



USAID | TUNISIA
FROM THE AMERICAN PEOPLE

FISCAL REFORM FOR A STRONG TUNISIA (FIRST)



INTERACTIVE FINAL REPORT

DECEMBER 2020

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Pop-ups,
websites, and
documents



Videos



Success
stories

CONTENTS

CHAPTER ONE

1. OVERVIEW

CHAPTER TWO

1. EXPANDING THE TAX BASE

- Making It Easier to Pay Taxes

- Improving the Interaction Between Tax Payers and Tax Administration

- Raising Awareness About the Civic Duty to Pay Taxes

2. IMPROVING TAX COLLECTION AND COMBATING TAX EVASION

- Improving Tax Collection

- Combating Tax Evasion

3. USING FISCAL POLICY INSTRUMENTS

- Models

- Analyses

4. SUPPORTING DIGITAL TRANSFORMATION

5. ENHANCING INTERNAL AND EXTERNAL COMMUNICATIONS

- Internal Communications

- External Communications

6. OTHER ACTIVITIES

CHAPTER THREE

1. LESSONS LEARNED

2. THE WAY FORWARD

ACRONYMS

ACL	Audit Command Language
CGE	Computable General Equilibrium
CIT	Corporate Income Tax
CIMF	Centre Informatique du Ministère des Finances – Ministry of Finance Data Center
DGAFF	Direction Générale des Avantages Financiers et Fiscaux
DGCPR	Direction Générale de la Comptabilité Publique et du Recouvrement- National Tax Collection Department
DGD	Direction Générale des Douanes- National Customs Department
DGE	Direction des Grandes Entreprises – Large Taxpayers Office
DGELF	Direction Générale des Etudes et de la Législation Fiscales- National Tax Legislation Department
DGI	Direction Générale des Impôts- National Tax Administration Department
DGRE	Direction Générale des Ressources et de l'Equilibre
DME	Direction des Moyennes Entreprises – Medium Enterprises Tax Office
FATCA	Foreign Account Tax Compliance Act
FAU	Fiscal Analysis Unit – Unité d'Analyses Fiscales
FIRST	Fiscal Reform for a Strong Tunisia
FIS	Fiscal System Upgrade
GBO	Gestion du Budget par Objectifs-Budget Management by Objectives
GOT	Government of Tunisia
HPMFM	High Performance Macro-Economic Forecasting Model
ISMS	Information Security Management System
METR	Marginal Effective Tax Rate
MOF	Ministère des Finances-Ministry of Finance
MSM	Micro Simulation Model
MTFF	Medium-Term Fiscal Framework
PEA	Plan d'Épargne en Actions (or Equity Saving Plan)
PIT	Personal Income Tax
TADAT	Tax Administration Diagnostic Assessment Tool
UCNEF	Unité de Contrôle National et des Enquêtes Fiscales- National Tax Control and Investigation Unit
UXP	User Experience Platform
VAT	Value-Added Tax

FIRST Story by Numbers



27.3%

Domestic revenue mobilization collections as a percent of GDP



7.13%*

Tax administration and compliance improved thanks to USG assistance



8,792

Training days provided to key MOF personnel thanks to USG assistance



4

New revenue and expenditure reforms developed and currently used in annual budget processes



62,000

Taxpayers filling electronically



6

Awareness campaigns, public events, and consultations



34

IT tools developed and/or adopted



3,524

Key personnel trained thanks to USG assistance



-3.5%*

Fiscal deficit as a percent of GDP



15%

Increase in the number of registered taxpayers



14

New tax administration processes developed



62

Analyses, models, tools delivered to and/or produced by MOF



46.1%

Businesses with favorable view of the MOF tax administration



4

Operational tax fiscal information system modules developed



30

MOF information products developed



8

Key institutions using UXP for data exchange



5.3%*

Variance between actual and projected revenue

* Pre Covid-19 crisis

CHAPTER ONE

OVERVIEW

Tunisia’s Dec. 17, 2010 civil uprising opened an extraordinary chapter in its history and launched the Arab Spring – widespread anti-government civilian-led protests and uprisings across Middle Eastern and North African countries. A vibrant democracy has since emerged in Tunisia that has produced successful transitions of power via free and fair elections. However, Tunisia faces economic and fiscal challenges, due to both internal and external factors (i.e., the tourism sector was affected by terrorist attacks in 2015; political upheaval in Libya has affected demand for Tunisian goods and services; economic slowdowns in France and Italy have affected Tunisian exports; and labor unrest in the South has contracted revenues from extractive industries). The current COVID-19 pandemic has exacerbated these challenges.

Plagued by budgetary balance issues, Tunisia’s historically high rate of tax evasion has caused persistent revenue and budget deficits – incoming tax revenues have not been able to meet government spending needs on social services and productive public investments, i.e., infrastructure, education, and health care.



Video: Interview with Mario Kerby
FIRST Chief of Party



“The Ministry of Finance and USAID Tunisia FIRST did a great job that reflects very high levels of cooperation and efficiency, and was very concrete and pragmatic. This is what we need. All of what we produced is based on the Ministry Data Center’s strategy and represent the latest technologies, which I’m hoping will help us go faster and further. Importantly, while we are cooperating with USAID, a transfer of knowledge is occurring. This is very important and as we were working together, I know the ownership and know-how has been transferred to the Ministry of Finance.”

Former MOF Minister, Mr. Nazar Yaiche
August 2020

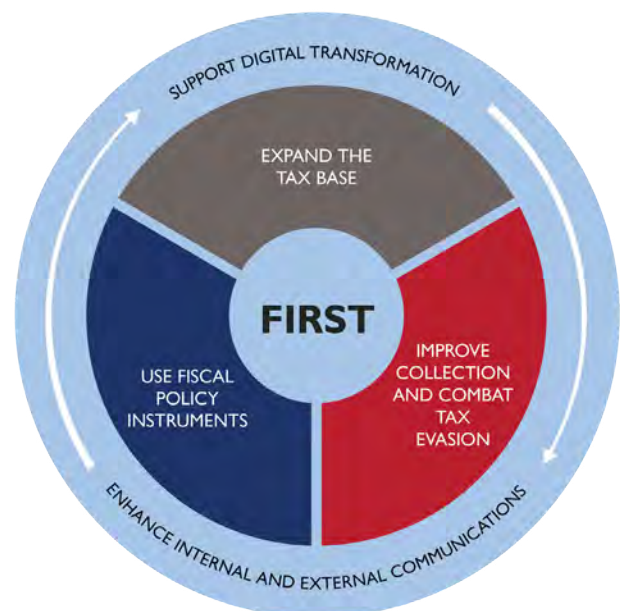
In September 2017, the United States Agency for International Development (USAID) launched the Fiscal Reform for a Strong Tunisia (FIRST) project, a \$18.8 million, 3-year plus (Sept-2017-Dec 2020) initiative aimed at assisting Tunisia’s Ministry of Finance (MOF) to rationalize tax policy, modernize tax administration, and undertake other fiscal reforms. The goal: to secure a sound fiscal foundation for economic stability and long-term growth by helping the Tunisian government improve revenue collection, reduce taxpayer compliance costs, improve the budgeting and expenditure process, and enhance public accountability.

Working closely with the MOF, FIRST achieved dramatic results by focusing on the following objectives:

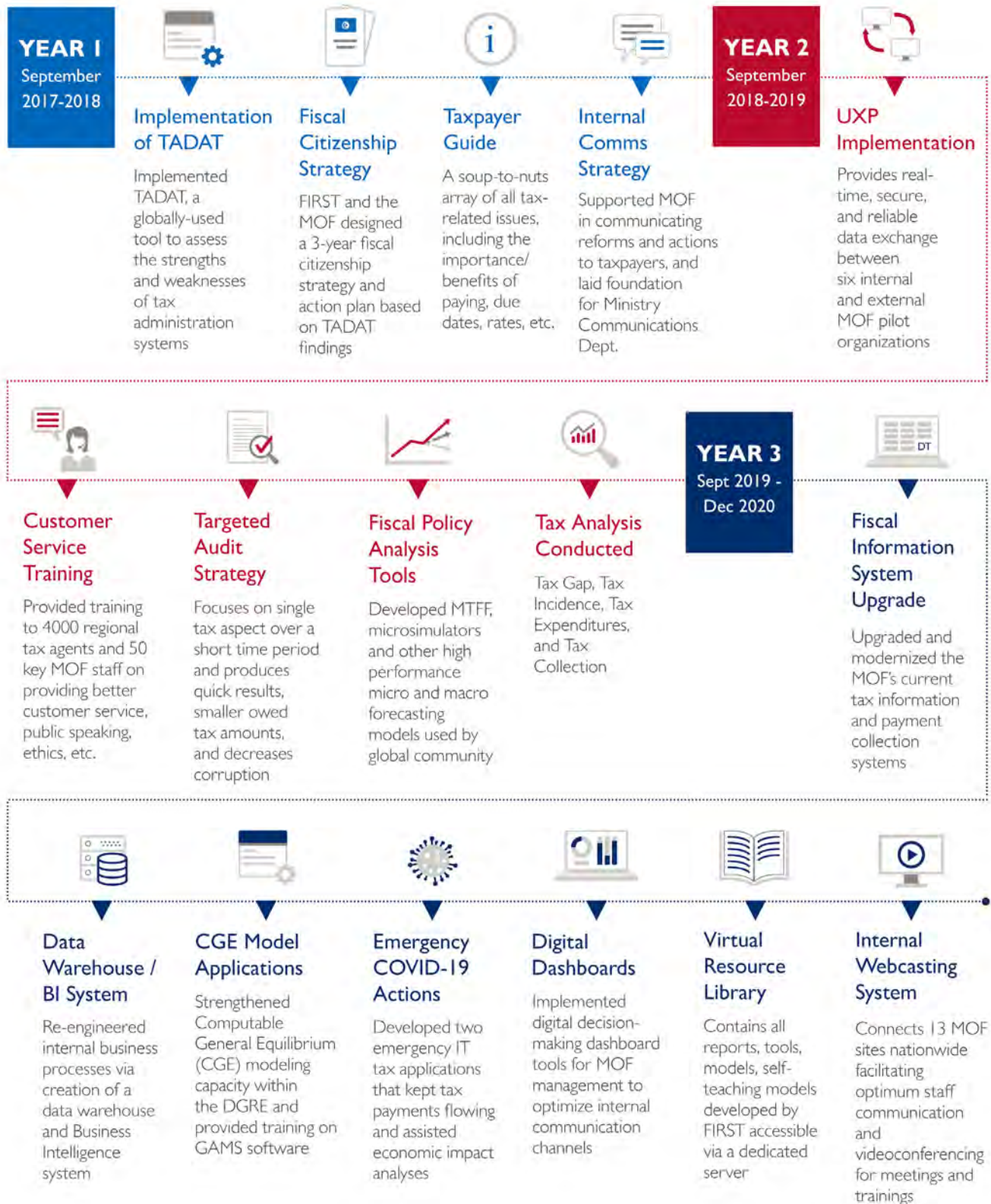
- Improve efficiency, transparency, and cost of tax administration compliance
- Enhance capacity to develop and manage tax policy
- Enhance capacity to address other fiscal reform priorities as they emerge
- Improve communication, engagement, and consultation on priority reforms

FIRST successfully accomplished these objectives and importantly, helped the MOF to increase revenues without incurring more debt by organizing project activities within the following five workstreams:

1. Increase voluntary compliance with fiscal obligations by: a) making it easier for taxpayers to pay by promoting electronic filing and customer service; and b) increasing taxpayer awareness and outreach regarding their duty as citizens to pay taxes
2. Improve tax collection through better audit procedures, and combat tax evasion by using improved tools and processes to collect outstanding debt
3. Enhance the MOF's capacity to conduct proactive fiscal policy-making and support a more orderly budget process by using models and methods to assess the tax gap, project the potential impacts of fiscal policy measures, and assess the effectiveness of tax expenditures
4. Implement concrete IT solutions and tools to support improved tax administration processes, proactive fiscal policy making, and more efficient communications
5. Support improvement of MOF internal and external communications to foster better interactions between tax administration and taxpayers and improve internal efficiency



FIRST Milestones





SUCCESS STORY

New Targeted Audit Strategy Increases Tax Collection

FIRST-developed targeted audit process boosts collection rates, lessens taxpayer burdens, costs less to perform, and lowers risk of corruption

	Targeted	Comprehensive
Audit duration	1 Week	6 Months
% collection after audit	High	Low
Cost	Low	High
Risk of corruption	Low	High
Rate of auditing	High	Low
Burden on Taxpayer	Low	High

Targeted audits take much less time than more comprehensive ones

FIRST, together with the Ministry of Finance, developed a new audit strategy – the targeted auditing process – and created a National Tax Audit Programming Unit. Formally introduced in the Tunisia’s 2020 Finance Law, targeted audits hone in on specific issues such as a single tax type, tax aspect, or tax period. Instead of looking at years of books in a lengthy and traumatic process for taxpayers, target auditors examine one month’s worth of transactions and focus on a few key taxes that are owed. In addition to resulting in higher collection rates, targeted audits also lower the risk of corruption, lessen taxpayer burdens, and cost less to perform than the more exhaustive deep audits.

No one likes the idea of being audited. Just hearing the word brings angst for many, even those who keep good books and are confident they have paid the correct amount of tax. In Tunisia, the chance of taxpayers being audited to ensure they are correctly declaring and paying their taxes is extremely low, hence many simply choose not to declare their taxes at all. When audits *are* conducted, they are very arduous and can take anywhere from one to two years as auditors dig through up to five years-worth of a given company’s books while the company languishes waiting for the verdict of this intense examination.

Highly ineffective, these “deep audits” usually result in extremely large tax bills that only work to incentivize businesses to find off-the-record “accommodations” with auditors. As a consequence, Tunisia maintains a high rate of tax evasion resulting in less money flowing into government coffers and leaving the country plagued by consistent budget deficits and limited resources to pay for much-needed social services, strategic infrastructure, and public investments.

Enter USAID’s *Fiscal Reform for a Stronger Tunisia (FIRST)* project, which, together with the Ministry of Finance (MOF), developed a new audit strategy – the targeted auditing process – and created a National Tax Audit Programming Unit. Formally introduced in the Tunisia’s 2020 Finance Law, targeted audits hone in on specific issues such as a single tax type, tax aspect, or tax period. Instead of looking at years of books in a lengthy and traumatic process for taxpayers, target auditors examine one month’s worth of transactions and focus on a few key taxes that are owed.

Using this process, good auditors can quickly ascertain if a company’s book are being kept correctly and transparently, or if certain things are not right. Once a determination is made, a tax bill – smaller than those resulting from a deep audit – is issued. These modest tax bills, added to the simplified audit process, provide companies with a greater incentive to pay outstanding taxes, and at the same time, release them from the harsh scrutiny they would receive under a more comprehensive audit. In addition to resulting in higher collection rates, targeted audits also lower the risk of corruption, lessen taxpayer burdens, and cost less to perform than the more exhaustive deep audits.

To prepare MOF tax administrators and auditors to perform targeted audits, *FIRST* developed and conducted a series of trainings-of-trainers, seminars, and presentations, as well as trainings on modern tax audit organization and related risk-analysis programming. The first presentation – The Modern VAT (Value-added Tax) – focused on the characteristics of the easily-administered tax, which is assessed incrementally on goods and services at each stage of production, distribution, or sale to the end customer, and presents the best field of application for the targeted audit.

Highly successful, this presentation led to the development of the *Principles of Modern VAT* e-Learning training course, now available via the *FIRST*-developed Virtual Resource Library. Intranet-based and accessible via a dedicated server at the MOF Data Center, this library contains a virtual wealth of information, including all the reports, tools, models, trainings, self-teaching modules, methodological notes, and user-guides on the models and tools *FIRST* generated over the course of the *project*.



RAISING AWARENESS ABOUT THE CIVIC DUTY TO PAY TAXES

TUNMAN AND AMAL COMIC BOOK

Developed by FIRST in support of the MOF's enhanced public outreach efforts and aimed at raising fiscal citizenship awareness among schoolchildren, the Tunman and Amal Comic Book has been distributed widely to primary schools nationwide and has become very popular among school-age children. Following the adventures of Amal, a young girl and her robot friend Tuman, young readers are provided an entertaining education and awareness of the principles of citizenship, basic tax concepts, and how paying taxes supports both their country's growth and their own futures.

MAKING IT EASIER TO PAY TAXES

SUPPORT FOR E-FILING



Tunisia has a 2-part e-Filing system: 1) Tele-declaration, which allows the filing and paying of taxes online and is voluntary for small and medium taxpayers, but mandatory for larger ones grossing over 1 million TND annually; and 2) Tele-liquidation, which allows taxpayers to file online and then pay at the tax office, either themselves or via authorized tax preparers who complete the appropriate form. FIRST worked with the MOF to promote the use of e-Filing via an online, multi-platform awareness campaign highlighting the benefits of filing electronically and how to do so. In addition, FIRST trained 60 accountants and tax preparers of small and medium taxpayers on how to use the software to file for their clients electronically. The result saw Tunisia's electronic filing numbers triple from 21,000 taxpayers in 2017 (representing 86 to 90 percent of that year's tax revenue) to 62,000 by the project's end in 2020.

TAXPAYER GUIDE



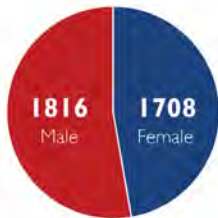
Tunisia's 23-page Taxpayer Guide, developed in a highly successful collaboration between FIRST and the MOF's Communication team, provides a soup-to-nuts array of easy-to-understand definitions, as well as explanations of taxpayer rights and obligations. Distributed to tax offices throughout the country, topics covered include: the different types of taxes and tax rates, how to make installment payments, the importance of keeping receipts, digital services and how to file taxes online, and different ways to access additional information, including the location of regional offices and customer service numbers. The Guide is topped off with a fiscal calendar highlighting monthly deadline dates and a Contributions Charter that outlines both government and taxpayer responsibilities.

FIRST TRAININGS



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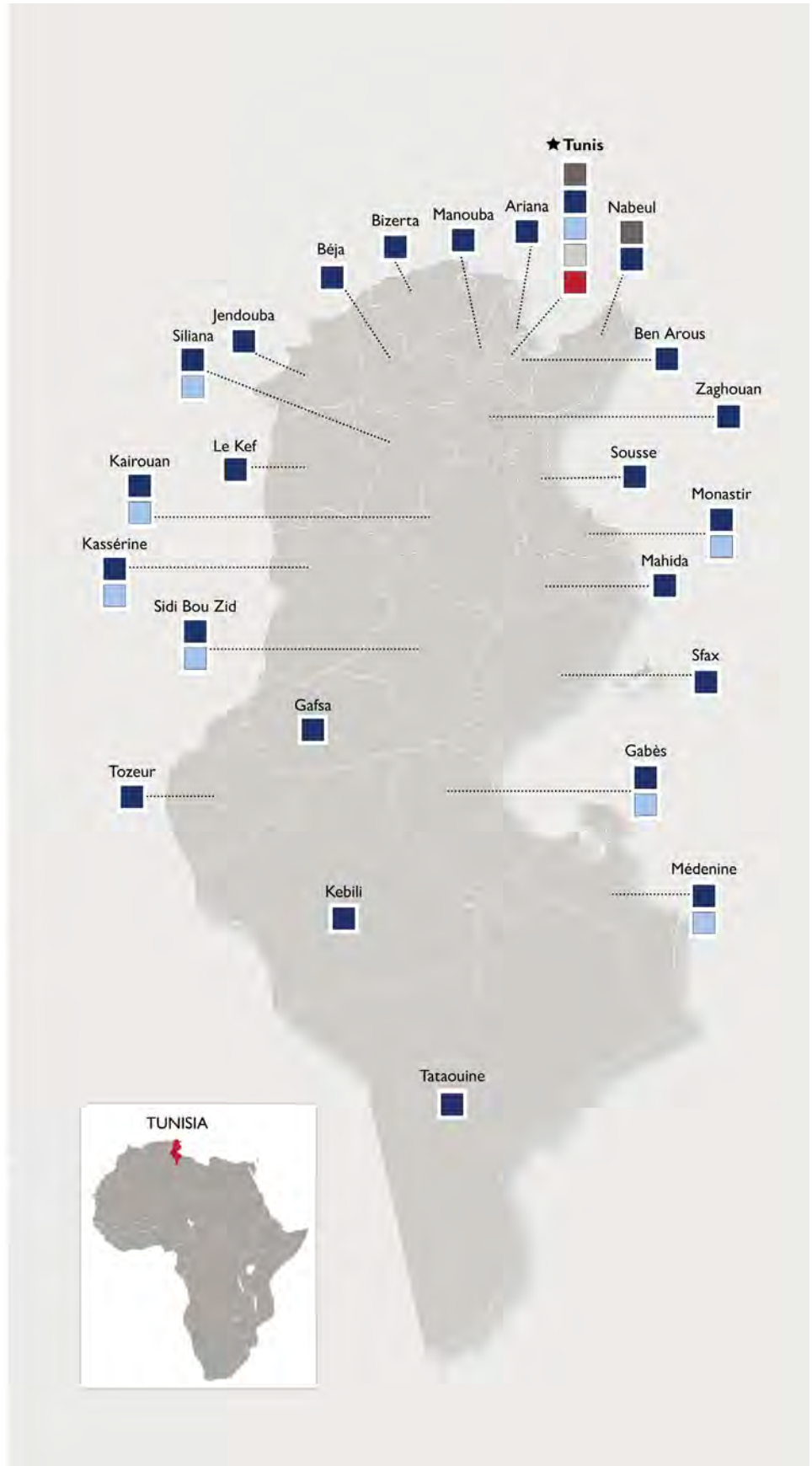
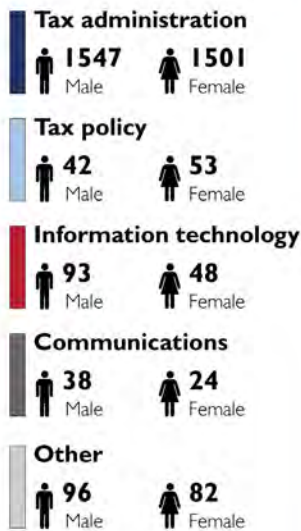
People trained nationwide



TYPES OF TRAININGS

- Tax administration
- Tax policy
- Information technology
- Communications
- Other

NUMBER OF TRAINEES





SUCCESS STORY

Digital Upgrade Brings Efficient Online Tax Services

Thanks to *FIRST* intranet co-development efforts taxpayers can access all tax-related services online and with ease

Photo: *FIRST* Staff



Thanks to *First*'s digital upgrades, Tunisian taxpayers can create online tax accounts where they can e-File and monitor their tax payments, obtain receipts, request refunds, obtain tax-related information and much more

FIRST-guided upgrades resulted in the co-development of three foundational components of the MOF's FIS: 1) Online Taxpayer Management Software Intranet Application; 2) Taxpayer Self-service Portal; and 3) Taxpayer Registry, which set the stage for an all-inclusive digital system that automates current manual processes and drastically increases tax administration efficiency.

Opening a remarkable chapter in Tunisian history, a civil uprising, fueled by toxic levels of corruption, poverty, unemployment, and political repression that began on Dec. 17, 2010, not only ousted the country's 23-year old regime within 28 days, it also launched the Arab Spring – widespread anti-government civilian-led protests and uprisings across the Middle East and Northern Africa. Although free and fair elections held that October heralded Tunisia's transition to a vibrant democracy, longstanding economic and fiscal challenges remained. Chief among them, a high rate of tax evasion causing persistent revenue and budget deficits and hampering government efforts to pay for social services and productive public investments. In addition, the heart of Tunisia's tax administration – its Fiscal Information System (FIS) was run on obsolete technology and riddled with a patchwork of siloed applications that rendered it highly inefficient.

In 2019, at the request of the Ministry of Finance, USAID's *Fiscal Reform for a Stronger Tunisia (Tunisia FIRST)* project began highly collaborative efforts that successfully modernized and strengthened the country's antiquated FIS. Partnering with Tunisian IT company, Arab Soft, known for designing and building FISs in Sub-Saharan countries, *FIRST*, as per MOF insistence, successfully negotiated MOF ownership of Arab Soft's pre-developed FIS source code – the string of words, numbers, letters, and symbols representing a program's foundation, which is not usually shared. Then, in a highly cooperative effort that fostered the transfer of knowledge and competence, a team of *FIRST* and Arab Soft developers worked closely with MOF developers to upgrade and tailor the FIS source code to meet the precise specifications and needs of the MOF.

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To start with, the Online Taxpayer Management Software Intranet Application – the foundation of the FIS architecture, maps out and facilitates the endless and essential tax administration tasks. These include the creation of new, and upgrading of existing taxpayer accounts, as well as the creation and delineation of the different obligations of individual taxpayers and businesses depending on their locations and other related information.

Next, the Taxpayer Self-service Portal eliminates current time-consuming tax filing services by providing taxpayers with one-stop online services, which contain all tax-related procedures thus allowing taxpayers to register remotely. Once registered, they can access their personal online tax account and data, e-File their taxes, request Value-added Tax (VAT) refunds, obtain e-Receipts, and register for additional services.

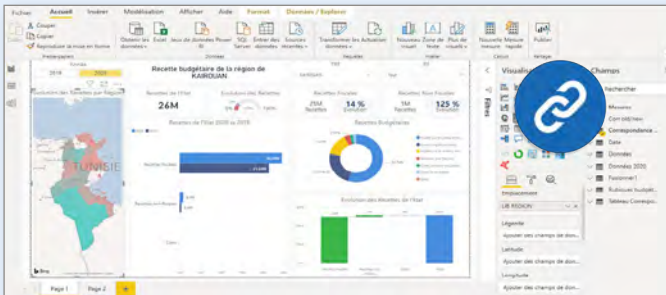
Last, the Taxpayer Registry is a Masterfile database containing all taxpayer information within structured fields that support data entry and is easily updatable. Once implemented, this will eliminate the current information storage hodgepodge that lacks standardization – data is stored in different systems integrated with silos and applications that do not communicate and make compiling a comprehensive and reliable taxpayer register impossible.

At present, a select team MOF tax administration staff are wrapping up "user acceptance" testing of each module and submodule of the new FIS architecture that shows all applications are working cohesively and correctly. At the same time, the *FIRST* / Arab Soft team, under its mandate to ensure widespread use of this updated FIS, is conducting trainings of trainers, a cadre of 13 tax administration staff, who starting in mid-November, will begin training "superusers" – 523 tax agents all over Tunisia – on the intricacies of the new Intranet application.

FIRST Dashboards



TAX REVENUES



Shows the growth of various revenues by region. This includes the regional budget, and fiscal and non-fiscal revenues; and graphic depictions of state revenue allotments, comparisons of state and fiscal revenues, and overall growth of state revenues.

TAX COLLECTIONS



Allows MOF tax administration personnel to access and monitor pertinent tax collection information by region, year, month, and amount collected, including the amount of tax debt, amount received; and different related rates, including amounts of growth recovery.

TAX PAYMENTS



Allows tax administration to access information regarding how many payments are due, how many have been paid, the average payment per year or month, and other related statistics.

QUALITY OF SERVICE



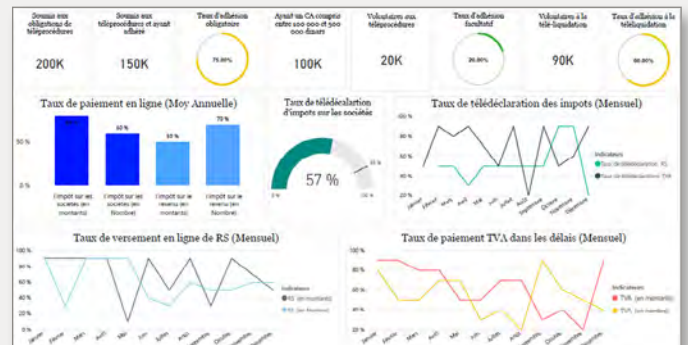
Shows the exact daily (M-S) number of visitors to the overall system; the number of visitors to each of the dashboards; the number of yearly, monthly, and quarterly visits; the amount of time each visitor spent on each dashboard, the number of visitors to each of the dashboards, and most importantly, the customer satisfaction levels regarding each dashboard and their overall experience.

AUDITS & TAX COLLECTION



Shows the number of taxpayers, how many of them have been verified, and how many have paid on time. It also shows the rate of how many have been audited, as well as verified and includes several graphic breakdowns: the percentage collected from each sector (manufacturing, communications, transport, education, etc.), monthly percentages of taxes paid on time and those verified, time responding to taxpayer audit-related comments, the number of international inquires and related response rates, and the rate of post-audit adjustments.

USE OF E-FILING



Provides feedback on the number of taxpayers who can use e-filing, how many actually do, how many are required to use it, as well as the rate of optional users; the number of taxpayers signed up to pay online as well as the percentage who actually do; the overall rate of taxpayers who have filed; and the corporate tax return rate.



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WOMEN IN FINANCE

The MOF has the highest number of women in decision-making positions among GoT ministries. Here they discuss their successes and challenges.

MRS. OLFA SHAMMARI

Manager, Budget Management by Objective, MoF



"The challenge is to make the right decisions at the right time, and coordinate with multiple parties, since it is not usually the decision of one person. Our daily challenge is to successfully coordinate, make timely decisions, and act on constant developments."

MRS. KAWTHER BABEYA

Director General, Public Debt and Financial Cooperation



"I'm a woman who seeks challenges. As a mother, a wife and a woman holding a position with responsibilities, the challenge is in balancing between work and personal life. Women were lucky successive Ministers believed in us. Besides, we imposed ourselves and have the capacity to face problems and make decisions in a timely manner. Most of the DGs in the MOF are women."

MRS. NAJIBA FATH ALLAH

Archive Manager



"The most important challenge for me as a woman in charge of making decisions is to prove that I am worthy, and at least 90 percent of the time the decision must be right. Why? Because when a woman is responsible for something, she must be up to it and can be pressured more than men."

MRS. SONIA ZOGHLEMI

Director General, Funding



"The key factors are hard work, professional commitment, and self-confidence – to believe in and prove myself. There should be no difference between me and my colleagues, there should be equal opportunities, and we shall all progress together."

MRS. AISHA NAFFATI

Director General, Human Resources



"I love challenges and I love overcoming them. Women have to be empowered through daily knowledge and experience and we should empower ourselves to face problems, and support our work. I believe that every woman will be empowered in this field."

MRS. AMEL ALFEKHI

Director General, Central Unit for Budgeting by Objectives



"As women, we want to be successful, whether on a professional or personal level. Women succeed when it comes to projects that aim to bring change. Being convinced of what she is doing and seeking success to the fullest, a woman conveys that passion to her colleagues."





SUCCESS STORY

New Fiscal Policy Tools Aid Budget Law Planning

Annual real time budget law preparations now supported thanks to FIRST collaborative efforts with Ministry of Finance



Photo: FIRST Staff

Delivery of software tools to support new fiscal policy tools developed via a collaborative team effort between FIRST and Ministry of Finance developers.

FIRST collaborative efforts with the Ministry of Finance resulted in the development of a set of fiscal policy software tools and models that currently aid Tunisia's annual budget law preparations in real time. "Indeed, this kind of work can't be just given or transmitted," says FIRST Tax Policy Specialist, Ms. Emna Gueddiche. "We worked as a team and built many tools together. Information gleaned from these tools can be used by economists, analysts, and academics to better explain to citizens the importance of paying their taxes, why certain spending decisions were made, and the different ways in which their tax dollars are being spent to grow their country."

Tunisia's Dec. 17, 2010 civil uprising – fueled by corruption, poverty, unemployment, and political repression – opened an extraordinary chapter that saw a vibrant democracy emerge after the ousting of the country's 23-year regime ousted. The decade since has produced two successful transitions of power via free and fair elections and held court to a national dialogue that has helped to keep the peace. However, ongoing economic and fiscal challenges, exacerbated by the current COVID-19 pandemic, have left citizens hungry for meaningful policies aimed at improving their lives, and the government in need of fiscal instruments to grow the economy and gain equal footing with the international community and donors.

In 2017, at the request of the Ministry of Finance (MOF), USAID's *Fiscal Reform for a Stronger Tunisia (FIRST)* project began a collaborative effort with the Ministry resulting in the development of a set of fiscal policy software tools and models that currently aid Tunisia's annual budget law preparations in real time. "Indeed, this kind of work can't be just given or transmitted," says FIRST Tax Policy Specialist, Ms. Emna Gueddiche. "We worked as a team and built many tools together."

Each year, tax administrators calculate a new budget law containing the next year's provisions and present it to Parliament, along with strong rationales as to why the different tax rates should be increased or decreased. Before these tools were developed, tax administrators lacked the ability to explain, based on solid calculations, why they made a certain tax rate, what its effect on the economy would be, the budget's income, or even if the figures were realistic or not. Answers to Parliament members' questions would take weeks to produce, many times arriving after the budget law deadline.

Now, thanks to FIRST/MOF-developed instruments and related trainings provided to relevant MOF staff, such questions can be answered on the spot, with numbers and projections entered via laptop and resulting calculations shown on screens for all to see. Chief among them are a set of Microsimulations Models that focus on internal factors and generate impact projections of proposed policy changes by estimating the respective revenue vs. expenditure gaps of Tunisia's three main taxes: 1) Corporate Income Tax (CIT); 2) Personal Income Tax (PIT); and 3) Value-added Tax (VAT).

Next, the Medium-term Fiscal Framework (MTFF) tool simulates 3-5 year revenue and expenditure budgetary policy impacts and considers external factors (unemployment numbers) and interdependency (oil prices impacts on other prices). Its use puts the MOF on equal footing with donors (IMF, World Bank) during negotiations. The Computable General Equilibrium (CGE), a short-term tool is used by policy analysts predicts economic impacts of external factors (technology, oil prices, COVID-19); and the Marginal Effective Tax Rate (METR), an indicator showing the fiscal burdens of investing in Tunisia used by investors and policymakers to assess tax policy impacts on investment in different sectors and show tax distortions and tax competitiveness. Another important tool, the Inter-sectoral Input/Output (I-O), used in 2020 to tackle the COVID-19-triggered economic crisis provides a detailed "map" of national economy.

Together, these and other FIRST/MOF-developed fiscal policy tools will help Tunisia produce more accurate budgets, grow public and private investment, boost employment, and allow the government to adjust to sudden economic shifts or crisis situations. Most importantly, says Ms. Gueddiche, "Information gleaned from these tools can be used by economists, analysts, and academics to better explain to citizens the importance of paying their taxes, why certain spending decisions were made, and the different ways in which their tax dollars are being spent to grow their country."

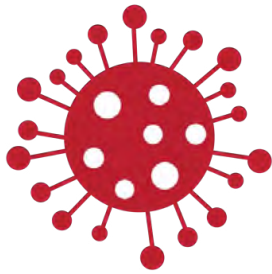




SUCCESS STORY

Emergency COVID-19 IT Support Aids Remote Work

FIRST
strengthening
Ministry of
Finance technical
capacity keeps
revenue flowing
and informs
emergency policy
actions



FIRST provided key MOF personnel with the technological capacity to communicate directly with staff while working remotely from home via computer. The project also developed emergency software applications that enabled: 1) citizens and businesses to pay owed taxes remotely via credit card bank transfers; and 2) automatic vendor-to-government tax payments on transactions such as real estate or automobile purchases. These FIRST IT solutions ensure a continual inflow of revenues despite closed tax offices and slowed economic activity, and help to ease Tunisia's already acute under-collection tax situation.

Responding rapidly once Tunisia's first COVID-19 case was identified, on March 13, 2020, Prime Minister Elyes Fakhfakh announced a wave of emergency preventative steps that included closing borders and suspending most flights; canceling all cultural, religious, sport, and conference events; and strict quarantine and curfew measures. Recognizing the need for urgent action, USAID's *Fiscal Reform for Strong Tunisia (FIRST)* project expanded its mandate to bolster Ministry of Finance (MOF) efforts to address the dire economic threats the virus-related lockdown posed. Today, thanks to *FIRST* support, the Tunisian government is better equipped to successfully meet ongoing COVID-19 challenges.

For starters, *FIRST* provided key MOF personnel with the technological capacity to communicate directly with staff while working remotely from home via computer. The *project* also developed emergency software applications that enabled: 1) citizens and businesses to pay owed taxes remotely via credit card bank transfers; and 2) automatic vendor-to-government tax payments on transactions such as real estate or automobile purchases. These *FIRST* IT solutions ensure a continual inflow of revenues despite closed tax offices and slowed economic activity, and help to ease Tunisia's already acute under-collection tax situation.

Next, *FIRST* developed an Economic and Budget Assessment on the Potential Impacts of COVID-19, a crosscutting tax policy tool that tracked and analyzed COVID-related economic indicator reactions to unemployment, supply and demand, etc., as well as main government interventions and their effects both in Tunisia and internationally. Sharing related daily and weekly update reports with the MOF on this information from March throughout the end of June 2020, *FIRST* then delivered a Final Summary Report that officials have since used to address tax policy issues.

In addition, *FIRST* conducted a COVID-19 Response Case Study focused on Egypt (due to its economic similarity to Tunisia), and tracked the Tunisian government's response, as well as private sector reactions via a multitude of meetings with private sector representatives, where *FIRST* explained measures the government had taken and related impacts on the budget and economy. Condensing participants' main concerns regarding the government's COVID-19 response, *FIRST* submitted the summary to the MOF along with several recommendations that focused on removing barriers to tax policy formulations and making budgetary procedures more transparent and participatory.

Chief among them, the removal of government "silos" – different branches and departments working separately with little or no communication between each – was embraced by the government and resulted in the successful merging of the Ministries of Development and Finance into a more unified MOF. At present, discussions are taking place on how to bring the Central Bank "silo" into this more collaborative, team effort. Another recommendation currently being discussed is the use of counter-cyclical measures – steps that are quite opposite to normal economic and monetary policy but taken in times of crisis, such as requesting assistance from the Central Bank to inject money into the economy by printing more bills or to buy longer-term government bonds to help increase government spending.

Although specific to Tunisia's COVID-19 response and efforts to keep people employed and fortify the economy throughout 2020, these and other recommendations: 1) sharing MOF statistics with labor representatives, the public, and other counterparts to create trust and mutual understanding of economic issues and policies; 2) installing a public-private "participatory" decision-making process allowing different stakeholders to contribute input during policy design; and 3) improved management of public enterprises, now serve as a roadmap to strengthen the country's overall tax policy.



SUCCESS STORY

Digital Upgrade Brings Efficient Online Tax Services

Thanks to *FIRST* intranet co-development efforts taxpayers can access all tax-related services online and with ease

Photo: *FIRST* Staff



Thanks to *FIRST*'s digital upgrades, Tunisian taxpayers can create online tax accounts where they can e-File and monitor their tax payments, obtain receipts, request refunds, obtain tax-related information and much more

FIRST-guided upgrades resulted in the co-development of three foundational components of the MOF's FIS: 1) Online Taxpayer Management Software Intranet Application; 2) Taxpayer Self-service Portal; and 3) Taxpayer Registry, which set the stage for an all-inclusive digital system that automates current manual processes and drastically increases tax administration efficiency.

Opening a remarkable chapter in Tunisian history, a civil uprising, fueled by toxic levels of corruption, poverty, unemployment, and political repression that began on Dec. 17, 2010, not only ousted the country's 23-year old regime within 28 days, it also launched the Arab Spring – widespread anti-government civilian-led protests and uprisings across the Middle East and Northern Africa. Although free and fair elections held that October heralded Tunisia's transition to a vibrant democracy, longstanding economic and fiscal challenges remained. Chief among them, a high rate of tax evasion causing persistent revenue and budget deficits and hampering government efforts to pay for social services and productive public investments. In addition, the heart of Tunisia's tax administration – its Fiscal Information System (FIS) was run on obsolete technology and riddled with a patchwork of siloed applications that rendered it highly inefficient.

In 2019, at the request of the Ministry of Finance, USAID's *Fiscal Reform for a Stronger Tunisia (Tunisia FIRST)* project began highly collaborative efforts that successfully modernized and strengthened the country's antiquated FIS. Partnering with Tunisian IT company, Arab Soft, known for designing and building FISs in Sub-Saharan countries, *FIRST*, as per MOF insistence, successfully negotiated MOF ownership of Arab Soft's pre-developed FIS source code – the string of words, numbers, letters, and symbols representing a program's foundation, which is not usually shared. Then, in a highly cooperative effort that fostered the transfer of knowledge and competence, a team of *FIRST* and Arab Soft developers worked closely with MOF developers to upgrade and tailor the FIS source code to meet the precise specifications and needs of the MOF.

These *FIRST*-guided upgrades resulted in the co-development of three foundational components of the MOF's FIS: 1) Online Taxpayer Management Software Intranet Application; 2) Taxpayer Self-service Portal; and 3) Taxpayer Registry, which set the stage for an all-inclusive digital system that automates current manual processes and drastically increases tax administration efficiency.

To start with, the Online Taxpayer Management Software Intranet Application – the foundation of the FIS architecture, maps out and facilitates the endless and essential tax administration tasks. These include the creation of new, and upgrading of existing taxpayer accounts, as well as the creation and delineation of the different obligations of individual taxpayers and businesses depending on their locations and other related information.

Next, the Taxpayer Self-service Portal eliminates current time-consuming tax filing services by providing taxpayers with one-stop online services, which contain all tax-related procedures thus allowing taxpayers to register remotely. Once registered, they can access their personal online tax account and data, e-File their taxes, request Value-added Tax (VAT) refunds, obtain e-Receipts, and register for additional services.

Last, the Taxpayer Registry is a Masterfile database containing all taxpayer information within structured fields that support data entry and is easily updatable. Once implemented, this will eliminate the current information storage hodgepodge that lacks standardization – data is stored in different systems integrated with silos and applications that do not communicate and make compiling a comprehensive and reliable taxpayer register impossible.

At present, a select team MOF tax administration staff are wrapping up “user acceptance” testing of each module and submodule of the new FIS architecture that shows all applications are working cohesively and correctly. At the same time, the *FIRST* / Arab Soft team, under its mandate to ensure widespread use of this updated FIS, is conducting trainings of trainers, a cadre of 13 tax administration staff, who starting in mid-November, will begin training “superusers” – 523 tax agents all over Tunisia – on the intricacies of the new Intranet application.

5. SUPPORT FOR MOF INTERNAL AND EXTERNAL COMMUNICATIONS

Appropriate and authentic communication is crucial when enacting change and developing strategies on how to make needed improvements, support the actual roll-out of improvements, and bring onboard those whose lives will be positively affected. This requires spreading the message – the how, why, and benefits of these changes – to those making them, as well as to those being affected.

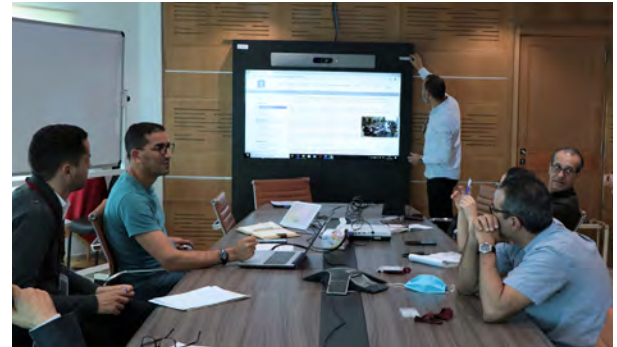
INTERNAL COMMUNICATIONS

INTERNAL COMMUNICATIONS STRATEGY

In 2018, FIRST launched an audit of MOF's then-internal communications. Recommendations from the audit included: 1) development of clear, powerful, and consistent messaging aimed at all employees helping them to make sense of the ongoing changes; and 2) Communicate the MOF's vision and strategy and explain how it will all come together in a way that will ensure staff feel they are an important and valued part of a team process. Guided by these recommendations, an Internal Communications Strategy was co-developed that guided FIRST/MOF achievements highlighted below.



INTERNAL WEBCASTING SYSTEM



As discussed in the previous section, FIRST procured and installed a comprehensive webcasting system for the MOF that virtually and in real time connects 13 Ministry sites throughout Tunisia. This all-inclusive system has already significantly improved internal communications capabilities and is particularly useful in the current COVID-19 period with its ongoing restrictions of movements between regions, and limitations on in-presence meetings and training events.



FOUNDATION LAID FOR MOF COMMUNICATIONS UNIT

Using a capacity building approach that would allow complete self-reliance and the ability to plan and implement activities regardless of donor presence, FIRST designed a comprehensive roadmap to support the establishment of a full-fledged Communications Unit within the MOF.



This Unit will follow the 360-degree strategy co-developed by FIRST and the MOF and enable the Ministry to improve public and stakeholder engagement, enhance transparency in communicating reforms, strengthen internal communications across all departments and regions, and implement targeted media campaigns.

In addition to conducting trainings on Strategic Communications (Strategic Planning, Strategic Communications, Institutional Relations and Stakeholder Engagement, and Internal Communications) FIRST also provided a series of social media trainings (Social Media Community Management, Graphic Design, Creating Online Learning Courses, Internal Communications, Public Speaking and Media Relations, Strategic Planning, and Institutional Relations).



Video: Media and Public Speaking Training

VIRTUAL LIBRARY OF RESOURCES



FIRST developed the MOF Virtual Library of Resources. Intranet-based and accessible via a dedicated server at the MOF Data Center, this library contains a virtual wealth of information, including all items generated by FIRST, including reports, tools, models, trainings, self-teaching modules, methodological notes, and user-guides on the models and tools.

EXTERNAL COMMUNICATIONS

As part of its overall strategy to improve voluntary tax compliance, in 2019, FIRST turned its attention to external communications and launched an annual survey that queried small and medium taxpayers on issues related to the ease of paying taxes. Results from this survey guided FIRST/MOF co-development of an External Communications Strategy that guided the achievements highlighted below:

MOF WEBSITE



Working with the MOF, FIRST developed a new user-friendly website aimed at improving communications, engagement, and consultation with the public. Available in French and Arabic, the website is a crosscutting tool that offers engaging audio-visual and streamlined MOF information regarding the different departments, finance law, indicators, and budgets. It also has a News and Events section, provides useful addresses, and offers a variety of e-Services, including downloadable tax forms, a document database, and the ability to open a personal or business account, settle and pay owed taxes remotely, connect to customer service staff, and more.

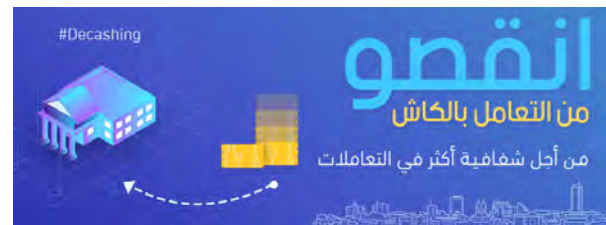
LOGO AND VISUAL IDENTITY



FIRST supported the MOF in the design of the new logo and graphic charter – rules regarding the graphic identity of the MOF, which was shared with CIMF and is integrated in the upgraded fiscal information system.

COMMUNICATION CAMPAIGNS AND SOCIAL MEDIA

FIRST developed a series of mass media campaigns for radio, TV, online and print outlets that increased public awareness and provided transparency on MOF and tax administration reforms.



Topics included: budget law actions taken, new online payment options and web services, COVID-19 information regarding state budgets and revenues, and new “decashing” measures that facilitate payment methods to families of detainees in penitentiaries and re-education facilities.



Video: Digital Communications

Parallel to developing the new MOF Website (mentioned above), FIRST managed the Ministry Facebook page and produced highly engaging audio-visual content that resulted in a 300 percent increase in audience engagement.

6. ADDITIONAL TECHNICAL ASSISTANCE

POST-CLEARANCE CUSTOMS AUDIT



Based on global best practices and aimed at lifting international trade barriers, the Post Clearance Audit (PCA) process assures that declarations are completed in compliance with Customs' legal requirements, as well as other legal import and export requirements. PCA helps to verify the correct declaration of the value, origin, and classification of goods, as well as that the amount of revenue legally due has been identified and collected. Introduced in Tunisia in 2008, PCA was rarely practiced. Although a special unit was created in 2015 to develop a PCA program based on international best practices in preparation for the 2017 ratification of the World Trade Organization's (WTO's) Trade Facilitation Agreement (TFA), little was accomplished.

Working in collaboration with the MOF and Tunisia's Directorate General of Customs, FIRST: 1) assessed procedures regarding the then-existing handling and control (PCA) of goods at Port Rades in Tunis; 2) defined the necessary conditions to support a well-performing PCS structure based on international standards; and 3) developed draft Business Process Map of post clearance processes currently used by Tunisian Customs. In addition, FIRST's comparative study of Tunisian vs International Best Practices (regarding legal, human and material prerequisites) identified gaps in the country's PCA structure.

These efforts resulted in the successful development of a PCA customs system that facilitates transparent customs clearance and payment of related duties from qualified importers.

WORLD BANK'S DOING BUSINESS RANKING

Since its inception in 2004, the World Bank Group's flagship publication, Doing Business, has been presenting annual "quantitative indicators on 12 areas of business regulations and the protection of property rights that can be prepared across 190 economies – from Afghanistan to Zimbabwe – over time." Simply stated, the Doing Business survey scores and ranks the ease of doing business with each of these countries. Due to its political transition that began in 2011, Tunisia's ranking had declined. However, thanks to close collaborative efforts between FIRST and Tunisia's Ministry of Development, Investment, and International Cooperation (MDICI), Ministry of Finance, and the Tunisian Institute of Competitiveness and Quantitative Studies (ITCEQ), Tunisia rose eight places and now ranks 80 among 190 economies as published in Doing Business 2020. Efforts included development of a strategy and roadmap of reforms, complete with recommendations on how to achieve tangible results for Tunisia's short-, medium-, and long-term development policies. These recommendations were translated into concrete actions that successfully increased private enterprise prosperity and developed new economic activities.



CHAPTER THREE

LESSONS LEARNED AND THE WAY FORWARD

Lessons learned consists of knowledge gained through experience, which when shared, benefits the work of others. This can be especially true when one initiative ends and another begins in its place. Below we share lessons learned from the successful implementation of the FIRST project that could be useful for succeeding projects and initiatives, as well as guidance for the way forward.

LESSONS LEARNED

ALLOW TIME FOR PROCESS CHANGE MANAGEMENT TO WORK

When introducing changes in processes and related IT tools, time must be allotted to practice use of these new methods and their instruments. Despite significant training on best practices and IT tools, the brevity of FIRST's 3-year timeframe combined with the difficulties key MOF staff faced incorporating all of what FIRST introduced to them while engaged in day-to-day activities, impeded full adoption of the changes.



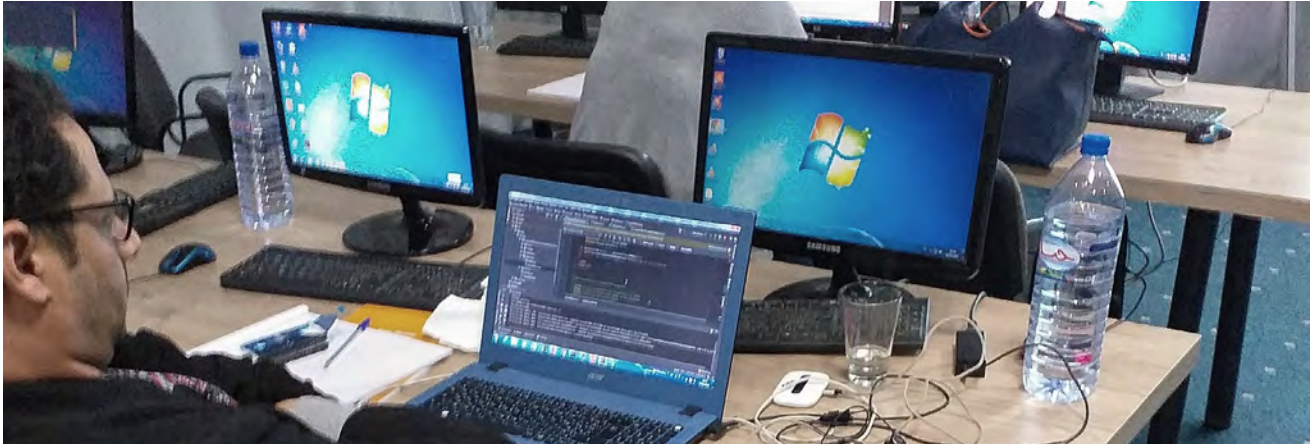
EXTEND REACH BEYOND TUNIS

FIRST's customer service trainings successfully extended beyond Tunisia's capital city of Tunis to reach tax administrators throughout the country. To ensure other changes FIRST initiated in Tunis extend beyond its centralized scope such as the webcasting system, it is critical the MOF continue to train regional staff on best practices and the adoption of digital tools that facilitate its use.

SUPPORT CHANGE MANAGEMENT



FIRST successfully: 1) assessed the MOF's Budget Management by Objectives Performance (GBO) framework; 2) identified areas of improvement and the impacts of the new budget law on it; and 3) produced a new framework based on assessment results. The GBO assessment recommended the MOF adopt the framework in order to support effective and sustainable change management. If adopted, the FIRST-developed results framework and related performance indicators will provide the Ministry with a clear roadmap as it implements key changes aimed at improving tax administration efficiency and accountability. Central to solidifying these changes is to link the incentive structure (promotion, salary and bonuses) to performance indicators, and most importantly, build the management, leadership, and delegation skills of key MOF staff. At present, decision-making is centralized in the hands of a few who oversee everything, thus creating bottlenecks and leaving other talented staff under- and inefficiently utilized. The combination of digital transformation, adoption of best practices, and changes in personnel management can significantly improve tax administration efficiency, even within a hiring freeze.



OVERCOME CIMF AND MOF OFFICIALS' DISTRUST OF CLOUD-BASED SOLUTIONS

Despite FIRST analysis of the MOF's current information security management system showing it to be far less secure than many modern cloud-based products that include significant layers of security, the project found that such highly appropriate solutions are not even remotely considered by the MOF. This is due to a common misconception that cloud-based storage is less secure than "hard" storage on CIMF servers. Continued MOF education regarding the pros and cons of the most modern technologies and applications is recommended.



SIGNIFICANT CHALLENGES: CIMF SIMULTANEOUSLY THE "CLIENT" WHILE DEVELOPING IT SOLUTIONS

Asked to co-develop the Fiscal Information System module upgrades with CIMF, FIRST discovered a lack of sufficient capacity among current CIMF developers – a direct result of not practicing IT development on a daily basis. This, in addition to a lack of commitment from management to keep the development team members intact caused many delays and inefficiencies. Moving forward, it is recommended CIMF clearly define its needs and obtain regular technical updates of the solutions being developed so it can quickly intervene to resolve issues.



THE WAY FORWARD

Tunisia's current economic and budget crisis is likely to accelerate reforms. Both the international community and Tunisian Central Bank have indicated very little appetite for continuing budget support by increasing debt to pay for a large public wage bill and inefficient state enterprises. The tools, methodologies, and best practices implemented and advocated by FIRST can accompany the necessary tax administration reforms as long as the MOF has continued support to foster their full adoption and implementation in a ongoing process of change management. This will require strong leadership and a willingness to challenge vested interests that favor the status quo.



To build on the project's legacy, FIRST recommends the following:

1. A full embrace by the MOF of digital transformation and IT solutions that ensures IT solutions, while housed at CIMF, are owned by the technical directorates.
2. Adoption of the process change management schematic detailed in the FIRST-developed Budget Management by Objectives Performance (GBO) framework, which provides a clear road map for reorganizing MOF missions with clear lines of responsibility in order to achieve the best possible results.
3. Quickly identify ways to automate key bottlenecks in the budget-making process by developing targeted applications using the Agile method.
4. Fully utilize all aspects of the webcasting system to improve internal communications and train regional staff.
5. Sign MOUs to allow full implementation of UXP web services between the connected institutions.
6. Integrate the UXP platform into the GOT's broader digital transformation initiatives.
7. Ensure the Fiscal Information System upgraded modules (Taxpayer Account Management, Taxpayer Self-service Portal, and Taxpayer Register), as well as the emergency IT applications (Automatic Tax Withdrawal and Remote Tax Payment) are activated as soon as possible.
8. Encourage the MOF to fully utilize the FIRST-developed Virtual Library of Resources to foster the adoption of best practices and avoid duplication of effort.