

Technical Assistance Programs

FY2005 Appropriation	FY2006 Treasury Request
\$18,848,000	\$20,000,000

For FY2006, the Treasury requests \$20 million for Treasury International Affairs Technical Assistance (TIATA) programs managed by the Office of Technical Assistance (OTA). Of the FY 2006 request, \$8.5 million will be used in coordination with other U.S. Government agencies to combat terrorist financing and \$2.8 million will be used for programs in Afghanistan. The increased funds requested will allow OTA to respond to many requests for technical assistance that are in the best interests of the United States, but for which financial resources are currently unavailable. This level of funding will allow OTA to pursue the following objectives:

- Design and implement technical assistance projects to promote economic policy reforms, enable countries to develop market-oriented economies, strengthen governance, and build capacity in countries that have expressed an interest in receiving such assistance and where the U.S. has crucial foreign policy interests.
- Continue expansion of Treasury’s major commitment to provide technical assistance to reform-oriented countries in Sub-Saharan Africa. Existing programs operate in South Africa, the West African Economic and Monetary Union (WAEMU) in Burkina Faso, and the East African Community in Uganda and Tanzania, as well as in Liberia, Nigeria, Ghana, Guinea, Ethiopia, Mauritius, and Zambia. Expansion to Botswana, Chad, Senegal, and the Democratic Republic of Congo, among others, is under consideration and would be made possible with the requested funding.
- Continue existing anti-corruption, anti-money laundering, and related programs to combat the financing of terrorism (AML/CFT) that are currently operating in Latin America and the Caribbean (Paraguay, Peru, twenty-one countries in the Caribbean, and all but two of the countries in Central America); Africa (the Central Bank of Western Africa (GIABA) and the Western African Economic Union (ECOWAS), the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG), Senegal, Tanzania, Uganda, and Zambia); Asia (Sri Lanka and Thailand); as well as those operating in Central and Eastern Europe (CEE) and the Former Soviet Union (FSU) that are financed with TIATA funds, including Albania and Ukraine. In addition, support the efforts of the inter-agency process by participating in assessment missions and performing follow-on technical assistance in countries designated as vulnerable to terrorist organizations and their funding efforts.
- Engage in technical assistance to support the legitimacy, and build the effectiveness, of governments operating in post-conflict situations. Policymakers have increasingly found that technical assistance can play a positive role in helping post-conflict governments develop fiscal operations important for supporting essential

reconstruction activities and fostering democracy. Initially deployed in Bosnia and Kosovo, Treasury technical assistance has been used to great effect in Afghanistan, Liberia, Haiti, and Sri Lanka, as these countries cope with the after-effects of armed conflict. Treasury technical assistance teams, in close cooperation with the State Department, also have conducted budget and financial institutions assessment missions to the Palestinian Authority and are in the process of designing budget, tax and banking supervision engagements that will assist the Authority. In addition, Treasury has made a major commitment to post-conflict Iraq, posting more than 60 advisors in that country during the first 18 months of engagement.

The appropriations requested for Treasury technical assistance in the FY2006 request are independent of the monies Treasury receives from U.S. Agency for International Development (USAID) under the Support for East European Democracies (SEED) Act, which funds work in Central and Eastern Europe (CEE), and the FREEDOM Support Act (FSA), which funds work in countries of the Former Soviet Union (FSU). Wherever possible, Treasury uses funds obtained from local USAID missions, or other sources, to leverage TIATA funds. Increased resources in FY2006 would enable OTA to serve more governments, many in parts of the world where transportation, living conditions and security require greater expenditures to maintain missions than in parts of the world where OTA has traditionally conducted technical assistance.

KEY FY2004 SUCCESSES

The five programs within OTA, each representing one of Treasury's core disciplines, have achieved major project successes in FY2004. Many were the result of OTA's focus on economic policy reforms, anti-corruption, internal institutional controls, governance, and fiscal transparency. Examples include:

Budget (internal controls, fiscal transparency, and governance): Providing critical assistance which proved instrumental in avoiding failure of South Africa's disabilities system, the nation's primary social service and largest budget item. OTA guided the establishment of a planning board that will collect and analyze data to determine entitlements and levels of support for the future.

Government Debt (capacity building, internal controls, and governance): Assisting the government of Uganda in the design and sale of its first two-year bond, which were followed quickly by three, five, and ten year maturity issues, thereby dramatically extending the yield curve for the country's debt. It is also noteworthy that ten-year maturity issues are extraordinarily rare in developing economies.

Financial Enforcement (anti-corruption, anti-money laundering, and counter financing of terrorism): Providing technical assistance to Haiti in tracing monies diverted by former government officials and assisting in development of a Haitian Financial Crimes Task Force (FCTF) that will address corruption. Preparing Ukraine for the FATF evaluation, which resulted in successfully having the country removed from the Non-Compliant Countries and Territories (NCCT) list. Creating in Paraguay an effective AML/CFT regime, including an internationally

acceptable Financial Intelligence Unit (FIU), and improving the border controls through customs in the tri-border area to combat money laundering and terrorist financing.

Financial Institutions (capacity building, governance, and fiscal transparency): Working with the Savings Deposit Insurance Fund in Turkey, the Financial Institutions Policy and Regulation team assisted the Fund in making substantial progress in transitioning its disposition programs from a high cost legal collection operation to a rapid asset disposition vehicle that recognizes cash collections at “net present value” in the shortest possible time. For example, the Fund is scheduled to close its first international non-performing loan sale by the end of 2004. The portfolio of loans being sold has a book value of \$220 million. In South Africa the team assisted the country in moving away from the current position of implicitly guaranteeing deposits. This was accomplished through development of a policy framework, development of appropriate legislation, and implementation, through the establishment of a South African Deposit Insurance Scheme.

Tax (fiscal transparency and capacity building): Tax agencies were reorganized to merge collection activities and consolidate local office authorities to approach world standards in transparency and efficiency in Botswana, Ghana, Nicaragua, Paraguay and Turkey. Significant progress in tax collection include: Ghana with a 48 percent increase, Honduras with a 40 percent increase, and Nicaragua with a 30 percent increase.

POST-CONFLICT COUNTRIES/FAILED-STATES INITIATIVES

The OTA has become increasingly active in providing assistance to countries in post-conflict situations and countries that have been identified as failed states. In these engagements, the OTA has proved itself able to respond quickly with the placement of expert teams into inhospitable operating environments in which technological infrastructure and institutional capacity are lacking. OTA advisors have been able to make a marked contribution to the stabilization of the respective ministries with which they are paired.

Although expenses in post-conflict/failed state initiatives are not covered long term with TIATA funding, there are occasions when it is necessary to bridge the funding gap until alternative resources become available. Unlike funding from country-specific sources, such as the Support for East European Democracies Act and the Freedom Support Act, TIATA funding is sufficiently flexible to do this.

Iraq and Afghanistan

In addition to its work financed by the Congressional appropriation in FY2004, the OTA received \$29.1 million out of the FY2004 Supplemental Budget to pay for technical assistance activities in Iraq. In both Iraq and Afghanistan, the focus of work has been on the creation of sound economic frameworks upon which future growth can be built. In Afghanistan, this has involved the initiation of a streamlined government budget process, an improvement of the payment system for government salaries, and the creation of a Debt Management Unit within the Ministry of Finance which manages outstanding debts and guarantees. A recent assessment mission in Afghanistan has identified technical assistance needs relating to all five of the OTA disciplines, and deployment of advisors is planned for as early as January 2005. In Iraq, the

Treasury-led effort has aided in the development of a central budget, a revitalization of the banking system, an introduction of sound management practices and transparency at the Central Bank and Ministry of Finance, the creation of a trade bank, and a strengthening of efforts aimed at combating financial crimes and terrorist financing. In addition, Treasury provided assistance and advice in the extensive process of verifying and reconciling outstanding Iraq debt in preparation for external debt reduction proceedings through the Paris Club. Treasury also assisted the Iraqis with rescheduling Central Bank of Iraq government securities, thereby paving the way for domestic capital market development, and organized a joint task force on domestic debt to draft and implement specific rules and procedures for the issuance of domestic government securities. This culminated in the first ever market-based auction of Iraqi treasury bills by the Ministry of Finance in July 2004.

Activities Partly Funded by the Iraq Supplementals

Various activities in Iraq required support from Treasury Department advisors. These activities included preparatory assistance for the country's currency reform, asset recovery and cash shipments.

- **Currency Reform**: Treasury provided assistance on the planning and implementation of Iraq's currency exchange. The Iraq Currency Exchange took place from October 15, 2003 to January 15, 2004. Nearly 5 trillion dinars were exchanged over the three month period. Printing and delivering this currency on time was an enormous feat -- the equivalent of twenty-seven 747 plane loads of currency were delivered to Iraq and distributed to the public through approximately 240 exchange sites. Iraq now has a single, high quality currency, a crucial step for stimulating economic growth.
- **Asset Recovery**: Treasury arranged for rapid vesting in March of \$1.7 billion of U.S. assets, which were frozen over a decade ago as part of the UN sanctions regime against Iraq, at the New York Fed for the benefit of the Iraqi people. Treasury also spearheaded international efforts, since of the beginning of the conflict, leading to the identification and freezing of over \$2 billion of Iraqi assets outside the U.S. and Iraq and the repatriation of over \$2.7 billion in frozen Iraqi funds by U.S., foreign countries, and the Bank for International Settlements, of which approximately \$900 million has been transferred the Development Fund for Iraq (DFI). Treasury is providing information and assistance to Iraqi officials to help them assume primary responsibility for asset recovery.
- **IMF Engagement**: Treasury has helped mobilize support from the International Financial Institutions, including the International Monetary Fund. In September 2004, the IMF Executive Board approved SDR 297.1 million (about \$436.3 million) of Emergency Post-Conflict Assistance (EPCA) to Iraq, which helped secure Paris Club debt reduction. Treasury has been working closely with the IMF and Iraqi authorities to help ensure the program is on track.

Liberia

The OTA's technical assistance to the National Transition Government of Liberia (NTGL) represents a comprehensive approach to improving operational and management capacity within key governmental institutions. The overarching goal of the engagement is to improve the government's ability to generate revenue (via increased tax collection and a rationalization of the tax system), to create a transparent and sound government budget that reflects a measured

prioritization of expenditures, to document existing debt and establish sound strategies for working cooperatively with creditors, and to transform the banking sector into an efficient means of allocating financial resources into productive economic activities. The OTA was able to place a team of advisors on the ground in Monrovia earlier than other providers of assistance in the economic sector.

Haiti

The OTA, a “first responder” to the post-crisis situation in Haiti, rapidly completed a number of functional assessment missions and began the process of planning a broader engagement. The OTA Financial Enforcement program evaluated the financial crimes law enforcement needs of the Ministry of Finance and the Ministry of Justice; began efforts to organize a Haitian investigation into the conversion of assets by the prior government; and initiated the process of building capacity to conduct financial investigations.

The OTA Tax Policy and Administration Program focused on ways to improve revenue generation, while the emphasis of the Budget Policy and Management Program was on the pressing financial problems of uncontrolled current accounts. This program also focused on the development of a proposed budget that would be responsive to new demands for police, new elections, and the need for new policies by the government.

PROGRAM MANDATE

In operation since 1991, the OTA provides expert advisors to countries in Central and Eastern Europe and the former Soviet Union utilizing funds provided through the SEED Act and FREEDOM Support Act. Support from these sources has declined proportionately to the success and phase out of assistance projects as countries have become capable of self-sustaining financial management practices. Beginning with the initial appropriation from Congress in FY1999, Treasury created the TIATA program and expanded the reach of its technical assistance operations to include a select and limited number of countries in Asia, and Africa, as well as Central and Latin America. OTA now sees that its future work will be focused on primarily these last four regions, as well as the Middle East, where OTA is providing a growing amount of assistance.

In all of its technical assistance activities, Treasury engages those countries whose governments are committed to economic policy reform and market-oriented economies. Treasury’s advisory assignments are accomplished through resident or intermittent advisors who work with identified senior management level counterparts in Ministries of Finance, FIUs, Central Banks, or related agencies in host countries. Advisor assignments are limited to five core areas of government policy and management where Treasury has specialized expertise. These are:

- Budget policy and administration;
- Tax policy and administration;
- Financial institutions policy and regulation;
- Government debt issuance and management; and
- Financial enforcement.

Treasury's technical assistance projects are designed to support economic objectives established by the International Financial Institutions (IFIs) in their country plans. OTA also works on a cooperative basis with IFI technical assistance programs. Treasury projects are coordinated with the State Department and USAID headquarters in Washington, D.C., as well as with individual embassies and USAID missions. OTA is an active participant in the State/Counter Terrorism and State/INL led inter-agency Terrorist Financing Working Group (TFWG) that is responsible for coordination of technical assistance designed to counter the financing of terrorist groups. In addition, OTA works with State/INL sponsored projects designed to address money laundering, corruption, and other financial crimes.

Treasury is committed to keeping the TIATA program flexible and dynamic. Projects compete for funding each year. The project portfolio is constantly monitored, and projects that are not achieving desired results, as measured by objective performance measures, are phased out to free up funding for new projects. In addition, Treasury is committed to a philosophy of mobilizing rapidly to respond to technical assistance requests, but to limit the term of its engagement so that an assistance project does not exceed its original scope without establishing new or revised terms of reference. For example, OTA's Financial Enforcement team responded to a request from the Colombian FIU Director for an assessment to verify certain perceived shortcomings in the unit and identify needed changes and improvements. As a result of the assessment, OTA made specific recommendations to improve communication between the FIU and the prosecutors' office, as well as improvements to the FIU's information technology systems. That project has now concluded. In a similar fashion, a request from the Zambian government resulted in a project to review and rewrite the procurement law for that country. The law has been passed, and the project concluded.

Phasing out existing projects at or near completion, combined with increased funding levels, will allow OTA to undertake a number of new projects in FY2005. A high priority will be to respond to post-election requests by the Palestinian Authority where OTA has recently conducted an assessment mission to identify potential counterparts, sites for working, and project focus for assistance in banking supervision, budget, and tax. Increased resources would also allow a more robust engagement in Latin America, where projects are pending in Bolivia, Brazil, Chile, Colombia, Costa Rica, and Ecuador. Projects are also pending in African countries, such as Botswana, Chad, Ethiopia, Kenya, Senegal, and the Democratic Republic of Congo, among others.

There is more flexibility with the estimated \$10 million FY2005 and FY2006 funding that OTA will receive for anti-financing of terrorism activities. These funds will be focused on projects that have been developed and passed through TFWG, where applicable. OTA has always believed in the effectiveness of having resident advisors operate in the facilities of the host country, and this mode of delivery is increasingly being used in its financial enforcement programs. OTA Financial Enforcement currently has resident enforcement advisors in Ukraine, Paraguay, Peru, Romania, Zambia, the Philippines, and the Eastern Caribbean. Utilizing FY2005 TIATA funding, OTA will work to place resident financial enforcement advisors in Sri Lanka, Ethiopia, Kenya, Senegal, the Philippines, a second advisor in Albania, and an advisor to the FATF style Regional Body Eurasian Group.

If funding is increased to the requested level for FY2006, Treasury intends to use the additional resources to expand its assistance programs to new countries, in addition to extending previously initiated multi-year projects. OTA will consider new projects in countries where counterparts are committed to an economic reform agenda and where Treasury has appropriate expertise. Budget projects in Niger, Malawi, and the Democratic Republic of Congo are under consideration.

OTA receives more requests for new technical assistance projects than can be funded with existing resources. All requests are evaluated closely to ensure that they advance the overall objectives of U.S. foreign and economic policy.

PROGRAM ACHIEVEMENTS IN 2004

Treasury's TIATA program recorded significant achievements throughout the world:

Africa

- West Africa (anti-money laundering and counter-financing of terrorism): Worked with GIABA (Central Bank of Western Africa) and ECOWAS (the Western African Economic Union) members on the development and implementation of model AML/CFT laws in all member countries.
- Botswana (capacity building, governance, and internal institutional controls): Assisted in the merger of the Tax, VAT, and Customs functions into a new Botswana Unified Revenue Service (BURS).
- Chad (governance and internal institutional controls): Monitored the status of HIPC financial controls over oil revenues. When the review indicated backsliding in these controls, the Chadian government requested expanded OTA budget technical assistance to ensure sustainability in the future.
- Ethiopia (governance, capacity building, and internal institutional controls): Completed a manual of strategies, approaches, and techniques for resolving problem banks.
- Ethiopia (fiscal transparency, capacity building, internal institutional controls, and governance): Began implementation of procedures to improve transparency in audit and collection processes. Provided assistance in developing a taxpayer service function.
- Ghana (capacity building and governance): Prepared strategy for the 2006 merger of tax and VAT administration into one entity.
- Guinea (capacity building and internal institutional controls): Instituted new procedures requiring budget office review, analysis, and comment on the executive budget prior to presenting the document to Parliament.
- Liberia (governance, internal institutional controls, capacity building, and fiscal transparency): Established guidelines for reconciling policies and expenditures in the national budget.
- Liberia (capacity building and internal institutional controls): Established an automated data base for large taxpayer accounts.
- Mauritius (internal institutional controls and capacity building): Assisted the country in the development of its Medium Term Expenditure Framework.

- South Africa (capacity building): Developed a complete roadmap for establishing a South African Deposit Insurance Scheme.
- South Africa (internal institutional controls and fiscal transparency): Created a mechanism for implementing a new law that called for centralization of funding for certain social programs.
- Tanzania (anti-money laundering): Prepared draft AML legislation for presentation in Parliament.
- Uganda (anti-money laundering): Assisted with the preparation of draft AML legislation that is expected to reach Parliament by end of 2004. It will provide for the development of an FIU.
- Uganda (governance, fiscal transparency and capacity building): Helped prepare the 2004 Financial Institutions Act which was adopted by the Parliament and which included the establishment of the first risk-based deposit insurance premium system in Africa.
- Uganda (governance, capacity building, and fiscal transparency): Developed a system for the Deposit Protection Fund to purchase Republic of Uganda Treasury Bills. By the end of 2004, the Fund's resources will be fully invested in Treasury Bills and Government Bonds. Income during the next twelve months is anticipated to be \$1,200,000 at the present exchange rate.
- Zambia (anti-corruption): The Anti-Corruption Task Force, under mentoring by an OTA advisor, conducted investigations and prosecutions of several Zambian politicians and officials of the previous administration, including the former president.
- Regional (anti-money laundering and counter-financing of terrorism): Conducted AML/CFT finance assessment missions to South Africa, Kenya, Ethiopia, Morocco, Lesotho, and Liberia with the goal of establishing assistance projects.

Asia

- Bangladesh (governance, capacity building, and governance): Implemented bank inspections utilizing updated quarterly financial statements instead of the previous practice of using the previous end-of-year statements.
- Sri Lanka (anti-money laundering and counter-financing of terrorism): Initiated AML/CFT technical assistance training program for personnel from central and commercial banks.
- Sri Lanka (governance and fiscal transparency): Instituted reforms in budget preparation and formulation; completed a Medium-Term Expenditure Framework.
- Turkey (fiscal transparency and governance): Established a Large Taxpayer Office, which was the first major reorganization of the General Directorate of Revenue (GDR) since the Ottoman Empire.

Central and South America

- Colombia (capacity building, governance, and internal institutional controls): Helped develop regulations streamlining the resolution and liquidation process for failed financial institutions and allowing the entity responsible for bank resolution to transfer selected assets and all deposit liabilities of a failing institution to a viable one.

- Guatemala (anti-money laundering and counter-financing of terrorism): Assisted in development of the nation's Anti-Money Laundering Law, provided training to FIU staff, and completed AML/CFT training for over 90 percent of the nation's judges.
- Nicaragua (capacity building, market-oriented economy, fiscal transparency): Assisted the Treasury to issue monthly short-term Treasury bills on a competitive basis and in a fully transparent manner. This was done in an environment where interest rates fell by 200 basis points (2 percent).
- Nicaragua (transparency and governance): Met a request from Treasury to verify a country requirement for transparency in preparation for the G8 Summit.
- Nicaragua (fiscal transparency, internal institutional controls, and capacity building): Strengthened the audit, collection, and internal control functions in tax administration.
- Paraguay (anti-money laundering and counter-financing of terrorism): In the tri-border area, assisted Customs in formulating AML/CFT controls to combat money laundering and financing of terrorism.
- Paraguay (fiscal transparency): Produced a Budget in Brief (Citizen's Guide) for the 2004 budget to increase transparency.
- Peru (anti-money laundering): Financial enforcement advisors helped the FIU of Peru forward more than twenty cases to the prosecutor's office for criminal investigation.

Former Soviet Union

- Georgia (anti-money laundering and counter-financing of terrorism): Through the development of procedures, guidelines, policies, information technology systems, and staff training, prepared the country to establish a recognized FIU.
- Ukraine (anti-money laundering and counter-financing of terrorism): Assisted the nation's FIU, with the result that Ukraine was removed from the FATF list of non-compliant nations and territories. OTA also supports the AML unit established within the National Bank of Ukraine.
- Russia (governance and capacity building): Assisted Russia to adopt its first deposit insurance law. This law provides modest coverage for individual depositors as well as provides a mechanism for re-licensing banks to ensure they meet safety and soundness standards. This assistance was provided over a period of several years by OTA financial institutions advisors, supplemented by experts from the Federal Deposit Insurance Corporation.

SUPPORTING U.S. OBJECTIVES

Anti-Money Laundering, Counter-Financing of Terrorism, and Anti-Corruption: Treasury technical assistance has had an active Financial Enforcement program since 1997, providing assistance to combat money laundering, official corruption, and other financial crimes. Since the terrorist attack on September 11, 2001, Treasury has aggressively addressed issues surrounding international terrorist financing and expanded its traditional anti-money laundering programs to include asset identification and tracking terrorist organizations. Working independently, or in the context of the inter-agency process, OTA advisors have conducted assessment missions in Ethiopia, Lesotho, Morocco, Liberia, Mexico, Costa Rica, Haiti, the Philippines, China, Mongolia, Croatia, Sri Lanka, the Maldives, Kazakhstan, and Kenya. These missions have

generally been successful, and several countries have requested assistance to build their capacity to combat money laundering and corruption, improve bank regulations, and address other aspects of financial crimes.

Economic Policy Reforms and Market-Oriented Economies: Technical assistance is undertaken as part of the Treasury Department's responsibilities in the conduct and coordination of U.S. international financial policies. Treasury's use of financial experts as resident or intermittent advisors in support of these responsibilities has a proven track record of success in countries where advisors have been assigned. Treasury advisors help governments implement the reform and adjustment measures associated with the broad policy goals that the U.S. seeks to advance, including market-oriented economic growth, improved governance, greater fiscal transparency, stronger institutional internal controls, and sound commercial banking systems. Treasury technical assistance in all countries is coordinated closely with the activities of the International Financial Institutions to ensure consistency and to avoid duplication of effort.

Effective Collaboration: Treasury technical assistance has always been extended in a cooperative and collaborative manner. Most of the funds received for the programs are transfers from USAID, the State Department, or host governments. Interagency agreements governing the transfer of funds require collaboration with the donor agencies. Enforcement programs require collaboration with other government entities such as the Department of Justice, State Department/INL, and other enforcement bureaus to harness the broad expertise necessary to carry out OTA's mission. All programs are coordinated with USAID missions and U.S. Embassies, and all are subject to Chief of Mission authority.

PROGRAM ASSESSMENT RATING TOOL (PART)

Treasury technical assistance is one of the few USG programs to have the full range of its activities covered by the Program Analysis and Rating Tool (PART) process. OTA worked with OMB to utilize the PART process to refine its technical assistance approach in a manner consistent with the broader USG emphasis on results-oriented foreign assistance. To improve its performance in the FY05 budget cycle OTA created the Performance Management Tracking System (PMTS) as a means to better manage the program, allocate resources according to priorities, and measure results. The work OTA put into creating PMTS, including developing several annual and long-term performance measures, succeeded in improving OTA's PART score during formulation of the FY2005 budget. After a 2004 pilot with the Budget team, all five OTA teams are currently using PMTS to track project performance.