

## MID YEAR REPORT FY 2017

# EAST AFRICA REGIONAL TECHNICAL ASSISTANCE CENTER (EAST AFRITAC)





East AFRITAC  
INTERNATIONAL MONETARY FUND  
REGIONAL TECHNICAL  
ASSISTANCE CENTER

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ASSISTANCE CENTER



# **AFRICA REGIONAL TECHNICAL ASSISTANCE CENTER EAST**

**(EAST AFRITAC)**

## **IMF EAST AFRITAC'S MID YEAR REPORT FY 2017**

November 2016

## Table of Contents

I.	EXECUTIVE SUMMARY .....	3
II.	STRATEGIC ISSUES.....	4
	A. Context for East AFRITAC Technical Assistance .....	4
	B. Implementation of the Action Plan on the Mid-Term Evaluation .....	4
	C. Phase IV Budget and Financing .....	7
	D. Development Partner Coordination and Outreach .....	8
III.	REPORT ON ACTIVITIES OVER THE FIRST HALF OF FY 2017 .....	9
	A. Overview.....	9
	B. Revenue Administration .....	14
	C. Public Financial Management .....	16
	D. Macro-Fiscal Analysis .....	17
	E. Financial Sector Regulation and Supervision.....	18
	F. Monetary Policy and Operations.....	20
	G. Financial Market Infrastructures .....	21
	H. Real Sector and Government Finance Statistics .....	21
	I. Work on Regional Issues.....	23
	J. Attachments/Mentoring.....	23
	K. Training.....	24
IV.	WORK PROGRAM FOR THE SECOND HALF OF FY 2017 .....	25

## Tables

Table 1. Status of Implementation of the Recommendations of the Mid-Term Evaluation, .....	5
Figure 1. IMF East AFRITAC, Summary Statistics of H1 FY 2017 Implementation,.....	11
Table 2. IMF East AFRITAC, Activities and Resources over H1 FY 2017, .....	12
Table 3. IMF East AFRITAC, Allocation of Ressources by TA Area, H1 FY 2017, .....	12
Table 4. IMF East AFRITAC, Allocation of Resources by Country, H1 FY 2017, .....	13
Table 5. Deviation Analysis for H1 Work Program, .....	13
Table 6. IMF East AFRITAC, Status of Milestones by Sector, H1 FY 2017, .....	14
Table 7. IMF Training of East AFRITAC Official over H1 FY 2017, .....	25
Table 8. Deviation Analysis for Full Year FY 2016 Work Program, .....	26

## List of Abbreviations

AFE	IMF East AFRITAC
AFRITAC	Africa Regional Technical Assistance Center
BOT	Bank of Tanzania
CABRI	Collaborative African Budget Reform Initiative
CBK	Central Bank of Kenya
CD	Capacity Development
CPI	Consumer Price Index
CPSS-IOSCO	Committee on Payment and Settlement Systems- International Organization of Securities Commissions
DfID	Department for International Development (United Kingdom)
EAC	East African Community
EAMU	East African Monetary Union
EU	European Union
FAD	Fiscal Affairs Department (IMF)
FMI	Financial Market Infrastructures
FPAS	Forecasting and Policy Analysis System
FPW	Field Person Weeks
GDP	Gross Domestic Product
GFS	Government Finance Statistics
ICD	Institute for Capacity Development (IMF)
LEG	Legal Department (IMF)
LoU	Letter of Understanding
MAC	Monetary Affairs Committee (EAC)
MCM	Monetary and Capital Markets Department (IMF)
MEFMI	Macroeconomic and Financial Management Institute for Eastern and Southern Africa
MPC	Monetary Policy Committee
NAS	National Account Statistics
PBB	Program-Based Budgeting
PFMI	Principles for Financial Market Infrastructure
PPI	Producer Price Index
QGDPE	Quarterly National Accounts by Expenditure
RA	Resident Advisor
RBM	Results Based Management
RTAC	Regional Technical Assistance Center
SCT	Single Customs Territory
SDGs	Sustainable Development Goals SNA System of National Accounts (2008)
STX	Short Term Expert
TADAT	Tax Administration Diagnostic Assessment Tool
TA	Technical Assistance
TSA	Treasury Single Account
VAT	Value Added Tax

## I. EXECUTIVE SUMMARY

This report covers the activities of IMF East AFRITAC in the first half of FY 2017 (May-October, 2016). During this period, the rate of execution of the work plan reached 94 percent, or about half of the annual program.

Notable achievements by member countries supported by IMF East AFRITAC during this period include: Development of prioritized plans to address issues identified by TADAT (Rwanda and Tanzania) and diagnostic assessment of customs administration (Tanzania); the publication by Kenya of its Fiscal Transparency Evaluation; the approval of the Charter for Fiscal Responsibility by the Ugandan Parliament and the submission of fiscal risk statements to the EAC Secretariat by EAC partner states; progress in disseminating annual government finance statistics for the general government and preparation for GDP rebasing by 2017; and a range of work supporting regional integration in the EAC, such as the harmonization of financial statements and medium-term convergence programs and two new chapters for the *EAC Guidelines for the Compilation of Government Finance and Public Sector Debt Statistics*.

Progress continues in implementing the recommendations from the 2013 mid-term evaluation. The IMF is implementing its plan to roll-out a new results-based management (RBM) system for all IMF capacity development activities, including those of IMF East AFRITAC, for which all projects are expected to use the new RBM system from next fiscal year. On improving efficiency across the RTACs, an updated RTAC handbook was recently published.

Outreach remains a priority. The Facebook page has become the main vehicle to disseminate high-frequency information, and reaches a large audience in East Africa. The now quarterly newsletter, which is widely circulated, provides a summary of activities over the most recent quarter and provides a schedule of all planned missions for the next three months to facilitate coordination. The website is being revamped and will be better integrated with the Facebook page. Outreach and coordination with development partners have also continued to take place in the field, including occasionally in the form of joint missions.

Securing financing for Phase IV remains a major challenge. Funding for around 30 percent of the Phase IV budget remains to be secured, with part of this gap expected to be filled by a further contribution from the European Union (EU). Follow through on member countries' commitment to double their contributions as a share of Phase IV financing remains critical.

## II. STRATEGIC ISSUES

### A. Context for East AFRITAC Technical Assistance

1. **Economic growth in sub-Saharan Africa this year is set to drop to its lowest level in more than 20 years, reflecting the adverse external environment, and a lackluster policy response in many countries<sup>1</sup>.** With lower commodity prices and a generally less supportive global economic environment, average growth in the sub-Saharan Africa is foreseen to decelerate sharply to 1½ percent this year—well below population growth, and in sharp contrast to the high growth rates of the past 15 years. However, the aggregate picture is one of multispeed growth: while most commodity exporters are under severe economic strains, most non-resource-intensive countries—half of the countries in sub-Saharan Africa—continue to perform well, as they benefit from lower oil prices, an improved business environment, and continued strong infrastructure investment. Most countries in East Africa are in this latter category, with Ethiopia, Kenya, Rwanda, Tanzania and Uganda expected to record growth of about 5 percent or more in 2016-17, despite the negative impact of a severe drought. Inflation would remain moderate. In an environment of tighter and more volatile financial markets, striking the right balance between much-needed developmental spending and hard-won debt sustainability remains the main challenge. In this regard, the countries in sub-Saharan Africa that are still growing rapidly should rebuild fiscal buffers in comparatively favorable times to stem the increase in public debt.
2. **This challenging environment makes the Financing for Development agenda (agreed by the international community in 2015 in Addis Ababa) more relevant than ever.** This agenda focuses, among others, on infrastructure investment, domestic revenue mobilization, spending efficiency, and financial sector development and inclusion. These areas are central to IMF East AFRITAC's assistance to its member countries, with its focus on strengthening tax administration and public financial management (PFM), developing financial systems and monetary operations, better data to inform policies, and promoting regional integration.

### B. Implementation of the Action Plan on the Mid-Term Evaluation

3. **IMF East AFRITAC reports bi-annually on progress with implementing its action plan responding to the November 2013 mid-term external evaluation.** Table 1 summarizes actions taken in this area, with a focus on measures implemented since the 18th Steering Committee meeting in Addis Ababa (April 4-5, 2016).

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<sup>1</sup> See IMF Regional Economic Outlook for Sub-Saharan Africa, Multi-Speed Growth, October 2016.

**Table 1. Status of Implementation of the Recommendations of the Mid-Term Evaluation**

**Country Strategies, Sustainability, Costing**

- Improved Regional Strategy Notes/Resource Allocation Plan (RSN/RAP) process to capture all IMF TA to the East AFRITAC region. Better alignment with the Fund's strategic planning cycle.
- Financial sustainability strategy for Phase IV: (i) establishing long-term strategic partnerships with key development partners; (ii) diversification of the development partner base; and (iii) a gradual increase in member country contributions. On the latter, general agreement to double member countries' funding share of the program budget.

**RTAC Reporting, Results Orientation, Standardization of Practices, Improving Governance**

- An updated version of the RTAC Handbook, which addresses a number of issues from the mid-term evaluation on standard operating guidelines for RTACs, was published in September 2016 (see AFE secured website). It was discussed at RTAC Center Coordinator and RTAC Office Manager Retreats in September 2016, which sought to strengthen and harmonize practices across RTACs and IMF HQ departments, and foster collaboration and peer learning. The Handbook is currently being revised again to reflect the retreats' discussions and suggestions. The overall objective of the Handbook is to strengthen the operational efficiency of RTACs. It includes a communications strategy/outreach plan for RTACs and enhancing development partner visibility. The Handbook is a living document and will be regularly updated to reflect evolving practices.
- The Capacity Development Information Management System (CDIMS) is now operational. CDIMS aims to strengthen and standardize the processes related to the recording of financial information for development partner-financed TA. The IMF will introduce real-time system tools to monitor and analyze the cash flows, budgets and expenditure related to development partner-financed activities. This will help to standardize and automate of financial reporting to development partners.
- Executive summaries of the evaluations of other RTACs will be circulated to SC members. Evaluations of CARTAC and AFRITAC Central are attached (Annex VI and VII).



## **Efficiency of IMF East AFRITAC Operations**

- Succession planning continues to be strengthened, with early initiation of recruitment of replacements for departing advisors and overlap between advisors whenever possible.
- The Research Analyst position was extended given positive experience in assisting the Center Coordinator improve analysis at AFE and research support for resident advisors.

## **TA delivery should be improved and made more results-oriented, and the effectiveness of the implementation of Results Based Management (RBM) should be enhanced**

Considerable progress made toward implementing an RBM system for all IMF capacity development (CD), irrespective of financing source.

- The RBM system is ready for operational use. In the coming months all new TA projects are expected to use the new system. Training of TA providers and project managers is ongoing. Change management initiatives are under way to ensure that those working on TA internalize a more results-oriented focus and are ready to use the new system.
- Development partners will benefit from having discussions anchored in a clearer results framework based on international best practices and aligned with IMF priorities
- The new RBM system will considerably improve the quality and availability of information for monitoring TA and training. The RBM framework will serve as a management tool that addresses the planning, monitoring and implementation of the entire CD project cycle. TA departments have developed a catalog of harmonized outcomes and associated indicators for each TA product line based on the knowledge of experts. The RBM system will help to aggregate results across topics, regions, and TA delivery modes, which will considerably improve the consistency and comparability of results reporting both internally and to development partners. The new software (CD Port) will facilitate tracking of project deliverables. Implementation of the new system has begun; and RTAC Center Coordinators have been trained on CD Port at the recent Center Coordinators' Retreat that took place in September, 2016 in Washington DC. The new system and catalog continue to be rigorously tested. The catalog of outcomes is likely to evolve over time, as improvements are made. All new TA

projects are currently using CD Port. The framework will be progressively extended to all IMF CD, including training.

- East AFRITAC's existing results framework will remain in place for now. In the coming year, however, the Center's existing strategic log frame will be phased out and will be fully integrated in the Fund-wide RBM framework. A RBM advisor was recruited in October 2016 to coordinate this transition.

### **Effectiveness of Workshops and Training**

- Databases on training participants and evaluations have been constituted. Testing introduced in selective workshops.
- Work on post workshop tracking through participant and sponsor questionnaires underway, with a view to introducing some tracking.

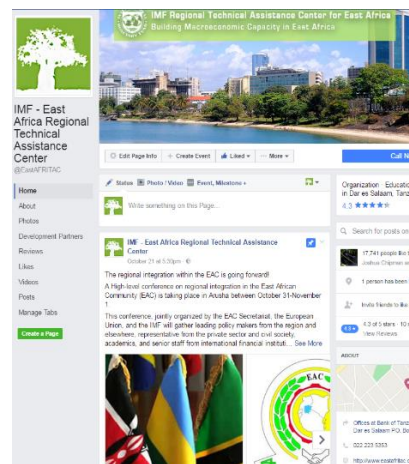
## **C. Phase IV Budget and Financing**

4. **Several development partners and member countries have made important contributions, but a financing gap remains for Phase IV (2015-20).** The European Union (EU) pledged € 13 million for IMF East AFRITAC from its intra-African, Caribbean and Pacific (ACP) envelope for the RTACs, of which € 6 million (US\$6.6 million) was disbursed. The United Kingdom pledged and disbursed GBP 4.5 million (US\$7 million) for the first two years of Phase IV. Switzerland pledged and disbursed US\$1 million. The IMF signed a letter of understanding (LoU) with the Netherlands for a contribution of € 7 million, of which € 4 million (US\$4.3 million) has been allocated to IMF East AFRITAC. The IMF's own contribution will be about US\$3.7 million. Member countries are expected to contribute 10 percent (a total of US\$5.5 million for all of them) of the Phase IV program budget. So far, Eritrea, Malawi, Rwanda, and Uganda have signed the LoUs, and Malawi has made the first disbursement. As of end-October 2016, total commitments from development partners, the IMF and expected commitments from member countries amount to approximately US\$36.4 million. Discussions on additional support from the EU and the UK, as well as discussions with other development partners (e.g., Germany), are ongoing to address the remaining financing gap for Phase IV of about US\$17 million. The EU recently indicated its intention to provide an additional financial contribution to the center.

## D. Development Partner Coordination and Outreach

**5. IMF East AFRITAC has undertaken a rationalization and better integration of its main outreach products to increase their effectiveness.**

Launched in June 2015, the Facebook page ([www.facebook.com/EastAFRITAC](http://www.facebook.com/EastAFRITAC)) has become the main vehicle to disseminate high-frequency information on AFE activities. Selected missions are showcased with pictures and educational material. Free online courses delivered by ICD are also shared along with content from other IMF pages. The Facebook page has exceeded 17,000 “likes”, with an audience concentrated in East Africa in the 25-34 age group. To reduce the overlap between the Facebook page and the newsletter, the latter has become quarterly (as in most other RTACs). The newsletter provides a summary of IMF East AFRITAC’s activities over the most recent quarter, lists all reports posted on IMF East AFRITAC’s secure website during that period,<sup>2</sup> and provides a schedule of all planned missions for the next three months. Newsletters are posted on the website and Facebook page, and circulated widely by email to interested parties by the center coordinator and IMF resident representatives in member countries. The IMF East AFRITAC website, which is being revamped and will be better integrated with the Facebook page, will remain the main repository for longer-lasting information (e.g., annual reports and work plans). These changes are expected to improve the experience of users and to allow resident advisors to dedicate more time to TA and training activities.



**Extract of IMF East AFRITAC Facebook page**

**6. Outreach and coordination with development partners have also taken place in the field.** While on mission, advisors endeavor to meet with development partners with an interest in their activities. The new center coordinator has met systematically with development partners during his country visits in the past three months to brief them about IMF East AFRITAC’s activities and discuss coordination issues. Operational collaboration with development partners has also taken place in a number of areas of common interest, such as comprehensive tax administration diagnostics (e.g., the TADAT mission in Kenya included experts from the Netherlands, U.K., and U.S.), capacity development in government finance statistics in EAC countries (which involved the African Development Bank), and financial sector supervision (which involved the Toronto Centre).

<sup>2</sup> 27 technical assistance reports were posted on the secure extranet site during the first half of FY2017 (see Annex IV)

### III. REPORT ON ACTIVITIES OVER THE FIRST HALF OF FY 2017

#### A. Overview

7. **In the first half of FY 2017, the delivery rate of activities was high. About 94 percent of planned activities were completed.** The execution rate increases to 98 percent for resources (measured in terms of field person weeks, FPWs), or about 47 percent of the annual program (Table 2 and Figure 1).

8. **Some notable achievements by member countries supported by IMF East AFRITAC during this period include:**

- Development of prioritized plans to address issues identified by TADAT (Rwanda and Tanzania) and diagnostic assessment of customs administration (Tanzania). Regional workshops were conducted to build compliance risk analysis capacity in tax administration and to operationalize risk management in customs.
- The publication by Kenya of its Fiscal Transparency Evaluation, which assesses the comprehensiveness, clarity, reliability, timeliness, and relevance of its reporting on public finances against international standards.
- The approval of the Charter for Fiscal Responsibility by the Ugandan Parliament and the submission of fiscal risk statements to the EAC Secretariat by EAC partner states.
- Progress in disseminating annual government finance statistics (GFS) for the general government (including the initiation of capacity development programs in Ethiopia, Malawi, and Zanzibar) and preparation for GDP rebasing by 2017 through support on the implementation of supply and use tables (SUTs, for instance in Uganda, Tanzania, and Zanzibar).
- A range of work supporting regional integration in the EAC, including harmonization of financial statements and medium-term convergence programs towards the establishment of the East African Monetary Union (EAMU) and the drafting of two new chapters on "Debt" and "Public Private Partnerships" for the *EAC Guidelines for the Compilation of Government Finance and Public Sector Debt Statistics*. Annex I presents a full list of all activities undertaken.

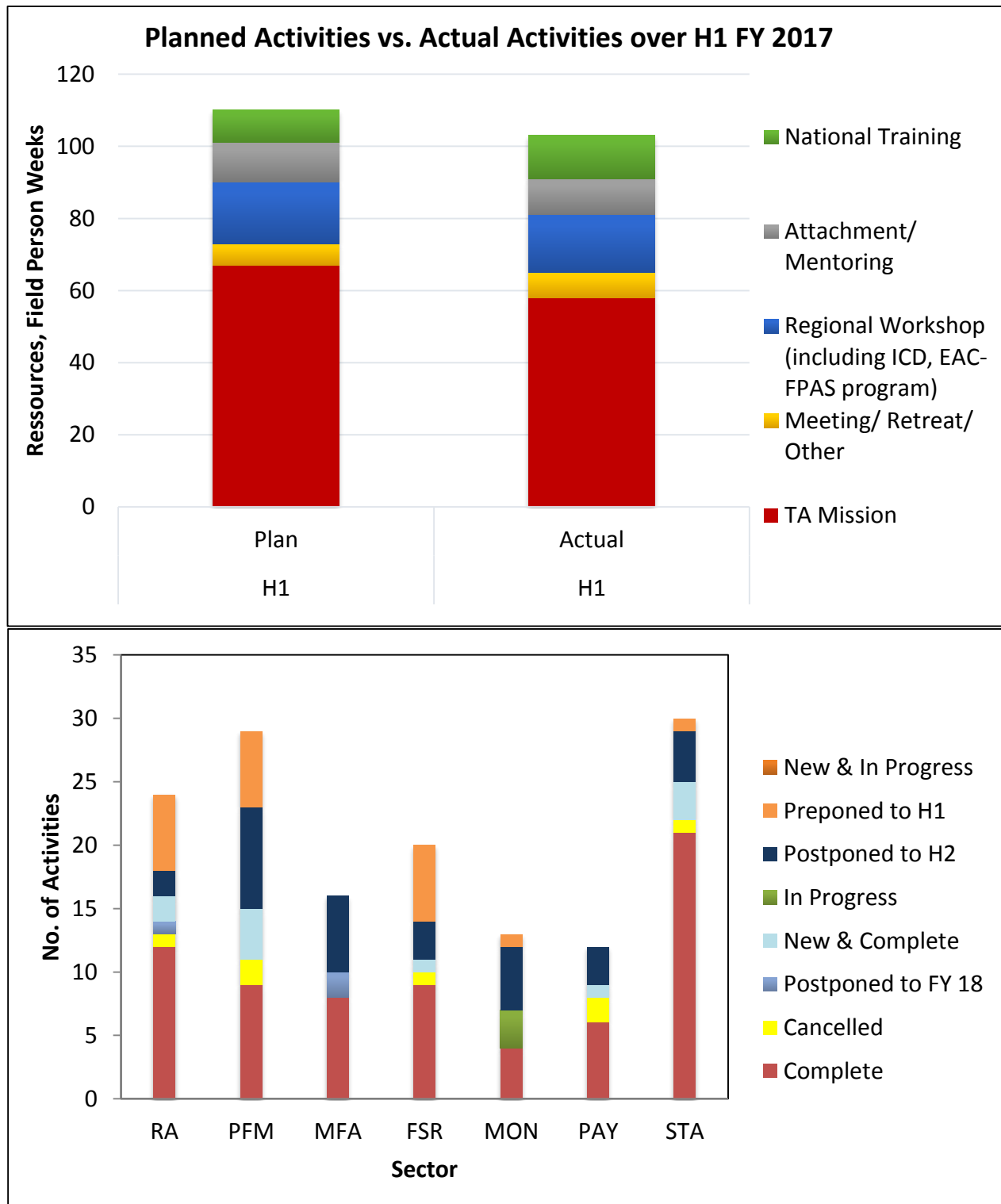


**Press event on Improvements in East African Statistics through Capacity Development jointly organized by the EAC, IMF and IMF East AFRITAC (November 1<sup>st</sup>, 2016)**

9. **IMF East AFRITAC has responded flexibly to changes in demand** (Tables 2-5). To address the authorities' preferences and availability, 31 activities were postponed to H2, 18 activities were preponed to H1, 9 activities were cancelled<sup>3</sup> and 11 new activities were completed. As a result, 103 activities were completed over H1 against a plan of 110 activities. Fifteen of the 17 planned regional workshops for H1 were conducted (Annex III). Execution was generally high across all sectors, sometimes exceeding 100 percent (e.g., in revenue administration, PFM, and financial sector regulation). Under-execution in other areas is expected to be offset in H2. Delivery on monetary operations was affected in H1 by the absence of an advisor, as the previous holder of the position resigned at short notice. The recruitment of new advisor, who joined the Center in November 2016, should allow for some catching up in H2. Work on financial market infrastructures (FMIs) in Kenya and Uganda was postponed to H2 at the request of the authorities. Execution during H1 for the macro-fiscal activities has been lower than expected, in most cases as a result of the time constraints faced by the authorities. With several activities planned for execution between November and January, the execution rate is expected to be back on track. By country, the execution rate was lowest in Ethiopia as the authorities were re-assessing their priority for TA in several sectors.

<sup>3</sup> Some cancellations were made to match authorities' availability or from resources being shifted to a TADAT mission

**Figure 1. IMF East AFRITAC, Summary Statistics of H1 FY 2017 Implementation**



**Table 2. IMF East AFRITAC, Activities and Resources over H1 FY 2017**

	FY 2016	FY 2017						
	Actual	Annual Plan	H1 Plan	H1 Actual	H1 Execution Rate (%)	H1 TA Share (%)	H2 Revised Plan	Annual Revised Plan
<b>AFE Activities (number)</b>								
TA Mission	122	126	67	58	87	56	67	125
Meeting/ Retreat/ Other	17	15	6	7	117	7	10	17
Regional Workshop (including ICD)	31	27	17	16	94	16	13	29
Attachment/ Mentoring	9	15	11	10	91	10	6	16
National Training	14	22	9	12	133	12	13	25
<b>Total Number of Activities</b>	<b>193</b>	<b>205</b>	<b>110</b>	<b>103</b>			<b>109</b>	<b>212</b>
<b>Resources (Field Person Weeks)</b>								
Resident Advisor	371	412	205	169	82	41	231	401
Short Term Expert	338	386	179	208	116	50	199	407
Attachments	32	18	16	19	117	4	11	30
IMF HQ Staff	53	59	24	20	83	5	37	57
<b>Total Field Person Weeks</b>	<b>794</b>	<b>876</b>	<b>425</b>	<b>416</b>			<b>478</b>	<b>894</b>

**Table 3. IMF East AFRITAC, Allocation of Resources by TA Area, H1 FY 2017**

	FY 2016	FY 2017				
	(In Field Person Weeks)	Annual Plan	H1 Plan	H1 Actual	H2 Revised Plan	Annual Revised Plan
<b>TA Area</b>	<b>Actual</b>	<b>Plan</b>	<b>Plan</b>	<b>Actual</b>	<b>Revised Plan</b>	<b>Revised Plan</b>
Revenue Administration	109	122	66	78	35	112
Public Financial Management	180	243	113	124	139	263
Macro-Fiscal Analysis	76	77	51	26	52	78
Financial Sector Regulation and Supervision	94	101	46	57	44	101
Monetary Policy and Operations	127	116	27	20	91	111
Financial Market Infrastructures & Payments	11	41	28	17	21	38
Economic and Government Statistics	198	176	95	95	97	192
<b>Total</b>	<b>794</b>	<b>876</b>	<b>425</b>	<b>416</b>	<b>478</b>	<b>894</b>

**Table 4. IMF East AFRITAC, Allocation of Resources by Country, H1 FY 2017**

	FY 2016							FY 2017
	Annual	Annual	H1	H1	H1	H2	Annual	
(In Field Person Weeks)	Actual	Plan	Plan	Actual	Execution Rate (%)	Revised Plan	Revised Plan	
Eritrea	16	12	8	9	121	3	12	
Ethiopia	76	74	40	11	26	58	69	
Kenya	100	122	62	53	86	60	114	
Malawi	81	116	65	51	78	56	106	
Rwanda	91	98	31	42	135	66	108	
Tanzania	109	163	78	114	145	65	178	
Uganda	114	100	47	48	103	56	104	
Regional/AFE/Burundi	207	192	94	89	94	115	203	
<b>Total</b>	<b>794</b>	<b>876</b>	<b>425</b>	<b>416</b>		<b>478</b>	<b>894</b>	

**Table 5. Deviation Analysis for H1 Work Program**

(percentage of original H1 planned activities completed in H1)								(new activities added in H1 as a percentage of original H1 work plan)						
Member Country	RA	PFM	MFA	FSR	MON	FMI	STA	RA	PFM	MFA	FSR	MON	FMI	STA
Eritrea	N/A	50	100	0	N/A	N/A	N/A	100	0	0	100	N/A	N/A	N/A
Ethiopia	50	0	0	0	0	N/A	50	0	0	0	0	0	N/A	0
Kenya	50	67	50	50	0	67	67	50	100	0	0	0	0	0
Malawi	50	0	50	100	100	0	75	0	67	0	0	100	0	25
Rwanda	100	0	N/A	100	0	0	100	150	0	N/A	200	0	0	0
Tanzania	67	67	50	67	0	100	100	0	133	0	67	100	0	20
Uganda	100	67	0	100	100	50	50	100	0	0	100	0	0	0
AFE/Regional /Burundi	100	67	100	100	50	50	86	33	33	0	50	50	0	29

10. **Overall progress on the milestones set for the year has been positive too** (Table 6). The original work program had 110 project milestones set for H1 FY 2017. Nine milestones were cancelled and 31 postponed to H2, leaving 62 of them met and 7 in progress. In addition, 31 new milestones based on new or preponed activities were added with 29 met, bringing the total of milestones met to 91 (around 44 percent of the total milestones planned for FY 2017).



**Table 6. IMF East AFRITAC, Status of Milestones by Sector, H1 FY 2017**

TA Area	Planned	In Progress	Postponed to H2	Cancelled	New Milestones	Preponed to H1	Total Milestones Completed*
Revenue Administration	16	0	2	2	2	6	20
Public Financial Management	20	3	8	2	4	5	16
Macro-Fiscal Analysis	15	1	6	1	0	0	7
Financial Sector Regulation and Supervision	13	1	3	1	1	5	14
Monetary Policy and Operations	9	0	5	0	0	1	5
Financial Market Infrastructures & Payments	11	0	3	2	1	0	7
Economic and Government Statistics	26	3	4	1	3	1	22
<b>Total</b>	<b>110</b>	<b>8</b>	<b>31</b>	<b>9</b>	<b>11</b>	<b>18</b>	<b>91</b>

\*Total milestones completed include new milestones and milestones brought forward from H2 which were completed in H1/ In progress include preponed to H1 milestones still in progress/ Cancelled include milestones postponed to FY18

## B. Revenue Administration

### 11. IMF East AFRITAC has continued to support member countries' efforts to improve the effectiveness and efficiency of their tax and customs administration.

The focus has been on addressing issues identified by recent assessments using the Tax Administration Diagnostic Assessment Tool (TADAT). Priority areas have included improving the integrity of taxpayer registration databases, building effective compliance risk management practices, developing effective approaches to audit planning, and developing mechanisms to monitor trends in reporting accuracy. Of 16 planned activities in H1, 12 activities were completed, two were postponed to H2 (Malawi and Tanzania, reflecting the availability of



**Regional workshop on Operationalizing Customs Risk Management IT Modules, Blantyre, Malawi (October 17-21, 2016)**

experts), one was postponed to FY 2018 (Ethiopia, at the request of the authorities), and another activity was cancelled and resources allocated to financing a TADAT assessment (Kenya). Six activities were advanced from H2 and a new activity was added (Rwanda), bringing to 19 the number of activities completed.

**12. With 20 milestones met in the area of revenue administration, the main achievements by strategic objective over the past six months were:**

- ***Improving efficiency in tax and customs administration.*** Eritrea and Ethiopia received support, respectively, to embed good practices in tax administration and to strengthen the valuation practice in customs. A diagnostic mission in both tax and customs administration was carried out in Tanzania. Rwanda benefitted from assistance to develop, and ensure the quality of, new procedures for filing, payment, and taxpayer accounting for the new tax administration system. In addition, Rwanda benefitted from a peer-to-peer learning review to strengthen project management arrangements for the E-Tax project.
- ***Improving compliance management in tax and customs.*** Support was provided to: Kenya to develop criteria for taxpayer segmentation; Kenya and Rwanda to develop guidelines for managing compliance in the telecommunications sector; Rwanda to improve the management of tax arrears; Tanzania (training) to improve audit planning and performance monitoring; and Uganda (training) to develop strategies for recruiting taxpayers from the informal sector and for monitoring trends in the accuracy of reporting by taxpayers.
- ***Improving risk assessment and management capacity.*** Rwanda and Uganda were assisted with hands-on training on compliance risk analysis and to develop sector-focused compliance improvement plans (which are starting to be operationalized in Rwanda).
- ***Revenue diagnostics and needs assessments.*** Rwanda and Uganda received support to train staff to interpret the results of the TADAT assessments and to embed the TADAT methodology in their performance monitoring and evaluation frameworks.

### C. Public Financial Management

13. **IMF East AFRITAC has provided support to its member countries to improve**



**Regional workshop on IFMIS Effectiveness:  
Strengthening PFM operational support and control,  
Dar es Salaam, Tanzania (October 18-21, 2016)**

**their PFM practices and capacity across a broad range of areas.**

Support was provided, in particular, on strengthening the medium-term orientation of the budget and supporting program-based budget (PBB) approaches (Eritrea, Kenya, Uganda, Tanzania and Zanzibar); improving public investment management (Kenya and Uganda); further building financial controls (Malawi); improving annual financial statements (Kenya and Tanzania); and strengthening cash management

practices and supporting implementation of treasury single account (TSA) arrangements (Kenya, Tanzania, and Uganda). Fifteen of the planned 20 activities were completed and four new activities were added. In terms of the results, 16 milestones were met during the first half of the year, three are in progress, and eight have been postponed to H2. Overall, implementation has been as planned except in Rwanda and Malawi where there have been delays in confirming the timing and scope of missions. The implementation rate is expected to increase in H2 for these countries.

14. **The main achievements by strategic objective over the past six months were:**

- ***Comprehensive, credible, and policy-based budget preparation.***

Assistance was provided in transitioning from output-based budgeting to program budgeting (Uganda), in setting and strengthening the medium-term expenditure framework (MTEF) as a basis for anchoring the implementation of PBB (Tanzania and Zanzibar). Advisors participated in the annual post-budget review workshop hosted by the National Treasury of Kenya on challenges associated with budget preparation and performance and trained mid-level staff on the prerequisites for MTEF in Eritrea.

- ***Improved budget execution and control.*** Assistance continued to be provided to Malawi on building and sustaining financial controls, with suggestions made for: resolving outstanding issues relating to bank

reconciliation; realistic timelines for implementing the new integrated financial management and information system (IFMIS); and streamlining the debt management function to gain better control over domestic borrowing and the short-term cash position. Technical assistance was provided to strengthen the role of the National Treasury in public investment management (Kenya).

- ***Improved coverage and quality of fiscal reporting.*** Kenya and Tanzania received further support to assess the coverage and quality of the annual financial statements for FY 2014/15 against International Public Sector Accounting Standards (IPSAS) and the EAMU fiscal reporting convergence criteria. Guidance for FY 2015/16 financial statements was provided to further improve the reliability and relevance of the financial statements for decision-making purposes. In Zanzibar, assistance was provided to guide the implementation of its upgraded version of IFMIS and to improve system controls for budget execution and financial reporting.
- ***Improved integration of assets and liability management framework.*** In Uganda, advice was provided on drafting the cash management guidelines, strengthening the institutional arrangements, and improving the cash forecasting template. In Kenya, guidance was provided on the design of the TSA and automating the exchequer releases to support cash forecasting and planning. In Tanzania, subsequent to the approval of the Budget Act, assistance was provided on enhancing the regulatory and institutional arrangements for cash management and better integration of cash and debt management functions.
- ***Strengthened identification, monitoring, and management of fiscal risks.*** Support was provided to Kenya for the publication of its Fiscal Transparency Evaluation.

#### **D. Macro-Fiscal Analysis**

15. **IMF East AFRITAC's work program in this area has continued to build macro-fiscal capacity to complement efforts to improve PFM.** Technical assistance or training was provided to Eritrea, Kenya, Malawi, and Tanzania, with eight of the 18 planned activities for the year implemented in H1. The main milestones reached during H1 include: the improvement of the macroeconomic dataset in Zanzibar, the use of the IMF template for debt sustainability analysis in Kenya and the harmonization of

medium-term convergence programs within the EAC. Key outcomes achieved in H1 related to activities conducted in the past two years include the publication of the Fiscal Transparency Evaluation in Kenya, the approval of the Charter for Fiscal Responsibility by the Ugandan Parliament and the submission of fiscal risk statements to the EAC Secretariat by EAC partner states.

**16. The main achievements by strategic objective over the past six months were:**

- ***Macroeconomic analysis and forecasting.*** A training in Malawi supported the macroeconomic working group on forecasting, with a view to improving fiscal planning. Further support was provided to Zanzibar on the macroeconomic database and forecasting framework, in order to improve the quality of information available for policy-making and supporting the integration of its macroeconomic framework with that of Tanzania mainland.
- ***Fiscal forecasting and budgeting.*** Government officials in Kenya were trained on the IMF/World Bank debt sustainability framework. The annual in-country PFM workshop in Eritrea extended training on medium-term and program-based budgeting to line ministries and regional authorities.
- ***Regional integration.*** Support was provided to EAC partner states to peer review and harmonize their medium-term convergence programs, in the context of convergence towards the EAMU.



**Participants at the Macro-Fiscal Forecasting workshop, Arusha, Tanzania (August 8-18, 2016)**

## **E. Financial Sector Regulation and Supervision**

**17. IMF East AFRITAC's work has focused on assisting countries in achieving higher levels of compliance with international standards for bank and insurance regulation and supervision.** Current multi-year projects relevant across the region relate to the implementation of consolidated supervision, the transition towards the Basel II-III frameworks, supporting regional harmonization, and the implementation of

risk-based supervision and solvency frameworks for the insurance sector. Overall the program is well on track: 15 activities were executed compared to 13 planned, and as a result of the 101 FPW of TA planned for FY 2017, 57 FPW were delivered in H1 (versus a plan of 46 FPW). The higher TA delivery was mainly due to several activities brought forward to H1 and the completion of one new activity (an attachment of two staff of the National Bank of Rwanda to the Tanzania Insurance Regulatory Authority on risk-based solvency requirements and stress-testing). A mission on the supervision of leasing for the National Bank of Ethiopia, in H1 was replaced at the request of the authorities with a joint mission on national contingency plans for banking crises (expected to take place in H2).



**Regional Workshop on IT Risk Supervision  
September 15<sup>th</sup> to 16<sup>th</sup> 2016, Dar es Salaam**

**18. The main achievements by strategic objective over the past six months were:**

- ***Bank supervision compliant with international standards.*** An in-house training program on consolidated supervision was designed for the Central Bank of Kenya. The National Bank of Rwanda was assisted in applying the developed consolidated supervision off-site analysis framework to two banks and in updating its risk-based supervision framework. Support was provided to the Bank of Tanzania in drafting a Basel III-based capital adequacy regulation, and to the Reserve Bank of Malawi in conducting a pilot examination on IT risks and on delivering a workshop on bank resolution and crisis management for the Malawian judiciary.
- ***Insurance supervision compliant with international standards.*** Further support was provided to the Bank of Eritrea in the review of its prudential regulations, coaching was provided to the Insurance Regulatory Authority of Uganda on the examination of two insurance companies using a risk-based approach, and advice was given to the Tanzania Regulatory Insurance Authority on the implementation of risk-based solvency requirements as well as follow-up training on stress-testing.
- ***Strengthening macro-prudential and financial stability capacity and***

**frameworks.** Training was provided to the Bank of Tanzania on its micro-prudential stress-testing framework for banks and assistance in developing its financial stability risk assessment framework for non-bank financial institutions and financial markets.

- **Overall supervisory and regulatory framework compliant with international standards.** The National Bank of Rwanda was assisted in developing an on- and off-site framework for foreign exchange bureau supervision.

## F. Monetary Policy and Operations

19. **IMF East AFRITAC has provided support to its member countries to improve their monetary policy frameworks, operations, and capacity across a number of areas.** Further support was provided to develop capacity in forecasting and policy analysis (Malawi, Tanzania, and the EAC), modernizing the monetary policy framework (Malawi), addressing lender of last resort issues (Tanzania and Uganda), and developing the repo market (Uganda). Despite the absence of a resident advisor during most of this period, seven out of nine planned activities were completed over H1 and one activity was postponed from H2.

20. **The main achievements by strategic objective over the past six months were:**

- **Improve monetary and exchange rate policy implementation.** Support was provided to the Reserve Bank of Malawi on the modernization of its monetary policy framework, and a 2-year customized training and technical assistance work plan was developed. The program includes three interrelated work streams focusing on FPAS development, monetary operations and money market development, and enhancement of monetary policy communication strategies, respectively. Following a regional workshop in October 2015 on repurchase agreements and foreign exchange swaps, a follow-up mission took place to support Uganda in developing the legal, tax, accounting, regulatory, trading, and operational foundations required to support a true repo market, as well as a refining the master repurchase agreement based on international practice. Support was also provided to the Bank of Uganda and the Bank of Tanzania to develop and operationalize their lender of last resort frameworks, and to harmonize these frameworks in the context of the transition to EAMU.



- **Developing forecasting and policy analysis capacity.** Further support was provided to Tanzania and, for the first time, at the EAC level to facilitate convergence of monetary policy frameworks in the context of the transition to EAMU. The FPAS customized training and capacity building project under the newly developed work program has also been launched in Malawi

## G. Financial Market Infrastructures

21. **IMF East AFRITAC's work in this area has focused on achieving compliance of FMIs with international standards.** The CPSS-IOSCO Principles for financial market infrastructures (PFMI) establish the international risk management standards that FMIs should observe and responsibilities that the regulatory, supervisory, and oversight authorities should fulfill in order to mitigate risk and support financial system stability. To assist the authorities' efforts to achieve greater compliance, IMF East AFRITAC carried out two missions during H1 to provide guidance for conducting an assessment of FMIs against existing standards and facilitate the adoption of the standards within the central banks of Kenya and Tanzania. A one-week professional visit at the South African Reserve Bank (SARB) was also organized for a team of eight persons from four regional central banks (Ethiopia, Kenya, Tanzania, and Uganda) to gain hands-on exposure to the payments function and the execution of the regulatory and oversight responsibilities with respect to the FMIs. Overall, six of the 11 activities planned for H1 were completed. Three missions were postponed to H2 and two missions were cancelled and postponed to FY 2018 at the authorities' request.

## H. Real Sector and Government Finance Statistics



**Joint IMF/MEFMI Course on Data requirements for Economic Management (SNA 2008)**

22. **Assistance continued to be provided to member countries to improve their GFS and national accounts and price statistics.** The focus was on increasing the capacity to undertake GDP rebasing, increasing and expanding the price statistics compiled, and improving the coverage, timeliness, frequency and quality of government finance statistics. Overall the program is well on track. Out of 15 planned activities on national accounts and prices, one activity was cancelled and



three were postponed. They were replaced by one preponed activity from H2 and two new activities to respond to the needs of authorities. In total, therefore, 14 activities were conducted consisting of 10 TA missions, two workshops, one retreat and one peer-to-peer learning event. For GFS, the completion rate was 90 percent. The deviation arose from a mentoring activity (planned in H1) which was postponed to H2. Seven TA missions, three national training courses, two regional workshops, and one retreat were conducted in H1.

23. **The main achievements by broad area over the past six months were:**

- **National accounts and price statistics.** Support has been provided to member countries to produce supply and use tables (SUTs)<sup>4</sup> for the year 2015 and rebased GDP series by the end of calendar year 2017 or early 2018. Therefore, H1 activities focused on assessing the adequacy of the available data, assisting with the analyses of new datasets and identification of data gaps. Kenya and Zanzibar were assisted in redesigning and updating the work-in-progress models for compiling crops, livestock, and construction estimates while Uganda, Tanzania, and Zanzibar received support in the SUTs update and analyses of the benchmark survey datasets. Rwanda and Zanzibar received assistance on CPI rebasing and Malawi on improving the CPI compilation (to provide a more detailed national CPI).

- **Government Finance Statistics.** The GFS capacity development program (CDP) focused on motivating EAC countries to disseminate annual GFS for general government that have already been produced; consolidating and extending to 2019 work plans; reconstituting GFS technical working groups; and beginning to compile high-frequency GFS. In addition, the GFS CDP accomplished the following milestones: (i) initiated GFS CDPs in Ethiopia, Malawi, and Zanzibar; (ii) initiated the drafting of two new chapters on “Debt” and “Public Private



**Participants during a GFS TA and Training mission in Lilongwe, Malawi (July 25-August 5, 2016)**

<sup>4</sup> The SUTs are useful for economic analysis, as well as improving the national accounts estimates by identifying gaps and inconsistencies at the industry and product level.

Partnerships” for the *EAC Guidelines for the Compilation of Government Finance and Public Sector Debt Statistics*.

## I. Work on Regional Issues

24. **Activities to support regional integration in East Africa have continued as requested by member countries.** In many areas of work, IMF East AFRITAC helps its member countries adopt best practices or international standards. This work, in and of itself, contributes to harmonizing data and policies, which is critical for regional economic and monetary integration. This is particularly the case in the statistics area. The move to international standards for national accounts and GFS will indeed contribute significantly to making statistics more reliable and comparable and therefore more relevant for regional surveillance purposes. In these two areas, the work program was designed to be consistent with EAC countries’ commitments in the context of EAMU. As mentioned above, other activities also directly addressed specific needs related to the regional integration process. For instance, support was provided to EAC countries to peer review and harmonize their medium-term convergence programs. The work on fiscal risks statements and Fiscal Transparency Evaluations also derives from commitments made by EAC member countries in the context of convergence towards EAMU.

## J. Attachments/Mentoring

25. **Attachments and mentoring have increased, consistent with the strong feedback received from member countries on these activities.** Ten attachments took place across sectors over H1 with 6 more planned in H2. In revenue administration, a project management expert from the Zambia Revenue Authority provided training to Rwanda Revenue Authority staff on how to strengthen project management arrangements for the new tax administration system (E-Tax). On financial sector issues, staff of the Bank of Uganda (BoU) benefitted from an attachment to the National Bank of Georgia. It was an opportunity to learn about the National Bank of Georgia’s analytical framework and experiences on several macro-prudential topics highly relevant for Uganda and East Africa in general, such as loan-to-value monitoring



**Bank of Uganda staff during a Professional visit to National Bank of Georgia (July 4-8, 2016)**

and risk weighting of foreign exchange-denominated loan. Staff of the National Bank of Rwanda joined and benefitted from a follow up TA mission on stress-testing delivered to the Tanzania Insurance Regulatory Authority. The attachment was also an opportunity for Rwandan officials to share their work on risk-based solvency requirements, which has been supported by the World Bank. A one-week professional visit to the South African Reserve Bank was organized for officials from the central banks of Ethiopia, Kenya, Tanzania, and Uganda. Participants gained practical exposure to the core oversight and operational responsibilities carried out by central banks, as well as the cooperative arrangements among the regulatory and oversight authorities. In public financial management, staff from the Accountant General's Office in Tanzania participated and contributed to a mission to Kenya while staff from the National Treasury in Kenya took part in a mission to Tanzania.

## K. Training

26. **IMF East AFRITAC conducted or contributed to 15 regional workshops and several national training activities over H1.** In revenue administration, regional workshops focused on building compliance risk analysis capacity in tax administration and operationalizing risk management in customs administration. A joint workshop with the Africa Training Institute trained participants on measuring and managing performance in tax administration using the International Survey on Revenue Administration. In PFM, a regional workshop was delivered on maximizing the gains from IFMIS. In the macro-fiscal area, regional workshops dealt with macro-economic and revenue forecasting tools and methods as well as supporting the preparation of EAC medium-term convergence program documents. In the financial sector area, regional workshops covered risk-based approaches to anti-money laundering supervision, IT risks, and foreign exchange trading (joint with AFRITAC West II). In statistics, workshops focused on the production of improved national accounts (with the Macroeconomic and Financial Management Institute of Eastern and Southern Africa), analysis of household budget surveys and trade data sets and developing SUTs, and improving GFS. All these workshops also include a significant component of peer learning. Beyond the regional workshop and the national training events, most TA missions included a training component.

27. **Training continued to be supported and delivered by IMF headquarters.** 25 officials from the region benefitted from training delivered from headquarters. Close collaboration with various departments within the IMF was maintained to ensure that training is based on the most up-to-date analytical tools. For example, the Research Department participated in a national workshop in Kenya to train officials in their latest model that quantifies the impact of debt and public investment on growth. Finally, IMF

East AFRITAC staff itself continued to get trained. A number of advisors participated in specialized retreats for their sectors at IMF headquarters. These have allowed them to share experiences and best practices with colleagues in other RTACs and in headquarters and foster coordination with country teams. Table 7 summarizes the total number of officials from the region trained through various vehicles, highlighting the predominant contribution of training delivered by IMF East AFRITAC.

**Table 7. IMF Training of East AFRITAC Official over H1 FY 2017**

	IMF HQ Based Training	IMF East AFRITAC	Africa Training Institute	Online Learning
Member Country				
Eritrea		12		
Ethiopia	2	29	4	4
Kenya	4	41	3	18
Malawi	4	32	12	9
Rwanda	3	27	2	3
Tanzania*	4	75	7	5
Uganda	8	46	19	28
Others**		7		
<b>Total</b>	<b>25</b>	<b>250</b>	<b>47</b>	<b>67</b>

\* includes Zanzibar  
 \*\* EAC secretariat, South Sudan and Burundi

#### **IV. WORK PROGRAM FOR THE SECOND HALF OF FY 2017**

28. **Annex II presents the revised work program for the second half of FY 2017.** The Center expects to deliver 478 FPWs in H2, against 416 FPWs in H1. This will result in a total of 894 FPWs to be delivered in FY 2017 (2 percent more than in the original work plan). In terms of activities, 103 percent the total number of activities in the original work plan are expected to be delivered.

**Table 8. Deviation Analysis for Full Year FY 2016 Work Program**

(percentage of original activities still in full year program)								(new activities added in full year program as a percentage of original work plan)						
Member Country	RA	PFM	MFA	FSR	MON	FMI	STA	RA	PFM	MFA	FSR	MON	FMI	STA
Eritrea	100	100	100	100	N/A	N/A	N/A	0	0	0	0	N/A	N/A	N/A
Ethiopia	67	67	100	67	100	N/A	75	0	0	0	33	0	N/A	25
Kenya	50	86	67	100	100	100	83	0	29	50	0	0	0	0
Malawi	100	100	100	100	100	0	100	0	0	0	0	0	0	50
Rwanda	100	100	100	100	100	0	100	50	0	0	25	0	0	0
Tanzania	75	100	100	100	100	100	100	0	13	0	0	0	0	9
Uganda	100	100	50	67	100	100	100	0	25	33	0	0	0	0
AFE/Regional/Burundi	100	100	86	100	100	100	100	0	17	14	17	0	33	18
<b>Total</b>	<b>83</b>	<b>95</b>	<b>86</b>	<b>93</b>	<b>100</b>	<b>80</b>	<b>96</b>	<b>7</b>	<b>13</b>	<b>14</b>	<b>10</b>	<b>0</b>	<b>13</b>	<b>12</b>

\*N/A indicates that no activities were planned

## 29. Some changes over H2 merit emphasis:

- **Revenue administration.** A TADAT assessment will be conducted in Kenya along with training on TADAT methodology, which will require some re-allocation of resources. A few activities in the tax area with a legal content are unlikely to take place this year.
- **Public financial management.** Kenya and Uganda have expressed interest in getting more support to strengthen public investment management. In addition, Uganda has requested new missions on program-based budgeting and expenditure arrears.
- **Macro-fiscal analysis.** No major changes to the work plan are expected, except in Uganda, where support on revenue and GDP forecasting has been postponed for FY 2018 and will be replaced with assistance on refining the fiscal risks statement.
- **Financial sector regulation and supervision.** Limited changes to the work plan are expected in H2. A mission to the Bank of Uganda on developing the supervisory framework for agent banking has been changed into an attachment to the Bank of Tanzania on the same topic. Two new activities were added: a mission on developing a contingency plan for banking crises

(Ethiopia) and an introductory visit to several member countries for the new advisor in this area (who joined the Center in November 2016).

- ***Monetary policy and operations.*** Due to the recruitment of a new advisor (who joined the Center in November 2016), a number of activities have been back-loaded to the second half of the year. Changes to the work program for the full year, however, are limited.
- ***Financial market infrastructure.*** Three missions were postponed from H1 including a mission to provide guidance for conducting an assessment of FMIs in Uganda, a mission to Kenya to develop a risk management framework for the national payment system and a regional workshop on the Principles for financial market infrastructures. They are all expected to take place in H2.
- ***National accounts and GFS.*** The H2 work plan has been expanded to account for three new GFS TA missions (Ethiopia, Malawi, and Zanzibar) to follow up on GFS capacity development programs.
- ***Regional activities.*** Limited changes to the work plan are expected in H2. Thirteen regional workshops are expected to be delivered, as per the work plan.

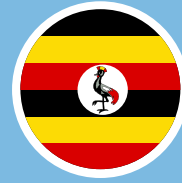




Eritrea



Malawi



Uganda



Ethiopia



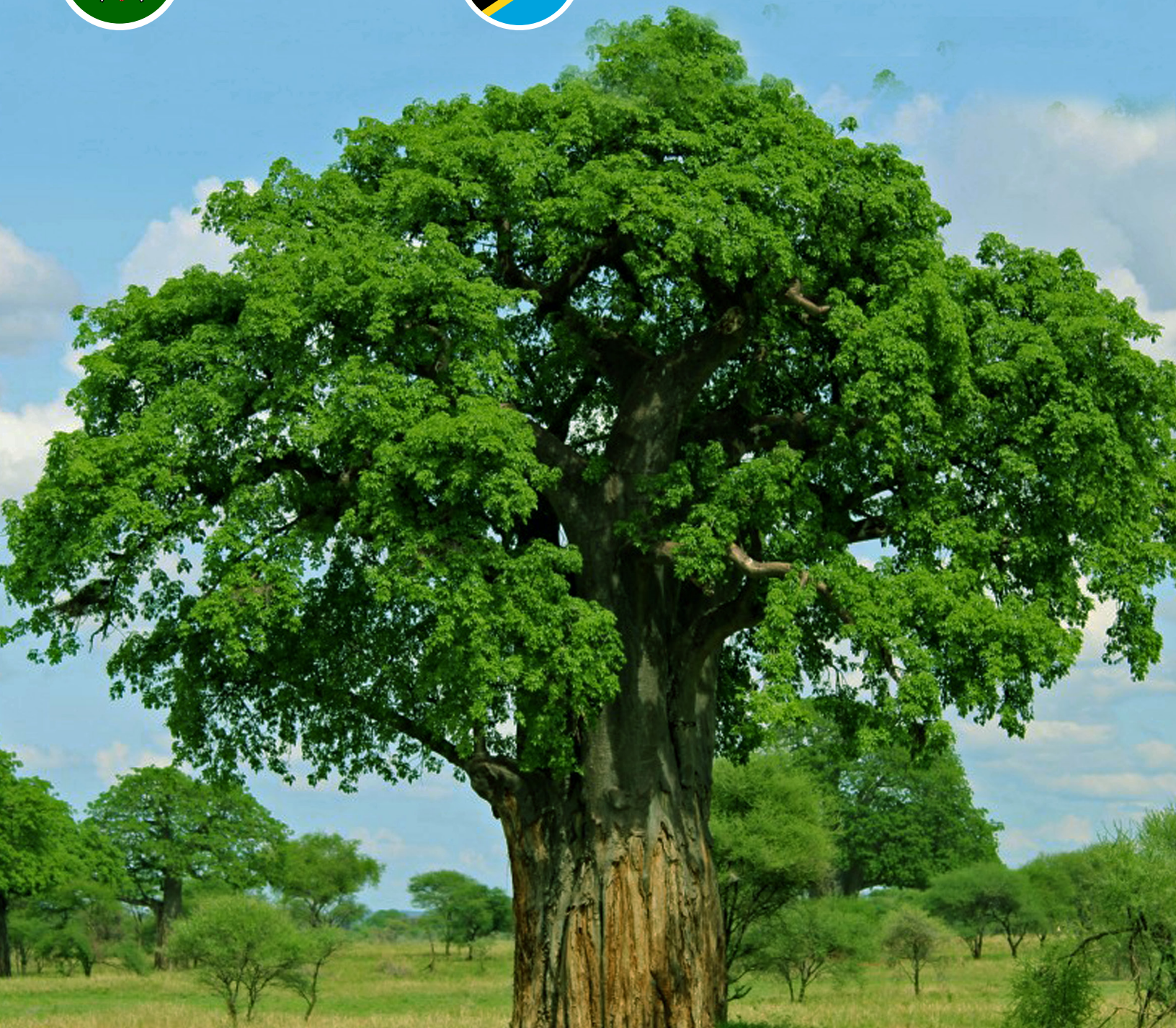
Rwanda



Kenya



Tanzania



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