the needs for an additional media campaign targeted toward specific sectors of taxpayers.”

To the authors of this report, the rationale for ICI to conduct further, broad tax awareness campaign during Year 3 seems quite weak, and the activities are unlikely to have a meaningful impact on, for example, better tax compliance by VAT taxpayers. In particular, it should be noted that these tax awareness activities are being conducted before any major changes in tax forms and procedures have yet been implemented by the MoF. Awareness measures by the MoF and a USAID project seem likely to be much more credible and beneficial in the future—after the MoF has taken steps (a) to ease tax compliance, for example through e-filing, and (b) to increase MoF’s capacity to enforce compliance and collection from those who are not now complying with their tax obligations.

**Evidence of ICI project impact – none to date.** As a result of policy delays during 2011 and the first half of 2012, the plan for implementation of the December 2010 reform roadmap now seems to be a full two years behind the initial schedule. The MoF’s overall collection of tax revenue seems weaker in 2012 than it had been in 2009, not including any developments relating to the collection and transfer of clearance revenue on imports by the Government of Israel (GOI). Updated measurements for 2011 and estimates for 2012 seem to show that PA mobilization of *domestic tax revenue* has declined from 4.9 percent of GDP in 2009 to about 4.8 percent of GDP in 2011 and—based on revenue results through August—may fall to 4.6 percent of GDP in 2012.

## Concerns

**Weak prospects for MoF action on self-assessment, integration of VAT and Income Tax directorates, and build-up of LTPO operations.** Among the priorities that are noted in the section on *Reform of Tax Administration Functions and Procedures*, above, key MoF officials seem somewhat ambivalent or undecided about proceeding with three policy reforms—numbers 4, 5, and 6. In all three areas, it seems that special efforts by the Minister of Finance will likely be required in order to raise these as priorities for implementation by the Tax Council and its component departments.

During the final year of the ICI project, USAID and ICI should continue to place priority on assisting the MoF to introduce a self-assessment approach for large income taxpayers effective in 2013 (for annual declarations that will fall due in 2014). The DFID advisor for Revenue at the MoF is currently recommending that a pilot introduction of self-assessment for about 50 large companies in 2013 would give the MoF confidence to roll out the approach to larger numbers of taxpayers in the future. The MoF Director General for Income Tax formed an income tax committee six months ago that ICI has been helping prepare improved forms for self-assessment (circulated to private tax preparers for comment in early October). He seems prepared to implement a self-assessment program for up to 30 companies in 2013. However, the DG for Income Tax believes that only ten or twenty large Palestinian firms would file accurate income tax returns.

Logical steps required for successful introduction of a pilot program for self-assessment would include

- a. a policy decision by the Minister during fall 2012 to begin income-tax self-assessment for 2013 – since MoF senior revenue officials are too fearful of a possible drop in taxpayer compliance to recommend such action themselves;<sup>4</sup>
- b. follow-up consultations by MoF with private-sector tax preparers and accounting firms regarding the design of new draft income-tax forms for self-assessment – with particular focus on the 30-50 enterprises that would be selected for the pilot in 2013.

However, if the Minister is not forthcoming with a decision to implement the self-assessment pilot in 2013, it will be premature for ICI to proceed with its planned

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<sup>4</sup> While fears of a drop in compliance may be well-warranted for small taxpayers, given the weak taxpayer information system at present in the MoF, large taxpayers are likely to be highly compliant under a self-assessment approach – given the complete details of their accounts and records and given their knowledge that, as large taxpayers, they have a very high probability of being subjected to a thorough tax audit that will detect any willful violation and will leave them subject to higher payments of tax, interest, and tax penalties in the future.

assistance with training of tax officials, tax preparers, and taxpayers for a new approach that will not be immediately relevant until further in the future.

### **Proposed training activities for MoF staff.**

Typically, training of tax administration staff is most valuable after new and better laws, regulations, and procedures (such as self-assessment) have been introduced. But, for the PA currently, a shift to those new tax regulations and procedures has not yet occurred. Thus, ICI and the MoF should move cautiously in deciding upon specific training activities, and their specific justification, during Year 3. Persuasive arguments should be presented on why tax officials should be taken off their normal duties in order to participate in the training. For example:

- How will the current October/November training that is being given to income tax officials on taxpayer bookkeeping requirements result in an increase in compliance and revenue?

## **Current Activities—Policy Component**

The Policy Reform Component of the ICI project has two sub-components, 1) preparing the PA to achieve WTO observer status and, 2) improving the business enabling environment (BEE).

### **IR 1 Policy Reform: Prepare the Palestinian Authority for Observer Status**

The policy component of the ICI project has been focused on preparing the PA for WTO Observer status. Institutionally, much of the effort has been targeted to support two steering bodies—the PA’s WTO National Task Force ("NTF"), and the Technical Advisory Team ("TAT"), which are comprised of representatives from public and private sector institutions. The mandate of these entities has been to develop a collaborative relationship with other key trade-related entities in WBG and to complete the tasks necessary for filing an application with the WTO for observer status, including the completion of a Memorandum of the Foreign Trade Regime. At the operational level, the ICI project has worked with the WTO Unit established within MoNE which acts as the secretariat for both the NTF and TAT.

The obvious challenge of working with the PA toward WTO observership is the political context in which all activities take place. In other, less politically sensitive environments, WTO observer status is typically utilized as a means for a country and its leadership to learn more about the organization and WTO member requirements and, thus prepare for eventual accession. In the current environment, the PA and particularly senior MoNE officials acknowledge that observership and full WTO membership will only be realized with the explicit commitment and support of both the governments of Israel and the United States.

Still, to its credit, the PA believes that utilizing the WTO framework is an effective tool for driving the capacity building and reform program forward. In recent years, the PA has demonstrated a willingness to undertake economic reform in the governance of financial institutions, and is similarly working to strengthen the capacity of the MoNE and other trade related institutions to execute trade policy responsibilities. As a backdrop, however, there are many circumstances, entirely or partially out of the PA's control, that define the current trade regime, e.g. bilateral agreements, de jure and de facto restrictions on imports and exports, constraints on the movement of persons, and investment restrictions. Thus, the development of a coherent "national" trade policy presents significant challenges.

### **NTF and TAT**

The NTF is headed by the Minister of National Economy and currently consists of 48 members representing public and private sector entities. It is at the apex of the PA's steering and coordination bodies overseeing WTO matters. Its responsibility is to provide high-level leadership and guidance on policy issues. The NTF has participated in ICI sponsored trainings and workshops, as well as awareness raising activities. More specifically, the responsibilities of the NTF include:

- making recommendations to the PA regarding WTO-related issues, including strategic and specific policy recommendations
- encouraging dialogue among PA stakeholders regarding the WTO and Palestinian trade policy
- serving as nexus for public-private sector dialogue on economic and trade issues relevant to the WTO work program
- reviewing, approving, and monitoring the WTO work-program
- providing policy-level guidance to the TAT and reviewing its work
- building support for Palestinian participation in the WTO and for the implementation of a Palestinian WTO-compatible trade framework.

The TAT currently includes 41 members from the public and private sectors and is designated as the key technical-level interagency team responsible for issues that the West Bank/Gaza needs to address in its efforts toward gaining WTO observer status and subsequently, WTO membership. The TAT's responsibilities include:

- implementing the technical elements of the WTO work program
- establishing specialized working groups (SWGs) to undertake sectoral or functional analytical work
- dialoguing with private stakeholders on policy and technical issues;
- coordinating intra-agency policy

In addition to the support provided to the NTF and the TAT, a Transparency subcommittee has been established in order to assess the conformity of PA entities to a wide range of WTO transparency obligations.

**WTO Workshops and Trainings:** The ICI project has conducted a variety of workshops and trainings for MoNE, the National Task Force, (NTF) and the Technical Advisory Team (TAT) covering WTO GATT, GATS and TRIPS agreements and transparency obligations.

Some examples include:

- Workshop on summary of Foreign Trade Regime.
- Training on WTO Agreements.
- Workshops on Draft Industrial Property Rights Law.
- NTF/TAT Retreat.
- WTO Symposium.
- Transparency Symposium.
- Pharmaceutical, Financial Services and IPR Roundtables.
- GATS Roundtable.

**PA Capacity Building:** ICI has been providing targeted training for MoNE staff which has included English language training and communications skills training. The project has also been pursuing the possibility of training in legislative drafting.

**WTO Resource Center** ICI has been supporting the creation of a WTO Resource Center within MoNE. The Project is in the process of procuring furniture and equipment (including desks, bookcases, and computers) as well as additional resource materials (books, white papers, and journals),

**Trade Policy Conference:** ICI is assisting MoNE to organize a conference on trade policy and development which is currently planned for late 2012 or early 2013. The Conference is intended to bring together policy makers, private sector representatives, international organizations, and scholars for a dialogue on the future of Palestinian trade policy as well as ways of improving Palestinian competitiveness in regional and international markets.

## **IR2 Policy Reform: Improve Business Enabling Environment**

Under IR2, the ICI project is supporting the PA with the implementation of legal and policy reforms that will improve WBG's ranking in the World Bank's *Doing Business Report (WBDB)*. The process of economic reform has been ongoing for a number of years. Business-related reforms have been credited with creating an environment more conducive to commercial enterprises, but much remains to be done as evidenced by the low scores West Bank/Gaza receives in the *Doing Business Report*. The 2012 report ranks the West Bank/ Gaza 131 compared to 182 countries. The recently released 2013 (published October 23) report ranks WBG 135 compared to 184 countries. However, some subcomponents of the report evaluated aspects of the PA's regulatory regime

even lower, such as the ranking of 185 out of 185 for the PA's absence of any bankruptcy regime.

The business enabling subcomponent of the ICI project continues to work with the MoNE and other counterparts in trade-related ministries, and private sector representatives. The focus of activities is to focus on policy, legal, regulatory, and procedural constraints that have been identified in the USAID-funded BizCLIR report completed in 2010 and the WBDB.

More specifically a **Core Technical Team (CTT)** has been created to address enabling environment issues. Led by the Minister of National Economy, the CTT has been tasked to review, analyze, and implement a strategy to improve WBG's ranking. In addition to MoNE, the team consists of representatives from public and private sectors institutions: the Palestinian Investment Improvement Agency (PIPA), the Palestinian Monetary Authority (PMA), the Federation of Chambers of Commerce, and the Palestinian Bar Association. ICI is providing the CTT with the technical assistance needed to carry out its mandate and the project has already drafted a Strategy Report which consists of a detailed action plan that is being reviewed by MoNE. While this activity is envisioned to undertake interventions in the short, medium and long terms to improve WBG ranking, given the projects conclusion in August 2013, it will focus its technical assistance primarily at institutionalizing the CTT and carrying out short term interventions.

## Concerns

**Technical Capacity in MoNE is extremely limited** notwithstanding the dedicated support the ICI project has been providing to the Ministry and other institutions that have responsibility for implementing a WTO-consistent legal and regulatory framework. As a result, the ability of the ICI project to make progress in either of the policy subcomponents has been significantly constrained. As is typical in similar developing country environments, progress will depend on enhancing the human resources and technical knowledge needed to tackle the challenges of WTO accession.

Much of the work under ICI has focused on preparing the PA for eventual accession to the WTO but membership in the WTO is only one component of a national trade policy. In most countries, trade interests are pursued through participation in the WTO. But, they are also expressed through participation in bilateral and regional trade agreements, and by maximizing the utilization of whatever trade preferences may be available. These are elements of the PA's trade situation which the ICI project does not appear to target, yet they could meaningfully contribute to a broader support for trade across the stakeholder community, particularly the business sector.

The PA's ability to effectively move forward with WTO accession as well as dealing with regional and bilateral trade issues will depend on its success in

creating institutional structures that effectively bring together the resources of the entire PA government. There has been some initial success, fostered by the ICI, in creating a number of coordinating mechanisms such as the NTF and the TAT. However, at present, these entities rely almost exclusively on the technical knowledge of the WTO Task Force which itself, is significantly limited in its capacity and has reportedly suffered from high rate of staff turnover.

Given the key role that the WTO Unit occupies, ICI would be well-advised to focus more intensively on improving its capacity while encouraging an expansion of its mandate to a broader coordination role with respect to all PA trade policy—and perhaps encouraging a change of name to reflect its broader trade policy responsibilities. At the same time, to the extent feasible, each of the inter-agency members of these coordinating entities also need to develop independent knowledge and capacity to address trade policy issues that can be deployed, in a coordinated fashion to address WTO and other trade related challenges that will face the PA. The creation of counterpart coordinating entities, at least in the primary line ministries (Agriculture, Finance, etc.) should also be encouraged.

**Training efforts** to date, have focused on activities that can better be described as “awareness raising,” something that is certainly a necessary precondition for engaging with relevant stakeholders. Most of the workshops appear to have been “one-off” efforts in a variety of topical areas that preclude stakeholders from developing a deeper understanding of the policy issues as they may affect WBG. The efforts focusing on transparency issues—including the creation of a Transparency subcommittee and particularly the development of a video—are laudable. ICI started working with the ministry at or below the zero level, so training was really needed at the beginning.

In order to address this, an intensive series of trainings should be developed, focusing on specific relevant issues. This will require a greater level of prioritization—not every WTO issue requires the same amount of attention, particularly at the earlier stages of engagement. ICI’s efforts should focus more specifically on those issues which will have a more immediate benefit on WBG’s trade performance. This would include focusing on strengthening institutional structures and human resources as well as taking on policy issues that are constraints to trade, such as standards and SPS matters—which would have positive benefits for increased entry of Palestinian products into the Israeli market. Admittedly, this will require close cooperation with other donor projects that may be working in the same policy space, which are planned for year 3.

The challenges of preparing the PA for taking on WTO obligations are significant, and a cohesive strategy for doing so in major areas of concern should be developed. For example, creating an intellectual property rights regime in WBG will require substantial effort and resources, before the PA can take on the obligations of the Agreement on Trade Related Intellectual Property (TRIPS). This will entail activities directed at improving the capacity of not only MoNE, but

the Ministry of Culture which has responsibility for copyright issues. Furthermore, enforcement components of the TRIPS will require engagement with the PA Customs Authority (regarding border control) as well as the judiciary in order to train judges and attorneys with respect to intellectual property law. At present, the ICI's Year 3 plan suggests only generic interventions, there is very little specificity regarding activities for the last year of the project.

IPR is only one of the areas in which increasingly technical and focused training for PA officials will be necessary. This will be the case with respect to Sanitary and Phytosanitary (SPS) issues, Technical Barriers to Trade (TBT) and trade in services issues, to name the most obvious. As a result, there will continue to be a degree of competition within the PA for ICI's resources, necessitating some process by which priorities can be established for technical assistance. One of the notable successes of other WTO accession projects—notably in Vietnam—was the creation of a governmental steering committee which served to review and prioritize project interventions requested of USAID. Once activities were approved USAID's implementers had a clear mandate to proceed and were able to respond with high quality technical assistance. By contrast, the situation in WBG suggests a more disordered approach with ICI attempting to field a variety of requests from various parts of the PA, without any meaningful buy-in from senior PA officials or from the technical offices, which appear to be competing for ICI's resources and attention. A government steering committee (as distinct from the NTF and TAT) consisting of MoNE and a few other key ministries should be established as the primary interlocutor with ICI. Rather than a myriad of requests for ICI support having to be fielded by the project, such an organizational structure would encourage the PA to prioritize its requests for technical support taking account of those interventions which may have some more immediate beneficial impacts on the business enabling environment.

**Legal and regulatory reform** In order for WBG to integrate successfully into the global economy, it will need to continue the process of modernizing its laws and regulatory procedures to conform to international standards. At present, neither the PA nor ICI appear to be approaching legal reform in a comprehensive and methodical way. While ICI is providing support for legal drafting of needed legislation, it does not appear that the process has been an inclusive one from the outset, taking into consideration the interests of varied stakeholders both within government and in the private sector. Both the PA and ICI need to work at every stage of the legislative development process with a broad representation of stakeholders likely to be affected by these legal and regulatory reforms both because of the useful input these constituencies can provide as well as the support and advocacy these groups can provide to propel the reform process.

**Trade regime/Industrial policy** The PA's cautiousness on some trade-related issues stems from its desire to design a trade regime in concert with a strategic industrial policy that will ensure economic growth while at the same time providing protection to the economic sectors already established in WBG.

Providing support to the PA and the private sector as they work collaboratively toward a cohesive trade policy regime is to be encouraged, and ICI's support for the forthcoming trade policy conference is a positive step in promoting a constructive dialog on competitiveness issues and a future Palestinian state's role in the global economy. Still, ICI and subsequent assistance will need to be cautious about calls for economic planning that is not predicated on an open economy that is likely to best serve WBG's long term economic growth goals.

**WTO Resource Center** While ICI's support for knowledge management within the PA on WTO and broader trade policy issues is laudable, the benefit of purchasing hard copy reference material and journals is questionable for a number of reasons. The material is not likely to be accessible to a broad cross-section of stakeholders, as is suggested, and there is a real question in the evaluators mind about the sustainability of such an effort and the "perishable" nature of printed materials. Rather, the project would have greater impact by encouraging the utilization of on-line resources and training materials which are extensively available both from the WTO and other credible sources. These materials are typically more current and are more likely to be accessible to PA officials and stakeholders alike. ICI has been developing a web portal, ostensibly for knowledge management purposes, but the evaluation team did not have an opportunity to review and evaluate the effort.

**Doing Business Ranking** There appears to be a mindset that improvement of WBG's WBDB scores is an end unto itself rather than utilization of the rankings as indicators of meaningful progress with the economic reform agenda. ICI's has expended a significant level of effort with the institutional aspects of the CTT, but as of the conduct of this evaluation, it is too soon to determine whether the process envisioned with the establishment of the CTT will yield meaningful changes in the enabling environment. The consultative nature of the CTT's work may pay off in the future, but other donors engaged in policy reform suggest that a more targeted focus is necessary within the context of the PA.

It is the belief of the evaluation team that the regulatory reform objective in future efforts should be recast. There are examples in other countries where pursuit of an improved Doing Business ranking has been achieved, but without any appreciable alteration of the practices that constrain the business community. Therefore, while perhaps semantic in nature, future efforts focusing on the enabling environment would be well advised to focus on the following as key objectives:

- Enabling a more transparent, predictable business environment, ruled by laws and compatible to international practices and WTO;
- Building a body of laws, in which all people live and work by laws, prevent violations of laws in state management activities; and
- Building a competitive and sound business environment for investors of all economic sectors so that they can successfully compete and are able to seize opportunities resulting from trade liberalization.

- More importantly, success of the effort should be predicated on not only improved Doing Business indicators, but a variety of other indicators and the actual performance of the Palestinian economy in measures such as investment and trade performance.

## Follow-On Recommendations

**For the Fiscal Reform component**, several elements of the draft ICI work plan for Year 3, are well-aligned with the needs and priorities of the medium-term IMF plan for reform of the tax administration – namely:

- a. development of a Tax Procedures Law that will be critical to the MoF's future ability to reduce tax evasion and enforce compliance by taxpayers,
- b. initial progress on building a new IT system, beginning with an integrated data base of tax information – to replace the weak and fragmented data bases that currently exist within the MoF, and,
- c. if the Minister decides to begin implementing the 'self-assessment' approach to income taxpayers for the 2013 tax year, provision by ICI of the technical assistance and training of tax officials and taxpayers that will be important to achieve a successful outcome of that pilot program.

Indeed, the ICI project has already responded quickly to provide TA that will help accelerate progress by the MoF in each of these areas. The leadership of the MoF now seems committed to implementation of those key elements of the tax administration reform program – so that a high level of ICI effort for TA and training seems warranted for those elements in Year 3.

However, the evaluation team would urge USAID/WBG to consider action related to the following issues concerning the October 1 draft Work Plan for Year 3:

1. The General Tax Director for the MoF wishes to narrowly focus the Ministry's current energies on the tax information system, departmental reorganization, and (in the first half of 2013) improved data-sharing with Israel, per the Paris Protocol and a PA agreement of July 2012 with Israeli authorities, in order to collect more revenue quickly. In contrast, the view of the IMF and of the resident DFID Revenue Advisor at the MoF is that the Minister must persuade the General Tax Director to put additional parts of the program for reform of the tax administration on a faster track for 2013. The evaluation team agrees with the plan of IMF and DFID experts to encourage the Minister to announce this fall accelerated action in additional areas.
2. The ICI work plan suggests two additional work areas where the IMF agrees that the MoF should be pressing ahead – to implement in 2013 a

pilot for self-assessment of corporate income tax;<sup>5</sup> and to expand and strengthen the Large Taxpayer Office (LTPO). But the General Tax Director does not consider the pilot for self-assessment of income tax to be a priority; and the Directors General for the Income and VAT/Customs Departments seem disinclined to assign additional staff to the LTPO or to empower it with a director in 2013.

For the next five years, USAID is in the best position among donors to meet the expected need of the MoF for a high level of external technical assistance and training that will be needed for the reform of the PA's tax administration and significant improvement of revenue performance. The MoF has comprehensive needs for organizational restructuring and for development of the new business processes, information systems, and trained staff; and the available staff in MoF revenue departments is only about half the level typically required in other countries. The required scale for such USAID assistance would be sufficient to warrant a separate USAID tax project – as a follow-on to the fiscal component of ICI and to the components of the Trade Facilitation Project's work with Customs that will end in 2013.

Based on USAID's successful past experience in countries such as El Salvador and Egypt, the capacity-building process for major improvements in tax administration – major upgrades and development of the IT system, changes in business processes, and the recruitment, training, and retraining of staff to implement the new systems – may take a decade or more of on-going resident technical assistance by USAID project teams. However, the ultimate payoff is potentially extremely high and can be measured in many cases by both improved revenue performance for the government and reduced burdens on taxpayers.<sup>6</sup>

Alternatively, the USAID assistance could be provided in a project that combines both tax and business regulatory components (such as had been the design for ICI and has been done for similar recent USAID projects in Georgia and Moldova). However, in the West Bank, the potential synergy between the two components is rather limited to a few areas – such as (a) simplifying combined registration requirements for business licensing and tax purposes (for example, implementation of one-stop shops) and (b) development of data interfaces and exchanges between the MoF revenue authorities and other PA ministries (including MoNE and Mol).

### **For the Policy Reform component**

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<sup>5</sup> An 18-month program and schedule for introduction of income-tax self-assessment was outlined by a team of IMF experts in fall 2011—*Improving Compliance with Income Tax* (December 2011). However, implementation of the new approach, on a pilot basis, is now a year behind the proposed schedule.

<sup>6</sup> See case illustrations cited in *USAID, Tax Administration Reform: A Primer* (November 2012),

**There is a need to focus and concentrate the project.** ICI's mandate in the policy area covers a wide range of policy issues, made more difficult by the high levels of expectation from various elements within the MoNe and other parts of the PA. While many priorities have been identified through joint consultations with Ministry officials, MoNE's periodic inability to keep its commitments on policy and organizational changes often leads to requests for further technical assistance and other types of support. Coupled with the short timeframe remaining for ICI, this environment requires a greater emphasis on identifying clear and achievable goals before the project ends.

**Close coordination with other donors in this policy space is essential.** The EU is pursuing plans to commence a project that will focus on many areas that overlap with ICI—including drafting relevant legislation related to WTO accession, the formulation of a National Trade Policy for Palestine, and capacity building at the MoNe. CIDA is also undertaking activities—implemented by GIZ—that has potential for overlap with ICI's broad mandate. The crowded donor space with respect to trade policy and regulatory reform will require greater technical level donor coordination—particularly with a follow-on project after ICI's termination.

**Consistency in Technical Assistance** Experienced development practitioners know that personal relationships between advisers and their counterparts is one of the single most critical ingredient in successful delivery of technical assistance. Given its history, the ICI project has been challenged in its ability to create a strong foundation of mutual trust and respect with its PA counterparts. ICI's staff turnover and that which seems to be endemic within the PA creates additional hurdles for effectively implementing a program of technical assistance. Ongoing and future efforts in supporting the MoNE would benefit from building strong relationships both at higher political levels as well as at the working/technical level.

**Cost-efficient and effective Training** Timely technical assistance depends on resourcefulness in providing highly qualified short term expertise. The range and complexity of the specific tasks often requires highly specialized knowledge and experience. In order to reduce costs, experts can be drawn from USG and local government agencies in the United States. Many of these experts can provide long-term assistance through follow-up engagements to ensure consistency and completion of the endeavors they supported—and with the added benefit of developing relationships that can improve outcomes. Other USAID missions around the world routinely call upon experts from U.S. federal and local departments, agencies, private institutions, as well as foreign experts to render technical assistance. Best practice would be to employ this technique on an expanded scale in order to maintain relationships with PA counterparts throughout the entire project and cycle

**Capacity Building for the legislature.** Because the PLC has not met since 2007, the process of enacting legislation in WBG has been awkward with Presidential decrees taking the place of the customary legislative enactment. The understanding under which such decrees are being enacted is that once the legislative body reconvenes, it will have the mandate of reviewing all laws having been thus enacted. Looking forward to a time when the legislative assembly reconvenes, it will be important to insure that the legislature has the capacities to meet its responsibilities to review, approve and monitor the legal reforms related to the business enabling environment and those which implement trade policy and accession to the WTO.

## ICI Fiscal Training Events, April-October 2012

**Table 1 -Completed Fiscal Training Activities through Oct  
2012**

Training or Activity Number	Training Manual or TA Activity Title	Distribution	Objectives of training or Activity	# of trainees	Location and Date or Duration
T1	Basic VAT - Ramallah	Basic VAT Training for VAT Employees	Build the legal capacity of the VAT Employees	25	Ramallah 16-22/April/2012
T2	Basic VAT - Nablus	Basic VAT Training for VAT Employees	Build the legal capacity of the VAT Employees	27	Nablus 13-17/May/2012
T6	New Income Tax (Law and Regulation) Ramallah	Training on the new Income Tax Law and regulations	Inform and train the Income Tax Employees on the New Income Tax Law	27	Ramallah 21-22/May/2012
T8	New Income Tax (Law and Regulation) Ramallah	Training on the new Income Tax Law and regulations	Inform and train the Income Tax Employees on the New Income Tax Law	27	Ramallah 28-29/May 2012
T9	New Income Tax (Law and Regulation) Nablus	Training on the new Income Tax Law and regulations	Inform and train the Income Tax Employees on the New Income Tax Law	32	Nablus 4-5/June/2012
T10	New Income Tax (Law and Regulation) Nablus	Training on the new Income Tax Law and regulations	Inform and train the Income Tax Employees on the New Income Tax Law	33	Nablus 11-12/June/2012

Training or Activity Number	Training Manual or TA Activity Title	Distribution	Objectives of training or Activity	# of trainees	Location and Date or Duration
T11	New Income Tax (Law and Regulation) Bethlehem	Training on the new Income Tax Law and regulations	Inform and train the Income Tax Employees on the New Income Tax Law	20	Bethlehem 18-19/June/2012

T12					
T14	VAT for Income Tax – Ramallah	Training for Income Tax Employees on VAT	Increase the knowledge of the Income Tax Employees on VAT regulations	27	Ramallah 15-19/July/2012
T15	Advanced VAT – Ramallah	VAT Training for VAT Employees	Advanced Training for VAT employees to develop their advanced skills	26	Ramallah 24-28/June/2012
T16	Advanced VAT – Nablus	VAT Training for VAT Employees	Advanced Training for VAT employees to develop their advanced skills in VAT	26	Nablus 1-5/July/2012
T17	VAT for Income Tax – Ramallah	VAT Training for Income Tax Employees	Advanced Training for Income tax employees to develop their advanced skills in VAT	31	Ramallah 26-30/August/2012
T18	VAT for Income Tax – Ramallah	VAT Training for Income Tax Employees	Advanced Training for Income tax employees to develop	36	Ramallah 2-6/Sept.2012

			their advanced skills in VAT		
<b>T19</b>	Bookkeeping for VAT – Ramallah	Bookkeeping Training to assist in tax auditing	Increase VAT employees’ skills in bookkeeping	29	Ramallah 16-19/Sept./2012
<b>T20</b>	Bookkeeping for VAT – Nablus	Bookkeeping Training to assist in tax auditing	Increase VAT employees skills in bookkeeping	26	Nablus 23-26/Sept.2012
<b>T21</b>	Bookkeeping for Income Tax - Ramallah	Bookkeeping Training to assist in tax auditing	Increase Income Tax employees’ skills in bookkeeping	26	Ramallah 7-10/October/2012
<b>W1</b>	New Income Tax Law and Regulations	Informing the Income Directors on the new Income Tax Law	Awareness for the Income Tax Directors on the new Income Tax Law	24	Ramallah 16/May/2012
<b>W2</b>	New VAT Manual	Discuss the new VAT manual and make recommendations	Issue new VAT manual	23	Ramallah 22/May/2012
<b>W3</b>	Workshop for auditors and accountants	Inform the accountants and auditors on the new Income Tax Law	Increase awareness of the new Income Tax	70	Jenin 7/June/2012
<b>W4</b>	Workshop for auditors and accountants	Inform the accountants and auditors on the new Income Tax Law	Increase awareness of the new Income Tax	70	Ramallah June/27/2012
<b>W5</b>	Workshop for auditors and accountants	Inform the accountants and auditors on the new Income Tax	Increase awareness of the new Income Tax	60	Nablus 11/July/2012

		Law			
<b>W6</b>	Workshop for stone and marble businesses	Inform the owners of the marble and stone businesses on the new income tax law	Increase awareness of the new Income Tax	65	Bethlehem 12/July/2012
<b>W7</b>	Workshop for auditors and accountants	Inform the accountants and auditors on the new Income Tax Law	Increase awareness of the new Income Tax	100	Hebron 2/September/2012

**Table 2 – Planned Fiscal Training Activities through March 2013**

Training or Activity Number	Training Manual of TA Activity Title	Distribution	Objectives of training or Activity	# of trainees	Location and Date or Duration
<b>T3</b>	Bank procedures for Tax Computer Directorate Employees		Bank procedures related to the Tax Computer Directorate job responsibilities	15	Ramallah Dec.,2012
<b>T4</b>	Training for Judges on the new Income Tax Law		Give Knowledge for four Judges on the New Income Tax Law and Regulations for work purpose	4	Dec.,2012
<b>T7</b>	Java training for Computer Tax Department employees	Training for Computer Tax employees in Java programming language and in web programming	Develop the capacity and skills of staff in the design of websites and web pages	16	Dec,2012- March,2013

<b>T22</b>	Bookkeeping for Income Tax - Nablus	Bookkeeping Training to assist in tax auditing	Increase Income Tax employees' skills in bookkeeping	21	Nablus Nov. 5-8,2012
<b>T23</b>	Basic VAT for Customs Employees	Basic VAT Training for VAT Employees	Increase Customs Employees skills in VAT	25	Ramallah 11-14, Nov.,2012
<b>T24</b>	Basic VAT for Customs Employees	Basic VAT Training for VAT Employees	Increase Customs Employees skills in VAT	25	Ramallah 18-21, Nov.,2012

## Policy Reform Component: Meeting schedule

Date	Organization	Time		Place and Address	Point of Contact
	<b>USAID/WBG</b>	10:30-11:30		DVC	
	<b>CON GEN</b>	1:00-2:00		USAID Jerusalem	
	<b>ICI</b>	09:00-11:30		ICI Offices, Albirah, Saber Altaweel Building	Amjad Badran 0598935480 Maher Hamdan 059-9272606
	<b>ESAF</b>	12:00- 13:00		ESAF Al-burj alkhdar Buidling, 5 Floor, Nahda St (TBD) Ramallah	Zaid Wahbe 0598903686
	<b>PCMA</b>	13:15- 14:30		Almoun St. Albirah	Sarab Safi 02-2973562
	<b>PMA</b>	14:30- 15:30		Jerusalem- Nablus St, PMA 6 <sup>th</sup> floor, Albirah.	Zaid Wahbe 0598903686 Ragheb Buderi 0544489682
	<b>Ministry of National Economy</b>	09:00-09:45		Im Alsharayt, Ramallah	Eyad Assi 0598926774
	<b>Ministry of National Economy</b>	09:45 -10:30		Im Alsharayt, Ramallah	Imad Aljalad 0599200869
	<b>Ministry of National Economy</b>	10:30- 11:15		Im Alsharayt, Ramallah	Suha Awadallah 0569322219
	<b>Minister's Advisors</b>	11:15-12:00		Ministry of National Economy, Im Alsharayt,	Suha Awadallah 0569322219

				Ramallah	
	<b>World Bank</b>	10:00-11:00		World Bank, Daheyet Albarid, 6th Floor	Nur Nasser Eddin
	<b>IFC</b>	11:15-12:15		IFC, Daheyet Albarid 6th Floor	Yousef Habesch
	<b>PGF</b>	12:30-1:30		World Bank Building, IMF Office 5th Floor	Steve Crout
	<b>TFP Project</b>	12:00-1:30		Notre Dame	Abed Hammouri
	<b>Ministry of National Economy</b>	09:00 -10:00		Im Alsharayt, Ramallah	Ali Thouqan 0598816810
	<b>NTF/TAT Representatives + Transparency Committee</b>	10:00 -11:00		Ministry of National Economy, Im Alsharayt, Ramallah	Suha Awadallah 0569322219
	<b>Palestinian Federation of Industries</b>	11:00–12:00		Ramallah, Betounia, Kharaz Building 5 <sup>th</sup> floor.	Ayman Sbieh 0599552012
	<b>CIDA</b>	09:00- 10:00		12 Elias Odeh Ramallah	Pierre-Yves Monnard 054 7735965 02-2978461
	<b>ICI</b>	10:00-11:00		ICI Office, Saber Taweel Building, Al Bireh, Ramallah	Maher Hamdan 0599272606
	<b>GIZ</b>	11:00-12:00		Ramallah	Said Dweikat 0597930059
	<b>Federation of Palestinian Chambers of Commerce</b>	12:00-13:00		Ramallah, Ein Misbah	Rula Imam 0599196111

	<b>PALTRADE</b>	09:00- 10:00		PALTRADE, Watanya Building, Albirah	Hanan Taha 0599417919
	<b>ICI</b>	10:00–11:00		Saber Al Taweel Building, Al Bireh, Ramallah	Nidal Sliman 0597777839
	<b>AMCHAM</b>	11:00-12:00		Masyoun, Council of Ministers St. Ramallah.	Muntaser Abdellatif 0597957781
	<b>Compete (TBC)</b>	12:00–13:30		Compete’s office, Ramallah	Dennis 0569556688
	<b>Debrief with USAID MD and PEO staff</b>	3:00-4:00		Tel Aviv	
	<b>EU</b>	10:00–11:00		Eu Office, Shekh Jarrah, East Jerusalem	Thomas Boyer (0522625025)
	<b>IFC</b>	11:00-12:00		IFC Washington DC	

## Fiscal Reform Component: Meeting schedule

Date		Title	Time	Place		
		<b>USAID/WBG</b>	10:30-11:30	DVC		
		<b>CON GEN</b>	1:00-2:00	USAID-Jerusalem		
		Briefing on Year 3	9:00-11:30	ICI-Ramallah, Saber Altaweel Building		
		TFP COP	12:00-1:30	Wednesday 3/10/2012		
		D.G of Property Tax	2:00-3:00 pm	MoF, Ramallah		
		VAT Control Department	9:00-10:00 am	Office (MoF), Ramallah		
		D.G. of IT	10:00-11:00 am	MoF, Ramallah		
		Head of the Tax Council	11:00-12:00	MoF, Ramallah		
		1. Nur Nasser Eddin, Local Economist 2. Orhan Niksic	10:00-11:00 am	World Bank, Daheyet Albarid, 6 <sup>th</sup> Floor		
		Mr. Yousef Habesch	11:15-12:15pm	IFC, Daheyet Albarid 6 <sup>TH</sup> Floor		
		Steve Crout	12:30-1:30 pm	World Bank Building, IMF Office		

5 <sup>th</sup> Floor						
		Hana' Zidan (training), Rafiq (inspection), Sana' (eval)	9:00-10:00 am	MoF, Ramallah		
		E & Y	10:30-11:30 am	Ramallah-Almasyoum , Padico Building, 7 <sup>th</sup> floor		
		D.G of VAT	12:00-1:00PM	MoF, Ramallah		
		JICA	1:30-2:30 pm	Alwateneya Building, Albireh,		
			9:00-10:30	ICI-Ramallah, Saber Altaweel Building		
		Acting Accountant General	10:30-11:30 am	MoF, Ramallah		
		IMF	10:00-11:00 am	IMF, Daheyet Albarid		
		D.G of Income Tax	11:30-12:30	Hamza Zalloum		
		Akram Hasouna;	12:30-1:30			

		Jamal Milhem				
		Tel Aviv	3:00- 4:00 pm			