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# IMF East Africa Regional Technical Assistance Center (East AFRITAC)

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Independent Mid-Term Evaluation  
Phase III: October 2009 to date

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Volume II: Case Studies and Desktop Reviews  
November 2013

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## ABBREVIATIONS AND ACRONYMS

AFE	East AFRITAC
AFRITAC	Africa Regional Technical Assistance Center
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ANA	Annual National Accounts
BCPs or CPs	Basle Core Principles or Core Principles for Effective Banking Supervision
BOP	Balance of Payments
BoT	Bank of Tanzania, the Tanzanian central bank
BoU	Bank of Uganda, the Ugandan central bank
Briefing Papers	Terms of references for AFE missions
BSD	Bank Supervision Department at CBK
BSIS	Banking Supervision Information System at BoT
BTO	Back to Office Reports (AFE)
CBK	Central Bank of Kenya, the Kenyan central bank
CC	Center Coordinator
CEAI	Composite Economic Activity Indicator
Center, the	AFE
CIDA	Canadian International Development Agency
CoA	Chart of Accounts
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
CS	Consolidated Supervision
DAC	Development Assistance Committee of the OECD
DBS	Directorate of Bank Supervision at BoT
DfID	Department for International Development of the United Kingdom
DI	Destination Inspection
DQAF	Data Quality Assessment Framework (IMF)
EAC	East African Community
EDDI	DfID Enhanced Data Dissemination Initiative
ERCA	Ethiopian Revenue and Customs Administration
Evaluation	Interim evaluation of Phase III of East AFRITAC, the subject of the Report
Evaluation Sub-Committee	Sub-committee composed of representatives of IMF and Steering Committee members to guide the Evaluation
FAD	Fiscal Affairs Department (IMF)
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
FSI	Financial Soundness Indicators
Fund, the	IMF
FY	IMF Fiscal Year, from 1 May to 30 April
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
GIZ	The Deutsche Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
GoK	Government of Kenya
GoM	Government of Malawi
GoR	Government of Rwanda

GoT	Government of Tanzania
HQ	IMF Head Quarters
ICD	Institute of Capacity Development (IMF)
ICDGP	ICD Global Partnerships, previously OTM (IMF)
IFI	International Financial Institution
IFMIS	Integrated Financial Management and Information System
IFRS	International Financial Reporting Standards
IMF	The International Monetary Fund
KEQs	Key Evaluation Questions for the Evaluation
KIPPRA	Kenya Institute for Policy Practice Research and Analysis
KNBS	Kenya National Bureau of Statistics
MCM	Monetary and Capital Markets (IMF)
MEFMI	Macroeconomic and Financial Management Institute
MoF	Ministry of Finance
MOFPED	Ministry of Finance, Planning, and Economic Development in Uganda
MoU	Memorandum of Understanding
MPD	Macroeconomic Policy Department at BoU
MTEF	Medium Term Expenditure Planning Framework
MTFF	Medium-term Fiscal Framework
NA	National Accounts
NAS	National Accounts Statistics
OBL	Organic Budget Law
OECD	Organization for Economic Cooperation and Development
OTM	Office of Technical Assistance Management, now ICDGP (IMF)
OVI	Objectively Verifiable Indicator for logframes
PB	Program Budgeting
PBB	Program Based Budgeting
PEFA	Public Expenditure and Financial Accountability
PFEM	Public Finance Expenditure Management program in Malawi
PFM	Public Financial Management
PPI	Producer Price Index
Program	Phase III of AFE, October 2010 to September 2015
Program Document	The document, dated April 2009, setting out the details of the Program
PRSP	Poverty Reduction Strategy Paper
QNA	Quarterly National Accounts
RA	Resident Advisor (AFE)
RBM	Results Based Management
RBoM	Reserve Bank of Malawi, the Malawian central bank
RBS	Risk Based Supervision
Report	This report dated March 2013, containing the results of the Evaluation
RSN	Regional Strategy Note
RTAC	Regional Technical Assistance Center
SADC	Southern African Development Community
SC or Steering Committee	steering committee of AFE
SDDS	Special Data Dissemination Standard
SGFSR	Second Generation Financial Sector Reforms in Tanzania
SNA	System of National Accounts
STA	Statistics Department (IMF)

STX	Short-Term Expert (AFE)
SUT	Supply-Use Table
TA	Technical Assistance
TAIMS	Technical Assistance Information Management System (IMF)
ToRs	Terms of Reference for the Evaluation
ToT	Training of Trainers
TPA-TTF	Tax Policy and Administration TTF (IMF)
TPI	Trade Price Indices
TRA	Tanzania Revenue Authority
TTF	Topical Trust Fund (IMF)
UBOS	Uganda Bureau of Statistics
VI	OVI
WIP	Work in Progress

# 1. EVALUATION RATING METHODOLOGY

## 1.1 EVALUATION CRITERIA AND RATING SYSTEM

The Terms of Reference for the Evaluation ('ToRs') set out a series of Key Evaluation Questions ('KEQs') for each of the OECD DAC criteria that the Evaluation is expected to address. It proposed a quantitative rating methodology, along with a framework for assigning weights to the scores for the different DAC criteria in order to arrive at a unitary score for each evaluated project, workshop or the AFE program as a whole.

We adopted the rating system for individual DAC criteria of:

- Relevance ('R')
- Effectiveness
  - Impact ('E/I')<sup>1</sup>
  - Outcomes ('E/OC')
  - Outputs ('E/OP')
- Efficiency ('E')
- Sustainability ('S')

AFE Evaluation Rating Criteria			
Rating	Achievement	Base Score	Range
<b>Excellent ('E')</b>	All or substantially all objectives met	4	3.6-4.0
<b>Good ('G')</b>	Majority of objectives met	3	2.5-3.5
<b>Modest ('M')</b>	Few/minority of objectives met	2	1.5-2.4
<b>Poor ('P')</b>	Very few objectives met	1	1.0-1.4
<b>Not Demonstrated ('ND')</b>	Criteria cannot be assessed	<b>ND</b>	

We deployed a rating system for each of the above evaluation criteria that is set out in the table opposite to the extent feasible based on the project reviews, field trip case studies and an overall AFE-level assessment. Achievements of targets within these criteria have been rated as Excellent ('E'); Good ('G'); Modest ('M'); Poor ('P'); or Not Demonstrated ('ND'). In addition, we have given numeric scores to allow for gradation within each rating criterion.

We had some reservations about assigning weightings to the scores for individual DAC criteria and arriving at a consolidated score. We have outlined these in our main report.

ICDGP and Evaluation Sub-Committee feedback was that a weighted scoring approach is needed to maintain comparability of results with previous evaluations. We have therefore applied the weights recommended in the ToRs (see Appendix I, Annex B in Volume I of the Report), in separate scoring tables for comparability purposes.

In addition to the scoring methodology, we suggested some minor changes to the KEQs to improve their consistency and technical robustness. We also suggested slightly modified KEQs for individual TA interventions and that for the AFE program. These suggestions were accepted by ICDGP and the Evaluation Sub-Committee, and have been adopted for the Evaluation.

<sup>1</sup> Impact was assessed, but not scored, as provided for in the Evaluation ToRs.

## 1.2 DESKTOP REVIEWS

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We reviewed all available documentation at AFE for TA projects selected for desktop reviews, including Briefing Papers (mission ToRs); TA Reports; and Back-to-Office Reports ('BTOs') for all missions undertaken. We also discussed the project with the relevant RAs, where they were still in place, or received feedback from previous RAs who had undertaken the project. In some cases, feedback was also obtained from STXs who had been involved. In a number of cases we obtained feedback from the TA beneficiary, especially relating to the implementation status of TA recommendations. Finally, we referred to relevant survey feedback. Information reviewed was then used to respond to the KEQs to rate the projects in accordance with the DAC criteria.

## 1.3 CASE STUDIES

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We worked with a results chain approach to provide the logical underpinning for the logframes used in the case studies.

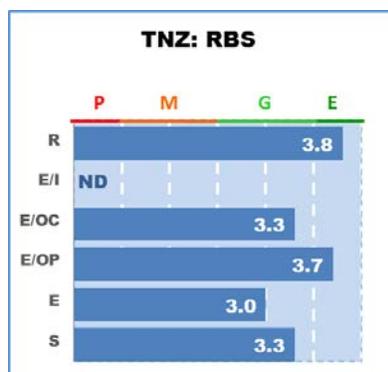
For the three case studies selected, we constructed 'projects' out of a series of missions, some extending for as long as seven years. We then developed the sector results chain to place the project into context, and assess the degree to which the project was appropriately sequenced, and the wider reform needs to achieve higher level outcomes were being addressed, and the associated risks mitigated.

*Ex post* logframes were designed from the available data from AFE and wider research, and output and outcome indicators developed. Based on review of documents and interviews with the responsible RA, as well as the in-country meetings with TA beneficiary stakeholders and other institutions indirectly affected by the TA, we completed the KEQs in respect to each of the case studies and arrived at our evaluation ratings and scores for each of them.

## CASE STUDIES

## 2. TANZANIA: IMPLEMENTATION OF RISK BASED SUPERVISION

### 2.1 INTRODUCTION AND SUMMARY OF RESULTS



The above project was selected as a case study for evaluating AFE TA, in accordance with the methodology set out both in our technical proposal and in the Evaluation's Inception Report.

AFE has worked with the Bank of Tanzania ('BoT') since August 2004 to develop and implement a risk based supervision ('RBS') framework. Between 2004 and 2011 the BoT, with AFE's TA support, developed a comprehensive set of supervisory tools and instruments as key components of the framework. Apart from new tools such as Institutional Profiles, Risk Matrices, and Risk Management Guidelines, the BoT undertook appropriate modifications to pre-existing tools such as its examination manual, exam procedures and working papers to better support

RBS. The need for RBS was identified during the 2003 FSAP. A 2009 FSAP follow-up identified substantial progress, but that work still needs to be done to fully implement RBS. This was echoed by a review of progress undertaken by the AFE financial supervision RA in 2011. Our assessment suggests that further progress has been made recently, but that RBS implementation has not yet been fully achieved. Our scores for the project reflect the substantial achievements that have been made in implementing RBS at the BoT, the high quality of advice delivered, and the high level of capacity that has been built. This is slightly tempered by extended period of TA implementation, and the fact that some outstanding work remains.

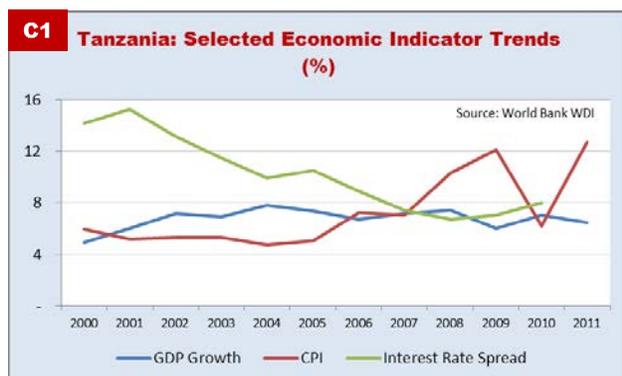
### 2.2 INFORMATION REVIEWED

The evaluation was carried out primarily based on:

- Review of project-related documentation available at AFE (Briefing Papers, Mission Reports, and BTOs, where available);
- Review of key outputs and presentations related to the project, including the RBS policy Paper, RBS Framework Paper, RBS Manual, Bank Survey Results, Risk Management Guidelines for Banks, various core regulations, and selected workshop presentations;
- Various interviews with senior Directorate of Bank Supervision ('DBS') staff at the BoT;
- Review of background information related to Tanzanian financial sector trends, including based on internet searches, selected BoT Annual Reports and BoT Banking Supervision Reports;
- Interviews with senior management of two supervised banks;
- Information about IMF HQ TA to the BoT;
- FSAP Reports from 2003 and 2009<sup>2</sup>;
- An interview with the STX who has primarily been responsibility for providing the TA during the project's implementation;
- Survey feedback from DBS relating to the delivery of AFE TA on the project.

<sup>2</sup> The 2010 IMF Financial System Stability Assessment was in fact reviewed.

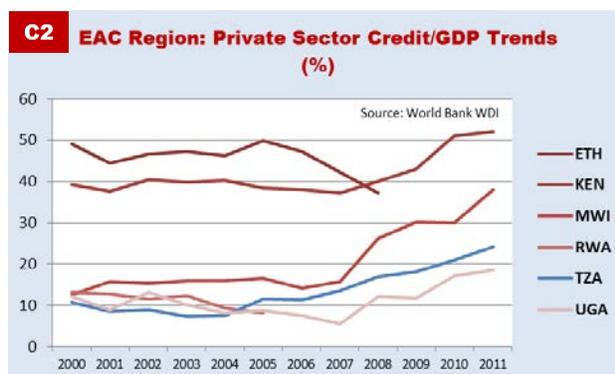
## 2.3 OVERVIEW



With a population of over 46 million, Tanzania is the most populous country in the East Africa region. It has consistently enjoyed high levels of GDP growth, averaging at 6.75 percent per annum since 2000. Inflation has been relatively stable, although it has risen over the last few years in common with other countries in the region, as a result of increased food and import prices and a depreciating currency. Chart 1 opposite shows the key macroeconomic trends in the country since 2000.

The banking sector in Tanzania has developed rapidly over the last decade. At the end of May 2003, the year before the RBS project started, there were 20 banks (19 commercial, one merchant), of which two were state owned. The banking system had total assets of US\$2.2 billion and total deposits of US\$1.9 billion, of which the vast majority (74 percent of assets and 75 percent of deposits) was centered in the five largest banks. As of June 2011, there were 43 licensed banks, including 10 converted 'community banks'. The current structure of the banking sector continues to be concentrated, although less so (largest four banks accounting for 55 percent of assets and deposits<sup>3</sup>). Foreign owned banks control around 50 per cent of the sector's assets, and although this share has been declining, the pace of change has been slow (55 percent to 50 percent between 2006 and 2010). Total assets had increased significantly, to US\$8.5 billion, and deposits to US\$7 billion.<sup>4</sup>

Although in international context the Tanzanian banking sector is very shallow, in comparison with regional peers the sector's performance has also been strong in recent years. As Chart 2 shows, having underperformed its peers in terms of financial depth in the early years of the 2000s, the penetration of the sector has been improving strongly since 2005. In terms of the size of the sector, the industry ranks second in the EAC, after Kenya.



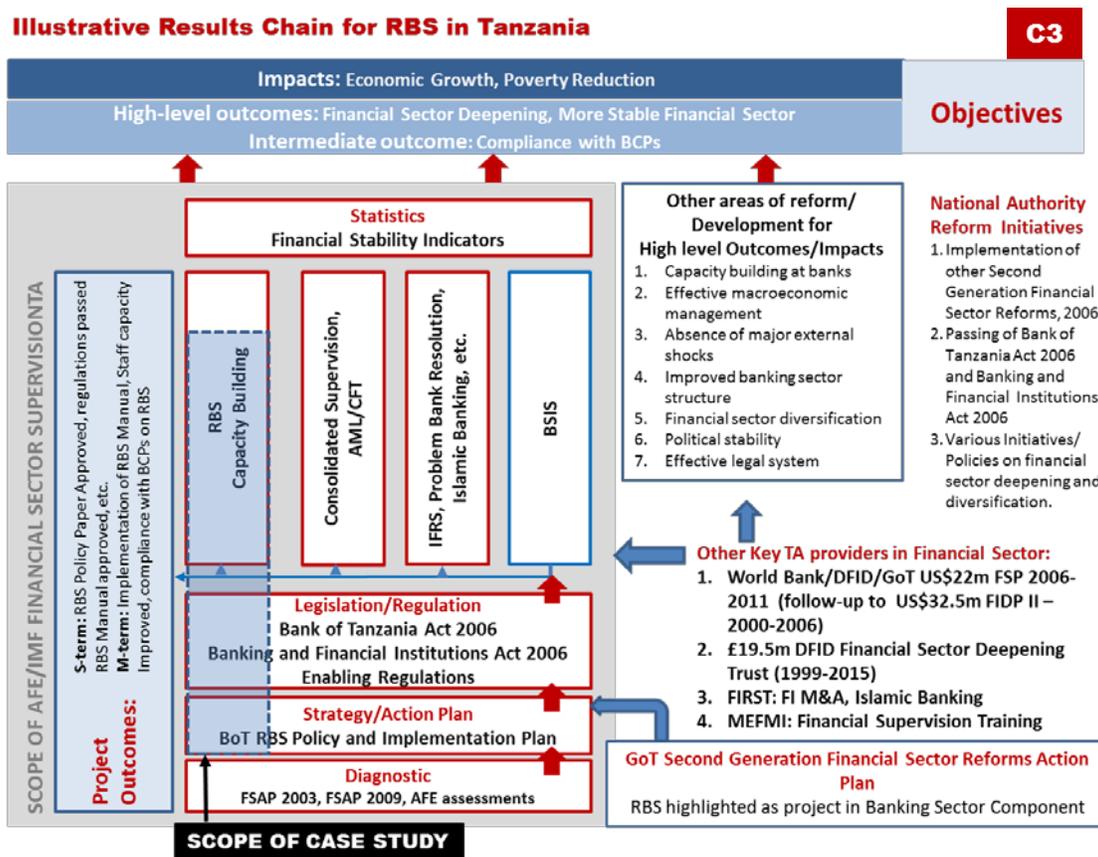
The 2003 FSAP, which laid the foundation for the RBS project, found the Tanzanian banking sector to be liquid, well capitalized, and resilient to most shocks. It noted, however, that it performs only a very limited role in the economy, even by Sub-Saharan Africa Standards. The FSAP recommended a number of legal, judicial, and institutional reforms that would remove the main obstacles to lending, help deepen financial intermediation and help develop the financial system. In respect of banking sector regulation and supervision, the FSAP found the framework to be generally adequate when assessed against the BCPs. One of the key recommendations was to 'move toward a risk-based supervision system and continue strengthening capacity and techniques for on-site and off-site supervision'.

<sup>3</sup> BoT Financial Stability Report, September 2011.

<sup>4</sup> BoT Annual Report, June 2011.

Uganda pioneered the implementation of RBS in 2003, while Eritrea, Ethiopia, Kenya, Malawi, Rwanda, and Tanzania introduced RBS under AFE technical guidance between 2004 and 2007. At present all AFE member countries with the exception of Eritrea implement some form of RBS.

## 2.4 THE RBS RESULTS CHAIN FOR TANZANIA



The above sector level Results Chain for the RBS project in Tanzania would have been ideally developed *ex ante*, as a planning tool for the project. It is intended to highlight the key TA/reform needs beyond the project, and the requirements for appropriate sequencing, that need to be met in order for the project to achieve its higher level outcomes and impacts, and identify related risks and assumptions. It is provided on an illustrative basis only as part of the case study.

A review of the illustrative Results Chain suggests that the project was undertaken in a broadly logical sequence, and wider reform needs were addressed, subject to outcomes of other projects being achieved:

1. The 2003 FSAP was used as the diagnostic, identifying the need for RBS, along with other needs. Other regional/EAC countries also started implementing RBS at broadly the same time, and provided additional impetus, to ensure harmonization. The 2003 FSAP was followed by at least two AFE assessments of implementation status, identifying corrective needs, as well as the 2009 FSAP follow-up. One aspect of diagnosis that was missing, in our opinion, was an assessment at the outset of capacity of BoT staff to effectively implement RBS.

2. The RBS project was integrated into a comprehensive multi-sector Second Generation Financial Sector Reforms Action Plan ('SGFSR Action Plan'), with AFE given responsibility for implementing RBS. The above sector-level action plan was coordinated by the World Bank, and supported by a number of other donors. For the RBS project itself, a published policy and implementation plan, adopted by BoT management and integrated into the BoT rolling strategy, acted as the action plan. This was reviewed frequently by the RBS Team and AFE, and updated as needed. There was no wider strategy to put this initiative into context. There is an implicit need for harmonization with other EAC countries.
3. The underlying legislation, principally the Banking and Financial Institutions Act 1991 (as amended in 2003) and the Bank of Tanzania Act 1995, needed updating to enable certain elements of RBS to be implemented. This was done with the assistance of an IMF JSA-funded project<sup>5</sup>. This was followed up by AFE assisting in drafting a number of core regulations in 2006, both to facilitate the implementation of RBS and also to put into effect other 2003 FSAP recommendations outside the scope of RBS.
4. A number of TA activities, detailed later in this case study, were undertaken to increase the capacity of DBS staff to implement RBS. In addition to support for drafting a RBS manual, this involved training workshops, participation in pilot inspections, support for offsite analysis, and recommendations for improved work practices. A review of the BoT's Bank Supervision Information System ('BSIS') was also undertaken and recommendations made to ensure that outputs produced were useful for appropriate offsite analyses and reporting, and that inputs were streamlined and not overly burdensome for reporting institutions.
5. The IMF has provided TA to the BoT to enhance its capabilities for Financial Stability Analysis, and to establish a Financial Stability Unit.
6. The majority of the project's short and medium-outcomes have been achieved. A more detailed presentation of the project's outcomes, and the extent of their achievement, is provided later in the case study.
7. The project was relatively self-contained, with AFE being the principal provider of TA for banking supervision to BoT during the project. In addition to RBS, between 2004 and 2011 AFE provided TA to the BoT in a number of areas, including on:
  - Nov 2005 – Workshop on Financial Stability Issues.
  - Jul/Aug 2007 – Framework for Consolidated Supervision.
  - Dec 2008 – AML/CFT procedures.
  - Mar 2009 – Mission Regulatory framework for Pensions.
  - Dec 2009 – Workshop on regulation and supervision of Islamic banking.
  - Jan 2010 – Comments on Draft Regulations on Liquidation of Bank and Financial Institutions.
  - Sep 2010 – Mission to enhance AML supervisory tools and practices.
  - Nov 2010 – Presentation on Regulating Pensions to SSRA.
  - Dec 2011 – Introducing Capital Charge for market risk.
  - Feb 2012 – Training re Capital Charge on market risk.

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<sup>5</sup> A JSA ('Japan Administered Account for Selected IMF Activities') evaluation published in February 2010 found this project to have been successful.

Many of these areas were aimed at addressing the 2003 FSAP recommendations.

8. IMF HQ TA effectively complemented AFE's TA. In addition to TA for revision of banking legislation, between 2004 and 2011, IMF MCM undertook 21 missions to the BoT, covering a range of areas, including bank supervision/accounting; financial sector reform; FSAP follow-up; problem bank resolution; credit information systems; financial stability analysis; and bank resolution and deposit insurance.
  
9. With respect to other donors, the World Bank, with funding from DfID and the Government of Tanzania ('GoT'), implemented a US\$22 million Financial Sector Support Program ('FSP') between 2006 and 2011. This was a follow-on of the 2000-2006 US\$32.5 million Second Financial Institutions Development Project and covered broadly a similar scope, with some additional areas added in respect of increasing availability of long-term finance. Aimed at supporting the implementation of the GoT's SGFSR Action Plan, FSP covered:
  - Strengthening the Banking Sector. Strengthening the capacity of banking supervision (mainly staff training); establishing the framework for operation of credit information bureau; promoting a Deposit Insurance Fund; support for anti-money laundering efforts; supervision of MFIs; and the implementation of international financial reporting standards ('IFRS').
  - Developing Financial Markets. Developing primary and secondary markets supported by appropriate and secure settlements system and oversight.
  - Reforming the Pension Sector. Promoting an efficient and competitive pension sector supported by appropriate legal and regulatory structures and proper investment guidelines.
  - Strengthening the Insurance Industry. Promoting insurance industry with different products and wider outreach and market based investment policies.
  - Facilitating the provision of Long Term Development Finance.
  - Strengthening Micro and Rural Finance. Focus on establishment of a viable and sustainable microfinance industry with wider outreach operating under an enabling legal and regulatory framework.

We haven't been able to establish the degree to which these components of FSP have been successfully implemented.

The other major program in the Tanzanian financial sector is DfID's £19.5m (1999-2015) Financial Sector Deepening Trust. It focuses primarily on building capacity of:

- Informal/semi-formal financial intermediaries.
- Financial policy and administration management.
- Formal financial sector intermediaries.
- SME development.

The FIRST Initiative has provided TA on policy on bank mergers and acquisitions and on Islamic banking. As is common with other regional central banks, DBS staff also attends workshops organized by MEFMI.

10. The Results Chain assumes certain preconditions to be met in order for the higher level impact objectives to be met. These are outlined in Chart 3 above. Increased compliance with BCPs is seen as the main long-term outcome objective for the project. For this, various external preconditions need to be met, including:
- a. Sound and sustainable macroeconomic policies;
  - b. A well-developed public infrastructure, including sound business laws and enforcement mechanisms through an independent and efficient judiciary; robust accounting practices and independent and effective audit functions; appropriate laws, regulation and supervision of non-bank financial institutions and markets; and a sound and efficient payments and clearing system.
  - c. Effective market discipline.
  - d. Mechanisms for providing systemic protection (e.g., deposit insurance).
- In a developing country such as Tanzania, there are inherent gaps in these areas, but the FSAPs did not identify any major outstanding issues in these areas. Moreover, the World Bank programs highlighted above sought to strengthen a number of these areas.

## 2.5 AFE TECHNICAL ASSISTANCE

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### 2.5.1 BACKGROUND

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TA related to RBS implementation at the BoT appears to have been started post the recommendations of the 2003 Tanzania FSAP. TA in this area was initially approved by the Steering Committee as part of the 2003 AFE work plan. After initial requests for TA in this area in 2003, work started in August 2004, upon the appointment of a Financial Supervision RA who had assisted in the implementation of RBS in Uganda. As early as July 2004, BoT had presented to AFE an RBS implementation plan, envisaging the finalization of a RBS Manual by the third quarter of 2005, and full implementation of RBS by the end of that year.

The BoT established an RBS implementation team ('RBS Team') at the outset, the majority of whose members continued throughout the period of RBS implementation. At the initial stages, the RA took an active role in providing advice and guidance to the RBS Team. The work was subsequently taken over by an STX, who has been working on the project (and related areas) since 2006. The STX has also been advising other regional countries in this area. In addition, a supervisor from the Bank of Uganda (which is seen as the regional leader in this area) participated in hands-on offsite analysis, on-site inspection and training. An information systems specialist reviewed the BSIS. Various study tours have been conducted, as have short-term attachments with supervisory agencies in Zimbabwe, Uganda and the Philippines between 2005 and 2007. In addition to advice, the AFE RAs and the STX have participated in various DBS workshops as resource persons, most of which were designed, led and implemented by BoT. The project's last major activity was in early 2011, when the status of RBS implementation was reviewed and recommendations for improvements made.

## 2.5.2 KEY ACTIVITIES, OUTPUTS AND OUTCOMES

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### Activities

Given the project started as far back as 2004, information about early TA is scarce. However, we have been able to establish that the following missions took place under the project:

#### *August 2004: BoT RBS Team established*

1. August 2004: Guiding initial implementation plan, comments on various policy and implementation papers, and input into implementation plan.
2. December 2004: Participation in BoT workshop to discuss FSAP recommendations and implications for RBS.

#### *July 2005: Risk Management Guidelines issued to banks.*

3. August/September 2005: Participation in pilot risk-based inspections.
4. November 2005: Participation in DBS workshop on introducing RBS.
5. December 2005: Participation of eight DBS staff in AFE regional workshop on assessing risk management frameworks of financial institutions.
6. July 2006: Support pre-inspection planning, follow-up on 2005 pilot inspections.
7. August/September 2006: Draft various core regulations to facilitate implementation of RBS and other FSAP recommendations.

#### *November 2006: RBS Methodology/Framework finalized/issued*

8. December 2006: Participation in BoT in-house training course on implementing RBS.
9. February 2007: Participation in BoT in-house training courses on BSIS.

#### *July 2007: Full rollout of RBS.*

10. October/November 2007: TA to review appropriateness of BSIS for RBS implementation and training on financial analysis.
11. March 2008: Presence in eight BoT organized and led 1-day seminars to introduce RBS to senior bank executives.
12. July 2008: Review progress in implementing RBS and recommendation for upgrading supervisory manual (post piloting of RBS for two years: 2006 and 2007).
13. March 2010: Support for drafting of RBS manual, review implementation versus action plan.

#### *August 2010: Revised Risk Management Guidelines issued to banks.*

14. January 2011: Review implementation of RBS and make recommendations, especially on integrating offsite surveillance with on-site inspections.
15. March 2011: Training on financial analysis for DBS staff.
16. July/August 2011: Repeat of above training to remaining DBS staff.

In early 2007, BoT's approach to RBS was upgraded, particularly in the area of risk assessment and offsite analysis, based on:

1. 48 issues raised during December 2006 DBS staff workshop, highlighting issues faced during implementation.
2. Lessons from pilot examinations
3. Reports from attachments/study tours to Canada, Zimbabwe, India and Uganda
4. Advice arising from AFE TA, in particular from the Bank of Uganda supervisor's work with BoT.

## Outputs

The major outputs of the project<sup>6</sup> have been:

1. RBS implementation plan, with various updates.
2. Report on risk management survey of financial institutions.
3. Policy paper on RBS.
4. Risk management guidelines for financial institutions.
5. Parameters for assessing quality, quantity and direction of risks (risk matrix).
6. Technical paper on RBS methodology and procedures (BoT Risk Based Supervision Framework).
7. Various core regulations.
8. RBS manual, including various detailed templates for reports, and detailed guidance on procedures.
9. Report with recommendations for improving BSIS.
10. Various TA reports with recommendations for strengthening procedures.
11. Various training presentations.
12. Guidebook for Implementation of RBS – prepared by a member of BoT staff (with AFE funding), for the use by other central banks in the region.

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<sup>6</sup> Some of the reports/papers have been drafted by AFE STXs, but majority by DBS staff, with various degrees of inputs from the former.

## Outcomes

The following table summarizes the main expected outcomes from the project<sup>7</sup>.

Outcomes		
Short-term (up to 1 year)	Medium-term (2-3 years)	Long-term (4-10 years)
RBS Policy Paper and implementation roadmap approved by BoT management		
Risk management guidelines for financial institutions being implemented.		
Enabling guidelines and regulations passed and implemented.		
DBS RBS manual approved by management	DBS RBS manual fully implemented.	
	BSIS upgraded to ensure effective support for RBS	
Organizational changes in BSD to implement RBS effectively.		
Recruitment of adequate staff to implement RBS.		
Staff capacity built to implement RBS.		
	Enhanced compliance with CPs 7 (Risk Management), 19 (Supervisory Approach) and 20 (Supervisory Techniques). <sup>8</sup>	Full compliance with CPs 7, 19 and 20
		Improved compliance with all BCPs.
		Improved financial sector stability and depth.

Of the above outcomes, the short-term ones have been substantially fully implemented. DBS's organization structure has been updated four times between 2007 and 2012, and has become more aligned to delivering effective RBS. Nevertheless, staff numbers have not increased significantly from 56 in 2004 (when there were 20 banks) to 60 today (over 40 banks and triple the banking sector assets). In between, in 2007, a critical phase for the implementation of RBS, DBS staff numbers fell to 43 (causing delays in project implementation) and rose to 66 in 2010. Although RBS is intended to enable staff efficiencies, in our opinion, any efficiencies achieved to-date in terms of reduced on-site inspections have not been significant enough to explain the divergence between the growth of the sector and DBS staff numbers. We believe that the large number of banks, especially a high proportion of smaller ones, present a barrier to effective supervision and realization of RBS outcomes.

<sup>7</sup> These were not produced at the outset of the project. They have been prepared ex post by the Evaluators to provide benchmarks for assessing outcomes.

<sup>8</sup> Based on 2006 BCPs

Of the medium-term outcomes:

- Banks are implementing risk management guidelines, but there is some concern, especially about the smaller banks and former community banks' capacity to implement them fully and effectively.
- Regulations with proposed revisions have been passed and are being implemented.
- With respect to implementing the RBS manual, it is indeed being applied for the DBS's day-to-day work. However, there may be limitations about the effectiveness with which certain aspects of the manual, especially relating to offsite analysis and its linkage with on-site work, are being implemented at the moment.
- BSIS appears to have been upgraded and its reports are being used, subject to comments above.
- The level of compliance with CPs is likely to have been enhanced, although we do not have sufficient information to assess the degree of improvement.

A discussion with the STX who advised on this project, and who has also advised a number of other central banks in the region on implementation of RBS, suggests that the pace of implementation at BoT is broadly in line with other countries in the region. Many of the implementation problems faced at BoT are common throughout region.<sup>9</sup>

The 2009 FSAP<sup>10</sup> concluded that although considerable progress has been made since the 2003 FSAP on strengthening the legal and regulatory underpinning of BoT's supervisory work, "Weaknesses remain in supervision, including in enforcement and prudential data collection and analysis. The framework for banking supervision has been improved since the 2003 FSAP (including by putting it on a risk-based footing), but the mission found continuing compliance gaps with the Basel Core Principles (BCPs) for Effective Banking Supervision. Supervisory processes continue to not be fully risk-based, on-site inspection findings often lack adequate documentation and enforcement is weak, resulting in mixed compliance with prudential requirements... Moreover, gaps in prudential data collection and analysis prevent a comprehensive assessment of systemic and individual risks in the financial sector and the authorities are urged to address these gaps with urgency." In particular, the FSAP recommended that the BoT "Obtain hands-on technical assistance in the conduct of risk-based supervision to achieve full effectiveness of the BoT's risk-based framework." A number of Core Principles were found to lack compliance as a result of the weaknesses in RBS identified. In particular, a key CP (CP 19) relating to Supervisory Approach, was found to be Materially Non-Compliant. BoT believes that the FSP's conclusions were negatively influenced by weaknesses in DBS's filing system, which has since been corrected.

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<sup>9</sup> A Review of Implementation of Risk Based Supervision in IMF East AFRITAC Member Countries. Ian Carrington, AFE. November 2012.

<sup>10</sup> As extracted from the 2010 IMF Financial System Stability Assessment.

A subsequent January 2011 review of BoT RBS by the AFE RA found that the “BoT has made significant strides in the implementation of its RBS framework. It has to a large extent made the shift from compliance based supervision and focuses on understanding the risks faced by financial institutions and assessing the quality of their risk management systems. The fundamental RBS tools are in place and are used as BOT exercises oversight of the activity of financial institution for which it has supervisory responsibility.” However, the RA also noted that “the mission identified some weaknesses related to the use of the RBS infrastructure. In some instances Institutional Profiles<sup>11</sup> did not capture all relevant information about an institution. In other instances DBS did not appear to make appropriate use of information captured by various tools and instruments within the framework. It is also not clear that the full implications for resource utilization are always taken into account in various decision making processes”. These issues were contributing to the fact that DBS was not fully focusing its work plans on riskier institutions and carrying out more targeted inspections on riskier areas of banks. The RA’s report went on to state that “as long as the integrity of the main RBS components is in question, the quality of any output of the system will be in doubt.... Once issues related to the integrity of the main RBS pillars have been successfully addressed, DBS should develop greater faith in the output of its offsite surveillance systems and should be guided by such output in its decision making.”

As part of the evaluation, we conducted interviews with senior staff from two banks, one large and one small one. Generally, they demonstrated commitment to moving toward a comprehensive risk management framework. They demonstrated a good understanding of the principal risks facing their institutions. However, it was apparent that the smaller bank was facing greater challenges in managing its risks.

We reviewed Institutional Profiles in respect of the two banks to assess the BoT’s current quality of risk analysis (comparing recent ones to those prepared in 2006/07 at the outset of implementation of the project). In addition, we have reviewed quarterly banking sector reports from 2007 and 2012. Both demonstrated improvement.

## 2.6 PRINCIPAL CONCLUSIONS

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Annex 2.8 below presents our detailed responses to the KEQs and the basis of arriving at our ratings for the various DAC criteria. In summary:

We rate **Relevance** of the project as Excellent (score 3.8), demonstrating its close alignment with AFE, GoT, and BoT strategies; strong ownership demonstrated by DBS and broad coordination with development partners.

With respect to Effectiveness, our rating at the **Outcomes** level is at the high end of Good (3.3) reflecting the substantial progress that has been made in implementing RBS, but dampened by the fact that it has taken a substantial amount of time and that the work is still not fully complete. We also believe that the large number of banks, with relatively weak capacity, is likely to pose challenges to effective supervision. The high quality of advice delivered is reflected in a rating of Excellent (3.7) for **Outputs**.

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<sup>11</sup> Of supervised banks

**Efficiency** is rated as mid-range of Good (3.0), reflecting the fact that it has taken over eight years to implement RBS, and the fact that the process has not yet been completed. In line with the 2009 FSAP recommendations, we feel that implementation may have been speedier if there was more extended, albeit targeted 'hands on' TA delivered, rather than relying exclusively on short-term missions (BoT feels that the approach taken has been appropriate as it has enabled greater ownership and sustainability).

**Sustainability** is rated as Good (3.3) as the majority of the advice delivered so far is likely to be retained within the institution. The fact that the rating is Good (albeit at a high level within the range) reflects some concerns about the capacity at DBS to rapidly improve effectiveness of what it is implementing without further TA and capacity building.

## 2.7 KEY FINDINGS AND RECOMMENDATIONS

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1. Implementing initiatives such as RBS are multi-year undertakings and need to be planned accordingly.
2. Having the same STX over the entire project implementation period, especially given his other banking supervision TA activities in the region, considerably facilitated the project. Since the initial request for TA in this area in 2003, there have been four financial supervision RAs to date at AFE.
3. The establishment of the RBS Team, which led the implementation of the project, has helped ensure ownership, implementation and sustainability of the project.
4. We believe that having the project embedded in the BoT's published strategy has been a positive factor for its successes, and would suggest that this approach be adopted for important projects in other sectors and institutions.
5. When introducing a new work approach/methodology, we believe an assessment of local staff capacity needs to be made at the outset to ensure realistic deadlines are set and also the approach to delivering TA is effective.
6. Consideration needs to be given to complementing the short-term mission based TA delivery approach with more hands on, medium- (e.g., few months) or long-term hands on resident TA, on a targeted basis (e.g., on on-site inspections, offsite analyses). Where AFE resources do not permit this, other donors should be proactively approached. The 2009 FSAP identified the need for more 'hands on' TA. BoT has indicated it has not had positive experience with long-term resident consultants. On the other hand, the AFE RA most responsible for implementing RBS in the region played a successful role as a LTX at the Bank of Uganda, implementing its RBS framework.

## 2.8 ANNEX

### 2.8.1 LOGFRAME: PROJECT INPUTS, ACTIVITIES AND OUTPUTS

The following table summarizes the main activities and outputs on the project to date:

Mis-sion	Date	Inputs	Activities	Principal Outputs	Notes/Comments
<b>2004</b>					
1	Aug	Various	Guiding formation of BoT RBS Team; comments on various outputs; input into RBS implementation plan.	Initial drafts of: <ol style="list-style-type: none"> <li>1. Report on risk management survey</li> <li>2. Policy paper on RBS</li> <li>3. Risk management guidelines</li> <li>4. Parameters for assessing quality, quantity and direction of risks (risk matrix)</li> <li>5. Technical paper on RBS methodology and procedures.</li> </ol>	The RA started work at AFE in August 2004. Various meetings and email exchanges followed to establish and initiate the work plan for RBS implementation. The outputs were produced by BoT staff, with RA guidance/comments, and took some time to complete (most issued in 2005).
2	Dec	2 days	Participation in BoT workshop to discuss 2003 FSAP recommendations.	Nothing defined, but incorporation of FSAP recommendations on RBS incorporated in work plan.	Number 1 observation of FSAP team in bank supervision area was that “current bank supervision practices are based on checking compliance rather than the evaluation and management of risks”, suggesting the need for Risk Based Supervision. Mid-2005 target for conducting pilot risk-based examination of banks.
<b>2005</b>					
3	Aug/ Sep	No information available	Participation in pilot inspections.	Inspection reports.	This appears to have been conducted by Regional STX from Bank of Uganda Banking Supervision Department. No papers related to this mission were available.
4	Nov	1 week RA	Resource person for BoT workshop on introducing RBS for DBS staff	Various presentations on proposed principles/ practices of introducing RBS.	
5	Dec	1 week	Participation of 8 BoT staff in 1-week regional AFE workshop on The		

Mis-sion	Date	Inputs	Activities	Principal Outputs	Notes/Comments
			Assessment of Risk Management Framework in Financial Institutions in Nairobi.		
<b>2006</b>					
6	Jul	2 weeks STX	Support pre-inspection planning and procedures, as follow-up of Aug/Sep 2005 pilot risk-based inspection.	<ol style="list-style-type: none"> <li>1. Various templates.</li> <li>2. Workshop presentations.</li> <li>3. Guidance note on pre-examination planning.</li> <li>4. TA Report with recommendations.</li> </ol>	<ol style="list-style-type: none"> <li>1. Regional STX from Bank of Uganda Banking Supervision Department.</li> <li>2. Mission aimed at addressing weaknesses identified.</li> <li>3. Recommendations included strengthening of off-site analyses and reporting.</li> </ol>
7	Aug/Sep	3 weeks STX	Drafting various core regulations to enable implementation of Banking and Financial Institutions Act 2006 and also enhance compliance with BCPs.	<ol style="list-style-type: none"> <li>1. Draft core regulations on licensing, capital adequacy, credit concentration, liquidity, foreign exchange, prompt corrective actions, independent auditors, and risk asset management.</li> <li>2. TA report outlining recommendations on priorities/work required on other regulations and guidelines.</li> </ol>	
8	Dec	3 days RA	(Part) Participation in BoT in-house training course on implementing RBS and	<ol style="list-style-type: none"> <li>1. Presentation on implementing Risk Management Programs.</li> <li>2. Technical paper on RBS – essentially an operations manual, which formed basis for training, with some input from AFE.</li> </ol>	RBS manual due for completion by March/April 2007.
<b>2007</b>					
9	Feb	4 days RA	(Part) Participation in 2 back-to-back BoT in-house training courses on BSIS quarterly offsite surveillance and delivering one presentation.	<ol style="list-style-type: none"> <li>1. Proposal for New Quarterly Offsite Surveillance Reports</li> <li>2. Presentation by RA on off-site surveillance systems used in other countries, relevant BCPs, and comparisons with BoT.</li> </ol>	<ol style="list-style-type: none"> <li>1. The proposal was prepared by BoT staff. The RA commented on it.</li> <li>2. Training was to operationalize AFE advice on RBS and off-site surveillance.</li> </ol>
10	Oct/Nov	2 weeks STX	1. To review appropriateness of BSIS to support RBS implementation.	<ol style="list-style-type: none"> <li>1. TA Report with BSIS recommendations.</li> <li>2. Training material</li> </ol>	Generally BSIS was adequate. The principal recommendations of the review were:

Mis-sion	Date	Inputs	Activities	Principal Outputs	Notes/Comments
			2. To provide training on financial analysis and inform of BSIS review		<ul style="list-style-type: none"> <li>▪ Streamline information requirements from banks.</li> <li>▪ Fine-tune BSIS outputs</li> <li>▪ Produce high-level reports</li> <li>▪ Address understaffing.</li> </ul>
<b>2008</b>					
11	Mar	1.5 weeks RA	TA support to seven one-day seminars on introducing RBS to CEOs and Directors of banks.	No specific outputs were envisaged as presentations prepared and delivered by BDS staff. RA made a number of follow-up recommendations.	A benefit the project had of having the RA resident in Tanzania is that she could attend such presentations.
12	Jul	2 weeks STX	<ol style="list-style-type: none"> <li>1. Review progress in implementing RBS and make recommendations.</li> <li>2. Review RBS Technical Paper and make recommendations to integrate with CS and corrective actions, and upgrade to Supervisory Manual.</li> </ol>		<p>Detailed TAIMS ToRs were produced (as with some previous missions) with Activities and Outputs. Main findings/ recommendations:</p> <ul style="list-style-type: none"> <li>▪ Considerable progress in on-site, but risk assessments not yet used to develop supervisory plans.</li> <li>▪ Need to more systematically manage and document examinations.</li> <li>▪ Need to revisit risk assessment methodology.</li> <li>▪ Supervisory plans for all institutions by 2009/10.</li> <li>▪ Team to draft manual by March 2009.</li> <li>▪ Staff numbers inadequate.</li> </ul>
<b>2009</b>					
No RBS-related missions					
<b>2010</b>					
13	Mar	2 weeks STX (2 visits)	<ol style="list-style-type: none"> <li>1. Discuss progress in addressing all outstanding issues relating to preparations for the development of the manual.</li> <li>2. Review all materials and practices developed and implemented in accordance with the action plan.</li> <li>3. Work with select DBS</li> </ol>	<p>Draft DBS RBS manual.</p> <p>A RBS Framework Paper, from the front-end of 2006 Technical paper was also produced by the BDS team.</p>	<ol style="list-style-type: none"> <li>1. Many of 2008 recommendations, excluding preparation of RBS manual had been completed.</li> <li>2. New action plan left with DBS.</li> </ol>

Mis-sion	Date	Inputs	Activities	Principal Outputs	Notes/Comments
			staff to create a draft RBS manual.		
<b>2011</b>					
14	Jan	2 weeks RA	<ol style="list-style-type: none"> <li>1. Review overall components, tools and practices associated with BoT's RBS framework.</li> <li>2. Review BoT's off-site surveillance practices.</li> <li>3. Examine current channels for integration of off-site and on-site supervisory methodologies.</li> <li>4. Make recommendations for better alignment of the off-site surveillance practices with the RBS framework.</li> </ol>	Mission Report with recommendations for strengthening integration of offsite surveillance practices with the RBS framework.	General conclusion that BoT has made significant strides in implementing RBS. Fundamental RBS tools in place and are used by BoT staff. Institutional profiles and Supervisory Plans generally integrated. However, areas such as accuracy/ completeness of IPs, filing and internal communication systems, staff time constraints, greater linkage between off-site and inspection information, quality of financial analysis, etc. need further strengthening to ensure integrity of RBS. Also, move to more targeted inspection based on offsite analyses has not fully materialized (BoT staff indicated that this was based a conscious decision to wait from more experience).
15	Mar	No infor-mation	Training program on financial analysis for DBS staff.	Presentations.	We could not find any papers relating to this workshop.
16	Jul/ Aug	3x1 week (2 regional STXs, 1 week RA)	Repeat of March training program on financial analysis, for DBS staff who did not attend first course.		We could not find any presentations relating to these workshops.

## 2.8.2 LOGFRAME: PROJECT OUTCOMES

There were no outcomes defined for the project *ex-ante*. Based on the outputs, and a wider review of the project's documentation, we have established the following principal outcomes:

Outcomes			Indicator <sup>12</sup>	Sources of Verification
Short-term (up to 1 year)	Medium-term (2-3 years)	Long-term (4-10 years)		
RBS Policy Paper and implementation roadmap approved by BoT management			Approved Policy paper and roadmap	TA progress reports, BoT strategy, annual reports.
	Risk management guidelines for financial institutions being implemented.		Assessments in DBS inspection reports	DBS inspection reports.
	Enabling guidelines and regulations passed and implemented.		BoT list of regulations and guidelines	BoT published guidelines/regulations, interview with BoT staff.
DBS RBS manual approved by management	DBS RBS manual fully implemented.		Assessments by IMF, AFE	IMF, AFE reports.
	BSIS upgraded to ensure effective support for RBS		Assessments by IMF, AFE	IMF, AFE reports.
	Organizational changes in BSD to implement RBS effectively.		Revised organizational chart.	DBS/BoT reports.
	Recruitment of adequate staff to implement RBS.		Staff numbers and organizational chart.	BoT/DBS HR reports.
	Staff capacity built to implement RBS.			TA progress reports, assessment of quality of on-site and off-site reports/analyses, trends in bank failures, FSAP reports.
	Enhanced compliance with CPs 7 (Risk Management), 19 (Supervisory Approach) and 20 (Supervisory Techniques). <sup>13</sup>	Full compliance with CPs 7, 19 and 20		FSAPs, self-assessments, IMF reports
		Improved compliance with all BCPs.		FSAPs, self-assessments, IMF reports
		Improved financial sector stability and depth.	Financial assets, deposits, loans etc./GDP. Improved FSIs.	FSAPs, self-assessments, IMF reports, published FSIs.

<sup>12</sup> Indicators would also have pre-specified dates. We have excluded these given the ex-post nature of the exercise. Where the Outcome spans a period (e.g., a number of MoUs to be agreed, staff capacity building, etc.), periodic benchmarks would be expected.

<sup>13</sup> Based on 2006 BCPs

### 2.8.3 EVALUATION KEQS AND RATINGS

Key Evaluation Questions	Comments
<b>RELEVANCE</b>	
<b>Consistency with Program Document and Government Priorities</b>	
Consistency of activity with Program Document, AFE strategy, and approved work plan.	The project is a continuation of activity started in 2004 and is consistent with the 2009 AFE Program Document. The project was highlighted in the 'Results Achieved' section of the 2009 Program Document, and part of AFE's approved work plan.
Consistency of intervention(s) with national/regional priorities:	
<ul style="list-style-type: none"> <li>o Extent to which activity is linked to and supports national/regional strategy (if one exists – e.g., PRSP);</li> </ul>	The GoT's Second Generation Financial Sector Reform Action Plan provided the national framework, and the RBS project, with AFE given responsibility for its implementation, was an integral part of this. The RBS project is part of similar projects being implemented in other countries in the region and is expected to contribute to EAC harmonization plans.
<ul style="list-style-type: none"> <li>o Extent to which activity is linked to and supports sector/topical reform strategy (if one exists);</li> </ul>	
<ul style="list-style-type: none"> <li>o Extent to which strong country/institutional ownership of activity has been demonstrated.</li> </ul>	BoT has been demonstrated strong institutional support/ownership, especially latterly. The establishment of the RBS Team, which was the primary driver of the project, and the fact that the work plan was integrated into BoT's rolling strategy demonstrates this.
Whether the activity is appropriately sequenced, given the completed/outstanding reform needs for that sector/institution:	The analysis of the project's Results Chain suggests that sequencing was appropriate. However, we have some concerns about what appears to have been a lack of assessment of the capacity of BoT to implement especially the offsite analyses/risk assessments that are required to successfully implement RBS.
<ul style="list-style-type: none"> <li>o E.g., appropriateness of project expected outcomes given country/institutional absorptive and implementation capacity.</li> </ul>	
<b>Consistency with IMF Headquarter/other activities</b>	
Whether activity is appropriately focused in terms of subject area, taking into account the IMF's expertise, and integration with HQ and other Fund activity (e.g. other training and TA delivered including through the topical trust funds).	Given the implementation nature of the TA, this falls within the remit of AFE. IMF HQ's TA over the period was complementary. No TTF is focused on this activity.
<b>Coordination with Development Partners</b>	
Whether the intervention has been effectively coordinated with and complements the work of other development partners.	The project has been coordinated with the World Bank, and its FIDP/FSD loan/grant program and the SGFSR Action Plan. No pro-active effort was made, however, to access increased resources to provide more intensive implementation support (which, in our opinion, would have improved the effectiveness of the TA).
<b>Context of donor/TA landscape of AFE TA</b>	
Why did the TA recipient choose the AFE as the TA provider as opposed to other donors?	AFE has been the principal TA provider assisting on banking supervision to BoT since the former was established, so this is a natural progression.
How do workshop participants compare those provided by AFE with workshops from other donors?	N/A
<b>Score for Relevance</b>	
3.8 Excellent	
<b>EFFECTIVENESS</b>	
<b>Impact</b>	
Intervention's expected Impact achieved or likely to be achieved (to the extent defined in the activity's logical framework).	Impact-level indicators would be <i>inter alia</i> : a) financial sector deepening measures and b) GDP/income per capita. Given the project has only recently been fully implemented, it is too early to assess its impact. Nevertheless, the fact that the TA was a component of a formal, well structured, and comprehensive financial sector reform plan suggests that the likelihood of impacts being realized is stronger. We haven't been able to assess the

Key Evaluation Questions	Comments
	implementation status of these wider reforms within the scope of the Evaluation.
<b>Outcomes</b>	
Intervention's outcomes achieved or likely to be achieved (as defined in its logical framework): Short, medium and long term outcomes.	A number of the project's short- and medium-term outcomes have been achieved, as highlighted in Section 2.5.2. However, the project took a substantially longer period to implement than was originally envisaged. Moreover, there are still a number of issues outstanding, which require capacity building, to ensure full implementation of RBS. Longer-term outcomes are more likely to be achieved, as there is clear evidence that the BoT is methodically addressing all the key findings of the 2003 FSAP and 2009 FSAP update.
Significance of AFE's contribution/likely contribution to developing core economic functions and institution building in the country/region, through the activity.	This project is part of a series of RBS implementations being carried out throughout the region. A supervisor from the Bank of Uganda delivered a key component of the TA.
<b>Score for outcomes</b>	<b>3.3 Good</b>
<b>Outputs</b>	
Intervention's outputs achieved or likely to be achieved (as defined in its logical framework), including: <ul style="list-style-type: none"> <li>o Timeliness of reports/workshop presentations;</li> <li>o Quality of reports/workshop presentations;</li> <li>o Appropriateness/applicability of advice, given existing capacity/constraints;</li> <li>o Whether outputs are likely to produce intended outcomes.</li> </ul>	<p>Overall, the outputs produced appear to have been delivered in a timely manner. Our review of the outputs (we reviewed all except some training presentations) suggested that they were of very high quality, with clear, concise recommendations. We consider the advice delivered to have been relevant, with consideration of DBS and BoT capacity, the Kenyan and the regional banking sectors. The fact that the primary consultant in the project has been providing TA for the AFE to the BoT and other regional central banks for an extended period contributed to this factor.</p> <p>Our slight reservation in this area is the fact that outputs and the TA delivery approach may not have fully taken into account DBS staff capacity for absorption.</p>
<b>Score for outputs</b>	<b>3.7 Excellent</b>
<b>EFFICIENCY</b>	
<b>Process and implementation efficiency</b>	
TA/workshop design has been efficiently carried out;	It is difficult to assess this fully, as there was no framework for TA for the entire extended project produced at the outset. The fact that the BoT took ownership of the project at the outset by establishing the RBS Team was a plus. TA interventions were well targeted and sequenced. However, we feel that the extended period that it has taken to implement the project and achieve results may not have been necessary if more intensive and hands on TA were delivered (e.g., with advisors spending longer periods on site), as has been highlighted by the last FSAP. DBS disagrees with this and contends that the approach taken was appropriate and enabled greater ownership and sustainability of results.
Timeliness in executing the activity;	There was no evidence of any wider risk assessment for implementation, or budgeting of likely effort needed to implement the project.
Appropriateness/effectiveness of IMF's internal management of the activity;	With over eight years and counting, the project has taken a substantial amount of time. We believe this is a result of a combination of capacity issues at the BoT, and the TA approach relying only on short-term missions.
	There is no documented evidence on this, but we understand that the nature and depth of monitoring by RAs varied, depending on their personal styles.

Key Evaluation Questions	Comments
	Nevertheless, outputs suggest that monitoring has been effective.
Appropriateness of selection of counterpart/workshop participants (as relevant);	It seems that training workshops were delivered to relevant DBS staff. The fact that DBS itself organized and led the workshops will have helped on this issue.
Quality and timeliness of management and backstopping in relation to activity;	Backstopping by RAs was more intensive than HQ staff. Where evidence was available, substantive input from backstopping was not evident. The STX is an ex IMF staff member, and that is likely to have reduced the need for backstopping inputs.
The efficiency of planning and executing the TA/training delivery.	Briefing Papers were generally focused and relevant.
<b>Efficient use of resources (human and financial) and attention to cost effectiveness</b>	
Appropriateness of staffing composition for the intervention;	The TA was mostly delivered by an STX with extensive Tanzanian and regional expertise. CBK are extremely happy with his involvement. A supervisor from the Bank of Uganda, the regional leader in RBS implementation, also delivered TA. Overall, the project was appropriately staffed.
Appropriateness of work allocation between HQ and AFE in relation to activity;	The RA led almost all of the work. Given the nature of the project, this is appropriate.
Whether expenditures have been in line with activity budget and evidence of analysis of variances;	No evidence of recording project-specific costs or variance analysis.
Whether activity, given its results, has been cost-effective compared to other TA delivery modes, given results;	No financial analysis of the project's costs was available. Given almost 30 weeks of RA and STX mission time over 16 missions, plus preparation and report writing time (estimated at a further 30 weeks), the intervention has not been excessively costly, albeit, in our opinion, at the expense of prolongation of the project.
Whether opportunities for efficiency gains during the intervention have been considered and explored.	No evidence of this having taken place.
<b>Monitoring and reporting</b>	
Evidence of effective use of self-evaluation (i.e. monitoring) and reporting to improve the efficiency and effectiveness of activity;	There is evidence of this at the AFE level during the tenure of the first RA (2004-2008), who appears to have been more actively involved (perhaps given her previous experience in implementing RBS). The STX monitored progress in implementing past recommendations and updated action plan with clear tasks and deadlines.  Please note our general comments on monitoring and RBM elsewhere in the Report.
Effectiveness in making use of TAIMS to monitor and manage project/workshop;	There is some evidence that TAIMS was used to produce mission ToRs early during the project. No subsequent evidence of use of TAIMS could be found.
Effectiveness/progress in use of RBM and its usage in managing the intervention.	RBM has only recently been implemented in AFE. No formal evidence exists of its use for the project (which was completed before the formal implementation of RBM). Briefing Papers included activities and outputs. To the extent that the STX monitored progress in implementing recommendations/milestones, it can be seen to have been a proxy for RBM.
Incorporation of lessons learnt in project design and implementation.	No evidence of formal extraction/usage of lessons learnt.
<b>Score for Efficiency</b>	<b>3.0 Good</b>

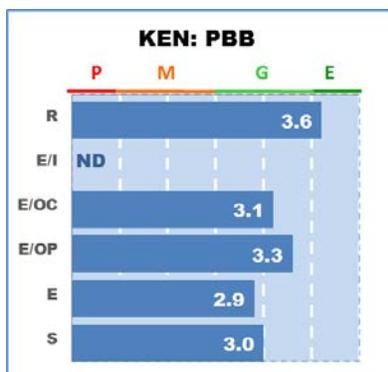
Key Evaluation Questions	Comments
<b>SUSTAINABILITY</b>	
<b>Sustainability of TA activity</b>	
Outcomes from intervention will last beyond/continue after completion of TA/training.	Given the entrenchment of implemented TA on RBS in BoT to date, and given current pace of progress and commitment, the intervention is likely to be sustainable. However, further capacity building of DBS staff may be necessary to optimize its effectiveness.
<p>For TA/training designed to deliver Sustainability, local institutions/ capacities have been strengthened to sustain results beyond the life of the intervention:</p> <ul style="list-style-type: none"> <li>○ E.g., absorptive capacity improved and developed to sustainable level;</li> <li>○ E.g., in-house training capacity built, where relevant.</li> </ul>	This has been a particularly strong point of the project. From the outset, the BoT RBS Team led the project development and implementation process. They prepared most of the key training material related to RBS implementation, with some AFE support, and delivered them to wider DBS staff and also to the industry. This has continued, other than in specialized areas where external consultants have been brought in to deliver the training. However, the still existing gap between a fully effective RBS system, and which is practiced (albeit the gap has narrowed significantly) reduces our rating for the criterion.
For interventions designed to deliver sustainability, financial sustainability has been achieved (i.e., recipients will be implement the advice from own/other financial resources in a sustainable manner).	The BoT has adequate financial resources to continue RBS implementation, if necessary.
Effectiveness in maintenance and use of institutional memory relating to the activity	The RBS manual was developed toward the end of the project, reflecting actual experience of RBS implementation. Despite some turnover, members of senior staff who were responsible for RBS implementation are still in place. This has been a strong area for the project. Most of the key TA-related documents were available at AFE.
<b>Contribution to building sustainable regional TA, implementation capability.</b>	No specific initiatives in this regard to date. However, the fact that RBS has been implemented in other countries in the region, and the interactions resulting from implementing MoUs, combined with future planned joint training (some have already taken place) should contribute to this objective.
<b>Score for Sustainability</b>	<b>3.3 Good</b>

### Rating Based on Previous Evaluation Methodology

DAC criteria	Sub-criteria	Score	Weight %	Weighted Score	Weight %	Total score	Rating
<b>Relevance</b>	Consistency with Program Document and Government Priorities	3.8	60%	2.28	<b>32%</b>	<b>1.22</b>	
	Consistency with IMF Headquarter/other activities	3.9	20%	0.78			
	Co-ordination with Development Partners	3.7	20%	0.74			
				<b>3.80</b>			<b>Excellent</b>
<b>Effectiveness</b>	Impact		-		<b>28%</b>	<b>0.94</b>	
	Outcomes: TA	3.3	30%	0.99			
	Outcomes: Regional capacity building	3.0	30%	0.90			
	Outputs	3.7	40%	1.48			
				<b>3.37</b>			<b>Good</b>
<b>Efficiency</b>	Process and implementation efficiency	3.0	40%	1.20	<b>22%</b>	<b>0.67</b>	
	Efficient use of resources (human and financial) and attention to cost effectiveness	3.1	40%	1.24			
	Monitoring and reporting	3.0	20%	0.60			
				<b>3.04</b>			<b>Good</b>
<b>Sustainability</b>	Sustainability of RTAC/TA activity	3.3	75%	2.48	<b>18%</b>	<b>0.58</b>	
	Contribution to building sustainable regional TA, implementation capability	3.0	25%	0.75			
				<b>3.23</b>			<b>Good</b>
<b>TOTAL</b>						<b>3.41</b>	<b>Good</b>

### 3. KENYA: IMPLEMENTING PROGRAM BASED BUDGETING

#### 3.1 INTRODUCTION AND SUMMARY OF RESULTS



The above project was selected as the basis for a case study in accordance with the methodology for the Evaluation. For the purposes of the assessment a cluster of activities was selected from the AFE Phase III PFM work plans that related to support for the introduction and development of Program Based Budgeting ('PBB'). The project was deemed appropriate for inclusion as a case study in view of several features: (i) the project corresponded to a priority area identified in the AFE 2009 Program Document; (ii) the topic rapidly became a critical area for AFE support in Kenya when that country adopted an accelerated program for adoption and roll-out of PBB in 2009; and (iii) the project involved close interaction with other donors, and notably GIZ that had a resident TA team in the Treasury supporting the implementation of PBB and this provided an opportunity for

reviewing AFE relations with a major established TA provider in the project area.

IMF interaction with the Kenyan authorities relating to PBB dates from the FAD mission of 2006. In a wide-ranging strategic review of the Kenyan budgeting system that mission recommended that the Kenyan authorities commence a reform process to introduce PBB as a necessary first steps towards putting in place a results-oriented system which could subsequently be used as the base for development of performance budgeting. Attention was drawn to the need for concomitant reforms relating to the roll-out of the IFMIS and the need to revisit the budget classification system to permit introduction of PBB. The 2006 FAD report emphasized that introduction of PBB was a major reform process which required as starting points a firm conceptual base and well-designed and sequenced implementation plan. Following on this advice the Kenyan authorities prepared a PBB Conceptual Framework paper in 2008. Direct AFE engagement in the PBB reforms started in July 2009, when the AFE reacted rapidly to the Government of Kenya's ('GoK') plans to accelerate the implementation of PBB in light of various deadlines instigated by the new Constitution.

To date, the main activities have revolved around providing a plan for implementing PBB; input into a PBB manual (AFE has indicated that the Center was the primary authors/deliverers of the Manual. GIZ has highlighted that it contracted a consultant to prepare with the first draft and to incorporate the changes from MoF, IMF and GIZ. GIZ also "engendered" the manual with a separate consultancy) and supporting training; and comments on the PBB section of the new Public Finance Management Act ('PFM Act'). The project is still in progress, substantial TA is still required to fully implement PBB, especially in terms of the roll-out of the PBB system to the County level of government created under the 2010 Constitution and significant challenges remain. Our ratings reflect the strong alignment of the project with AFE and GoK objectives (although going forward we feel that AFE should engage with other donors to deliver capacity building quickly and effectively across a range of diverse constituencies, should it wish to continue providing TA on this project. AFE has indicated that it has tried to engage other PFM donor groups during the course of this work, and in the future it would be beneficial if other organizations and TA could be organized to assist this PB effort); significant outcomes achieved, dampened by challenges that remain; lack of planning and weak document maintenance in terms of efficiency; and the good level of sustainability achieved to date, but the risks of not developing and maintaining capacity across a diverse range of relevant constituencies especially given AFE's short-term mission based TA delivery modality.

## 3.2 INFORMATION REVIEWED

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The case study evaluation was carried out primarily based on:

- Interviews with the AFE RAs responsible for the project. In this case there had been a recent change of the responsible RA for PFM in AFE, so it was not possible to interview the principal RA who had provided the bulk of support through the period under review. Nevertheless several current AFE RAs have been involved in this project both in the core technical area of PBB and in closely related areas of PFM.
- Project-related documentation available at AFE (Briefing Papers, Mission Reports, BTOs, workshop reports and other outputs, where available).
- Interviews with selected relevant senior officials of the Kenya Treasury, including the staff of the Deputy Director of the PBB Unit.
- Interviews with senior official in the Kenya Treasury, including the Economic Secretary.
- Interview with the GIZ resident team of advisers on PFM in the Kenya Treasury.
- Review of key PBB documents prepared and/or supported by AFE, notably the Kenya PBB Manual.

## 3.3 OVERVIEW

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### 3.3.1 ECONOMIC BACKGROUND

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After a successful implementation of major reforms under the 2010 Constitution, Kenya was at the time of the writing of the Report preparing for general elections in March 2013 under new rules. There are no significant differences on economic policies among the main presidential candidates, who are part of the current national-unity government. Economic activity is picking up after slowing down in the first half of 2012 because of monetary tightening and a slowdown in agricultural production. Inflation has fallen within the government's target range ( $5 \pm 2.5$  percent), from about 20 percent in November 2011. The external position has strengthened, but the deficit of the external current account remains high. Increased inflows have allowed the central bank to accumulate international reserves closer to the program target of four months of imports. Growth is projected to remain at about 5 per cent per annum, inflation to decline further, and the external current account is expected to improve. If the elections scheduled for March 2013 can be held successfully and peacefully, then there are good prospects for an acceleration of national economic growth and development in the coming decade as Kenya already has a well-developed economic infrastructure able to absorb accelerated inflows of foreign direct investment. As momentum also develops in the East African Community ('EAC') towards economic integration, Kenya is poised to be an important beneficiary from accelerated integration given its relatively strong manufacturing sector and well-developed financial infrastructure.

PFM reforms are therefore being undertaken in a relatively benign economic environment. The adoption of the new Constitution in 2010 has provided a critical stimulus to accelerated PFM reforms including the passage of the overarching Public Finance Act ('PFA') and accelerated reform of the budgetary management system so that the country will be ready for the radical changes in fiscal and financial management called for as the new level of government (the Counties) comes into existence in March 2013 following the national elections scheduled for that month.

### 3.4 INSTITUTIONAL FRAMEWORK AND RECENT DEVELOPMENTS

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The Budget Supplies Department in the Ministry of Finance (‘MoF’) is responsible for management of the budget. The Department is mandated with the preparation of annual estimates of revenues and expenditures that are laid before Parliament every year for approval. It does also prepare supplementary estimates as the need arises. The Department fulfills a constitutional requirement as per Article 221 of the constitution of Kenya.

The Department’s objectives are to:

- Strengthen the budget and reporting system to put in place a more efficient and effective Public Financial Management System.
- Implement a budget process to conform to the essential principles for sound budget management.
- Introduce a performance perspective to the budget process by aligning expenditure to policy priorities.
- Link to planning, policy objectives to budget allocation.
- Restructure the budget so as to fund program areas that can be identified in line with the GoK’s Vision 2030 targets.

The functions of the Department are:

- Coordination of the preparation and presentation to Parliament of a Medium Term Expenditure Planning Framework (MTEF) and Annual Estimates of expenditure.
- Development of broad priorities for allocation of public expenditure and implementing Ministerial Ceiling System.
- Enforcing proper management control, monitoring and evaluation for efficient utilization of budgetary resource to realize value for money.
- Setting up systems for the budget process e.g. GFS classification MTEF Budget.
- Ensuring that allocation of resources is consistent with GoK’s policy priorities.

During the last decade, the GoK has introduced numerous reforms aimed at improving budget and expenditure transparency. These reforms have included the implementation of a government-wide Integrated Financial Management Information System (‘IFMIS’), which, however, had still not been fully rolled out across ministries during the early years of this project. Further, the budget codes in the IFMIS were not aligned to the budget codes as presented to parliament during the initial phases of the project. In order to deal with program budgeting AFE had to cross-walk some of the initial data using a bridging table. Other reforms have included the introduction of MTEF, and the adoption of the GFSM2001 classification system for expenditures and revenues. The first Indicative PBB was produced 2008/9 and it was also communicated through standing orders to Ministries to produce one. In 2009 it was put in the Financial Management Act, that the pre-budget paper must contain programmes for all sectors. In 2012 it was provided in the PFM Act that the budget will be appropriated along programmes from 2013/14 and 2014/15 on the county level.

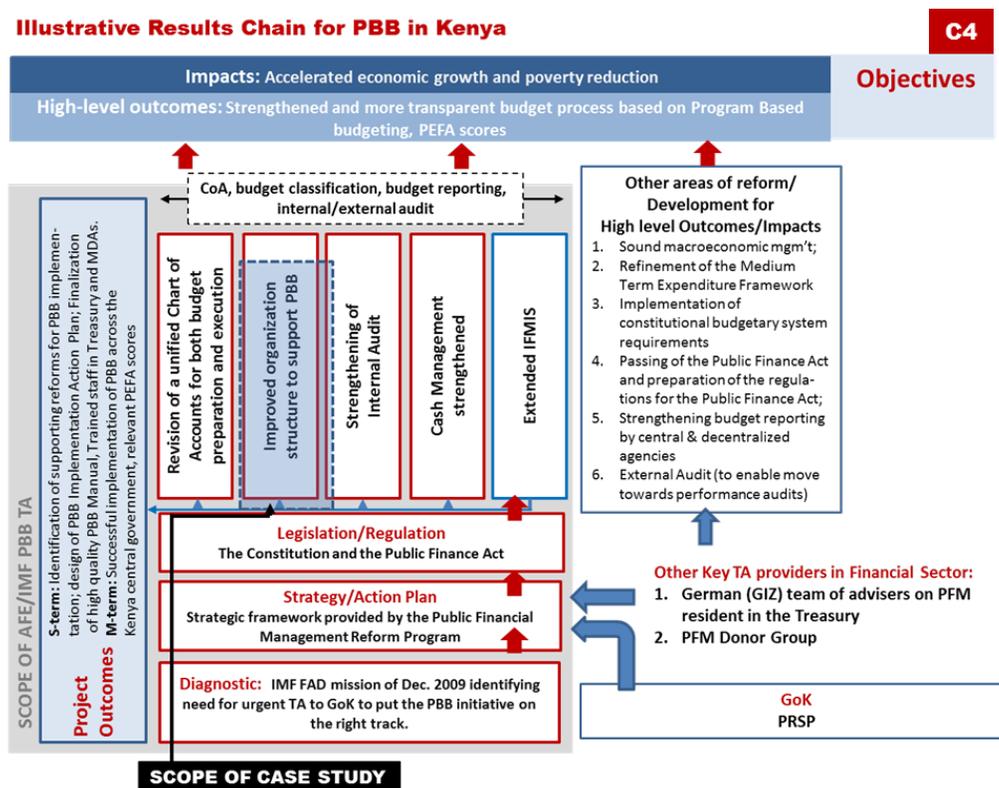
The MoF introduced an indicative program based budget structure in 2008/09 that was relatively comprehensive in scope. More than 50 government budget agencies participated in developing an indicative program budget structure. While rolling out an indicative program budget formulation process, attention has been paid to how the Chart of Account (‘CoA’) and IFMIS should be modified to accommodate the new budget formats. . In September/October 2009 AFE brought a consultant to Kenya to prepare a document on how to develop the budget code for results based management. This was formally presented to the budget supply department. Further, in 2010 AFE engaged in an East Africa wide workshop to discuss ‘Budget Modules’ for results based management and ‘Chart of Accounts’ as relates to IFMIS.

Further, AFE has worked with the Treasury on an ongoing basis for the past three years on Chart of account reforms. GIZ hired a consultant to support the CoA review along with a CoA task force. GIZ coordinated the inputs from AFE to the CoA because AFE was not able to come to Kenya during that time. GIZ also supports the roll out of IFMIS and the implementation of the new CoA into IFMIS.

While the IMF/AFE had recommended that the MoF should stage the introduction of the program budget process by engaging progressively with ministries over a one to three year period, a Standing Order was issued in 2009 accelerated this process by requiring all government line ministries to prepare and execute budgets on a programmatic basis by 2010/2011.

The GoK's objectives in adopting PBB were summarized as: *"Program Based Budgeting is one of the key reforms that the Government has adopted in Public Finance Management. It seeks to reorient budgeting from input-based to output/outcome based. The Program Based Budgeting sets out programs, key deliverables to be achieved within a specified timeframe and performance measurement. The realization of the deliverables will ultimately call for effectiveness, efficiency, economy, transparency and accountability. The PBB thus offers an opportunity of achieving value for money and improving the delivery of public goods and services".*<sup>14</sup>

### 3.5 THE KENYAN PBB RESULTS CHAIN AND DESCRIPTION



<sup>14</sup> Introduction to the 2009/10 to 2011/12 indicative PBB.

The above sector-level Results Chain for the PBB project in Kenya would have been ideally developed *ex ante*, as a planning tool for the project. It is intended to highlight the key TA/reform needs beyond the project, and the appropriate requirements for appropriate sequencing, that need to be met in order for the project to achieve its higher level outcomes and impacts, and identify related risks and assumptions. It is provided on an illustrative basis only as part of the case study.

### 3.5.1 SEQUENCING

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The illustrative Results Chain suggests that the project was undertaken in a broadly logical sequence. The sequencing that has been followed was partly by design (driven rapidly by the initial PBB implementation plan recommended in the 2006 FAD mission and detailed subsequently by AFE TA in July 2009) but also partly by the force of events as the GoK pressed ahead with a very ambitious rapid and full roll out of PBB in 2009/10. Early prerequisites for successful PBB implementation included progressing rapidly the finalization of the Public Finance Act, which lays out the basic institutional framework within which PBB should be applied; the review and revision of a unified CoA, which is essential for successful implementation of PBB; and the accelerated upgrading and achievement of full functionality of the IFMIS. Without these early developments it is virtually impossible to achieve full integration across budget preparation and budget execution. Once the basic system was established and documented in the PBB Manual, there has been an effective progression towards support for reforms, which become possible once the basic PBB system is in place (such as the reform of budget reporting and the reforms to internal audit).

Going through the Results Chain in more detail:

1. The design and implementation of PBB reform of the budget was defined as a major plank of the wider PFM Reform Program and supported by the 2006 FAD mission and July 2009 AFE TA mission;
2. The August 2006 mission set out the framework for reforming Kenya's budgeting systems.<sup>15</sup>
3. Diagnostic work undertaken by the December 2009 FAD mission provided overall guidance for the design of the PBB reform;
4. The initial AFE TA activity was oriented to providing an overall framework for a complex set of inter-linked reforms that needed to be completed and appropriately sequenced if the implementation of PBB was to be successful;
5. However, the unanticipated decision of the GoK to accelerate the PBB implementation and to move rapidly across all ministries from a cautious piloting of PBB in 2008/09<sup>16</sup> to full implementation across the central government created an urgent need for the initial AFE TA input in 2010 to ensure that the accompanying reforms kept pace with the GoK's new accelerated timetable for PBB implementation. AFE had intended to begin with a few pilots developing an indicative program budget structure, linking to organizational plans, aligning the budgets etc...and, AFE was hoping to have these indicative budgets submitted to Parliament for review/consultation at some point before a broader government roll-out went into effect. One of the donors active in the project has pointed out that 'AFE's plans might have been a bit ambitious, i.e. to control such a comprehensive reform process with only three missions in four years (2006-2010). This also highlights the added value of cooperation with partner organizations based in the country'
6. The related Coordination Frameworks fall into two groups: (i) initiatives required to permit the effective implementation of PBB across the central government (these included the work on the CoA, budget classification and IFMIS), and (ii) forward-looking initiatives aimed at ensuring that the full benefits of the adoption of PBB are realized over time. These include the work streams relating to Budget Reporting and Internal and External Audit.

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<sup>15</sup> Kenya: Strengthening the Budget and Fiscal Reporting System: A Reform Agenda. Pokar Khemani *et al.* IMF. January 2007.

<sup>16</sup> Which also covered all Ministries

7. A number of AFE TA activities, detailed later in this case study, were undertaken to provide technical guidance and quality assurance, to support the completion of a PBB Manual and to provide training on the application of the PBB Manual to budget staff of the GoK.

### 3.5.2 WIDER REFORM AGENDA CONTEXT

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The PRSP provided an important context for the decision of the GoK to proceed with the implementation of PBB in 2007/08. As in other countries, the implementation of the PRSP, and in particular the requirement for monitoring of the service delivery and attainment of PRSP targets was hampered in Kenya by a budgetary system based on economic classification line budgeting within organizational votes. Within that system it is virtually impossible to obtain a clear view of the allocation of public funds to the achievement of service delivery targets. The adoption of PBB budgeting was a natural step to take in that context.

The implementation of PBB is essentially a national issue, though other countries in East Africa have also been experimenting with the adoption of PBB (for example, Ethiopia, which has also received significant TA from AFE in this area). However, the use of PBB is not closely driven by regional economic management harmonization policies to the same extent as other areas of economic management (such as management of external trade and the need for legal and fiscal framework harmonization to accompany relaxation of intra-regional trade barriers).

### 3.5.3 OTHER IMF/DONOR ENGAGEMENT IN AREA

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The project is in line with the priorities set out in the 2011 RSN, which states: *"In the fiscal area, specific needs for assistance include (i) strengthening budget formulation, including program budgeting, and planning and budgeting at district level"*.

The AFE work on PBB and the related reforms has benefitted from and been closely coordinated with the findings and recommendations of successive HQ mission reports, including both Article IV missions and FAD missions. Given the importance of PBB as a fundamental reform of the budgetary system, this area of reform has received strong attention from these missions and there has been a close collaboration between IMF HQ and AFE in this regard.

There has been close cooperation between AFE and the GiZ team in the Treasury that is supporting PFM reforms through a resident adviser and supporting short-term TA. All stakeholders interviewed confirmed that this had been a fruitful collaboration between AFE and the GiZ team.

We understand from AFE that once the GoK decided to go for a whole-of-government approach, AFE tried to engage other donors to assist with this significant task. However, turnover at the PFM donor group created some problems with donor continuity.

## 3.6 AFE TECHNICAL ASSISTANCE

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### 3.6.1 BACKGROUND

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The intention to provide support in the area of PBB was stated from the start of AFE Phase III: the 2009 AFE Program document anticipates *"upgrading budget preparation frameworks by assisting with the design and implementation of Program and Performance-Based Budgeting (PBB) systems, strengthening MTEFs, increasing the institutional coverage of budgets, improving budgetary classification systems, including the migration toward Government Financial Statistics Manual 2001 (GFSM2001), encouraging development of more comprehensive and transparent budget documents, and improving the efficiency and effectiveness of the budget preparation process"*. In fact the AFE Program Document coincided with an abrupt acceleration of implementation of PBB in Kenya, which provided a major opportunity for AFE to provide timely and much-needed technical support.

The overall rationale for the involvement of AFE in support for PBB in Kenya was based on recognition that the decision of GoK to accelerate PBB rollout presented both a challenge and an opportunity. There was a danger that without appropriate technical support the accelerated Program Budgeting ('PB') implementation could have been less effective, although the presence of other TA providers would have limited the risks; on the other hand it provided an opportunity to support a critical reform process in a country undergoing accelerated PFM reform across a wide spectrum. Furthermore AFE had RAs who were very appropriately equipped to provide that technical support.

### 3.6.2 KEY TA ACTIVITIES, OUTPUTS AND OUTCOMES

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IMF support for PBB reforms in Kenya started in earnest with the FAD mission of 2006 which under the rationale for the introduction of PBB and outlined the principal requirements for a successful PB reform process. AFE TA support to the Kenyan authorities commenced with the initial mission of July 2009, with a significant number of following up TA and training missions in 2010 and 2011. By 2012 the emphasis of AFE support had shifted from the basic OBB reforms to providing support to critical related areas, notably including the finalization of the Public Finance Act and Regulations and budget reporting both by the central government and in the context of the impending creation of the decentralized County level of government scheduled to be introduced in March 2013.

## Activities

During Phase III the following missions and other activities have been taken in support of PBB in Kenya:

1. FAD mission on Public Financial management. August 2006.
2. AFE TA mission on PBB, July 2009.
3. AFE TA mission on Programme budget Classification and IFMIS Coding Structure, October 2009.
4. FAD mission on MTEF, December 2009
5. AFE mission on PBB, February 2010.
6. AFE RA/STX, mission on PBB, performance measurement, (April 2010).
7. AFE RA/STX follow-up mission to strengthen program budgeting, performance measurement, and PB manual, July 2010.
8. AFE STX training strategy and workshop on PBB, September 2010.
9. AFE RA/STX mission on Chart of Accounts and IFMIS, October 2010.
10. AFE RA mission on draft PB manual and PB segment of Chart of Accounts, December 2010.
11. FAD mission on budget calendar, debt and fiscal reporting, Jan 2011.
12. AFE training mission to strengthen PB and performance measurement, Feb/Mar 2011
13. FAD mission:, Institutionalizing PBB in the medium term in the legal context (March 2011).
14. AFE mission on Integrated PFM Act, PB manual, and planning for MTEF for a devolved government structure June 2011.
15. AFE diagnostic/status assessment mission, training strategy and input into circular to ministries on PB needs (August 2011).
16. FAD/AFE mission on drafting the financial regulations (August 2012).

## Outputs

The following key outputs have been delivered by the project:

1. Analysis of the full set of reform, which need to be implemented as prerequisites for successful implementation of PBB.
2. Assessment of the initial experience in implementation of PBB in budget year 2008/09 and provision of recommendations for improving the implementation process
3. Detailed recommendations on the revision of the budget classification and coding system
4. Recommendations on formats for budget reporting.
5. Outline for a PBB Manual.
6. Quality assurance of the drafted PBB Manual.
7. Training for approximately 100 GoK staff in the application of the PBB Manual.
8. Finalization of the draft PFA, including the chapters relating to PBB.
9. Preparation of the Public Finance Act (Regulations).

## Outcomes

The following table summarizes the main expected outcomes from the project<sup>17</sup>:

Key Outcomes		
Short-term (Up to 1 year)	Medium-term (2-3 years)	Long-term (4-10 years)
Establishment and acceptance of well-designed and sequenced plan for roll-out of PBB.	<ol style="list-style-type: none"> <li>1. Progress in preparing programs, with appropriate milestones.</li> <li>2. Successful rollout of PBB across the 50 ministries/agencies of central government.</li> <li>3. Revision of the budget classification system to accommodate PBB</li> </ol>	<ol style="list-style-type: none"> <li>1. Programs are improved (with appropriate benchmarks), performance indicators aligned on strategic and policy objectives, tracked with annual milestones.</li> <li>2. Transparent system of budgetary management for the central government where major stakeholders (Parliament, the public) have reliable and comprehensible information on the use of public funds.</li> </ol>
Concept design and completion of PBB Manual and its acceptance.	Completion of PBB system for central government compliant with the Public Finance Act (2010), Fiscal Management Act 2009 and PFM Act 2012.	Extension of the PBB system to the Counties following the general election scheduled for March 2013.
GoK staff trained in design of programs and principles set out in the PBB Manual.	Establishment of reporting routines based on linking expenditures to program delivery results.	Development of the external audit function to embrace performance audits on public spending.
Implementation of a unified Chart of Accounts for budget preparation and budget execution.	Development of internal audit to operate effectively in the context of PBB.	Improvement of relevant PEFA indicators.
Implementation/use of IFMIS to provide an adequate base for implementation of PBB.	Improvement in relevant PEFA indicators.	Improved fiscal management indicators.

The short-term outcomes have largely been achieved, though typically not within the expected timeframe:

- The development of a rollout plan was achieved during the initial TA mission for the project in July 2009. It successfully covered the major set of areas where reforms would be required to permit successful PBB rollout across the central government. Nevertheless, a number of challenges, as highlighted below, remain.
- The PBB Manual concept design, drafting, quality assurance and finalization were completed through a close collaboration between the AFE, the GiZ team in the Treasury and the PBB Unit in the Treasury. The completion of the PBB Manual was delayed compared to the original schedule. We understand from the Center that GiZ and AFE worked hard to develop the program budget manual. At the start, AFE attempted to keep the manual much more limited in size: to discussion of programs and performance measurements. However, GoK asked for a much more

<sup>17</sup> In the absence of a fully developed logframe for the project the table below has been constructed by the Evaluation Team on the basis of discussions with AFE RAs and GoK officials.

extensive manual. The manual was vetted by a PBB steering committee at the MoF. Although, from a timeline perspective this may have slowed down /delayed the development of the manual, it was useful in consolidating opinions from all areas of MoF. In addition, it achieved MoF buy-in for the manual.

- A cadre of GoK staff responsible for the implementation of PBB in both the MoF and the line ministries were trained, though there is a belief in the GoK that this training was too brief to have the full desired impact. The training covered both the training of administrators in the design of program budget structure and hands-on training in the preparation of PB budgets. AFE has indicated that it had a number of training sessions, but it was still too few. And, the issue of turnover of persons trained was also a real constraint. AFE attempted to be more strategic in its approach by ‘Training of Trainers’ attempting to gain a core constituency to learn and do the training. It had limited success in this endeavor.
- The revision of the CoA, in cooperation with GIZ, to produce a new unified CoA to be applied both in budget preparation and budget execution was completed with significant level of TA from AFE.
- The IFMIS, implementation of which had stalled before full functionality was established, was upgraded. This process of completing the IFMIS implementation was temporarily transferred from the MoF to the Cabinet Office to ensure that it received the priority required. This was eventually successfully achieved, but some time behind the original schedule.

The medium-term outcomes are either achieved or are currently still work in progress:

- Formally the system of PBB has been rolled out across all the ministries of the central government. However, as in other countries, the effective implementation of PBB is not a reform that is truly completed in even three years or more. There is always a need for subsequent revision of the initial program architecture as ministries struggle to reconcile program structures with existing organizational structures. In addition the process of strengthening the preparation of budgets within programs will inevitably take several years. However, the bigger picture is that in our opinion Kenya has made progress the preparation of programs although challenges remain as indicated below. The PB system is basically compliant with the PFA. The RA responsible for the substantive work has indicated that Ideally, the resident advisor team (in Kenya) not just moving around east Africa should have been larger to achieve more substantive results.
- The development of reporting templates and schedules required to bring out the full potential offered by PBB is under way. Essentially this requires the adoption of new reporting formats, which combines financial reporting with reporting on the results achieved by programs in terms of service delivery and investment. This is still work in progress and will take several years to achieve fully satisfactory results.
- The reform of the internal audit service to the new regime of PBB is also work in progress. However it is reasonable to believe that this will be achieved in the coming years.

In our opinion, Kenya is now on the way to realizing the long-term outcomes desired from the introduction of PBB:

- The increase in the transparency and meaningfulness of the budget and budget reports can now be built on the basic implementation that has been achieved to date. This will necessarily be a lengthy process, as it requires not only that the GoK issues budget estimates and budget reports which are compliant with the PBB Manual, but also that the stakeholders who should be using these reports develop the capacity to understand their importance and make effective use of the new transparency.

- The feasibility of extending PBB down to the level of the newly formed Counties immediately on their creation in March 2013 will be tested during 2013 and 2014. This is likely to be a very difficult process in view of the limited capacity of the newly formed Countries and the sheer magnitude of the task of instituting a new budgetary system across all 47 Counties. This process is likely to experience substantial teething problems. The IMF has indicated that this is an issue that both FAD and AFE are aware of. It is an ambitious reform and there will be many priorities for Counties, including basic PFM skills required of the new Counties as well as PBB. FAD and AFE have been involved and continue to provide advice on the sequencing of these activities. Clearly AFE does not have the resources to train officials of the counties in PBB to the extent expected, but will continue to work with other TA providers in Kenya, an approach which has been successful in the past.
- The development of external audit capacity for performance audit (as opposed to purely financial audits) will also take several years to establish. However, the new PBB budget structure and the revised reporting formats that are in the process of being introduced, which place a greater emphasis on result achieved (subject to our comments below), lay the foundations for this extension of the audit function in future.
- The STX involved in the project has pointed out that Kenya has not in fact made the move from indicative program budgeting (i.e. illustrative program budget documents presented to Parliament which lack legal force) to full program budgeting, where the latter is defined as budget appropriation on a program basis. AFE was in fact quite concerned about the reform being stuck in the indicative program budgeting stage and offered significant advice at a number of stages about how to remove the roadblocks and move to the final stage of the reform.

Overall the project is relatively advanced although significant challenges remain notably to align the programs on strategic and policy objectives and to improve the performance indicators, several of which are process-orientated instead of outcome-based. The full realization of the potential benefits of PBB, as in other countries, will be a much longer process incorporating, for example, increased awareness of the increased transparency of the budget resulting from PBB among a broad range of stakeholders; improved programs and performance indicators; and more effective modalities for the management of programs for service delivery within ministries and agencies. Furthermore, the preparation and implementation of PBB at County level will pose daunting challenges because of capacity constraints. They are expected to adopt PBB budgetary system of management with immediate effect from their creation in March 2013 following the next general election. This will provide a critical test of the extent to which PBB is truly embedded in the Kenya government. This will be particularly difficult for AFE to support effectively if it continues to be involved in TA implementation while maintaining its short-term mission based TA delivery modality.

### 3.7 PRINCIPAL CONCLUSIONS

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Annex 3.9 presents our detailed responses to the KEQs and the basis of arriving at our ratings for the various DAC criteria. In summary:

We rate **Relevance** of the project as Excellent (score 3.6), demonstrating its close alignment with AFE and GoK strategies; strong ownership demonstrated by GoK and broad coordination with development partners, especially GiZ.

With respect to Effectiveness, our rating at the **Outcomes** level is at the higher end of Good (featuring a score of 3.1) reflecting the considerable progress that has been made in implementing PBB, but dampened by the fact that substantial challenges still remain. **Outputs** are rated as Good, with a score of 3.3.

**Efficiency** is rated as Good (with a score of 2.9), reflecting the fact that the TA was delivered rapidly, to a tight deadline.. Throughout the process, starting from the first FAD mission to seriously address PBB in Kenya (2006) while FAD has had a clear overall conception of the process and sequencing required for effective implementation, this has not been mirrored in a clear plan with milestones implemented by the GoK, itself which has rather responded to the rapidly shifting requirements arising from first the Constitution and then the PFA. . There is also no formal TA plan covering the entire scope of the project, partly reflecting AFE's approach of planning work on an annual basis.

**Sustainability** is rated as an interim Good (3.0). Achievements to date have been strong. Nevertheless, the project is still in progress and further substantial TA is needed, and significant challenges remain in building and maintaining capacity at the central government and County levels to ensure sustainability.

## 3.8 PRINCIPAL FINDINGS AND RECOMMENDATIONS

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### 3.8.1 MAIN FINDINGS

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- AFE has successfully kept pace with a very fast-moving reform agenda in Kenya on PBB and related topics driven by the requirements of the new Constitution and the recently passed Public Finance Act.
- Faced with a situation where the GoK had decided to accelerate the pace of implementation of PBB quite abruptly, AFE provided initial critical support in identifying the set of accompanying issues, which needed to be addressed if the PBB launch was to be successful. This initial AFE mission report in July 2009 provided an effective framework for the support which followed in 2010 and 2011 across a range of related issues.
- The PFM agenda has required that AFE simultaneously provide technical support in several, closely interlinked areas including the revision of the CoA, the strengthening of the IFMIS, the detailed design and procedures for the implementation of PBB and, latterly, issues of fiscal reporting in a system which is about to be transformed through the introduction of the Counties level of government in 2013. The roll-out of PBB is a very major task which will require substantial resources and will compete with a wide range of other priorities as the Counties are established following the elections scheduled for March 2013. FAD and AFE are aware of the magnitude of this task, which is likely to require support from other development partners.
- AFE has successfully used multi-purpose PFM missions including two or three RAs and an external STX to deliver support flexibly.
- A harmonious and productive relationship has been maintained with the resident GiZ TA team in the Treasury, which has undertaken the bulk of the legwork on the PBB Manual and has made productive use of quality assurance from AFE both through regular missions and through informal email-based contacts.
- AFE has also provided training on PBB. The planning of this training has not been fully abreast of GoK requirements and expectations, leading to a degree of dissatisfaction in the GoK regarding the AFE training delivery.
- The GoK would have benefitted from further follow-up support for the implementation of the recommendations of TA missions. In any event, the GoK will require significant TA before the system becomes truly operational.

### 3.8.2 MAIN RECOMMENDATIONS

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AFE, in collaboration with IMF HQ, should develop a broader range of TA instruments, which would go beyond the current very limited short-term inputs. This would make it possible for the RA concerned to achieve a greater degree of leverage of his/her high-level skills, would assist the beneficiary institution to better meet its own targets and milestones for implementing the recommendations of RA mission, and would improve the cost-effectiveness of the AFE as a whole by raising the ratio of TA delivery time to planning time.

### 3.9 ANNEX

#### 3.9.1 LOGFRAME: PROJECT INPUTS, ACTIVITIES AND OUTPUTS

The following table summarizes the main activities and outputs on the project to date (for outcomes, please refer to Section 3.6.2 above):

Mis-sion	Dates	Inputs	Activities	Principal Outputs	Notes/Comments
<b>2006</b>					
1.	Aug	FAD mission on PFM	Support for the preparation of the GoK Public Financial Management Reform Programme	Strategic recommendations on the steps to be taken to develop the framework for the introduction of programme Budgeting	The mission recommended the establishment of PBB as a first step towards the introduction of Results Based Management. This should be commenced with the preparation of a concept paper. The mission recommended that PBB should initially be piloted in 2 ministries – the Ministry of Health and the Ministry of Roads and Public Works
<b>2009</b>					
2.	Jul	AFE RA 1 week	<ol style="list-style-type: none"> <li>1. Assess the status of implementation of the program budget initiative.</li> <li>2. Review existing legal, procedural and institutional requirements, and suggest necessary changes</li> <li>3. Review and provide options for strengthening the linkage between budget preparation and budget execution</li> <li>4. Prepare an Action Plan for Implementation of PBB</li> </ol>	<ol style="list-style-type: none"> <li>1. Recommendations for streamlining program budget process (i.e. reducing number of activities, properly defining output indicators, and, redefining program budget definitions, etc..)</li> <li>2. Working group established within Treasury to plan for program coding classification.</li> <li>3. Recommendations on coding block structure</li> </ol>	<p>Key findings of the mission were:</p> <ol style="list-style-type: none"> <li>1. A Standing Order was issued in 2009 requiring all government line ministries to prepare and execute budgets on a programmatic basis by 2010/2011. As such, full program budgeting will be introduced for all 50 government budget agencies for FY 2010/11.</li> <li>2. While the broad rollout of program budgeting, on an indicative basis for 2008/09, is commendable, the most important determinant of the adequacy of the program structure is the clear delineation of the goals and responsibilities of programs and subprograms. Problems are created because some of the programs overlap across ministries (i.e., Ministry of Medical Services and Ministry of Public Health and Sanitation).</li> <li>3. GoK has not fully considered the impact of aligning ministries</li> </ol>

Mis-sion	Dates	Inputs	Activities	Principal Outputs	Notes/Comments
					along programmatic budget structures.
3.	Oct	AFE RA/STX	<p>AFE CoA and IFMIS mission:</p> <ol style="list-style-type: none"> <li>1. Review the budget coding structure and its capability to support the introduction of PBB</li> <li>2. Report on the requirements for the new coding structure</li> <li>3. Identify the management criteria to be monitored through budget reporting in the context of PBB</li> </ol>	<ol style="list-style-type: none"> <li>1. The mission reviewed the existing coding structure and concluded that there was scope for the application of the 9-digit segment in the coding structure to accommodate PBB with a maximum of 9 programs and 09 sub-programs within a given ministry.</li> <li>2. Detailed recommendations were prepared on the proposed hierarchy of budget categories within programs and the requirements for budget monitoring in the context of program budgeting</li> </ol>	The AFE TA also prepared a presentation for the relevant officials in the MoF and the Accountant General's department on the proposed coding structure
<b>2010</b>					
4.	Feb	RA (3 days)	<ol style="list-style-type: none"> <li>1. Strengthen the link between policy analysis/formulation, strategic planning, budgeting and budget execution.</li> <li>2. Provide a work plan for strengthening institutional capacity (with the intention of AFE providing training in program budget formulation, performance measurement, and performance monitoring).</li> <li>3. Provide the basic concepts of effective program budgeting by developing a draft program budget manual outline.</li> </ol>	<ol style="list-style-type: none"> <li>1. Develop a draft program budget and performance monitoring training agenda (to be provided by AFE Consultant Marc Robinson TBD).</li> <li>2. Provide a draft program budget manual outline to the MoF/Treasury.</li> </ol>	<ol style="list-style-type: none"> <li>1. The December 2009 FAD mission found that line ministries had dramatically revised their previous programmatic structures by creating one program per vote. In effect, this method completely negated the fundamental nature of program budgeting.</li> <li>2. Immediately following the December 2009 FAD mission, MoF-Treasury officials requested ministries to revise their budget submissions to align more appropriately along program lines. As a result, the Ministries of Health and Education, for example, have now (re)submitted indicative budgets with 4-5 programs per ministry.</li> <li>3. The AFE mission briefly reviewed the revised submission of several ministries.</li> </ol>
5.	Apr	AFE/STX 1 week	<ol style="list-style-type: none"> <li>1. To provide training on program budgeting</li> <li>2. Development of effective performance measurement instruments, and</li> <li>3. Enhancing the monitoring and evaluation capacity for measuring budget effectiveness</li> </ol>	A one week training programme was held with officials of MoF at which the main characteristics of the PBB system were subjected to a detailed scrutiny	<p>Agreement was reached that significant further work was required on programme definition, objectives and performance indicators</p> <p>Agreement reached that the existing system of budget control based on line items of the economic classification would need to be revisited in the context</p>

Mis-sion	Dates	Inputs	Activities	Principal Outputs	Notes/Comments
					of the introduction of PBB The MoF requested AFE to support the development of the PBB training manual
	Jul	AFE RA/STX	<p>Provide advice to:</p> <ol style="list-style-type: none"> <li>1. Strengthen the link between policy analysis, strategic planning and budgeting.</li> <li>2. Identify policy and institutional prerequisites essential to the success of program/performance budgeting.</li> <li>3. Review, analyze and work with three ministries in documenting and providing guidance to improving their current program budget structures and costing modalities.</li> <li>4. Develop a draft PB budget handbook template (to be tentatively approved by GoK) aimed at advancing the program/performance budgeting agenda.</li> <li>5. Propose instrument (s) through which the Government is able to identify, execute, monitor and report on budget performance against the established targets.</li> <li>6. Identify follow-up TA to be provided by AFE and/or others.</li> </ol>	<ol style="list-style-type: none"> <li>1. A back-to-office (BTO) report outlining the status, key issues, recommendations and way forward. Presentation</li> <li>2. Recommendations and guidelines for three selected ministries on how they could improve their indicative program budgets.</li> <li>3. Draft Template/Outline for Government of Kenya Program Budget Handbook.</li> <li>4. Identifying follow-up TA to be provided by AFE and/or others.</li> </ol>	
6.	Sept	RA/STX	<ol style="list-style-type: none"> <li>1. Provide ongoing training in program budgeting, developing effective performance measurement instruments; and, provide for effective performance monitoring and evaluation procedures;</li> <li>2. Follow-up on policy and institutional prerequisites essential to the success of program/performance budgeting.</li> <li>3. Follow-up on progress with respect to developing a draft PB budget handbook aimed at advancing the program/performance budgeting agenda.</li> <li>4. Propose instrument (s) through which the</li> </ol>	<ol style="list-style-type: none"> <li>1. A back-to-office (BTO) report outlining the status, key issues, recommendations and way forward.</li> <li>2. Presentational material on program budgeting, performance measurement, monitoring and evaluation. The training material should assist MoF in doing follow-on presentation and guidance.</li> <li>3. Enhanced draft Government of Kenya Program Budget Handbook.</li> <li>4. Identifying follow-up TA to be provided by AFE and/or others.</li> </ol>	

Mis-sion	Dates	Inputs	Activities	Principal Outputs	Notes/Comments
			<p>Government is able to identify, execute, monitor and report on budget performance against the established targets.</p> <p>5. Identify follow-up TA to be provided by AFE and/or others.</p>		
			<p>1. Provide ongoing training in program budgeting, developing effective performance measurement instruments; and, provide for effective performance monitoring and evaluation procedures;</p> <p>2. Follow-up on progress with respect to finalizing a draft PB handbook aimed at advancing the program/performance budgeting agenda.</p> <p>3. Propose instrument (s) through which the Government is able to identify, execute, monitor and report on budget performance against the established targets.</p> <p>4. Identify follow-up TA to be provided by AFE and/or others.</p>	<p>1. A back-to-office (BTO) report outlining the status, key issues, recommendations and way forward.</p> <p>2. Draft Government of Kenya Program Budget Handbook.</p> <p>3. Identifying follow-up TA to be provided by AFE and/or others.</p>	<p>4. The GoK is currently on-track to incorporate (PBB as part of its PFM reform process and fully expects to simultaneously submit a line-item and program budget to Parliament for the 2011-2012 budget year.</p> <p>5. During the September 2010 mission the AFE mission team and MoF agreed on the structure and tentative timeline of a PB Manual. AFE and MoF (Budget Supply Department (BSD)) also agreed that BSD should take a prominent role in drafting several chapters of the manual including, but not limited to: MTEF; appropriations; control; and, Chart of Accounts etc. Both parties acknowledged the capacity constraints within BSD but viewed BSD ownership as paramount.</p> <p>6. Despite this agreement, the mission was provided only limited input from the Ministry of Finance. AFE has since collated all submitted materials with those prepared by AFE and submitted a consolidated working draft Program Budget Manual to MoF in early January 2011 for comment.</p>
<b>2011</b>					
7.	Jan	FAD	<p>Provided insight and recommendations on <i>inter alia</i> Budget Calendar, SAGAS, Debt, Intergovernmental Fiscal Monitoring etc. and what may be required in terms of designing a new legal framework</p>		
8.	Feb/ Mar	STX	<p>1. Presentation of two 2-day workshops on February 28-March 1 and March 3-4 respectively, to groups drawn from both spending ministries and the MoF.</p>	Workshop presentations	<p>Although some ministries have made major progress, many of the same types of errors seen in previous year's indicative PBB continue to exist. In particular:</p>

Mis-sion	Dates	Inputs	Activities	Principal Outputs	Notes/Comments
			2. One full-day workshop with key interlocutors with the aim of finalizing the PBB manual.		1. Program objectives/outcomes: these in many cases do not in fact refer to the outcomes which the programs seek to achieve. Instead they focus on program activities (work processes), inputs, indicators or targets. 2. Program performance indicators remain on average of a rather poor quality. 3. Program "key outputs": whereas these should identify the main services which each program provides, at present the list of key outputs is a mix of all types of things, from outcomes, other objectives, through to performance indicators.
8.	March	FAD	Institutionalizing PBB in the medium term in the context of the legal framework		
9.	June	AFE	Assist with further drafting, development and passage of the Integrated PFM Act. 1. Assist with drafting of implementation guidelines and plan for the envisage implementation of integrated PFM Act 2. Assist with the finalization, and issuance, of the Government of Kenya's Program Budget Manual. 3. Prepare option papers for reflecting and planning over the MTEF given the transition to devolved government. Identify follow-up TA to be provided by AFE and/or others	1. AFE provided follow-up recommendations to the integrated PFM law noting that the CIC should continue to focus on a) Clarity of Roles and Responsibilities; b) Budget Issues; c) Annual Reporting; d) Resolution of financial problems; and e) Improved clarity of financial provisions for State Corporations. 2. AFE agreed with the Budget Supply Department that a final review of the manual should be conducted. The program budget manual will be finalized by the Ministry of Finance by end July 2011. 3. AFE is prepared to do a follow-up mission to assist the MoF in developing a near term resource allocation and capacity development plan	.
10.	Aug	AFE RA, STX	4. Assess status of PBB implementation. 5. Ensuring that the Ministry indicative budget submissions for 2012–2013 are consistent with the requirements of the program budget manual. 6. The development of a Training Strategy covering the requirements of the program budgeting system	1. BTO with status update. 2. A training strategy to support further development of program budgeting, including the implementation of the procedures set out in the new program budgeting Manual. 3. A circular to spending ministries outlining the revised requirements for their budget submissions which will apply during the preparation of the	1. Although it is now four years since Kenya commencing the preparation of indicative programme budgets, the country is not ready to take the final step to programme-based appropriations in the next financial year (2012-13). The objective to move to programme-based appropriations in 2013-14. 2. The programme budgeting manual is essentially complete,

Mis- sion	Dates	Inputs	Activities	Principal Outputs	Notes/Comments
			more generally.	2012-2013 budget, in the light of the new Manual..	<p>but has not yet been formally ratified because certain minor changes are pending. Should be finalized by end-September.</p> <p>3. Major challenges remain if the objective of programme-based appropriations in 2013-14 is to be reached. The preparation of the indicative programme budgets for past years has been behind schedule. There have apparently been some problems in ensuring that the expenditure numbers in the indicative programme budget tally with those in the budget estimates.</p> <p>4. Capacity remains limited and very variable, especially if the local government capacity needs are taken into account.</p> <p>5. Training efforts to date have hardly scratched the surface.</p> <p>6. As a result, a new training approach is required. The strategy which is proposed identifies e-Learning as a major option for reaching the large target groups. Should the e-Learning not be favored, an approach based on the use of local training institutions and their trainers would be the next best option.</p> <p>7. It will be necessary to accompany this with more customized training for smaller target groups with special training/familiarization requirements.</p> <p><b>Follow-up:</b></p> <p>1. AFE, GiZ and other relevant donor agencies will need to review the options identified in the training strategy memorandum and work out, in conjunction with the authorities, a preferred approach.</p> <p>2. In respect to AFE the probable main role would be supporting face-to-face training and sensitization targeted at small target groups with special training requirements.</p>

### 3.9.2 EVALUATION KEQS AND RATINGS

Key Evaluation Questions	Comments
<b>Relevance</b>	
<b>Consistency with Program Document and Government Priorities</b>	
<ul style="list-style-type: none"> <li>▪ Consistency of activity with Program Document, AFE strategy, and approved work plan.</li> </ul>	The project is fully consistent with internal AFE documents, commencing with the 2009 Program Document, which was produced almost at the same time as the GoK decided to accelerate the implementation of PBB.
<ul style="list-style-type: none"> <li>▪ Consistency of intervention(s) with national/regional priorities:</li> </ul>	The project is fully consistent with GoK priorities. Especially following the Directive issued in September 2009, which accelerated the implementation of PBB across all Ministries in the central government. The full establishment of PBB in central Government in 2009 onwards also turned out to be critical in terms of laying the foundations for the future implementation of PBB at the decentralized (County) level following the creation of the Counties under the 2010 Constitution and the provisions of the 2011 Public Finance Act.
<ul style="list-style-type: none"> <li>○ Extent to which activity is linked to and supports national/regional strategy (if one exists – e.g., PRSP);</li> </ul>	The activities undertaken by AFE in supporting PBB are directly supportive of wider national strategic objectives, many of which require for their attainment, a significant increase in the transparency of the budgetary process, which is provided through the introduction of PBB. The latter requires all budget entities to state clearly the purposes for which funds are appropriated and the outputs in terms of service delivery that are expected to flow from public expenditure.
<ul style="list-style-type: none"> <li>○ Extent to which activity is linked to and supports sector/topical reform strategy;</li> </ul>	The support for PBB in Kenya forms a component of a set of areas of support, which are arising directly out of the new Public Finance Act (2011) and the stipulations in the Constitution regarding the budgetary process at central and decentralized level. AFE is well equipped to address a complementary set of issues arising in this context as itemized in the AFE planning documents for the years under review.
<ul style="list-style-type: none"> <li>○ Extent to which strong country/institutional ownership of activity has been demonstrated.</li> </ul>	The GOK is highly committed to the successful implementation of PBB. This was demonstrated in the decision to accelerate implementation from a relatively slow process of piloting to full rollout across all MDAs in 2009/10 budget year. In addition the GoK is required by the terms of the Constitution and the PFA to support the implementation of PBB at the Country level as soon as the Counties. Successful implementation of PBB at the center will be critical if the same methodology is to be applied in the Counties, which are much less prepared for this reform in terms of staff capabilities.
<ul style="list-style-type: none"> <li>▪ Whether the activity is appropriately sequenced, given the completed/outstanding reform needs for that sector/institution:</li> </ul>	As the Kenya PFM Results Chain suggests, the sequencing of the activities within the project has been effective. This commenced from the original mission in this area in September 2009, which set out the main technical areas needing attention as the PBB implementation agenda was taken forward. To a large degree that agenda has been followed (and is still being followed), now at the stage of development of reporting systems built on PBB.
<ul style="list-style-type: none"> <li>○ E.g., appropriateness of project expected outcomes given country/institutional absorptive and implementation capacity.</li> </ul>	The project outputs/outcomes in the near-term have been set on a mission-by-mission basis based on the stage of implementation of PBB in Kenya.
<b>Consistency with IMF Headquarter/other activities</b>	
<ul style="list-style-type: none"> <li>▪ Whether activity is appropriately focused in terms of</li> </ul>	The AFE activities in respect of PBB correspond to an area of strength

Key Evaluation Questions	Comments
<p>subject area, taking into account the IMF’s expertise, and integration with HQ and other Fund activities (e.g. other training and TA delivered including through the Topical Trust Funds).</p>	<p>in the IMF generally and in the AFE. This applies not only to the specific area of PBB, in which the AFE appears to have had an appropriately experienced RA for several years, but also in the closely related areas which have also been supported by the AFE. These include budget classification and the CoA, IFMIS implementation (which has been the subject of a regional workshop held in 2010), and latterly budget reporting. The close complementarity between these overlapping skills in the AFE has been effectively exploited to field multi-purpose TA missions of several AFE RAs, which has proved to be an effective instrument for addressing the closely inter-linked set of topics needing to be addressed in a successful implementation of PBB. This has not been an area of activity of the Topical Trust Funds. The project is fully compliant with the RSNs in respect of priorities for support to Kenya in PFM/PBB.</p>
<b>Coordination with Development Partners</b>	
<ul style="list-style-type: none"> <li>▪ Whether the intervention has been effectively coordinated with and complements the work of other development partners.</li> </ul>	<p>Close coordination has been maintained with the other major donor operating in the field in Kenya, namely the GIZ team in the Treasury. This cooperation has taken very practical forms: For example, in the support for the preparation of the PBB Manual, the initial structure and design of the PBB Manual was proposed through an AFE TA mission. There then followed a process of drafting that was primarily undertaken by the PBB Unit in the Treasury with a high level of support from the GIZ team. During this drafting stage, there was a significant level of interaction between the GIZ team in Nairobi and the AFE team in Dar es Salaam on technical issues. Once a full draft was completed, the AFE team supporting PBB undertook a systematic quality assurance review of the PBB draft, which led to the draft final version of the document. Subsequently AFE supported the training on PBB based on the jointly developed PBB Manual for staff of the Kenya Government.</p> <p>However, going forward, should AFE plan to continue providing TA for PBB implementation, we feel that it will need to engage with other stakeholders more proactively if capacity is to be built quickly and effectively among all the government agencies and Counties.</p>
<b>Score for Relevance</b>	<b>Excellent 3.6</b>
<b>Effectiveness</b>	
<b>Impact</b>	
<ul style="list-style-type: none"> <li>▪ Intervention’s expected <i>Impact</i> achieved or likely to be achieved (to the extent defined in the activity’s logical framework).</li> </ul>	<p>The full impact of the introduction of PBB depends not only on the preparation of the budget in conformity with the PBB Manual, but also the progressive implementation of programs during budget execution and the reporting on the results achieved through the use of programs for planning, budgeting and service delivery. So that the full generation of the desired impact of the introduction of PBB can only be achieved over many years. However, the support provided by AFE in Kenya has certainly ensured that PBB is taking root at least in the central government, and there are grounds to be optimistic that in due course the fuller benefits at impact level will indeed be achieved.</p>
<b>Outcomes</b>	
<ul style="list-style-type: none"> <li>▪ Intervention’s <i>outcomes</i> achieved or likely to be achieved (as defined in its logframe): Short, medium and long term outcomes.</li> </ul>	<p>Our analysis in Section 3.6.2 suggests that the majority of short and medium-term outcomes have been achieved or are likely to be achieved, albeit with delays. Nevertheless, a number of significant</p>

Key Evaluation Questions	Comments
	<p>challenges in realizing the full outcomes of the project remain, and our rating reflects the risks of delays and non-optimization of effective implementation. Significant further TA is needed to ensure medium and long-term outcomes are fully realized.</p>
<ul style="list-style-type: none"> <li>▪ Significance of AFE’s contribution/likely contribution to developing core economic functions and institution building in the country/region, through the activity.</li> </ul>	<p>The support for PBB in Kenya is highly significant. The shift from a line-item budget system to PBB is a fundamental reform process affecting every aspect of the budget and offering very major potential benefits in terms of improved planning, improved budgeting, more responsive management of service delivery in the MDAs, and greater transparency of the use of public funds, all of which can potentially have a major impact on the relationship between the government and the public and contribute to the building of a secure democratic state. The AFE role with respect to PBB in Kenya has been to maintain a steady flow of informed technical advice to ensure that the implementation of the PBB reform in Kenya progresses smoothly. More detailed implementation work has, of course, been undertaken by the PBB Unit in the GoK, supported by their resident GiZ TA support team. However, the role played by AFE has been praised by the GoK and the GiZ teams alike.</p>
<p><b>Score for outcomes</b></p>	<p><b>Good 3.1</b></p>
<p><b>Outputs</b></p>	
<ul style="list-style-type: none"> <li>▪ Intervention’s <i>outputs</i> achieved or likely to be achieved (as defined in its logframe), including: <ul style="list-style-type: none"> <li>○ Timeliness of reports/workshop presentations;</li> <li>○ Quality of reports/workshop presentations;</li> <li>○ Appropriateness/applicability of advice, given existing capacity/constraints;</li> <li>○ Whether outputs are likely to produce intended outcomes.</li> </ul> </li> </ul>	<p>The delivery of outputs by AFE missions has been good. This includes the delivery of support through informal channels, notably through communications with the GiZ team in the Treasury in relation to the finalization of the PBB Manual. The August 2006 FAD paper provided the overall framework for PB reform in Kenya. The outputs of the series of support activities for PBB have changed over time as the development of the PBB concept and the implementation process has progressed. In the September 2009 mission in this area, the intended output was to provide a clear roadmap for the set of inter-linked activities that the GoK needed to pursue if its accelerated implementation of PBB was to be successful. This mission was notably successful in delivering it: the September Mission report and Action Plan for Implementation of PBB formed the basis for the set of related reform activities which have unfolded in the past 3 years, which have included not only direct support for PBB <i>per se</i>, but also important supporting reforms in the areas of CoA, budget classification, and latterly, budget reporting. Subsequent TA missions have been equally focused and have delivered or are delivering their outputs, including the finalization and publishing of the PBB Manual and the delivery of training for PBB staff in the Kenya Government.</p> <p>A large group was trained in the course of two 2-3 day workshops. These started from a basic level and covered the main areas of the PBB Manual. While the workshops were regarded by the GoK as useful, they were seen as being of too short a duration to have a real impact. In addition, since the AFE personnel were not available to assist in the implementation process, the impact of the workshops was limited as workshops of this nature should ideally be followed up directly by mentoring of tasks in the normal workplace. Other training has also been provided.</p>

Key Evaluation Questions	Comments
	<p>With respect to the training, a problem was experienced in that there was a mismatch between the training course initially prepared by the AFE support team for the second round of PBB training and the GoK PBB Unit. The latter planned the second training to be at a higher level, and to be delivered to the initial set of trainees, whereas the AFE team prepared to give the same initial training to a second group. However, once the disparity of expectations was recognised, the training course continued and was duly completed. However, this misunderstanding doubtless led to some reduction in the effectiveness and impact of the second training course.</p>
<b>Score for outputs</b>	<b>Good 3.3</b>
<b>Efficiency</b>	
<b><i>Process and implementation efficiency</i></b>	
<ul style="list-style-type: none"> <li>▪ TA/workshop design has been efficiently carried out.</li> </ul>	<p>There appears to have been no TA action plan agreed with the Kenyan authorities for activities/outputs for the entire the project Even though the recommendations of the July 2009 AFE mission set out a very detailed set of proposals for the steps required, the draw-down of AFE TA has been driven by events on the ground rather than based on a forward plan. In addition, we believed, the intensive nature of TA and training required would have been better suited to more extended on-the-ground presence by one or more STXs, rather than the exclusive reliance on the mission-based TA deliver approach.</p>
<ul style="list-style-type: none"> <li>▪ Timeliness in executing the activity;</li> </ul>	<p>Activities have been implemented in a timely manner, especially given the need to react quickly to a tight deadline.</p>
<ul style="list-style-type: none"> <li>▪ Appropriateness/effectiveness of IMF’s internal management of the activity;</li> </ul>	<p>No direct evidence, but results so far suggest that this would have been the case.</p>
<ul style="list-style-type: none"> <li>▪ Appropriateness of selection of counterpart/workshop participants (where relevant);</li> </ul>	<p>AFE worked with the appropriate counterparts in the GoK, including the selection of participants in the training workshops.</p>
<ul style="list-style-type: none"> <li>▪ Quality and timeliness of management and backstopping in relation to activity;</li> </ul>	<p>The RAs did not report any problems in receiving timely comments and support from back-stoppers.</p>
<ul style="list-style-type: none"> <li>▪ Appropriateness of staffing composition for the intervention;</li> </ul>	<p>TA mainly delivered by the RA, who appears to have been competent. See our comments about the use of STX below.</p>
<ul style="list-style-type: none"> <li>▪ The efficiency of planning and executing the TA/training delivery.</li> </ul>	<p>.AFE/FAD had a master-plan for the set of reforms that would be required to successfully implement PBB, but it would appear that the GOK was only brought into this process on an ad hoc basis driven by the accelerating calendar for progressing the reforms driven by the higher level developments in terms of the passing of the 2010 Constitution and the approval of the PFA Act.</p>
<b><i>Efficient use of resources (human and financial) and attention to cost effectiveness</i></b>	
<ul style="list-style-type: none"> <li>▪ Appropriateness of work allocation between HQ and RTAC in relation to activity;</li> </ul>	<p>This appears to have been appropriate.</p>
<ul style="list-style-type: none"> <li>▪ Whether expenditures have been in line with activity budget and evidence of analysis of variances;</li> </ul>	<p>No evidence of budget management.</p>
<ul style="list-style-type: none"> <li>▪ Whether activity, given its results, has been cost-effective compared to other TA delivery modes, given results;</li> </ul>	<p>This is difficult to assess based on available documentation.</p>
<ul style="list-style-type: none"> <li>▪ Whether opportunities for efficiency gains during the intervention have been considered and explored.</li> </ul>	<p>No. The possibility of making more extensive use of STX to increase cost-efficiency and speed and depth of outcome achievement do not appear to have been seriously considered. Although some limited use</p>

Key Evaluation Questions	Comments
	has been made of STX, the GoK would have benefitted from more sustained back up and support following TA missions.
<b>Monitoring and reporting</b>	
<ul style="list-style-type: none"> <li>▪ Evidence of effective use of self-evaluation (i.e. monitoring) and reporting to improve the efficiency and effectiveness of activity;</li> </ul>	<p>No specific evidence of reporting systems beyond the mandatory BTOs following missions. This is believed to be primarily attributable to the slow and unreliable internet connections between AFE and the HQ TAIMS system, which has rendered TAIMS a cumbersome and time-consuming instrument of little use to RAs.</p> <p>The lack of documentation at AFE as a result of the departure of the RA highlights inefficiencies in maintaining records and institutional memory.</p>
<ul style="list-style-type: none"> <li>▪ Effectiveness in making use of TAIMS to monitor and manage project/workshop;</li> </ul>	No evidence that any of the RAs involved in this project have used TAIMS at any stage.
<ul style="list-style-type: none"> <li>▪ Effectiveness/progress in use of RBM and its usage in managing the intervention.</li> </ul>	The series of missions covered in this project have largely been driven by the need for AFE to keep up with rapid developments in the implementation of PBB in the GOK, While the AFE has been effective in keeping abreast of a rapidly developing agenda this has not been the results of a systematic application of RBM.
<ul style="list-style-type: none"> <li>▪ Incorporation of lessons learnt in project design and implementation.</li> </ul>	No specific evidence of lesson learning in the course of the project. However the AFE advisers have been very effective in keeping abreast of, or one step ahead of, a fast-moving reform agenda of PBB implementation.
<b>Score for Efficiency</b>	<b>2.9 Good</b>
<b>Sustainability</b>	
<b>Sustainability of TA activity</b>	
<ul style="list-style-type: none"> <li>▪ Outcomes from intervention will last beyond/continue after completion of TA/training.</li> </ul>	There is a relatively high probability that, subject to further TA, the outcomes generated by this project will be sustained. Examples of sustainable outcomes are, first, the definition of an appropriate set of accompanying reforms required for successful implementation of PBB. This should be useful as PB is extended down to the Counties in 2013 and 2014. Another example is the need to address issues of budget classification and the Chart of Accounts if budget preparation based on PBB is to be carried through the budget cycle into budget execution reporting and M&E. A third example is the need for the IT context of PBB to be fully up to speed to handle the new budgets based on PBB. Again, this lesson should be of benefit as PBB is extended down to the Counties. Our scoring for this criterion reflects the fact that the project is still a work-in-progress, and further TA is likely to be needed to achieve sustainability. The need to bring in other capacity building resources has been highlighted in our Report.
<ul style="list-style-type: none"> <li>▪ For TA/training designed to deliver sustainability, local institutions/ capacities have been strengthened to sustain results beyond the life of the intervention:               <ul style="list-style-type: none"> <li>○ E.g., absorptive capacity improved and developed to sustainable level;</li> </ul> </li> </ul>	The training on PBB provided by AFE is regarded by the GoK as having been of too short duration (2-3 days for such a complex subject as PBB) to expect any substantial sustainable results. However, it was successful in preparing the relevant officers for the initial application and rollout of PBB. The sustainability of the Kenyan PBB system will probably derive more from the learning-by-doing effect for budget officers than from the formal training provided by AFE. That is not to say that the training was entirely useless. But the impact and sustainability

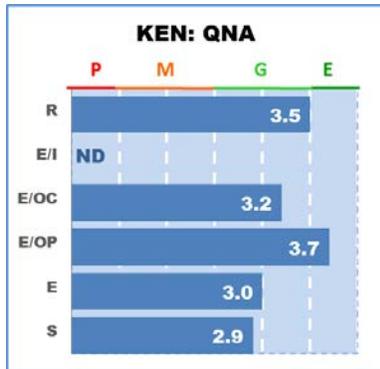
Key Evaluation Questions	Comments
	might have been longer of the training could have been provided over a more sustained period which would have allowed more case study material to be handled by participants.
<ul style="list-style-type: none"> <li>○ E.g., in-house training capacity built, where relevant.</li> </ul>	There is no evidence that the short training provided in PBB was targeted towards the training of trainers ('ToT'), so that any increase in training capacity within the GoK would have been incidental.
<ul style="list-style-type: none"> <li>▪ For interventions designed to deliver sustainability, financial sustainability has been achieved (i.e., recipients will be implement the advice from own/other financial resources in a sustainable manner).</li> </ul>	The reliance of the GoK and its budget officers on external training is certainly reduced compared to the situation in 2009/2010 when PBB was initially being rolled out. In this context it is expected that there is a high degree of financial sustainability, and the major up-coming talks of training the Counties to prepare their budgets using PBB is expected to be undertaken by in-house staff or using local consultants.
Effectiveness in maintenance and use of institutional memory relating to the activity	Major weakness as documents relating to a number of missions relating to the project could not be located, following the departure of the previous RA.
<b><i>Contribution to building sustainable regional TA, implementation capability.</i></b>	To the extent that there is now a significant depth of experience in Kenya in the concepts and procedures for the implementation of PBB, it is argued that there has been an increase in regional capacity to carry forward PBB in other contexts and countries depending largely on regional skills and resources. The AFE has assisted in making this transition occur, but as much by ensuring the conceptual quality of the Kenyan PBB system as through training activities, which have essentially been marginal. Local advisors were not used by AFE in the project.
<b>Score for Sustainability</b>	<b>Good 3.0</b>

## Rating Based on Previous Evaluation Methodology

DAC criteria	Sub-criteria	Score	% Weight	Weighted Score	% Weight	Total score	Rating
<b>Relevance</b>	Consistency with Program Document and Government Priorities	3.9	60%	2.34	<b>32%</b>	<b>1.22</b>	
	Consistency with IMF Headquarter/other activities	3.8	20%	0.76			
	Co-ordination with Development Partners	3.5	20%	0.70			
				<b>3.80</b>			<b>Excellent</b>
<b>Effectiveness</b>	Impact		-		<b>28%</b>	<b>0.88</b>	
	Outcomes: TA	3.1	30%	0.93			
	Outcomes: Regional capacity building	3.0	30%	0.90			
	Outputs	3.3	40%	1.32			
				<b>3.15</b>			<b>Good</b>
<b>Efficiency</b>	Process and implementation efficiency	2.9	40%	1.16	<b>22%</b>	<b>0.64</b>	
	Efficient use of resources (human and financial) and attention to cost effectiveness	2.9	40%	1.16			
	Monitoring and reporting	2.9	20%	0.58			
				<b>2.90</b>			<b>Modest</b>
<b>Sustainability</b>	Sustainability of TA activity	3.0	75%	2.25	<b>18%</b>	<b>0.52</b>	
	Contribution to building sustainable regional TA, implementation capability	2.5	25%	0.63			
				<b>2.88</b>			<b>Good</b>
<b>TOTAL</b>						<b>3.26</b>	<b>Good</b>

## 4. KENYA: DEVELOPING QUARTERLY NATIONAL ACCOUNTS

### 4.1 INTRODUCTION AND SUMMARY OF RESULTS



The above project was selected as the basis for a case study in accordance with the methodology for the Evaluation. A cluster of AFE activities was selected from its Phase III work plans that are related to support for the development and dissemination of Quarterly National Accounts ('QNA') in Kenya within the wider framework of the National Accounts ('NA'). In practice, the QNA cannot be separated completely from the Annual National Accounts ('ANA') as some components of the ANA are built up from quarterly data. The "QNA project" so formed was selected for inclusion as a case study as it included a succession of closely related AFE missions and inputs from IMF Statistics Department missions. In addition, the existence of a Kenya Bureau of National Statistics ('KNBS') Action Plan provided the beneficiary's own statement of objectives and outcomes against

which the effects of the AFE support activities could be assessed. It should be noted, however, that the AFE support for QNA and for National Account Statistics ('NAS') more generally in Kenya is an on-going area of activities. As such, it is expected to be reflected in the AFE work plans for 2014 and 2015. So results reported are inherently in the nature of assessment of work-in-progress.

The project started in October 2010, and has to date involved four AFE missions and participation in five regional workshops, supplemented by a number of hands on training sessions conducted by the RA with KNBS staff. Outputs to date have principally involved development and implementation of work in progress assessment methodologies in different sectors, including agriculture, livestock and construction. Other outputs have included the development of a framework for the preparation of a Supply-Use Table; updating of the relevant sections of the KNBS Action Plan and exploration of regional harmonization issues. Progress has been made in implementing these tools, but the project has experienced delays due to a lack of resources for conducting surveys and staffing (although the latter area has been addressed recently through an increase in staff in the relevant team from three to seven, as a result of pressure from the AFE RA). The scores for the project principally reflect the impact on the project to date of the lack of KNBS funding, and potential risks posed by resource constraints going forward.

### 4.2 INFORMATION REVIEWED

The case study evaluation was carried out primarily based on:

- Interviews with the AFE Resident Advisor responsible for the project;
- Project-related documentation available at AFE (Briefing Papers, Mission Reports, BTOs, workshop reports and other outputs, where available);
- Review of selected correspondence between the KNBS and AFE concerning the project;
- Interviews with all the relevant senior officials of KNBS, including the acting Director General and the Head of the Macroeconomic Statistics Department and members of his staff;
- Interviews with users of QNA Statistics, including senior officials in the Ministry of Finance, the Central Bank of Kenya ('CBK') and the Kenya Institute for Policy Practice Research and Analysis ('KIPPRA');
- Evaluation summary on the DfID Enhanced Data Dissemination Initiative ('EDDI') (2012).

## 4.3 OVERVIEW

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### 4.3.1 ECONOMIC BACKGROUND

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After a successful implementation of major reforms under the 2010 Constitution, Kenya was at the time of the writing of the Report preparing for general elections in March 2013 under new rules. There are no significant differences on economic policies among the main presidential candidates, who are part of the current national-unity government. Economic activity is picking up after slowing down in the first half of 2012 because of monetary tightening and a slowdown in agricultural production. Inflation has fallen within the government's target range ( $5 \pm 2.5$  percent), from about 20 percent in November 2011. The external position has strengthened, but the deficit of the external current account remains high. Increased inflows have allowed the central bank to accumulate international reserves closer to the program target of four months of imports. Growth is projected to remain at about 5 percent per annum, inflation to decline further, and the external current account is expected to improve. If the elections scheduled for 2013 can be held successfully and peacefully, then there are good prospects for an acceleration of national economic growth and development in the coming decade as Kenya already has a well-developed economic infrastructure able to absorb accelerated inflows of foreign direct investment ('FDI'). As momentum also develops in the EAC towards economic integration, Kenya is poised to be an important beneficiary from accelerated integration given its relatively strong manufacturing sector and well-developed financial infrastructure.

After over a decade during which developments in statistics have concentrated largely on the strengthening of social statistics in support of the Kenya PRSP, attention has shifted since 2005 to the improvement of basic economic statistics in support of accelerated economic development. Compared with other countries in the region, Kenya has a relatively sophisticated economy with significant levels of foreign direct investment, the largest manufacturing sector in the region and an emerging financial sector. The current focus is on development of the statistical system to support an acceleration of private sector led economic growth.

### 4.3.2 KENYA STATISTICS ENVIRONMENT AND RECENT DEVELOPMENTS

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KNBS is a Semi-Autonomous Government Agency established by an Act of Parliament – the Statistics Act, 2006. The KNBS core mandate includes: Collection, compilation, analysis of statistical information; publication and dissemination of statistical information for public use; and coordinating monitoring and supervising the National Statistical System ('NSS').

The Statistics Act 2006 specifically mandates KNBS to:

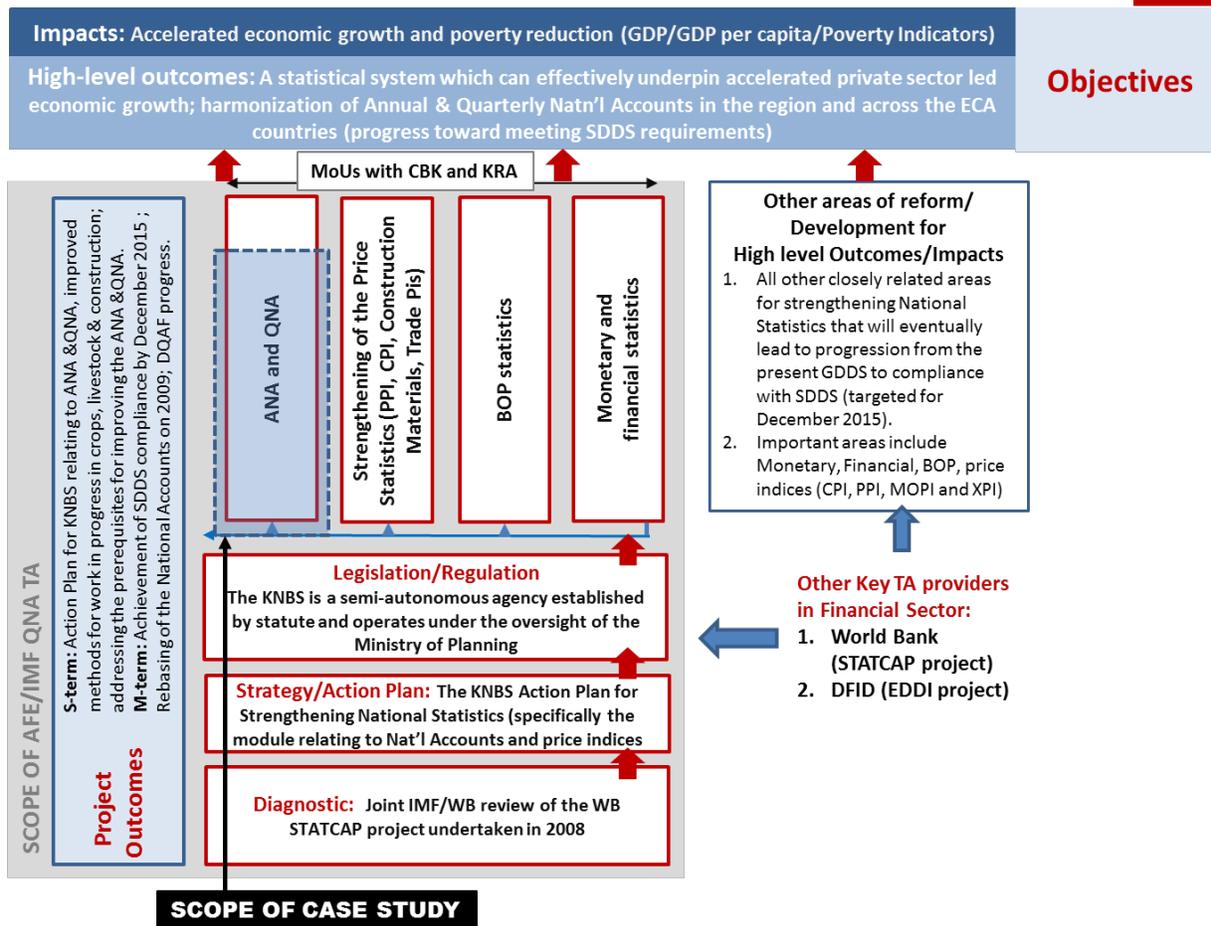
- Act as the principal agency of the government for collecting, analyzing and disseminating statistical data in Kenya.
- Act as custodian of official statistics.
- Conduct the Population and Housing Census every ten years, and such other censuses and surveys as the Board may determine.
- Maintain a comprehensive and reliable national socio-economic database.
- Establish standards and promote the use of best practices and methods in the production and dissemination of statistical information across the NSS.
- Plan, authorize, coordinate and supervise all official statistical programs undertaken within the NSS.

To achieve the aim of accelerated private sector growth the KNBS is pushing forward with an ambitious program of upgrading the NSS from compliance with the General Data Dissemination System ('GDDS'), which was achieved in 2006, towards achievement of compliance with the Special Data Dissemination Standard ('SDDS') targeted for December 2015. Particular attention has been paid to the areas of statistical development that are most critical for assessment of current and medium-term economic development, including a rebasing of NA, the strengthening of QNA (with gross domestic product at constant prices first published in 2007), and improvements to price indices including the Consumer Price Index ('CPI'), the Producer Price Index ('PPI') and trade price statistics. Simultaneous efforts are being made to strengthen monetary and balance of payments ('BOP') statistics.

#### 4.4 THE KENYAN STATISTICS RESULTS CHAIN AND DESCRIPTION

##### Illustrative Results Chain for QNA in Kenya

C5



The above illustrative sector-level Results Chain for the QNA project in Kenya would have been ideally developed *ex ante*, as a planning tool for the project. It is intended to highlight the key TA/reform needs beyond the project, and the appropriate requirements for appropriate sequencing, that need to be met in order for the project to achieve its higher level outcomes and impacts (e.g., subscription to SDDS), and identify related risks and assumptions. It is provided on an illustrative basis only as part of the case study.

#### 4.4.1 SEQUENCING

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The shift in AFE support from previous phases from the ANA to specific concentration on development of the QNA is both appropriate and in line with the developments on the ground in the KNBS. It also corresponds to a rational division of labor between AFE and other donors, notably the World Bank, which has continued to support the ANA especially to achieve the rebasing on 2009. However, there is no strict segregation of activities relating to the ANA and the QNA, as significant components of the ANA are built up from quarterly information, and the ANA provides the framework into which the QNA must fit. The other major component of the support from AFE relates to support for KNBS to build up the components of the expenditure side of the NA. This is an important and appropriately sequenced activity: hitherto, the approach of the KNBS to the annual GDP has been primarily a production side approach, which generates estimates of real (constant price) and nominal GDP. Although some elements of expenditure side components of the GDP estimates have long been used by the KNBS, the absence of a rigorous set of expenditure side GDP estimates has meant that there was little overall quality control on the estimates derived. Kenya has now reached the point where it will be highly useful to complement the production side estimates with expenditures sides as the discrepancies between estimates based on the two approaches will assist in identification of existing weaknesses.

The key problem encountered in the QNA project has been at the prerequisites level for rapid development of ANA and QNA. In particular, the KNBS has been suffering from a lack of adequate funding, which has led to repeated delays and postponements of critical surveys that provide the source data for the ANA and QNA. In addition there has been a specific problem of under-staffing in the National Accounts unit of the Macroeconomic Statistic Department of the KNBS. Some progress has been made during the evolution of this project to address these issues, but in our opinion there is still a long way to go.

#### 4.4.2 OTHER IMF/DONOR ENGAGEMENT IN AREA

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There have been several initiatives of HQ STA Department during the period under review, including missions to Kenya and regional workshops. A joint mission with the World Bank reviewed the World Bank Kenya STATCAP project in 2008 and made recommendations that have underlain many of the subsequent developments. HQ missions to Kenya during 2010 to 2012 have concentrated on Monetary and Financial Sector statistics and have been in effect complementary to the activities of AFE, which has concentrated on NA, QNA, and strengthening of the producer price index ('PPI') and trade price indices ('TPIs'). In addition HQ has hosted two regional seminars, one on Financial Soundness Indicators ('FSI'), and a second on regional statistical harmonization.

The major donors supporting KNBS in the area of NA and QNA are DfID and the World Bank. Two major programs of support have been undertaken in the past three years: (i) the Kenya STATCAP program of the World Bank that has provided long and short-term support to the KNBS, including in the area of National Accounts; and (ii) the EDDI program, a regional initiative funded by DFID and implemented in cooperation with the IMF, which has provided TA support through AFE specifically in the area of QNA. Under STATCAP the WB provided a long-term TA resource on NA who has subsequently been hired directly by the KNBS. The AFE RA has kept DfID and WB statistics program officers in Kenya informed about AFE statistics support provided to KNBS. The other countries from the AFE region participating in the EDDI are Rwanda, Tanzania (Mainland and Zanzibar) and Uganda.

## 4.5 AFE TECHNICAL ASSISTANCE

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### 4.5.1 BACKGROUND

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Kenya has among the strongest national statistical systems within the East African Region. The KNBS was established from the former Central Bureau Statistics in the mid-1990s. Following the development of a wide range of survey instruments, Kenya achieved GDDS compliance in 2006, the first country in the region to do so. Subsequently the KNBS developed an Action Plan, a major component of which concerns the strengthening of NA, aimed at expanding the range and improving the quality of NA for Kenya. The wider KNBS Action Plan aims to subscribe to SDDS by the end of 2015. AFE has supported NA in Kenya during AFE Phases II and III with a high degree of continuity in terms of the concentration areas, which have focused on the NA, the QNA and the supporting prices series, especially the PPI.

In the regional context, the movement towards consolidation of the EAC is creating demands for harmonization of statistical systems, in the sense of the adoption of common methodologies for compilation of the basic economic statistics and in terms of the development of harmonized and synchronized publication schedules to permit comparability of economic and social developments across the member countries of the EAC. AFE has been active in supporting this process of harmonization, both through the adoption of similar technical approaches to statistical methodology in the individual countries and through the hosting of dedicated workshops on statistical harmonization, especially for the basic economic statistical estimates.

The overall rationale for the involvement of AFE in support for NA and specifically QNA in Kenya is derived from the need for Kenya to strengthen its data and information base for economic management as Kenya makes a push to achieve Lower Middle Income Country status in the medium-term. With a relatively highly developed private sector (including both the economic production sectors and the financial sector), there is a strong need for Kenya to improve the quality, frequency and timeliness of its NAs in support of both public sector macroeconomic management and to provide guidance on prospective economic developments for the domestic and overseas private sector. Having set a target of subscribing to SDDS by the end of 2015 Kenya was selected for inclusion in the regional DfID/World Bank EDDI project in 2010<sup>18</sup> and this has provided a specific impetus for AFE to provide support for strengthening key result areas in the NAS. In spite of being a leader in the region in statistics, the KNBS has faced critical resourcing constraints that have affected the timeliness of essential surveys under the NAS, as well as the level of staffing in the NA Department of the KNBS. The topic area is appropriate for support from AFE in terms of the specific competences of the RA and in terms of the level of interest and support from IMF HQ during the period.

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<sup>18</sup> Kenya, Rwanda, Uganda, Tanzania, Ghana, Namibia and Nigeria are the countries participating in the QNA project.

#### 4.5.2 KEY TA ACTIVITIES, OUTPUTS AND OUTCOMES AND IMPACT OBJECTIVES

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AFE has provided support for NA development in Kenya for the past six years. During Phase II, AFE supported strengthening NA preparation and dissemination within the context of achieving GDDS compliance. AFE also specifically supported the KNBS in the initial development of the QNA leading to Kenya being the first country in the AFE region to publish QNA statistics, in 2007.

##### Impact

The overall objective for NA in the KNBS Action Plan is to “Develop quarterly GDP at current and constant prices using production and expenditure approaches”, and the Verifiable Indicator is “Dissemination of quarterly GDP at current prices for December 2012(revised to March 2013) and quarterly GDP expenditure share estimates by December 2013” (revised to December 2014).

The desired impact of the project is a NSS that is strongly supportive of the emerging private sector led national economy as Kenya moves towards Lower Middle Income Country status. The project is contributing to the achievement of this impact through a program of support in the specific area of strengthening of QNA, which is one of the key indicators used by a wide range of institutions involved in the management of the national economy, both in the public and the private sector. This continues to be work in progress and there is a continuous element of slippage in achieving the impact required, mostly because of capacity and funding shortcomings in the KNBS.

##### Activities

During the Phase III period under review, the following AFE support activities have been undertaken:

1. AFE Mission, October 18-29 2010, NA statistics
2. AFE Mission, June 13-17 2011, QNA statistics
3. AFE Mission, 24-28 October 2011, QNA Statistics
4. AFE Mission, 25 July to 7 August 2012, QNA Statistics.

##### Workshops:

1. IMF-DfID QNA Project Initial Workshop, September 2010, Namibia, including AFE RA support;
2. AFE Regional Workshop in February/March 2011, in Kenya on NA and QNA;
3. IMF-DfID QNA Project Second Workshop, June 2011, in Zanzibar, including AFE RA support;
4. AFE Regional Training Workshop, February 2012 in Tanzania on ANA and QNA;
5. AFE National Accounts Statistics Harmonization Workshop (September, 2012), Uganda.

The second workshop above, held in Mombasa on NA/QNA, was attended by 23 participants from seven AFE member countries. The workshop provided a forum for the participating countries to assess the current status of their NA/QNA systems and to score their progress on a comparative basis. The workshop report provides a detailed write-up of the results achieved, by scoring each country against each and every one of the Data Quality Assessment Framework<sup>19</sup>

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<sup>19</sup> <http://dsbb.imf.org/Pages/DQRS/DQAF.aspx>

(‘DQAF’) elements relating to National Accounts methodology and standards. This serves as a useful benchmarking of the stage of development achieved in NA/QNA by the seven participating countries.

The last workshop, on National Accounts Statistics Harmonization in September 2012, which was held by the AFE RA with support from two STXs, concentrated on ways of reaching agreement on steps for harmonizing the NAS of AFE member countries. The workshop report provides updated scores for each country against each of the DQAF elements relating to National Accounts methodology and standards. The secondary objective was to provide training on QNA.

Thus, the first workshop and the RA’s missions before and after resulted in development of NAS Improvement Plans for each country. The September 2012 workshop developed a harmonized regional work plan that countries have used to update/revise their individual plans.

In addition, shorter training workshops have been provided during the course of AFE TA missions.

## Outputs

The main output of the TA provided by AFE is a series of technical recommendations for the staff of the KNBS on the steps they should take to progressively upgrade and strengthen the QNA, which was first published in 2007. This is concentrating on two major areas of development: (i) the broadening and strengthening of the indicators/benchmarks that are used for the compilation of the QNA (including critical areas such as Work in Progress (‘WIP’) in agriculture and construction), and (ii) through development of the Supply-Use Table (‘SUT’) to provide a basis for comparison and confrontation of estimates derived from the production side methodology for NA/QNA and the expenditure side methodology, which also relies on a strengthening and broadening of the available price indices (including the PPI, and trade related price indices).

In further detail, the key outputs of the project<sup>20</sup> have been:

- Support for the preparation and amendment of the KNBS Action Plan in relation to the sections relating to the development of the National Accounts, including Quarterly GDP.
- Support for the development for an appropriate methodology for assessing WIP in the crop sector.
- Support for the development of an appropriate methodology for assessing WIP in the livestock sector.
- Support for the development of an appropriate methodology for assessing WIP and Gross Fixed Capital Formation (‘GFCF’) in the construction sector.
- The development of a framework for the preparation of a SUT and the revision of the methodology being applied by the KNBS for this activity.
- Support for the re-basing of the GDP estimates for 2009.
- Training within TA missions on each of the developments in terms of compilation methodology referred to above.
- Exploration of issues relating to harmonization of NA and QNA methodologies among member states and in the context of the EAC through regional workshops on NA and QNA methodology.

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<sup>20</sup> Some of the reports/papers have been drafted by AFE STXs, but majority by DBS staff, with various degrees of inputs from the former.

## Outcomes

The following table summarizes the main expected outcomes from the project<sup>21</sup>.

Key Outcomes		
Short-term (Up to 1 year)	Medium-term (2-3 years)	Long-term (4-10 years)
Development and refining of KNBS Action Plan for development of NA, QNA and prices	Establishment and implementation of methodologies for work-in – progress for crops, livestock and construction	Progression from GDDS compliance to SDDS by December 2015
Addressing the prerequisites, data sources, compilation methodology and dissemination practices	Rebasing of the GDP Estimates	A NSS that can effectively underpin accelerated private sector led economic growth
Improving ANA and QNA compilation methodologies.	Strengthening of the Quarterly GDP estimates in current prices	Convergence towards regionally harmonized system for compilation and publication of NA and QNA estimates
Development of a Supply-Use Table ('SUT')		

The short-term outcomes have largely been achieved, though typically not within the expected timeframe:

- The Action Plan for KNBS was completed, is updated regularly, and is used by KNBS for monitoring results against objectives.
- Some progress has been made in addressing the prerequisites. Notably the staff complement of the NAS department has been increased from three to seven and a half persons, although this progress has taken two years to be achieved.
- The recommended improvements in the ANA and QNA have been identified and are in the process of being implemented, though here again the pace of implementation has been slower than expected. This has partly been due to continuing delays in the fielding of essential surveys, which have been delayed due to lack of funding through the budget. The other reason has been staff shortages in the NAS unit.
- The development of the SUT, which is a critical tool in enabling the assessment of discrepancies arising between the production-based and current price-based estimates of GDP. This work is still on-going and is taking substantially longer to complete than anticipated owing to lack of capacity within the NAS department.

Similarly, the medium-term outcomes are likely to be achieved but with some significant delays:

- The methodologies for the assessment of WIP in the crops, livestock and construction sectors has advanced and has been applied to the compilation of the quarterly estimates of GDP that are expected to be published in March 2013.

In terms of the longer-term outcomes:

- Kenya is generally on course to complete the progression from GDDS to SDDS compliance, though while the target date continues to be set at December 2015, it is not clear whether this target date will be achieved. The completion of SDDS compliance requires progress on a wide range of aspects of the performance of the KNBS, including price statistics and external trade data, so that this result will not be achieved through progress in the field of NA alone.
- There is widespread optimism at the top of the GoK and in the wider public that the on-going improvements in the NA and QNA will eventually lead to publication of key national economic statistic that will provide more reliable indication of trends both the to the public and the private sectors for planning, even though in the short-term there is a continuing lack of complete confidence in the quarterly estimates published by the KNBS.
- The simultaneous support by AFE for technical improvements in the QA and ANA methodologies across the region is expected to lead to the emergence of a common set of harmonized practices, especially in the EAC member countries.

Thus, the support provided by AFE for QNA is definitely supporting the achievement of the stated short, medium and long-term outcomes defined in the logframe below (which is based on the KNBS's own Action Plan for this component of strengthening of the NSS). In relation to short-term outcomes, the project is supporting several of the 28 activities that comprise the QNA and Prices component of the KNBS Action Plan and these activities are being completed one by one, albeit with delays resulting from the lack of institutional and budgetary capacity of the KNBS. In a similar vein, the project is clearly delivering important support towards the principal medium-term outcome of meeting SDDS requirements with the scheduled target date of December 2015, as the elements of support being provided relate directly to the incremental compliance of the NSS with the requirements for SDDS in respect of NA and QNA. In the longer-term, the project is well oriented to improving Kenya's performance in terms of DQAF and the establishment of a statistical system that can provide timely and reliable data from management of a growing private sector led economy. Expected outputs are being realized (the project is still under implementation). The main problem is that, while the RA is providing a very wide range of technically sound recommendations that are highly appreciated by the KNBS, the capacity of the KNBS to proceed with implementation of the recommendations remains limited.

## 4.6 PRINCIPAL CONCLUSIONS

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Annex 4.8 presents our detailed responses to the KEQs and the basis of arriving at our ratings for the various DAC criteria. In summary:

We rate **Relevance** of the project as Good (score 3.5), demonstrating its close alignment with AFE and GoK strategies; strong ownership demonstrated by GoK and broad coordination with development partners, especially World Bank and DfID. The rating has been adversely affected by the lack of resources until recently, at the KNBS, reflecting in our opinion a relatively low priority placed by the GoK on this project.

With respect to Effectiveness, our rating at the **Outcomes** level is at the higher end of Good (3.2) reflecting the considerable progress that has been made in implementing QNA, but dampened by the delays in achieving outcomes to date due to lack of resources and also risks faced in achieving outcomes by a resource constrained organization such as the KNBS. We have rated **Outputs** as Excellent (3.7). The excellent quality of advice has been reinforced by the RA's success in increasing resources at KNBS.

**Efficiency** is also rated as Good (3.0), reflecting the role played by the RA in progressing the project despite resource constraints at KNBS, partially offset by delays in delivering the outcomes and outputs of the project, and that the monitoring of the project could be strengthened by AFE, for which it needs to take on shared responsibility alongside KNBS, if RBM is to be effectively implemented. We have also some views about increasing the leveraging of the RA's time by using other TA delivery modalities; where there is a difference in opinion between the evaluating team and AFE.

**Sustainability** is rated as an interim Good (2.9), reflecting QNA capacity built at the KNBS, but that with the majority of staff involved in being new, and the risks of high staff turnover, pose a threat to sustainability being achieved.

## 4.7 PRINCIPAL FINDINGS AND RECOMMENDATIONS

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### 4.7.1 MAIN FINDINGS

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The main findings of this case study are:

- The project to support the Kenya QNA is well-conceived, on accordance with the AFE work plan and has concentrated on technical improvements to the QNA that are appropriate in terms of sequencing and building on the support provided to Kenya during Phase II;
- There has been good complementarity between the support provided by the AFE and by HQ;
- The technical support of the TA provided by AFE has been of exceptionally high quality, providing highly specific recommendations on how the KNBS should progress the quality improvement of the QNA within the wider goal of moving towards SDDS compliance scheduled for end of 2015;
- The principal constraint has been the inadequate staffing and operating budget of the KNBS, which has meant that KNBS has lacked the capacity to implement the recommendations of the TA missions as rapidly or as fully as would have been ideal;
- In terms of training, the beneficiary institution (KNBS) is particularly appreciative of the short within-TA mission trainings that have been organized and conducted by the RA. These sessions are regarded as having provided very practical and hands-on guidance and instruction on the recommendations arising from the TA missions and on the steps required for follow-up by the KNBS;
- The AFE RA has been proactive in assisting the KNBS to address the constraint of the staffing and budget and a substantial improvement has been achieved in the past year;
- In our opinion, the AFE has lacked an appropriate TA instrument (e.g. to provide STX for 3-4 months at a time) to provide support to the implementation of the recommendations of the missions on schedule and this has been a factor in the slippage of performance of KNBS against its own work plan targets and milestones that have needed to be frequently revised. AFE has pointed out that a lack of staff capacity would have constrained the KNBS from absorbing more TA in any event, and that getting an AFE expert for 3-4 months would not have helped unless the authorities expected the expert to do the development work her/himself. We believe that in certain circumstances, where there are temporary staff capacity constraints, short-to-medium-term support of this nature can be justified. We deal with this matter in more detail elsewhere in the Report, in the context of AFE's wider TA delivery approach.

#### 4.7.2 MAIN RECOMMENDATIONS

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- AFE, in collaboration with IMF HQ, should develop a broader range of TA instruments that would go beyond the current very limited short-term inputs. This would make it possible for the RA concerned to achieve a greater degree of leverage of his high level skills, would assist the beneficiary institution to better meet its own targets and milestones for implementing the recommendations of RA mission, and would improve the cost-effectiveness of the AFE as a whole by raising the ratio of TA delivery time to planning time. AFE has pointed out that its role is to provide advice and build capacity, not do the work for the country. In addition, there is the practical aspect of finding experts or RAs willing to move from one country to the next every 3-4 months, which is highly unlikely. Moreover, AFE has pointed out that the KNBS authorities had reduced the RA's mission time from 2-weeks to 1-week for most of his missions. That would imply that the authorities themselves could not support longer missions. We deal with this matter more fully in our wider recommendations for AFE.
- Building on the successful within-TA mission training provided by the RA, it is suggested that such semi-formal workshops could be a more routine feature of how AFE delivers training in support of TA mission recommendations.

## 4.8 ANNEX

### 4.8.1 LOGFRAME: PROJECT INPUTS, ACTIVITIES AND OUTPUTS

The following table summarizes the main inputs, activities and outputs on the project to date (for outcomes, please refer to Section 4.6.2 above):

Mis-sion	Dates	Inputs	Activities	Principal Outputs	Notes/Comments
<b>2010</b>					
1	Oct 2010	2 weeks RA	<ol style="list-style-type: none"> <li>1. Provide advice in relation to improving staffing and other prerequisites needed for NAS compilation.</li> <li>2. Review existing source data and indicators in order to compile quarterly GDP in current prices.</li> <li>3. Review the current compilation methodologies and make recommendations for improvements, as appropriate.</li> </ol>	TA report/training material/BTO.	<ol style="list-style-type: none"> <li>1. An increase in the number of staff was recommended in the NAS Department. Recommendations to improve other prerequisites were made.</li> <li>2. The mission reviewed the availability, coverage and quality dimensions of existing data collections in order to identify appropriate source data and indicators to compile quarterly GDP at current prices. A number of data gaps and quality issues were identified. Improvements to existing source data; access to and use of alternative administrative sources; and introduction of new surveys were recommended.</li> <li>3. Both the annual and the quarterly compilation methodologies were reviewed. A number of recommendations were made to improve consistency between the methodologies and to improve the quality of the resulting estimates.</li> </ol>
<b>2011</b>					
2	Jun 2011	1 week RA	<ol style="list-style-type: none"> <li>1. Assist with developing the methodology to compile crops WIP estimates.</li> <li>2. Assist with improving the methodology to compile livestock WIP production and gross capital formation estimates.</li> <li>3. Provide advice on the methodology to compile quarterly GDP by economic activity in current prices.</li> <li>4. Provide hands-on training on changes in compilation methods and the use of</li> </ol>		<ol style="list-style-type: none"> <li>1. A methodology for compiling crops WIP was developed and a draft worksheet using crop calendar and production output and input costs data for maize was developed.</li> <li>2. Further improvements to the livestock WIP model were implemented.</li> <li>3. Advice on compiling quarterly current price GDP estimates was provided to NAS counterparts and the methodology was documented.</li> <li>4. Hands-on training on proposed changes in compilations methods</li> </ol>

Mis-sion	Dates	Inputs	Activities	Principal Outputs	Notes/Comments
			source data.		and use of source data was provided.
3	Oct 2011	RA 1 week	<ol style="list-style-type: none"> <li>1. Provide further assistance in developing the methodology to compile crops WIP estimates.</li> <li>2. Further improve the methodology to compile livestock WIP production and GCF estimates.</li> <li>3. Provide advice on the methodology to compile construction output and GCF estimates.</li> <li>4. Provide hands-on training on changes in compilation methods and use of source data.</li> </ol>	TA report/training material/BTO.	<ol style="list-style-type: none"> <li>1. Further advice on the methodology for crops WIP was provided during the mission.</li> <li>2. Further enhancements were made to the livestock WIP methodology and the compilation worksheets were expanded.</li> <li>3. Improvements to the compilation methodology for construction output and GCF were discussed with NAS staff.</li> <li>4. Hands-on training on changes in compilation methods and the use of source data was provided.</li> </ol>
<b>2012</b>					
4	July/Aug 2012	2 weeks RA	<ol style="list-style-type: none"> <li>1. Provide assistance with developing the construction industry production and GFCF compilation worksheets.</li> <li>2. Finalize as far as possible the methodology and worksheets to compile agricultural WIP. production and GCF estimates</li> <li>3. Review progress with the GDP rebasing and related source data issues and providing advice where appropriate.</li> <li>4. Provide hands-on training on any changes in compilation methods and use of source data.</li> </ol>	TA report/training material/BTO.	<ol style="list-style-type: none"> <li>1. New worksheets developed for compiling construction production estimates, using the commodity flow approach for construction inputs. Additional data requirements were identified in order to complete the development work during the next mission.</li> <li>2. The compilation worksheets for the livestock estimates were finalized during the mission. Further improvements were made to the worksheets for crops, however, additional development work and source data are required before these sheets can be finalized.</li> <li>3. Source data for the rebase were still being collected and the survey outputs still being compiled. Advice was provided on how to improve the data quality.</li> <li>4. Hands-on training on changes in compilation methods and use of source data was provided.</li> </ol>

4.8.2 EVALUATION KEQS AND RATINGS

Key Evaluation Questions	Comments
<b>Relevance</b>	
<b>Consistency with Program Document and Government Priorities</b>	
<ul style="list-style-type: none"> <li>▪ Consistency of activity with Program Document, AFE strategy, and approved work plan.</li> </ul>	The project and its constituents are fully in line with the AFE work plan and constitute a natural progression from the support provided to KNBS under Phase II.
<ul style="list-style-type: none"> <li>▪ Consistency of intervention(s) with national/regional priorities:               <ul style="list-style-type: none"> <li>○ Extent to which activity is linked to and supports national/regional strategy (if one exists – e.g., PRSP);</li> <li>○ Extent to which activity is linked to and supports sector/topical reform strategy;</li> </ul> </li> </ul>	The project is fully consistent with the Action Plan of the main beneficiary institution, the KNBS, both in broad terms of supporting progression from GDDS to SDDS according to the KNBS's timetable, and in terms of the constituent areas for improvement of the QNA (development of broader range of indicators/benchmarks, development of the SUT as a means for strengthening the expenditure side of the NA and QNA etc.).
<ul style="list-style-type: none"> <li>○ Extent to which strong country/institutional ownership of activity has been demonstrated.</li> </ul>	The activities undertaken by AFE have directly supported specific actions falling under the KNBS Action Plan.
<ul style="list-style-type: none"> <li>○ Extent to which activity is linked to and supports sector/topical reform strategy;</li> </ul>	AFE activities are directly supportive of the broader GoK objective of upgrading basic economic statistics in support of the progression of the country from less developed to Lower Middle Income Country. With a relatively sophisticated private sector (including the financial sector), Kenya needs to improve the quality, frequency and timeliness of basic economic statistics, including reporting on GDP by sector, GNI and prices at different levels. The development of the QNA directly supports this objective. In addition, the support for the first attempt to build a SUT will generate for the first time, the ability to provide a check on the production side estimates that have hitherto dominated NA estimates.
<ul style="list-style-type: none"> <li>○ Extent to which strong country/institutional ownership of activity has been demonstrated.</li> </ul>	The development of QNA is an objective that has GoK ownership. Senior officials in Treasury and the CBK have emphasized the importance of QNA for economic and fiscal management of the national economy, and quasi-independent organizations such as KIPPR are important users of the more frequent data. However, in spite of this ownership in principle, there has been a severe problem of under-resourcing of the KNBS to actually deliver high-quality QNA on a timely basis, especially in terms of staffing. AFE has been instrumental in drawing attention to this problem and in recent months important progress has been made in staffing with the NA Section. Professional staff rose from 3 to 7.5 persons. However, it will take time for the new recruits to become fully effective NA officers. The lack of resources for KNBS suggests that the GoK gives this area less priority than some others.
<ul style="list-style-type: none"> <li>▪ Whether the activity is appropriately sequenced, given the completed/outstanding reform needs for that sector/institution:               <ul style="list-style-type: none"> <li>○ E.g., appropriateness of project expected outcomes given country/institutional absorptive and implementation capacity.</li> </ul> </li> </ul>	The activities undertaken under the project by AFE need to be seen in the longer context of support for NA in Kenya. Under Phase II AFE supported the completion of compliance of the 1993 SNA, the preparation of the KNBS Action Plan for statistical development, and the initial introduction of QNA that were first published in July 2007 as constant price estimates. In this context the project under Phase II has supported the refinement of both the annual NA in terms of addressing data gaps and strengthening of indicators and benchmarks, and the

Key Evaluation Questions	Comments
	QNA with the target of moving towards publication of current price QNA, which was originally scheduled for 2010 but is currently scheduled for March 2013. The delays that have been experienced in meeting the key deadlines have derived from institutional capacity constraints in the KNBS, of which the most important is inadequacy of professional staffing, indicating that there was a mismatch between the targets in terms of milestone dates and the capacity on the ground to implement the recommendations required to achieve the milestones.
<b>Consistency with IMF Headquarter/other activities</b>	
<ul style="list-style-type: none"> <li>Whether activity is appropriately focused in terms of subject area, taking into account the IMF's expertise, and integration with HQ and other Fund activities (e.g. other training and TA delivered including through the Topical Trust Funds).</li> </ul>	The AFE activities in respect of QNA have been appropriately focused in relation to HQ overall strategy for support to statistics in Kenya and correspond to strong expertise in AFE to deliver effective TA in the area of QNA.
<b>Coordination with Development Partners</b>	
<ul style="list-style-type: none"> <li>Whether the intervention has been effectively coordinated with and complements the work of other development partners.</li> </ul>	A close coordination has been maintained with the two other major donors operating in the field in Kenya, namely the World Bank and DfID. The AFE QNA work has been delivered as a component of the DfID-funded EDDI QNA Statistics module. In relation to the World Bank there has, according to the KNBS, been an excellent division of labor between AFE TA and the support provided by the World Bank STATCAP Adviser on NA, with the latter concentrating on the annual NA and the rebasing of the NA to 2009. This collaboration is on-going.
<b>Score for Relevance</b>	
Good 3.5	
<b>Effectiveness</b>	
<b>Impact</b>	
<ul style="list-style-type: none"> <li>Intervention's expected <i>Impact</i> achieved or likely to be achieved (to the extent defined in the activity's logframe).</li> </ul>	Kenya is making steady incremental progress towards the higher level goals of achieving strengthened economic statistics in support of macroeconomic management for a growing economy. The Results Chain suggests appropriate sequencing and a robust strategic approach. However, there has been persistent slippage against milestones resulting mainly from failure of the Treasury to provide funds for the KNBS to ensure adequate professional staff to implement the stated recommendations on a timely basis. While this problem appears to have been partially addressed through the sharp increase in the professional staff of the NA Department in the KNBS, it will take time for the newly recruited staff to have full impact, so that some continued slippage against established milestones is to be expected. There is also a risk of high staff turnover going forward.
<b>Outcomes</b>	
<ul style="list-style-type: none"> <li>Intervention's <i>outcomes</i> achieved or likely to be achieved (as defined in its logframe): Short, medium and long-term outcomes.</li> </ul>	The TA provided by AFE for QNA is definitely supporting the achievement of the stated short, medium and long-term outcomes defined in the logframe below (which is based on the KNBS's own Action Plan for this component of strengthening of the NSS). In relation to short-term outcomes, the project is supporting several of the 28 activities which comprise the QNA and Process component of the KNBS Action Plan and these activities are being completed one by one, albeit with delays resulting from the lack of institutional and budgetary capacity of the KNBS. In a similar vein, the project is clearly delivering important support towards the medium-term outcome of achieving compliance SDDS, as the elements of support being provided relate directly to the incremental compliance of the NSS with the requirements for SDDS in

Key Evaluation Questions	Comments
<ul style="list-style-type: none"> <li>▪ Significance of AFE’s contribution/likely contribution to developing core economic functions and institution building in the country/region, through the activity.</li> </ul>	<p>respect of NA and QNA. Nevertheless, there is a risk that there will be a delay in meeting the 2015 deadline, and the lack of resourcing to date suggests there are risks in achieving outcomes fully even on an extended timetable. In the longer-term, the project is well-oriented to improving Kenya’s performance in terms of DQAF and the establishment of a statistical system that can provide timely and reliable data from management of a growing private-sector led economy.</p> <p>The development of QNA is an important component of the upgrading of Kenya’s statistical system to provide an adequate basis for the management of an increasingly sophisticated and fast-moving economy. Specifically the provision of increasingly reliable quarterly estimates of GDP and other core indicators is fundamental for the agencies engaged in the assessment of short-term economic developments and to provide the necessary underpinnings for the effective functioning of the private sector, including informing the decisions of external investors responsible for bringing FDI into the country. QNA is also a significant element of progression towards compliance with SDDS, which will eventually support improved country ratings for purposes of financial instruments. AFE’s contribution has been critical in ensuring the quality of the KNBS’s approach to the implementation of QNA and to the building of capacity in KNBS for sustainable implementation of the recommendations arising from TA missions</p>
<p><b>Score for Outcomes</b></p>	<p><b>Good 3.2</b></p>
<p><b>Outputs</b></p>	
<ul style="list-style-type: none"> <li>▪ Intervention’s <i>outputs</i> achieved or likely to be achieved (as defined in its logframe), including: <ul style="list-style-type: none"> <li>○ Timeliness of reports/workshop presentations;</li> <li>○ Quality of reports/workshop presentations;</li> <li>○ Appropriateness/applicability of advice, given existing capacity/constraints;</li> <li>○ Whether outputs are likely to produce intended outcomes.</li> </ul> </li> </ul>	<p>The outputs of the project are being achieved as the KNBS is supporting the process very closely and shows determination to implement all the recommendations of the AFE in the end. However, there has been significant slippage for the reasons cited above relating to capacity and funding constraints in the KNBS. There are grounds for optimism that there will be a process of catch-up in the coming months as the newly-appointed staff at the NA Department attains the skill level to contribute materially to the implementation of the AFE recommendations. Nevertheless, some more demanding areas, such as the completion of the SUT are likely to experience significant further delays. The procedure followed by the KNBS is to complete the SUT segment by segment, and this process is likely to continue for some time to come.</p> <p>The two workshops held on NA/QNA have been extremely well prepared and managed and, in a short period of one week each, have managed to achieve very comprehensive assessment of the situation of each of the countries participating in terms of their progress in moving towards DQAF’s recommendations.</p> <p>The specific improvements for NA and QNA need to be seen in the wider picture of the upgrading of Kenya’s basic economic statistics. The achievement of the longer-term outcomes will be as much dependent on progress in other areas of improvement towards the SDDS.</p> <p>Given the key importance of the GDP within the NA and QNA, the improvements in these areas supported by AFE can themselves be seen a critical to eventual outcome achievement.</p>
<p><b>Score for Outputs</b></p>	<p><b>Excellent 3.7</b></p>

Key Evaluation Questions	Comments
<b>Efficiency</b>	
<b><i>Process and implementation efficiency</i></b>	
<ul style="list-style-type: none"> <li>▪ TA/workshop design has been efficiently carried out;</li> </ul>	The TA delivery has been planned as effectively as possible, given that there has been a constant problem of slippage in implementation of recommended changes by the KNBS that have resulted from capacity problems in terms of staffing. We have commented elsewhere in this case study about the issues relating to increasing TA to the KNBS under this scenario and also on longer-term planning of AFE TA.
<ul style="list-style-type: none"> <li>▪ Timeliness in executing the activity;</li> </ul>	Missions have been carried out on a timely basis, although this has sometimes involved problems in scheduling given constraints on timing arising from the KNBS side.
<ul style="list-style-type: none"> <li>▪ Appropriateness/effectiveness of IMF’s internal management of the activity;</li> </ul>	This is difficult to assess based on available information.
<ul style="list-style-type: none"> <li>▪ Appropriateness of selection of counterpart/workshop participants (where relevant);</li> </ul>	Both the counterpart arrangements for the missions undertaken and the attendance at the workshops have been quite appropriate. In part this has been because of the highly technical nature of the TA support delivered that is only of interest and relevance to the specific officers in the KNBS who are responsible for work on the NA and the QNA.
<ul style="list-style-type: none"> <li>▪ Quality and timeliness of management and backstopping in relation to activity;</li> </ul>	The RA has not experienced problems in receiving timely comments and support from back-stoppers.
<ul style="list-style-type: none"> <li>▪ Appropriateness of staffing composition for the intervention;</li> </ul>	The RA himself has undertaken the majority of the missions, working in close cooperation with the longer-term TA provided through the World Bank STATCAP project and latterly through a direct hire by the KNBS. The RA has also started to utilize a member of staff of the KNBS as an STX, specifically in the fielding of the Mombasa, Arusha and Lake Victoria Regional Workshop. The KNBS have recorded a general problem that they have usually lacked the internal staffing capacity to proceed on schedule with the recommendations provided through the RA mission and AFE has not been in a position to follow on from mission activities with more sustained support for implementation.
<ul style="list-style-type: none"> <li>▪ The efficiency of planning and executing the TA/training delivery.</li> </ul>	Some difficulties have been encountered in reconciling the established timetable established by the AFE RA for missions with the ever-changing timetables of the senior staff of the KNBS. But in spite of minor modifications in the schedule to accommodate the requirements for scheduling of the KNBS this has not proven to be a major obstacle to proceeding with the project.
<b><i>Efficient use of resources (human and financial) and attention to cost effectiveness</i></b>	
<ul style="list-style-type: none"> <li>▪ Appropriateness of work allocation between HQ and RTAC in relation to activity;</li> </ul>	There has been a good complementarity between the work of the AFE RA and HQ. HQ has concentrated on mission support for CBK generation of monetary and financial statistics that feed into the NA and the QNA while the AFE has concentrated on support to the KNBS in the compilation methodology for the NA and the QNA.
<ul style="list-style-type: none"> <li>▪ Whether expenditures have been in line with activity budget and evidence of analysis of variances;</li> </ul>	No evidence has been encountered in the course of this review that points to expenditure on this project being out of line with the activity budget, but there is no evidence of analysis of variances.
<ul style="list-style-type: none"> <li>▪ Whether activity, given its results, has been cost-effective compared to other TA delivery modes, given results;</li> </ul>	The project is proving effective in delivering the expected outcomes and impact, albeit with delays resulting from lack of capacity to carry forward recommended innovations and to undertake necessary supporting surveys on schedule. Within the framework of the cost structure for delivery of TA by the AFE, this project is believed to have been cost effective in the sense that there is no evidence of untoward or

Key Evaluation Questions	Comments
	unwarranted excess costs. Workshops have been generally attended to the planned level of participants and attended by the appropriate attendees. However, please note our general comments on AFE cost effectiveness elsewhere in the Report.
<ul style="list-style-type: none"> <li>▪ Whether opportunities for efficiency gains during the intervention have been considered and explored.</li> </ul>	The main area where progress has been made is on achieving efficiency gains has been through the proactive role that the RA has taken to assist the KNBS to achieve the staff levels necessary for it to carry forward implementation of the technical recommendations arising from the TA missions on a more timely basis.
<b>Monitoring and reporting</b>	
<ul style="list-style-type: none"> <li>▪ Evidence of effective use of self-evaluation (i.e. monitoring) and reporting to improve the efficiency and effectiveness of activity;</li> </ul>	Self-evaluation, monitoring and reporting is undertaken both by the responsible RA and by the beneficiary institution (KNBS). The RA believes that monitoring of implementation is KNBS' responsibility.
<ul style="list-style-type: none"> <li>▪ Effectiveness in making use of TAIMS to monitor and manage project/workshop;</li> </ul>	The RA responsible for delivering TA under this project has developed appropriate procedures for accessing and using TAIMS. Given the poor internet access experienced by the AFE and resulting poor access to HQ systems, this has required the establishment of a dedicated procedure whereby the RA submits information by email to HQ on established templates for entering into TAIMS. This procedure, while commendable, clearly falls short of the RA having effective real-time access to TAIMS. Establishment of such access would improve the management efficiency of the RA concerned with reduced reliance on personal <i>ad hoc</i> spreadsheet-based systems for monitoring.
<ul style="list-style-type: none"> <li>▪ Effectiveness/progress in use of RBM and its usage in managing the intervention.</li> </ul>	Although not within a formal RBM framework, support for QNA has been clearly nested in a framework that is geared to the achievement of medium-term high level outcomes, in particular the objective of the achieving of subscription to SDDS by December 2015 and the milestones established for the publication of specific improved statistical series, (especially the rebased NA, the QNA in current prices and the upgraded PPI and TPis). The KNBS is regularly monitoring its progress in terms of movement towards these objectives, specifically through monitoring of progress on the 28 activities in its Action Plan for NA and Prices. In terms of the IMF there is similarly a monitoring of Kenya country progress against the medium-term national and regional objectives for statistical development that form the basis for the RSN. This is centered on the achievement of milestones for progress from GDDS to SDDS over the medium-term (target of December 2015 for full SDDS subscription).
<ul style="list-style-type: none"> <li>▪ Incorporation of lessons learnt in project design and implementation.</li> </ul>	Support for the QNA over the past six years has consistently met the constraint arising from inadequate resourcing (and especially staffing in the KNBS National Accounts Department). This constraint has been clearly recognized by the RA and has provided a regular focus both for recommendations (to increase the budget and the staffing of the department) and specific actions aimed at assisting the KNBS to overcome this constraint. Such actions have taken the form of lobbying for additional budget at the highest level in the Ministry of Finance and assistance to the KNBS in the preparation of its case for increased funding which was successfully submitted to the KNBS. The KNBS is clear that the efforts of the AFE TA have been instrumental in the progress that has been made in the past year in raising the professional capacity of the NA department from three to seven and a half. Nevertheless, no formal mechanism exists for synthesizing and

Key Evaluation Questions	Comments
	disseminating lessons learnt from projects.
<b>Score for Efficiency</b>	<b>Good 3.0</b>
<b>Sustainability</b>	
<b>Sustainability of TA activity</b>	
<ul style="list-style-type: none"> <li>▪ Outcomes from intervention will last beyond/continue after completion of TA/training.</li> </ul>	It is anticipated that the outcomes will be sustained. This can be seen at two levels: (i) within the KNBS the specific innovations being introduced as a result of the TA (e.g. WIP in the Agriculture and Construction sectors), and (ii) the development of the SUT, will be incorporated into standing practices adopted by the KNBS in future rounds of the NA and QNA. Nevertheless, the small number of staff, and apparent budget constraints at KNBS, risk high staff turnover and loss of sustainability.
<ul style="list-style-type: none"> <li>▪ For TA/training designed to deliver sustainability, local institutions/ capacities have been strengthened to sustain results beyond the life of the intervention:               <ul style="list-style-type: none"> <li>○ E.g., absorptive capacity improved and developed to sustainable level;</li> </ul> </li> </ul>	Absorptive capacity has clearly been improved through the increase in staffing. However, the staff of the NA department now has several new recruits who will take time to be fully productive. The duration and intensity of the AFE support has necessarily been limited to short-term inputs in a situation where the KNBS would have welcomed more sustained support. Their retention and absorption of skills carry high risks.
<ul style="list-style-type: none"> <li>○ E.g., in-house training capacity built, where relevant.</li> </ul>	Yes, the AFE TA has built in dedicated short (two-day) training sessions into the missions to provide concentrated training to the staff of the KNBS. This has been highly appreciated by the KNBS. What is lacking, however, is the ability to provide more sustained support following the completion of missions. In our opinion, progress in the implementing of the TA's recommendations might have been much more rapid if there had been a possibility of such support being provided by AFE. AFE's views about the constraints in increasing support to KNBS are presented earlier in the case study.
<ul style="list-style-type: none"> <li>▪ For interventions designed to deliver sustainability, financial sustainability has been achieved (i.e., recipients will be implement the advice from own/other financial resources in a sustainable manner).</li> </ul>	Kenya is perhaps unique in the AFE region in recognizing that TA will need to be sourced increasingly from national resources in future. In the case of KNBS this recognition has taken practical form in the continuation of the recruitment of the formerly World Bank Advisor on NA on the basis of direct hiring by the KNBS. At the moment this case remains exceptional and there are clearly areas where the KNBS has required, but not sourced, additional TA to ensure that milestones would be met.
<b>Contribution to building sustainable regional TA, implementation capability.</b>	The project has contributed to this objective in two main ways: (i) the inclusion of STX drawn from the staff of the beneficiary institution (KNBS) and through the three regional workshops, and (ii) the training effected through the five regional workshops.
<b>Score for Sustainability</b>	<b>Good 2.9</b>

### Rating Based on Previous Evaluation Methodology

DAC criteria	Sub-criteria	Score	Weight %	Weighted Score	Weight %	Total score	Rating
<b>Relevance</b>	Consistency with Program Document and Government Priorities	3.3	60%	1.98	<b>32%</b>	<b>1.11</b>	
	Consistency with IMF Headquarter/other activities	3.8	20%	0.76			
	Co-ordination with Development Partners	3.6	20%	0.72			
				<b>3.46</b>			<b>Good</b>
<b>Effectiveness</b>	Impact		-		<b>28%</b>	<b>0.94</b>	
	Outcomes: TA	3.2	30%	0.96			
	Outcomes: Regional capacity building	3.0	30%	0.90			
	Outputs	3.7	40%	1.48			
				<b>3.34</b>			<b>Good</b>
<b>Efficiency</b>	Process and implementation efficiency	3.2	40%	1.28	<b>22%</b>	<b>0.66</b>	
	Efficient use of resources (human and financial) and attention to cost effectiveness	2.8	40%	1.12			
	Monitoring and reporting	3.0	20%	0.60			
				<b>3.00</b>			<b>Good</b>
<b>Sustainability</b>	Sustainability of TA activity	2.8	75%	2.10	<b>18%</b>	<b>0.51</b>	
	Contribution to building sustainable regional TA, implementation capability	3.0	25%	0.75			
				<b>2.85</b>			<b>Good</b>
<b>TOTAL</b>						<b>3.22</b>	<b>Good</b>

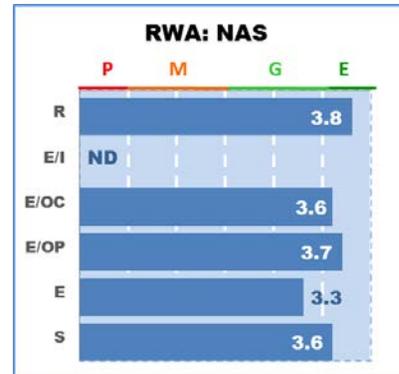
## DESKTOP REVIEWS

## 5. RWANDA: STRENGTHENING NATIONAL ACCOUNTS STATISTICS

### 5.1 INTRODUCTION AND SUMMARY OF RESULTS

The above project was selected for ‘desktop sample’ review, in accordance with the methodology set out both in our technical proposal and in the Evaluation’s Inception Report. It was selected at the request of AFE specifically to provide an example of a successful project that provides lessons for good practice. The evaluation was carried out primarily based on:

- Project-related documentation available at AFE (Briefing Papers, Mission Reports, BTOs, other outputs, where available);
- An interview with the AFE RA responsible for the project;
- Review of email correspondence between AFE, IMF HQ and the Rwandan authorities concerning the project. This correspondence was especially important in understanding the genesis of the project.



The project started in June 2012, on the basis of an IMF HQ and Government of Rwanda (‘GoR’) request for urgent TA to improve the robustness of the country’s National Accounts Statistics (‘NAS’), following a debate about its reliability. The project, which has involved the RA providing TA through, to date, six missions, has *inter alia* helped: identify the underlying issues affecting reliability; develop an action plan to address identified weaknesses; and implement the action plan through the delivery of tools and processes and bespoke training, supported by regional workshops. We understand that IMF Article IV missions, which until 2010 did not place any reliance on statistics produced by Rwanda for its work, are now basing their analyses on the National Accounts based on the updated methodology. We assess work to date to have been highly relevant and effective, delivering results that are likely to be sustainable. Our ratings for the DAC evaluation criteria reflect the project’s overall strong performance.

### 5.2 BACKGROUND

Like other countries in the region, Rwanda has been pursuing a program of upgrading its statistical system over the past decade with the aim of progressing from compliance with the General Data Dissemination System (‘GDDS’) towards the Special Data Dissemination Standards (‘SDDS’). The National Accounts, both the Annual series and the Quarterly series, constitute the most critical elements of the statistical system and are widely used as the basis both for national planning by the GoR and by the private sector, whether internal or external, as providing key indicators for considering investment in the economy. Accordingly, the reliability and credibility of the National Accounts, including the GDP estimates, is of central importance of an indicator of national economic performance.

During the first quarter of 2010 a debate developed on the reliability of the GDP growth estimates arising from the published National Accounts in Rwanda. An initial consultant's report argued that the pervasive use of population growth estimates as an indicator for a wide range of GDP components was limiting the reliability of the GDP growth estimates, and possibly leading to overstated economic growth rates. However, opinions were divided, both within the GoR, and on the part of external agencies. The IMF identified that there was an urgent need at the very least to clarify the issues, to undertake a technical review of the NAS methodology and to prepare recommendation for improvements that would restore confidence in the official National Account series. IMF HQ accordingly approached AFE in April 2010 and, supported by the GoR sought an AFE TA mission to address the issue. AFE responded rapidly to this request and the initial visit was fielded in June/July 2010. This mission diagnosed the shortcomings in the use of benchmarks and indicators in the National Accounts and agreed an action plan for strengthening the National Accounts over a 2-3 year period.

### 5.3 AFE TECHNICAL ASSISTANCE

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The request from the GoR to AFE to provide urgent TA to review the National Accounts corresponded to a major area of activity provided for in the AFE work plan. The work plan concentrated on strengthening of basic economic statistics, including the National Accounts; supporting information systems such as the price indices (consumer, producer and trade prices); the strengthening of Balance of Payments statistics; and the strengthening of the use of the surveys that provide the basic information on which compilation of the National Accounts is based. In addition, AFE under this sector was committed to supporting the strengthening of Quarterly National Accounts especially in countries that were participating in the Extended Data Development Initiative funded by the DfID and implemented in collaboration with the IMF. The Rwandan request, one element of which related to the linkage between quarterly and annual series for the components of the National Accounts fell directly within this field of interest of the Macroeconomics Statistics sector of AFE.

The following NAS missions have been undertaken to date to deliver TA under this project:

1. June/July 2010
2. January 2011
3. August 2011
4. January 2012
5. June 2012
6. December 2012

In addition, the following workshop was held: 28 February to 8 March 2011, Regional Workshop on National Accounts Regional Harmonization and Integration for EAC countries.

The following table summarizes the main activities and outputs on the project to date:

Mis-sion	Dates	Inputs	Activities	Outputs	Notes/Comments
1.	Jun/ Jul 2010	1 week RA	<ol style="list-style-type: none"> <li>1. Advice to improve the quality of NAS.</li> <li>2. Input to developing a plan of action to implement improvements in data sources and methods over five years.</li> <li>3. Assessment of the use made of available source data and improvements in existing source data.</li> <li>4. Meetings with key stakeholders to identify areas for improvement in NAS in the short and longer-term.</li> <li>5. Desktop review of NAS compilation worksheets.</li> <li>6. Participation in workshop on NAS methodology and data sources.</li> </ol>	<p>TA report incorporating:</p> <ol style="list-style-type: none"> <li>1. A broad assessment of the availability, quality and use of source data.</li> <li>2. Discussion of the relative priorities for development of new source data and improvements in the use of existing source data.</li> <li>3. Identification of areas for improvement in NAS within existing staff and resource constraints.</li> <li>4. Review of the quality and use of existing data and admin sources.</li> <li>5. Sample design and questionnaires for the Household budget survey reviewed.</li> <li>6. Advice provided on the development of new data sources to the workshop attended.</li> <li>7. Agreement at the workshop on specific improvements to methodology.</li> </ol>	<p>The action plan developed for the strengthening of Rwanda NAS had the objective to improve coverage, reliability and timeliness of the NAS, including consistency with international standards. The action plan comprises 11 actions under 3 headings: (i) Improve institutional infrastructure and operational capacity to compile NAS (Staffing, especially for the NAS Unit, and TA); (ii) Improve availability, coverage and quality of source data required to compile NAS (crop assessment survey and methodology), search for alternative indicators, assess use of 2008 Agricultural Survey and <i>Enquête Integrale sur les Conditions de Vie des Ménages</i> (EICV2) Informal Sector Survey, and (iii) Improve compilation methods for the NAS.</p>
2.	Jan 2011	2 weeks RA	<ol style="list-style-type: none"> <li>1. Improve availability and quality of source data for crop production and non-profit institutions.</li> <li>2. Revise the compilation methodology to incorporate more representative indicators and actual quarterly Government finance indicators.</li> <li>3. Provide training on any changes to the compilation methodology.</li> <li>4. Provide advice on improving the crop assessment survey methodology in order to get more accurate crops production data.</li> <li>5. Assess data sources to improve estimates for non-profit institutions.</li> </ol>	<ol style="list-style-type: none"> <li>1. TA Report(s) incorporating results of the activities and future recommendations.</li> <li>2. Training material.</li> </ol>	<ol style="list-style-type: none"> <li>1. Review completed and specific improvements to use of crop production data implemented and a new survey for non-profit institutions planned.</li> <li>2. The use of alternative indicators to population growth rates and more detailed Government finance data was investigated.</li> <li>3. Training delivered on use of housing trends data and crops and livestock work-in-progress methodology was provided for counterparts.</li> <li>4. Previous advice on improving the questionnaire and survey design to collect post-harvest data had been implemented. The questionnaire was reviewed.</li> </ol>

Mis-sion	Dates	Inputs	Activities	Outputs	Notes/Comments
			<ol style="list-style-type: none"> <li>6. Provide advice on use of improved data or volume indicators instead of population growth rate.</li> <li>7. Advise on revising the methodology for Government services to make better use of quarterly government finance data.</li> <li>8. Provide training to NAS counterparts on any changes made to the compilation methodology.</li> </ol>		<ol style="list-style-type: none"> <li>5. Available data are inadequate. A benchmark survey was recommended for 2011 reference year.</li> <li>6. Alternative indicators investigated. Alternative indicators for livestock and dwelling rents (actual and imputed) developed</li> <li>7. Advice on Government Service data provided.</li> <li>8. No changes had been implemented to the methodology at that stage. However, training was provided on the use of housing trends data and crop and livestock estimation methods.</li> </ol>
3.	Aug 2011	2 weeks RA	<ol style="list-style-type: none"> <li>1. Advise on the incorporating revised food crop estimates in the compilation methodology for NAS.</li> <li>2. Advise on incorporating livestock work-in-progress estimates.</li> <li>3. Assist in the use of improved data or volume indicators to reduce the use of population growth rates.</li> <li>4. Assess the use of income tax system data for compilation.</li> <li>5. Advise on making better use of Government quarterly financial data.</li> <li>6. Train counterparts on changes to compilation methodology.</li> </ol>	TA Report(s)/training material.	<ol style="list-style-type: none"> <li>1. Advice provided on incorporating new food crop output estimates.</li> <li>2. Output indicators from livestock WIP model incorporated into compilation methodology.</li> <li>3. Alternative indicators for livestock, forestry production as well as traditional dwelling construction and rent incorporated.</li> <li>4. Income tax data was reviewed and assessed for its use in compilation.</li> <li>5. Advice provided on better use of government quarterly finance data.</li> <li>6. Training was provided to counterparts.</li> </ol>
4.	Jan/Feb 2012	1 week RA	<ol style="list-style-type: none"> <li>1. Further development of Agricultural WIP.</li> <li>2. Review and provide advice on compilation methodology for construction and GFCF.</li> <li>3. Review and provide advice on use of survey tools in relation to business enterprises and non-profit institutions.</li> <li>4. Provide training to counterparts on changes made to compilation</li> </ol>	TA report/training material.	<ol style="list-style-type: none"> <li>1. Advice provided on new data being collected, the use of data and improvements to the crops and livestock WIP methodology.</li> <li>2. Data sources for construction and GFCF were reviewed and advice provided on redeveloping the methodology and use of existing source data.</li> <li>3. Advice provided on the sample and design for the 2011 IES, Draft questionnaires for NPIs</li> </ol>

Mis-sion	Dates	Inputs	Activities	Outputs	Notes/Comments
			methodology and source data.		and other enterprises developed. 4. Training provided to counterparts.
5.	June 2012	2 weeks RA	<ol style="list-style-type: none"> <li>1. Redevelop the compilation worksheets for construction production and GFCF.</li> <li>2. Investigate ways to further reduce the use of population indicators.</li> <li>3. Provide assistance on finalizing the agricultural WIP (crops and livestock) WIP estimation methodology.</li> <li>4. Provide changes made to compilation methodology.</li> </ol>	TA report/training material.	<ol style="list-style-type: none"> <li>1. New worksheets developed for construction and GFCF. Additional data requirements to complete the development work in the next mission.</li> <li>2. Advice provided on the new data being collected and the use of data and improvements to the crops and livestock WIP.</li> <li>3. Training on the use of alternative data sources and indicators as well as proposed changes in compilation methodology.</li> </ol>
6.	Dec 2012	2 weeks RA	<ol style="list-style-type: none"> <li>1. Provide assistance on finalizing the agricultural WIP estimation models.</li> <li>2. Develop the compilation worksheets for construction production and GFCF estimates further.</li> <li>3. Investigated ways to reduce the use of population indicators further.</li> <li>4. Provide training to counterparts on changes to compilation methodology .</li> </ol>	The mission was undertaken during the period of the current Evaluation Review and the outputs were not available.	
<b>Regional Workshops</b>					
1.	Feb/ March 2011	1 week RA	Regional Workshop on National Accounts Regional Harmonization and Integration of EAC states (23 participants)		
Rwanda also benefited from a number of other regional statistics workshops (see Kenya Quarterly National Accounts case study) <sup>22</sup>					

<sup>22</sup> except the Dfid September 2010 workshop in Namibia

## 5.4 PROJECT OUTCOMES

There were no outcomes defined for the project *ex-ante* prior to the initial mission in June/July 2010. However, in the course of that mission the RA worked with counterparts in Rwanda to prepare an action plan. Based on the outputs identified in that work plan, and a wider review of the project's documentation, we have established the following principal outcomes:

Outcomes			Indicator <sup>23</sup>	Sources of Verification
Short-term (Up to 1 year)	Medium-term (2-3 years)	Long-term (4-10 years)		
Identify the areas for development of the NAS compilation methodology and prepare an Action Plan for strengthening NAS.	Development of Rwanda NAS, with Objective to improve coverage and reliability and timeliness of the NAS, including consistency with international standards.	Establishment of reliable and credible National Accounts which will provide a basis for strengthened national planning and encourage inward investment.	NAs to provide more accurate indication of underlying economic activity.	IMF surveillance reports.  DQAF assessments.
Improved capacity of the NAS Department through training on revisions to compilation methodology.	Improved institutional infrastructure and operational capacity to compile NAS; (Staffing, especially for the NAS Unit, and TA).		Successful implementation of Action Plan milestones to improve NAS methodology.	AFE Assessments, IMF diagnostic mission reports.
Robust systems for the assessment of WIP in crops and livestock developed and applied.  Reduced use of population indicators through development of new data sources.  Identification of required improvements to the major survey instruments used in compilation of the NAS.	Improve availability, coverage and quality of source data required to compile NAS (crop assessment survey and methodology, search for alternative indicators, assess use of 2008 Agricultural Survey and EICV2 Informal Sector Survey).		New methodology for incorporating WIP in crops and livestock implemented (as documented in the supporting text to the 2012 NAS.  Modifications to the survey instruments adopted and reported in the 2012 NAS.	AFE Assessments, IMF diagnostic mission reports.

<sup>23</sup> Indicators would also have pre-specified dates. We have excluded these given the ex-post nature of the exercise. Where the outcome spans a period (e.g., a number of MoUs to be agreed, staff capacity building, etc.), periodic benchmarks would be expected.

## 5.5 EVALUATION RATINGS

Key Evaluation Questions	Comments
<b>RELEVANCE</b>	
<b>Consistency with Program Document and Government Priorities</b>	
Consistency of activity with Program Document, AFE strategy, and approved work plan.	The need for TA in this project area arose in the course of 2010 as discussions between the Rwandan authorities on the reliability of statistics were held. Key questions related to whether the use of population growth as a major indicator was overstating the overall GDP growth rate. Accordingly the series of missions that were undertaken from June/July 2010 onwards were more in the nature of a rapid response by AFE to a critical issue requiring urgent TA support than a detailed pre-planned activity. From 2011 onwards the missions were a part of the AFE annual work plans. However, the support for National Accounts in general was fully in line with priorities in the sector under AFE Phase III.
Consistency of intervention(s) with national/regional priorities:	
<ul style="list-style-type: none"> <li>o Extent to which activity is linked to and supports national/regional strategy (if one exists – e.g., PRSP);</li> </ul>	<p>Following discussions with the IMF the Rwandan Authorities agreed that there was an urgent need for TA to address the issues surrounding the reliability of the National Accounts and for the identification of measures that could be taken to improve the NAS. An Action Plan was prepared during the initial AFE mission on this project (June/July 2010) and the subsequent support has been fully in line with the Objective and specific areas of activity outlined in that Action Plan.</p> <p>Strengthening of the National Accounts is a precondition in Rwanda as in other countries in the regional for the development (or strengthening of the Quarterly National Accounts).</p>
<ul style="list-style-type: none"> <li>o Extent to which activity is linked to and supports sector/topical reform strategy (if one exists);</li> </ul>	
<ul style="list-style-type: none"> <li>o Extent to which activity is linked to and supports sector/topical reform strategy;</li> </ul>	
<ul style="list-style-type: none"> <li>o Extent to which strong country/institutional ownership of activity has been demonstrated.</li> </ul>	.The ownership of this project by the Rwandan authorities was very strong. This is reflected in the implementation of several recommendations during the period between AFE missions
Whether the activity is appropriately sequenced, given the completed/outstanding reform needs for that sector/institution:	The activity was appropriately sequenced. It commenced with detailed review and identification of the scope for improvements through several methods, including (i) change of benchmarks, (ii) incorporation of revised data into revised annual NAS, (iii) specific improvements to the methodology for estimation of key sector growth, including livestock, crops and construction, and (v) training for counterpart staff at each stage of the series of missions incorporated into the mission timetables.
<ul style="list-style-type: none"> <li>o E.g., appropriateness of project expected outcomes given country/institutional absorptive and implementation capacity.</li> </ul>	The timetable proposed for specific improvements in the Action Plan were proven to be generally appropriate and within the implementation capacity of the national institutions.
<b>Consistency with IMF Headquarter/other activities</b>	
Whether activity is appropriately focused in terms of subject area, taking into account the IMF's expertise, and integration with HQ and other Fund activity (e.g. other training and TA delivered including through the topical trust funds).	<p>The initial request for this activity came from IMF HQ, following discussions through the Rwandan authorities. The project was in line with the priorities set out for this sector in the RSNs.</p> <p>The project made very effective use of the specific skills and expertise of the RA for this topic.</p>
<b>Coordination with Development Partners</b>	
Whether the intervention has been effectively coordinated with and complements the work of other	It was necessary to work through the relationship with the other major donor

Key Evaluation Questions	Comments
development partners.	working in this project area (UNDP), but in the course of the project this was successfully achieved.
<b>Context of donor/TA landscape of AFE TA</b>	
Why did the TA recipient choose the AFE as the TA provider as opposed to other donors?	The request for the project arose directly out of discussions between the IMF and the Rwandan authorities. The project area corresponded to a specific area of AFE expertise and could be readily accommodated.
How do workshop participants compare those provided by AFE with workshops from other donors?	[check workshop survey]
<b>Score for Relevance</b>	<b>Excellent 3.8</b>
<b>EFFECTIVENESS</b>	
<b>Impact</b>	
Intervention's expected Impact achieved or likely to be achieved (to the extent defined in the activity's logframe).	Yes. The project has led to a marked improvement in the NAS, which is creating increased confidence in both the GoR and the domestic and external business community that the NAS is producing significantly more reliable information than prior to the project. IMF Article IV teams are now accepting and using GoR GDP numbers after having previously not done so when the IMF disputed the GoR GDP estimates back in 2010.
<b>Outcomes</b>	
Intervention's outcomes achieved or likely to be achieved (as defined in its logframe): Short, medium and long term outcomes.	<p>The short-term outcomes of the project have been achieved to a very high degree. Specifically, the project was successful in identifying areas for strengthening the NAS and in the development of an Action Plan in conjunction with the authorities; in identifying specific improved methodologies to reduce the use of population growth as an indicator and to introduce revised crop production estimates into the compilation methodology.</p> <p>Medium Term outcomes:</p> <p>(i) <i>"Development of Rwanda NAS, with Objective to improve coverage and reliability and timeliness of the NAS, including consistency with international standards"</i></p> <p>This outcome is likely to be achieved though it will be a lengthy process to achieve consistency with international standards as this will also depend on other innovations outside the specific area of support of this project.</p> <p>(ii) <i>"Improved institutional infrastructure and operational capacity to compile NAS; (Staffing, especially for the NAS Unit, and TA)"</i></p> <p>The project has only realized this outcome to a limited degree. There has been improvement in the capacity of existing staff in the NAS Department, but the overall staffing will also need to be increased to meet the challenges of the revised methodologies.</p> <p>(iii) <i>"Improve availability, coverage and quality of source data required to compile NAS (crop assessment survey and methodology, search for alternative indicators, assess use of 2008 Agricultural Survey and EICV2 Informal Sector Survey)"</i></p> <p>Further progress will be required in the development of the survey instruments required to provide the base data for the strengthening of the NAS. While the project assisted in identifying the required improvements in several of the survey instruments the full implementation of these recommendations will take several years to implement fully.</p> <p>Long-Term outcome: <i>"Establishment of reliable and credible National</i></p>

Key Evaluation Questions	Comments
	<p><i>Accounts which will provide a basis for strengthened national planning and encourage inward investment".</i></p> <p>This long-term outcome is in the process of being achieved and the project has contributed significantly to the outcome through the delivery of the short and medium-term outcomes documented above.</p>
Significance of AFE's contribution/likely contribution to developing core economic functions and institution building in the country/region, through the activity.	The AFE contributed to the improved and better coordinated functioning of the national institutions. At the commencement of the project there was a degree of disagreement between the various parties on the seriousness and extent of the issues relating to the NAS that needed to be addressed. The project, by applying a very high standard of technical analysis and by working with all the parties simultaneously helped to achieve a consensus between the various parties on the real issues to be addressed. It also provided an example of how, with appropriately high quality technical support and advice, rapid progress could be made in addressing serious shortcomings in the NAS. It is believed that these lessons will be useful for the future function of the Rwandan statistical services.
<b>Score for Outcomes</b>	<b>Excellent 3.6</b>
<b>Outputs</b>	
<p>Intervention's outputs achieved or likely to be achieved (as defined in its logframe), including:</p> <ul style="list-style-type: none"> <li>o Timeliness of reports/workshop presentations;</li> <li>o Quality of reports/workshop presentations;</li> <li>o Appropriateness/applicability of advice, given existing capacity/constraints;</li> <li>o Whether outputs are likely to produce intended outcomes.</li> </ul>	<p>This project provides an example of an extremely smoothly implemented sequence of TA support missions. The activities that have been undertaken over the two years since the initial mission in 2010 have essentially followed the plan laid down with the Rwandan authorities during that first mission. The technical quality of the reports is excellent and the reports were produced in a timely manner. The level of the technical advice has been appropriate and has been upgraded in the course of the sequence of the missions. Incorporation of formal training sessions into the timetable of each mission has ensured that the staff capacities have been developed in line with the progression of the technical advice.</p>
<b>Score for Outputs</b>	<b>Excellent 3.7</b>
<b>EFFICIENCY</b>	
<b>Process and implementation efficiency</b>	
TA/workshop design has been efficiently carried out;	The design of the work program was excellent and was undertaken at the appropriate point in the sequence of missions – namely in the course of the initial TA mission.
Timeliness in executing the activity;	The activities (missions) were conducted in a timely manner. In particular AFE managed to field the first mission at very short notice in response to an urgent request from IMF HQ and the Rwandan authorities.
Appropriateness/effectiveness of IMF's internal management of the activity;	The internal management of the series of missions appears to have been very smooth and effective.
Appropriateness of selection of counterpart/workshop participants (as relevant);	The attendees at the both the training sessions held in the course of missions and at the regional workshop were fully appropriate. This is largely because of the technical nature of the subject matter, which meant that the sessions were only of interest to the officers directly involved in NAS compilation.
Quality and timeliness of management and backstopping in relation to activity;	Very good. There was constant communication between the RA and the back-stopper and other interested parties before and subsequent to each mission.
The efficiency of planning and executing the TA/training delivery.	Planning and execution were efficiently managed. Particularly commendable was the speed with which the initial mission, which was not planned for in the annual work plan, was mobilized in response to what was seen as an urgent situation.

Key Evaluation Questions	Comments
<b>Efficient use of resources (human and financial) and attention to cost effectiveness</b>	
Appropriateness of staffing composition for the intervention;	The use of the time of the RA while on mission was very efficient, as evidenced by the large number of action points duly delivered in each mission. It is possible that cost-efficiency could have been improved through the use of STX to undertake some of the follow-up missions, which to a very large degree built on the specific areas of support and recommendations of the earlier missions. The RA believes that this is impractical as the STX would have had to become familiar with the situation. That takes time as well. Also, countries do not like experts to be changed mid-stream.
Appropriateness of work allocation between HQ and AFE in relation to activity;	This was appropriate. HQ provided the initial impetus and identification of the problem to be addressed. The project was also too sensitive for the IMF HQ to be involved directly. The AFE was in a position to provide a sequence of missions over two years and also benefitted from similar technical issues arising in other countries in the AFE region (notably in the Kenya QNA project).
Whether expenditures have been in line with activity budget and evidence of analysis of variances;	No evidence of this.
Whether activity, given its results, has been cost-effective compared to other TA delivery modes, given results;	The activity has been cost-effective in the sense that with a series of short TA missions an important set of issues relating to the NAS have been identified, solutions have been agreed upon and implemented rapidly with appropriate capacity-building of the NAS Department built into the TA missions. In this respect this project provides an example of intermittent short-term inputs providing an appropriate catalyst for important changes in NAS methodology and practice. This was partly achievable because of the high regard in which the AFE RA was evidently held by the Rwandan authorities, who valued strongly the technical advice they were given. It would have perhaps been difficult for the resident technical advisor to have maintained the momentum which was achieved and sustained by the sequence of AFE missions in this case. However, please note our general comments about AFE cost effectiveness elsewhere in our report.
Whether opportunities for efficiency gains during the intervention have been considered and explored.	<p>Yes. With respect to the efficiency of the methodology for compilation of the NAS, the TA identified the possibility of the Rwandan authorities switching from high cost surveys of business activity to a much lower cost methodology based on the use of existing tax data.</p> <p>With respect to the efficiency of the AFE delivery modes, there is no evidence that this was a consideration. Standard AFE procedures were followed through this project. There might have been possibilities to reduce the cost of AFE delivery by increased use of STX instead of the RA, especially after the agenda had been firmly set in the initial one or two TA missions. The average cost of STXs would be lower than RAs.</p>
<b>Monitoring and reporting</b>	
Evidence of effective use of self-evaluation (i.e. monitoring) and reporting to improve the efficiency and effectiveness of activity;	The RA maintains a personal tracker on his delivery. However the monitoring of the implementation of the recommendations is considered to be primarily a responsibility for the national authorities and there is no system for reporting on follow-up institutionalized within the AFE.
Effectiveness in making use of TAIMS to monitor and manage project/workshop;	The RA uses the TAIMS system. This has required the establishment of a tailored system to overcome the major problems to effective use of TAIMS by AFE RAs.
Effectiveness/progress in use of RBM and its usage in managing the intervention.	Although a formal RBM framework was not applied, the main instrument used as a basis for RBM for this project is the Action Plan prepared in the

Key Evaluation Questions	Comments
	course of the initial mission. This formed the reference point for all subsequent TA missions.
Incorporation of lessons learnt in project design and implementation.	There is no systematic process within AFE to capture, disseminate and incorporate lessons learnt. This is dependent on the RA's experience and backstopping.
<b>Score for Efficiency</b>	<b>Good 3.3</b>
<b>SUSTAINABILITY</b>	
<b>Sustainability of TA activity</b>	
Outcomes from intervention will last beyond/continue after completion of TA/training.	The outcomes are likely to be sustained because they have led to permanent changes in the compilation methodology for the NAS that have now been institutionalized.
For TA/training designed to deliver sustainability, local institutions/ capacities have been strengthened to sustain results beyond the life of the intervention:	
<ul style="list-style-type: none"> <li>○ E.g., absorptive capacity improved and developed to sustainable level;</li> </ul>	The project has built up the capacity of the staff of the NAS Department through within-mission training and the use of workshops to the extent that this is feasible given the time constraints on those activities. That is not to say that there is not also a need for more profound institutional capacity-building in the NAS Department that would be dependent on increased staffing with appropriately trained professional statisticians, and through increased budgetary allocation to develop and expand the survey instrument which provide the basic data for the compilation of the NAS
<ul style="list-style-type: none"> <li>○ E.g., in-house training capacity built, where relevant.</li> </ul>	There is no evidence that the TA missions have been specifically oriented towards the building up of in-house training capacity. However, to the extent that the existing staff has been capacitated by the training sessions provided and through the mentored support for the application of new compilation methodologies (for example in the computation of WIP in crops and livestock), it is plausible that some increased capacity for in-house training has been generated.
For interventions designed to deliver sustainability, financial sustainability has been achieved (i.e., recipients will be implement the advice from own/other financial resources in a sustainable manner).	The financial sustainability of the improvements to the NAS will depend primarily on the growth of the national economy and of the revenue base which provides the resources for the statistical services. However, in some specific areas, the recommendations of the mission to make more efficient use of existing sources of data will support enhanced sustainability of the improvements to the NAS. An example is the recommendation to make use of tax information on the business sector, which would provide a more cost-efficient mechanism for providing the basic data for assessing growth of the private sector than the fielding of regular high-cost surveys of business activity and investment.
Effectiveness in maintenance and use of institutional memory relating to the activity	All reports and document required for assessment of this project were readily available from the RA. However, there is to date no AFE institution-wide system for ensuring institutional memory, although it is understood that such a system is being worked on at present. IMF has also pointed out that the active use of TAIMS by STA importantly enhances the institutional memory. Backstopping by HQ also provides institutional memory.
Contribution to building sustainable regional TA, implementation capability.	The improvements in the NAS in Rwanda supported through this project have fed directly in the efforts to move towards harmonized national accounts systems across the countries of the region and in the context of promotion of integration of National Accounts I the EAC context. This has been supported by the dedicated workshop on this topic held in Feb 2011
<b>Score for Sustainability</b>	<b>Excellent 3.6</b>

### Rating Based on Previous Evaluation Methodology

DAC criteria	Sub-criteria	Score	% weight	Weighted Score	% weight	Total score	Rating
<b>Relevance</b>	Consistency with Program Document and Government Priorities	3.9	60%	2.34	<b>32%</b>	<b>1.22</b>	
	Consistency with IMF Headquarter/other activities	3.8	20%	0.76			
	Co-ordination with Development Partners	3.6	20%	0.72			
				<b>3.82</b>			<b>Excellent</b>
<b>Effectiveness</b>	Impact		-		<b>28%</b>	<b>0.97</b>	
	Outcomes: TA	3.6	30%	1.08			
	Outcomes: Regional capacity building	3.0	30%	0.90			
	Outputs	3.7	40%	1.48			
				<b>3.46</b>			<b>Excellent</b>
<b>Efficiency</b>	Process and implementation efficiency	3.6	40%	1.44	<b>22%</b>	<b>0.76</b>	
	Efficient use of resources (human and financial) and attention to cost effectiveness	3.4	40%	1.36			
	Monitoring and reporting	3.3	20%	0.66			
				<b>3.46</b>			<b>Good</b>
<b>Sustainability</b>	Sustainability of TA activity	3.6	75%	2.70	<b>18%</b>	<b>0.62</b>	
	Contribution to building sustainable regional TA, implementation capability	3.0	25%	0.75			
				<b>3.45</b>			<b>Good</b>
<b>TOTAL</b>						<b>3.57</b>	<b>Excellent</b>

## 5.6 KEY FINDINGS AND RECOMMENDATIONS

### Key Findings

1. This project does indeed provide a model of responsive, effective, timely and efficient delivery of TA through missions, as was suggested by the RA. There is value to be gained from the lessons from this excellent example of a project. These are itemized below.
2. The project is a good example of a rapid response by AFE to an urgent situation which had developed in terms of a breakdown of credibility in the robustness and reliability of the Rwandan National Accounts and disagreement between various internal and external parties on the extent of the problem with the NAS and what corrective action should be taken. The initial mission was mobilized within two months of these issues coming to light and being brought to the attention of AFE. This rapid response was facilitated, of course, by the fact that the request was in line with the broad work plan for priority areas of interest of the IMF and of AFE and the availability of an RA with the technical skills to address the problems in hand. The existing understanding the RA had of Rwanda will also have benefited the project in this regard.
3. The inclusion in the initial mission ToRs of support for the preparation of an Action Plan extending (implicitly, as the actions were not timed) over 2-3 years was important in providing the framework for the complete series of technical missions which followed over a two year period.
4. The attention paid by the TA to building a consensus on the issues under discussion at the early stage and the building of a consensus between the internal and external agencies involved paved the way for the subsequent mission to concentrate on technical issues in what could have become a highly politicized context (i.e. disagreements between the various parties as to whether the Rwandan national accounts were reliable or not).

5. The high quality of technical analysis, which was brought to bear in identifying deficiencies and cost-effective solutions for the agreed deficiencies in the NAS compilation methodology, was critical to the success of this project.
6. The identification of a set of reforms and the appropriate sequencing of the support for those reforms was very well planned and delivered.

### **Key Recommendations**

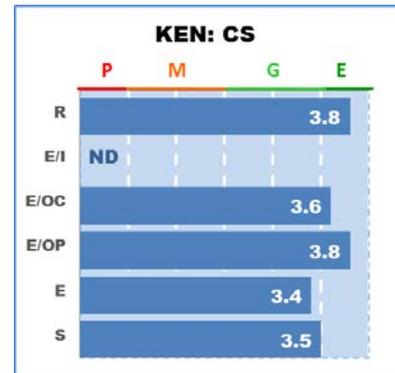
1. The practice of commencing any sequence of technical missions with support to the national authorities in the development of a medium-term action plan (where such a plan does not already exist) should be applied as a standard practice.
2. The early resolution of inter-institutional conflicts and disagreements over technical approaches as a precondition to proceeding with technical issues should be seen as a good practice in AFE interactions with its beneficiary countries.

## 6. KENYA: IMPLEMENTING CONSOLIDATED SUPERVISION

### 6.1 INTRODUCTION AND SUMMARY OF RESULTS

The above project was selected for ‘desktop sample’ review, in accordance with the methodology set out both in our technical proposal and in the Evaluation’s Inception Report. The evaluation was carried out primarily based on:

- Project-related documentation available at AFE (Briefing Papers, Mission Reports, BTOs, other outputs, where available);
- An interview with senior Bank Supervision Department (‘BSD’) staff at the Central Bank of Kenya (‘CBK’);
- An interview with the STX who has primarily been responsibility for providing the TA during the project’s implementation;
- Interview with banking sector audit Partner at PricewaterhouseCoopers Kenya;
- Survey feedback from CBK relating to the project.



The project has been implemented through a number of missions between 2006 and 2012, and is still in progress. It has been well grounded, based on the recommendations of a 2003 FSAP, and part of a wider initiative to implement risk based supervision (‘RBS’) in Kenya and the region. It has suffered from delays, initially as a result of the 2008 post-election disturbances, but then between 2009 and 2011 as a result of internal restructuring at CBK and delays in passing enabling legislation. Since recommencement in 2011, the project has made strong progress, with various MoUs being signed to cooperate with domestic and overseas regulators (the MoU with EAC central banks was signed earlier, in 2009). A supervisory college in respect of Kenya’s largest bank has also been set up. The AFE RA was informed at a recent African banking supervision conference that outside of South Africa, Kenya has the most effective Consolidated Supervision (‘CS’) regime in sub Saharan Africa. The current timetable aims at full implementation of CS by 2015.

Relevance, outcomes and outputs are rated as Excellent, reflecting the project’s considerable achievements to date and likelihood of further progress. Our slightly lower ratings on efficiency and sustainability (high end of Good) primarily reflect the areas in project design, budgeting and management that could be further strengthened as highlighted in this section, and the risks posed by potential staff turnover at CBK.

## 6.2 BACKGROUND

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Most of the regional countries embarked on implementing RBS between 2003 and 2006. As an extension of this, the central banks also started working on implementing CS.

The CBK commenced the implementation of RBS in 2005, after a survey of banks in 2004. As part of the implementation of RBS, the central bank is required to assess all risks of supervised entities. CS is an approach that ensures that all risk exposures of an institution and its subsidiaries, or of an institution belonging to a financial or conglomerate group, are taken into account whether the risks arise in the financial institution itself, or in a parent, subsidiary or associate. Although elements of CS existed in the CBK's approach to RBS, in 2003/4 CBK requested TA from AFE on CS, and in late 2005/early 2006 a formal process for implementing CS was initiated.

The 2003 Kenya FSAP recommended *inter alia* the introduction of CS. It noted that effective implementation of CS is required to comply with Basle Core Principles ('BCPs') 20 (dealing with CS); 23 (CS on global basis); 24 (information exchange) and 25 (home-host supervisory relationships)<sup>24</sup>.

In July 2006, the CBK conducted a survey of banks under its supervision to establish the need for CS. Of the 41 banks canvassed, 40 responded, and of the latter, 26 identified group or conglomerate relationships. The main highlights were:

- Nine banks comprising 41 percent of financial institution assets were subsidiaries or branches of foreign banks.
- Four banks accounting for 17 percent of assets had foreign subsidiaries.
- Four banks with a market share of 10 percent had associates licensed by the Kenyan Insurance Commission.
- Five banks had associates licensed by the Kenyan Capital Market Authority.
- [Three]<sup>25</sup> banks had known corporate connections even though in a strict legal sense they did not have a controlling shareholder or associated corporate entities.
- Two banks were known to be affiliated through common shareholding even though there was no single entity controlling either institution. Each institution owned minority shares in a Malawian bank.
- There were 20 banks with investments in unregulated corporate entities, although these investments were all small as a percentage of bank capital and generally comprised portfolio holdings rather than strategic investments.<sup>26</sup>

The FSAP recommendations and the above findings, combined with the trend of increasing regional diversification of banks, confirmed the need for CS.

The initial Policy paper on CS presented to CBK senior management in April 2006 identified four tasks to be completed for full implementation:

- Initial survey of institutions to identify group relationships;
- Amendments to the legal and prudential framework;
- Developing relationships with other supervisors; and
- Develop specific policies and procedures for consolidated supervision.

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<sup>24</sup> References to the 1997 BCPs, since revised in 2006 and more recently consultative document issued in 2011. CPs 24 and 25 of 2006 BCPs most relevant for the project.

<sup>25</sup> Square bracket from original CBK survey report.

<sup>26</sup> Banking and Conglomerate Survey Questionnaire Report. CBK Consolidated Supervision Project Team. December 2006.

### 6.3 AFE TECHNICAL ASSISTANCE

The earliest provision of AFE TA on CS to the CBK appears to have been in March 2006. The TA has continued, albeit with gaps resulting initially from the 2008 post-election disturbances, and then an extended gap between 2009 and 2011, when CS implementation was postponed due to delays in passing enabling legislation (since passed by Parliament in October 2012, but not signed by the President as of November 2012) and disruption from staff restructuring at CBK. The project regained momentum in 2011, and the provision of TA has continued, with the latest mission taking place in November 2012.

As part of the 2006 Policy Paper, an action plan for implementing CS was drafted and approved by CBK. The project's implementation has been monitored with reference to that action plan, which has been periodically updated.

The following missions have been undertaken to date to deliver TA under this project:

1. March 2006: Initial advice on CS, drafting of Policy paper, and introductory training.
2. March 2007: Drafting of MoUs, enabling amendments to Banking Act, and outline of CS operations manual.
3. April 2008: Assess progress, finalize selected MoUs, draft supervisory manual, and presentation to regulators.
4. March/April 2009: First on-site pilot for implementing CS.
5. February 2011: Second on-site pilot for implementing CS.
6. March 2012: Framework for Supervisory College for a pilot bank.
7. September/October 2012: Training of CBK staff, participation in Supervisory College meeting, and preparation for third pilot on-site CS inspection (Supervisory College pilot bank).
8. November 2012: 2 week mission by STX to follow up on findings of October Supervisory College mission and provide TA on on-site inspections/offsite group analyses. Also, review of implementation of CS to date and TA needs going forward (2-day fact finding mission undertaken by RA. Not separately evaluated).

The following table summarizes the main activities and outputs on the project to date:

Mis-sion	Dates	Inputs	Activities	Outputs	Notes/Comments
1.	Mar 2006	2 weeks STX	<ol style="list-style-type: none"> <li>1. Advice on CS.</li> <li>2. Drafting of documents.</li> <li>3. Training of BSD staff on CS.</li> </ol>	<ol style="list-style-type: none"> <li>1. Policy paper and roadmap for introducing CS.</li> <li>2. Training material.</li> <li>3. Mission Report.</li> </ol>	<ol style="list-style-type: none"> <li>1. No documentation was available for this mission</li> <li>2. It appears that the Policy paper was presented to CBK senior management in April 2006, and was approved. We have reviewed that Policy paper.</li> </ol>
2.	Mar 2007	1 week STX	<ol style="list-style-type: none"> <li>1. Drafting various documents.</li> <li>2. Provision of advice.</li> </ol>	<ol style="list-style-type: none"> <li>1. Status Report on action plan implementation.</li> <li>2. Prudential reporting requirements.</li> <li>3. Draft MoUs for a) Capital Markets Authority; b) Insurance Regulatory Authority; c) model for foreign supervisors.</li> <li>4. Drafting suggestions for revised Banking Act.</li> </ol>	<ol style="list-style-type: none"> <li>1. Items 4. and 5. were not included in the initial ToRs, but were provided during the mission as need was identified.</li> <li>2. Full roll-out postponed to end 2008 (from September 2007).</li> </ol>

Mis-sion	Dates	Inputs	Activities	Outputs	Notes/Comments
				5. Outline of CS implementation manual. 6. Mission Report.	
3.	Apr 2008 (post-poned from Jan/ Feb 2008 due to post-election disturbances)	2 weeks STX	1. Prepare report on progress with the agreed action plan. 2. Review and provide input on the MOUs under discussion with other domestic and foreign supervisory authorities. 3. Review a sample of supervision reports for banks belonging to groups. 4. Assist in completing the necessary policies and procedures for CS. 5. Participate in a meeting involving the CBK, Capital Markets. Authority and Insurance Regulatory Authority to advance CS. 6. Conduct a three day training seminar for CBK staff and staff of the Bank of Tanzania ('BoT') and Bank of Uganda ('BoU').	1. Report on progress against action plan. 2. Revised MoU with domestic and foreign supervisors. 3. Guidelines for interim implementation of CS. 4. Presentation to Kenyan regulators on implementing MoUs. 5. Initial draft of CS supervision procedures manual. 6. Training on CS to CBK staff on application of principles and techniques of CS, using Kenyan/African examples 7. Self-assessment against BCPs 24 and 25. <sup>27</sup> 8. Mission Report.	1. Given delays in passing of the legal amendments, consultant recommended implementation of elements of CS not dependent on it. He provided guidelines for implementation to enable the above. 2. Implementation roll-out date moved to 2009 (from 2007). 3. A TAIMS log-frame was produced for the mission. The objective was set at introducing CS, but the activities/outputs were only for the April 2008 mission – there was no logical connection between the outputs and objectives/outcomes. 4. BoT staff attended the training, but BoU was not represented. 5. We did not have access to presentations delivered as part of the mission and were therefore unable to review them.
4.	Mar/ Apr 2009	2 weeks STX	Provide technical support to CBK examiners in: 1. Final preparations for the on-site inspection. 2. Conducting the on-site inspection. 3. Initial drafting of the inspection report.	1. On-site examination report from CBK staff that takes a consolidated view of a financial group. 2. Various notes using actual data to illustrate various aspects of group analysis. 3. Presentation to BSD. 4. Mission report.	1. Items 2. and 3. were not required in the ToRs. 2. Pilot highlighted: a) the need for more detailed advanced off-site preparations; b) need to review/finalize CS policies/procedures; and c) weaknesses due to non-updating of Banking Act.
5.	Feb 2011	1 week RA 2 weeks STX	Follow-up on 2009 mission and provide technical support to CBK examiners in second pilot in: 1. Final preparations for the on-site inspection. 2. Conducting the on-site inspection.	1. Group Overview document outlining the pilot bank's group structure for future group analysis. 2. Presentation on findings of on-site inspection and recommendations for full implementation of CS to BSD	1. This participation in second pilot inspection was partly necessary due to staff turnover since the March/April 2009 pilot. 2. The work complemented RBS inspection done by the STX with CBK in an August 2010

<sup>27</sup> Not specifically included in ToRs, but part of progress report.

Mis-sion	Dates	Inputs	Activities	Outputs	Notes/Comments
			3. Initial drafting of the inspection report.	<p>staff.</p> <p>3. Initial draft of an inspection program for group risk.</p> <p>4. Mission Report, with key recommendations.</p>	<p>mission.</p> <p>3. Some pre-inspection planning and preparation needs highlighted in the first pilot were repeated.</p> <p>4. CBK urged to integrate CS into its normal banking supervision practices despite legal amendments not being passed.</p>
6.	Mar 2012	2 weeks STX	<p>The mission's work was to be guided by the requirements of CPs 24 and 25 and the guidance outlined in Basle Committee's October 2010 publication "Good Practices on Supervisory Colleges". It also considered the proposed new and revised criteria of CP 12: Consolidated Supervision, and CP 13: Home-Host Relationships, in the December 2011 consultative draft of the revised BCPs.</p> <p>Specific activities:</p> <ol style="list-style-type: none"> <li>1. Discuss with the authorities to ascertain their objectives in establishing a Supervisory College.</li> <li>2. Review available information on the target banking group.</li> <li>3. Review the current legal and regulatory framework in Kenya as well as existing mechanisms and instruments for supervisory cooperation to assess their effectiveness in the context of the operations of a Supervisory College and to identify any gaps that may need to be addressed.</li> </ol>	<p>Report with recommendations to the CBK on initial measures to establish a framework for a Supervisory College, including:</p> <ul style="list-style-type: none"> <li>▪ A statement of objectives</li> <li>▪ Possible structure</li> <li>▪ Mechanism to determine eligibility for membership</li> <li>▪ Amendments to the legal and regulatory framework</li> <li>▪ Required enhancements of existing mechanisms for supervisory cooperation</li> <li>▪ A framework for communication between the college and the banking group</li> <li>▪ Initial recommendations coordinate crisis management across the jurisdictions</li> <li>▪ General advice related to the logistical and administrative issues</li> <li>▪ Action plan to implement recommendations.</li> </ul>	<p>The mission was essentially a preparatory one, making recommendations for the framework to be applied for the first Supervisory College meeting in October. It highlighted a new target date for implementation of CS: Operational manual/procedures finalized: June 2013; full implementation of CS: 2015.</p>
7.	Sep/ Oct 2012	2 weeks STX	<ol style="list-style-type: none"> <li>1. Provide highly customized training on CS for 30 BSD officers.</li> <li>2. Support the CBK with the inaugural Supervisory College meeting.</li> <li>3. Contribute to preparations</li> </ol>	<ol style="list-style-type: none"> <li>1. Training material (not available/reviewed).</li> <li>2. Mission Report, with action plan.</li> </ol>	<p>Training course received very positive feedback (mostly 4.4-4.6 out of 5) – it was highly tailored to CBK. STX pointed out familiarization with CBK procedures and more preparation time necessary for such courses.</p>

Mis-sion	Dates	Inputs	Activities	Outputs	Notes/Comments
			<p>for upcoming on-site examination of third pilot bank.</p> <p>4. Review progress with CS prudential guidelines and other elements of BSD action plans related to CS.</p>		<p>On-site venue deemed inappropriate – people being called for work-related issues. Amendments to Banking Law passed in October 2012.</p>
8.	Nov 2012	STX 2 weeks, 2 days, RA	<p>Follow-up of October mission on Supervisory College and increase efficiency of the on-site work, for example by taking (and explicit planning for) more time for off-site preparation and analysis and to give upfront clearer guidance to the banks on what is to be expected in terms of information and reporting from their side.</p> <p>RA trip to review progress, attend final meeting of STX mission, and also to discuss future TA needs.</p>	<p>TA report including background notes on a range of pilot bank group issues and risks, including quantitative and qualitative assessments. These notes were included with the working papers of the examination to support the assessment of bank's group structure and risks, and group dimensions of specific modules, in the examination report.</p> <p>Presentation to 30 members of BSD staff on key supervisory issues/risks relating to pilot bank.</p>	<p>The main recommendation of the mission was to improve the efficiency of the onsite through more offsite preparation and clearer guidance to banks on their reporting.</p> <p>Although Parliament passed amendments to Banking Law to enable CS, President had not signed it (because of amendments included in politically contentious Finance Bill).</p> <p>Further TA needs identified, but STX concluded: 'The CBK is now very well positioned to achieve its objective of fully embedding consolidated supervision into the risk-based supervision framework by 2015.'</p>

## 6.4 PROJECT OUTCOMES

There were no outcomes defined for the project *ex-ante*. Based on the outputs, and a wider review of the project’s documentation, we have established the following principal outcomes:

Outcomes			Indicator <sup>28</sup>	Sources of Verification
Short-term (Up to 1 year)	Medium-term (2-3 years)	Long-term (4-10 years)		
Policy paper and roadmap for implementing CS approved by CBK management.			Approved Policy paper and roadmap.	TA progress reports.
Amendments to Banking Act approved by CBK and stakeholders and presented to parliament.			Draft evidencing proposed amendments approved for Parliament and presented to Cabinet Office.	CBK internal reports, TA progress reports.
	Amendments to Banking Act passed.		Enacted updated Banking Act.	Government Gazette, TA progress reports.
Enabling guidelines and regulations passed and implemented.			CBK list of regulations and guidelines.	CBK published guidelines/regulations.
MoUs with all domestic regulators executed and implemented.			Approved MoUs.	Review of approved MoUs, TA progress reports, inter-agency communications evidencing implementation.
	MoUs with all key foreign supervisors agreed and implemented.			Review of approved MoUs, TA progress reports, inter-agency communications evidencing implementation.
	CBK BSD Operational Manual for implementing CS finalized and implemented.			Review of approved manual, internal CBK reports on implementation, inspection of surveillance reports.
	CS pilot inspections conducted and lessons incorporated.			Review of inspection reports.

<sup>28</sup> Indicators would also have pre-specified dates. We have excluded these given the ex-post nature of the exercise. Where the Outcome spans a period (e.g., a number of MoUs to be agreed, staff capacity building, etc.), periodic benchmarks would be expected.

Outcomes			Indicator <sup>28</sup>	Sources of Verification
Short-term (Up to 1 year)	Medium-term (2-3 years)	Long-term (4-10 years)		
	Pilot Supervisory College established.			Documents establishing College, review of minutes.
	Supervisory Colleges rolled-out and working effectively.			Review of documents evidencing functioning of Supervisory College.
Staff capacity built to implement CS.				TA progress reports, assessment of quality of on-site and off-site reports/analyses, incidence of bank failures.
	Enhanced compliance with BCPs 24 and 25.			FSAPs, self-assessments, IMF reports.
		Full compliance with BCPs 24 and 25.		FSAPs, self-assessments, IMF reports.
			Improved Financial Sector Stability Indicators.	Trends in relevant published FSIs.

## 6.5 EVALUATION RATINGS

Key Evaluation Questions	Comments
<b>RELEVANCE</b>	
<b>Consistency with Program Document and Government Priorities</b>	
Consistency of activity with Program Document, AFE strategy, and approved work plan.	2009 Program Document specifically mentioned further support to CBK on CS.
Consistency of intervention(s) with national/regional priorities:	
<ul style="list-style-type: none"> <li>o Extent to which activity is linked to and supports national/regional strategy (if one exists – e.g., PRSP);</li> </ul>	<p>The entire region, especially EAC central banks, is implementing RBS, and CS within its context. It's clearly a regional financial supervision priority. Activity is too remote from PRSP to appear in it. CS is an important area for strengthening supervision given trends in regional banking sectors, although no explicit regional strategy exists. CS is important cornerstone of CBK/BSD's institutional development strategy.</p>
<ul style="list-style-type: none"> <li>o Extent to which activity is linked to and supports sector/topical reform strategy (if one exists);</li> </ul>	
<ul style="list-style-type: none"> <li>o Extent to which strong country/institutional ownership of activity has been demonstrated.</li> </ul>	
Whether the activity is appropriately sequenced, given the completed/outstanding reform needs for that sector/institution:	<p>Sequencing is appropriate, especially given the context of introduction of RBS and the sequenced nature of implementation of CS, starting from needs analysis survey, etc. BSD staff appears to have appropriate capacity for the work, although no evidence on paper that AFE assessed this at the outset.</p>
<ul style="list-style-type: none"> <li>o E.g., appropriateness of project expected outcomes given country/institutional absorptive and implementation capacity.</li> </ul>	
<b>Consistency with IMF Headquarter/other activities</b>	
Whether activity is appropriately focused in terms of subject area, taking into account the IMF's expertise, and integration with HQ and other Fund activity (e.g. other training and TA delivered including through the topical trust funds).	<p>Given the implementation nature of the TA, this falls within the remit of AFE. Between 2006 and 2011, IMF HQ MCM staff undertook 11 missions, covering areas such as general banking supervision, stress testing, capital charge for market risks, and deposit insurance. No IMF TTF is focused on this activity.</p>
<b>Coordination with Development Partners</b>	
Whether the intervention has been effectively coordinated with and complements the work of other development partners.	<p>There is no evidence of pro-active donor co-ordination. No other donor has been providing TA to CBK on CS. Recent TA requests provide for information on other donors (World Bank appears to be undertaking 'Review of Banking Legislation'), but no evidence of overlap. Perhaps consideration could be given for engaging with other donor(s) for capacity building training, etc.</p>
<b>Context of donor/TA landscape of AFE TA</b>	
Why did the TA recipient choose the AFE as the TA provider as opposed to other donors?	<p>AFE has been the principal TA provider assisting on banking supervision to CBK since the former was established, so this is a natural progression.</p>
How do workshop participants compare those provided by AFE with workshops from other donors?	N/A
<b>Score for Relevance</b>	<b>3.8 Excellent</b>
<b>EFFECTIVENESS</b>	
<b>Impact</b>	
Intervention's expected Impact achieved or likely to be achieved (to the extent defined in the activity's logframe).	<p>Impact-level indicators would be <i>inter alia</i>: a) financial sector deepening measures; and b) GDP/income per capita. Given the project's implementation is still in progress, it is too early to assess its impact.</p>
<b>Outcomes</b>	

Key Evaluation Questions	Comments
<p>Intervention's outcomes achieved or likely to be achieved (as defined in its logframe): Short, medium and long term outcomes.</p>	<p>A number of the project's short-term outcomes have been achieved, and relatively rapid progress has been made latterly on medium-term outcomes. The CS Policy paper and implementation plan was approved and is now embedded in the CBK's medium-term strategic plan. The legislative amendments were passed in October 2012. Of the medium-term outcomes, MoUs have been agreed with all three domestic regulators: the Capital Markets Authority, the Retirement Benefits Authority and the Insurance Regulatory Authority and the framework for their implementation is being developed and implemented. MoUs have also been signed with seven foreign banking supervisors, with discussions progressing with four others (out of 11 identified as important at the outset). Pilots, as outlined in Section 6.3 above, have been carried out. Compliance with BCP 24 and 25 has been enhanced. Full compliance will require <i>inter alia</i> roll-out the program tested in the pilot to other banks and also further development and roll-out the CS on groups with mixed activities.</p> <p>The achievement of the outcomes to date, however, has suffered delays, for reasons outlined previously. The original target for CS roll-out was 2007, and this is now targeted for 2013. The CBK was keen to stress that this delay was not attributable to AFE. The STX's recommendation to proceed with CS implementation without the legislative amendments was not fully adopted by CBK. The high turnover of staff has also meant the loss of know-how and further substantial capacity building remains necessary. Some of the recommendations, such as better off-site planning/preparation for pilot inspections have not yet been fully implemented. There are also some risks associated with regional supervisors not being able to cooperate fully in meeting their responsibilities to make CS work effectively. Nevertheless, we understand that at a recent African banking supervision conference together with South Africa, Kenya was highlighted as one of the leading countries in the implementation of CS.</p> <p>Given the traction achieved since 2011 and the pace and methodical approach to implementing CS, it is likely that it will be fully implemented. However, given the record to date, it is difficult to be certain about the likely timing. The score for outcomes reflects the delays in implementation to date.</p>
<p>Significance of AFE's contribution/likely contribution to developing core economic functions and institution building in the country/region, through the activity.</p>	<p>This project is part of a series of CS implementations being carried out throughout the region. The continued roll-out of CS will also be an important part of the work-program 2013/14. Regional attachments are part of this. Malawi had an attachment to South Africa with regard to CS in 2012/13.</p> <p>The Supervisory College, being attended by regulators from other regional/EAC countries, has for example given opportunity for joint training and capacity building.</p>
<p><b>Score for Outcomes</b></p>	<p><b>3.6 Excellent</b></p>
<p><b>Outputs</b></p>	
<p>Intervention's outputs achieved or likely to be achieved (as defined in its logframe), including:</p> <ul style="list-style-type: none"> <li>o Timeliness of reports/workshop presentations;</li> <li>o Quality of reports/workshop presentations;</li> </ul>	<p>Overall, the outputs produced were delivered in a timely manner. Our review of the outputs (we reviewed all except some training presentations) suggested that they were of very high quality, with clear, concise</p>

Key Evaluation Questions	Comments
<ul style="list-style-type: none"> <li>○ Appropriateness/applicability of advice, given existing capacity/constraints;</li> <li>○ Whether outputs are likely to produce intended outcomes.</li> </ul>	<p>recommendations. We consider the advice delivered to have been relevant, with full consideration of the CBK, the Kenyan and the regional banking sectors. The fact that the consultant has been providing TA for the AFE to the CBK and other regional central banks for an extended period contributed to this factor.</p> <p>CBK had requested the attachment of a member of staff with the South African Reserve Bank. This has not been achieved to date.</p>
<b>Score for Outputs</b>	<b>3.8 Excellent</b>
<b>EFFICIENCY</b>	
<b>Process and implementation efficiency</b>	
TA/workshop design has been efficiently carried out;	It is difficult to assess this fully, as there was no framework for TA for the entire extended project produced at the outset. On CBK's part, a project team from BSD staff was established, and it took ownership and responsibility for implementing project tasks. However, departmental restructuring meant continuity was lost, although this has now been re-established. There was no evidence of any risk assessment or budgeting of potential effort.
Timeliness in executing the activity;	There have been delays in delivering/implementing TA, but for reasons beyond AFE's control. There is evidence that the AFE reacted relatively quickly when TA was requested.
Appropriateness/effectiveness of IMF's internal management of the activity;	Briefing Papers were focused. No other documented evidence exists, but quality and timeliness of outputs suggests management was appropriate.
Appropriateness of selection of counterpart/workshop participants (as relevant);	It seems that training workshops were delivered to relevant CBK BDS staff.
Quality and timeliness of management and backstopping in relation to activity;	More inputs from RA than HQ (as to be expected). Where evidence was available, substantive input from backstopping was not evident. However, the fact that the STX is an ex member of IMF staff would have reduced the need for backstopping.
The efficiency of planning and executing the TA/training delivery.	Briefing Papers appear to have incorporated CBK inputs and were generally focused and relevant. Some of the activities, such as developing tailored training workshops, and assisting with pilots (offsite analysis/preparation) could probably have benefited with greater inputs.
<b>Efficient use of resources (human and financial) and attention to cost effectiveness</b>	
Appropriateness of staffing composition for the intervention;	The TA was almost entirely delivered by an STX with extensive Kenyan and regional expertise. CBK are extremely happy with his involvement. The only regional country ahead of Kenya in CS is South Africa, where an attachment is planned for the FY 2013.
Appropriateness of work allocation between HQ and AFE in relation to activity;	Given the implementation nature of the project, most of the work was appropriately led by AFE.
Whether expenditures have been in line with activity budget and evidence of analysis of variances;	No evidence of recording project-specific costs or variance analysis.
Whether activity, given its results, has been cost-effective compared to other TA delivery modes, given results;	Given 12/14 weeks of STX mission time over 7/8 missions to date, plus preparation and report writing time (estimated at a further 10-12 weeks), this work appears to have been cost effective in light of the results achieved to date and likely to be achieved in the future. However, given no accounting of total costs of the intervention in this project exists, we cannot assess this with certainty.
Whether opportunities for efficiency gains during the intervention have been considered and explored.	No evidence of this having taken place.
<b>Monitoring and reporting</b>	

Key Evaluation Questions	Comments
Evidence of effective use of self-evaluation (i.e. monitoring) and reporting to improve the efficiency and effectiveness of activity;	There is no evidence of this at the AFE level. The STX however diligently monitored progress in implementing past recommendations and updated action plan with clear tasks and deadlines at the end of every mission.
Effectiveness in making use of TAIMS to monitor and manage project/workshop;	As highlighted in the context of the third mission, a TAIMS report was produced for the mission, albeit it was logically inconsistent. No other evidence exists of TAIMS having been used.
Effectiveness/progress in use of RBM and its usage in managing the intervention.	RBM has only recently been implemented in AFE. No evidence exists of its formal use during the project. Briefing Papers included activities and outputs. To the extent that the STX monitored progress in implementing recommendations/milestones, it can be seen to have been a proxy for RBM.
Incorporation of lessons learnt in project design and implementation.	No evidence of formal extraction/usage of lessons learnt. Nevertheless, we understand that FY 2013 missions with regard to CS will probably be going to Uganda and Tanzania. When starting the lessons learned from the Kenya example will be taken into account, especially if it is implemented by the same STX.
<b>Score for Efficiency</b>	<b>3.4 Good</b>

<b>SUSTAINABILITY</b>	
<b>Sustainability of TA activity</b>	
Outcomes from intervention will last beyond/continue after completion of TA/training.	Given the entrenchment of implemented TA on CS to date, and given current pace of progress and commitment, the intervention is likely to be sustainable. However, staff turnover at BSD poses some risk to this, as does the capacity of regional supervisors to meet their responsibilities in implementing the framework.
For TA/training designed to deliver Sustainability, local institutions/ capacities have been strengthened to sustain results beyond the life of the intervention:	There has been progress in this area, but has been hampered by staff turnover in BSD. Based on AFE's recommendations, AFE has identified two members of staff to be trained to deliver training to other CBK staff. Other approaches to ensure sustainability, e.g., having two teams conducting pilot inspections in parallel, are also being implemented. An operations manual is also being finalized. However, especially given pay differentials between CBK and the banking industry, risks of high staff turnover remain, albeit not disproportionately high for the region.
o E.g., absorptive capacity improved and developed to sustainable level;	Further training is planned to achieve sustainability.
o E.g., in-house training capacity built, where relevant.	See above.
For interventions designed to deliver sustainability, financial sustainability has been achieved (i.e., recipients will be implement the advice from own/other financial resources in a sustainable manner).	The CBK has adequate financial resources to continue implementing the project.
Effectiveness in maintenance and use of institutional memory relating to the activity	This has been hampered by high staff turnover in the past. The development of an operations manual, and the initiatives highlighted previously should facilitate this process.
<b>Contribution to building sustainable regional TA, implementation capability.</b>	No specific initiatives in this regard to date. However, the fact that CS is being implemented in other countries in the region, and the interactions resulting from implementing MoUs, combined with future planned joint training (some have already taken place) should contribute to this objective.
<b>Score for Sustainability</b>	<b>3.5 Good</b>

### Rating Based on Previous Evaluation Methodology

DAC criteria	Sub-criteria	Score	% weight	Weighted score	% weight	Total score	Rating
<b>Relevance</b>	Consistency with Program Document and Government Priorities	3.8	60%	2.28	<b>32%</b>	<b>1.22</b>	
	Consistency with IMF Headquarter/other activities	3.9	20%	0.78			
	Co-ordination with Development Partners	3.7	20%	0.74			
				<b>3.80</b>			<b>Excellent</b>
<b>Effectiveness</b>	Impact		-		<b>28%</b>	<b>0.98</b>	
	Outcomes: TA	3.6	30%	1.08			
	Outcomes: Regional capacity building	3.0	30%	0.90			
	Outputs	3.8	40%	1.52			
				<b>3.50</b>			<b>Good</b>
<b>Efficiency</b>	Process and implementation efficiency	3.6	40%	1.44	<b>22%</b>	<b>0.76</b>	
	Efficient use of resources (human and financial) and attention to cost effectiveness	3.5	40%	1.40			
	Monitoring and reporting	3.0	20%	0.60			
				<b>3.44</b>			<b>Good</b>
<b>Sustainability</b>	Sustainability of RTAC/TA activity	3.6	75%	2.70	<b>18%</b>	<b>0.60</b>	
	Contribution to building sustainable regional TA, implementation capability	2.5	25%	0.62			
				<b>3.32</b>			<b>Good</b>
<b>TOTAL</b>						<b>3.56</b>	<b>Good</b>

## 6.6 KEY FINDINGS AND RECOMMENDATIONS

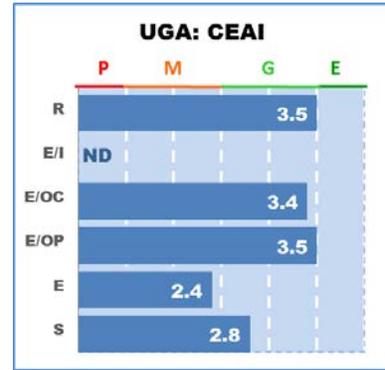
1. Even if delays do not occur, implementing initiatives such as CS are multi-year undertakings and need to be planned accordingly.
2. Having the same STX over the entire project implementation period, especially his other banking supervision TA activities in the region, considerably facilitated the project.
3. In some situations, such as preparing tailored training material, or supporting preparation for on-site inspections, there needs to be allowance made for additional time requirements.
4. In a region such as EAC, with considerable interactions between the banking industries, supervisory capacity needs to be built on a regional/multi-country basis.
5. The fact that implementation of CS was incorporated in CBK’s organizational strategy facilitated ownership, commitment and also provided an embedded mechanism for monitoring progress.
6. Hands-on TA, such as joining in on inspection planning and execution, and participation in Supervisory Colleges, is critical in implementing new approaches.

## 7. UGANDA: STRENGTHENING COMPOSITE ECONOMIC ACTIVITY INDICATOR

### 7.1 INTRODUCTION AND SUMMARY OF RESULTS

The above project was selected for ‘desktop sample’ review, in accordance with the methodology set out both in our technical proposal and in the Evaluation’s Inception Report. The evaluation was carried out primarily based on:

- Project-related documentation available at AFE (Briefing Paper, *aide memoire* and BTO);
- Survey feedback from the Bank of Uganda (‘BoU’) relating to the project; and
- Written feedback on specific questions from the TA beneficiary<sup>29</sup>.



The project arose from a request by the BoU to assess its Composite Economic Activity Indicator (‘CEAI’), which it had developed in-house, and recommend any improvements. The TA was carried out by the AFE Macro-Fiscal RA, and a STX, primarily during one two-week mission in August 2012. The team found that the existing CEAI was producing forecasts that were less accurate than random, and suggested various improvements to develop an alternative, more accurate indicator. They left behind an Excel based forecasting tool, a manual and provided training on its use. The BoU staff has adopted the tool, and is using it to produce monthly forecasts that are being used for its publications. They indicate further work is needed to improve its accuracy.

Our rating for the project reflect: a) the close alignment between BoU and AFE objectives and the ownership demonstrated to date by BoU staff; the high quality of the TA report and its recommendations (albeit we would have expected an implementation plan as part of the recommendations); the fact that recommendations are being implemented, albeit without more structured support from the AFE; and the lack of monitoring of implementation.

### 7.2 BACKGROUND<sup>30</sup>

An AFE macro fiscal mission conducted in December 2011 provided assistance to the staff of the Macroeconomic Policy Department (‘MPD’) of the Uganda Ministry of Finance, Planning, and Economic Development (‘MOFPED’) in the use of high frequency indicators for the monitoring of the budget and the macroeconomic framework. In the context of that mission’s work, and further to a meeting with the AFE Centre Coordinator in Kampala, the BoU requested assistance from the Fund to examine and recommend improvements on the compilation of the CEAI’, a work in progress by the BoU.

<sup>29</sup> Respondent indicated that he was providing his personal opinion, and not necessarily that of the BoU.

<sup>30</sup> This section has been drawn principally from the mission’s Briefing Paper.

The project’s purpose was to examine the quality of the CEAI for monitoring and forecasting of economic activity and GDP, and recommend appropriate improvements as necessary. The CEAI being used had been developed by BoU staff in 2011, without TA from outside agencies. The mission was also to consider the statistical requirements for developing improvements to the CEAI, which potentially would include the basis on which new methodologies, indicators and surveys could be taken forward. In addition, the mission would provide some training in time series analysis techniques including forecasting to staff from the MPD.

As wider capacity building efforts in macro fiscal analysis (including the topic of the project being evaluated), the AFE in coordination with MOFPED provided two two-week macro fiscal training workshops, in April 2011 and October/November 2011 respectively, each to approximately 35 staff from MOFPED, BoU, Uganda Bureau of Statistics (‘UBOS’), and staff from other line ministries and Prime Minister’s Office. The training was on time series analysis, forecasting techniques, Arima models, preparation of a consistent macroeconomic framework, interactions between fiscal policy, and monetary and exchange policies, and identification of fiscal risks.

### 7.3 AFE TECHNICAL ASSISTANCE

In the context of the above background, the TA involved the AFE mission carrying out the following activities and producing the outputs outlined in the following table:

Mis-sion	Dates	Inputs	Activities	Outputs	Notes/Comments
1.	Aug 2012	2 weeks, 1 RA and 1 STX	<p>Working with staff of the BoU and other agencies, as appropriate to:</p> <ol style="list-style-type: none"> <li>1. Examine data sources and methodologies used by the Macroeconomic Statistics Division UBOS to compile quarterly GDP estimates and data sources.</li> <li>2. Assess the raw data and set of indicators required for projecting quarterly GDP.</li> <li>3. Advise on the appropriateness of the current methodology for forecasting GDP using the CEAI and make recommendations for improvements in methods and data sources.</li> <li>4. Training in time series analysis including forecasting techniques.</li> </ol>	<p>A BTO outlining the training results, key issues, and recommendations regarding the further developments needed to support improvements to the CEAI.</p> <p>Although the Briefing Paper envisaged only a BTO, in fact an <i>aide memoire</i> was also produced.</p> <p>See below for additional information on specific outputs.</p>	<p>The BTO suggests that the mission recommended that the BoU monitor the performance of the ‘optimal model’, and potentially other models developed using the production tool, during the subsequent 6-9 months. BoU should establish a “real time database” of the estimates (essentially, snapshots of each model each month). This would provide the basis for a formal assessment of the forecast and revisions performance of an optimal model and enable the results to be presented together with an empirical confidence bound.</p>

The CEAI being used by the BoU was based on the standard US Conference Board Methodology ('CBM'). Its development followed an assessment by the BoU of the available high frequency indicators in Uganda at that time. This selection was based on consideration of around twelve indicators together with three deflators, and a desire to build a model based entirely on 'expenditure variables' (due to their more timely availability).

The AFE mission explored the availability of additional high frequency indicators that might be relevant for inclusion in the CEAI, and considered around forty potential candidate indicators, as well as introducing additional deflator series. This led to the development of an 'optimal' CEAI model based largely on indicators related to the 'production approach' on the measurement of economic activity.

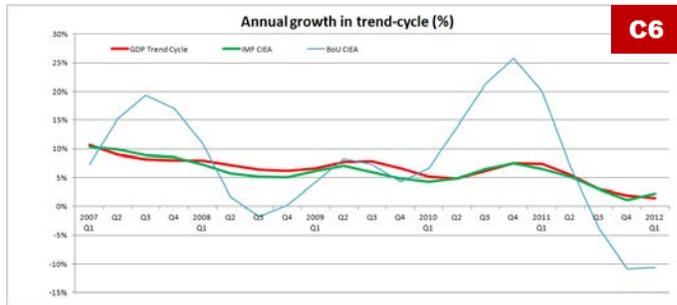


Chart 4 opposite compares the estimate of annual growth in the trend-cycle of QGDP with the CEAI based on the BoU's then current model ('BoU CEAI'), and the 'optimal' IEA developed during the AFE mission ('IMF CEAI').<sup>31</sup> The IMF CEAI clearly demonstrates a better fit with actual data and provides a more reliable tool for economic projections. A chart showing trends in quarterly IMF CEAI and real GDP showed a similarly good fit.

The mission concluded that 'Even as a qualitative measure of the level of activity relative to the trend, the existing CEAI performs less well than a purely random model. For example, in the 23 quarter on quarter changes in GDP over the period Q2 2006 - Q1 2012, on only 11 occasions does the sign of growth in the CEAI relative to its trend correspond to the equivalent for GDP.'<sup>32</sup> The mission additionally identified various problems with the data included in the model, which was outlined in the *aide memoire*.

In addition to recommending various fixes to the data quality issues,

- The mission recommended a revised list of indicators to be used for constructing the CEAI;
- Developed a MS Excel tool to enable the testing of different CBM models using the recommended data, and to support the on-going production of the CEAI each month;
- Prepared a full systems and methods document (essentially, a 'manual');
- Proposed various methodological improvements;
- Recommended a range of diagnostics to support the quality assurance of the CEAI.

In addition to the TA, three full days of training were provided to 13 staff of the Statistics and Research Departments of the BoU on the use of various statistical tools and models underlying the development of the CEAI, and benchmarking of the CEAI to quarterly GDP.

<sup>31</sup> Source of Chart: AFE mission *aide memoire*.

<sup>32</sup> Mission *aide memoire*.

The mission recommended that the BoU monitor the performance of the optimal model, and potentially other models developed using the production tool, during the next 6-9 months. BoU should establish a “real time database” of the estimates (essentially, snapshots of each model each month). This would provide the basis for a formal assessment of the forecast and revisions performance of an optimal model and enable the results to be presented together with an empirical confidence bound.

Although no follow-on TA was proposed in the BTO, we understand that the following is planned or likely to take place:

- AFE has financed the travel of the head of the macroeconomic division of the BoU to attend a course on time series analysis at the Bundesbank, in January 2013.
- There might be a follow-up mission by the STX before the end of FY2013 or in FY2014, to monitor the implementation of the CEAI and provide further training and TA.

## 7.4 PROJECT OUTCOMES

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AFE’s 2013 work plan provides the ‘Objective’ of the project as: ‘Improve forecasting of macroeconomic variables, including through identification and use of high frequency indicators’. Indicators for monitoring this are defined as:

1. Improved macroeconomic monitoring and analysis by staff.
2. Actions taken to improve the use of high frequency indicators for macroeconomic monitoring.

Our general comments on the AFE logframe are presented elsewhere in the Report.

Our assessment of the project’s outcomes is presented below.

In the longer-term, the project would contribute to more effective economic management as an outcome and therefore produce impacts of higher economic growth and poverty reduction in Uganda.

In the medium-term (2-4 years), the direct outcome of the project would be for staff at the BoU to produce CEAI’s that better predict economic activity by applying the AFE recommended CEAI, with updates/modifications they have produced.

Given the project only took place in August 2012, it is too early to assess medium- and long-term outcomes.

We expect the short-term outcomes of the project to be:

1. Approval of the IMF CEAI, or a more appropriate variation thereof, by BoU staff as a tool to develop high frequency composite indicators, including the list of indicators (or variations thereof) recommended by the TA.
2. Use of the MS Excel tool developed by the mission to produce CEAI.
3. Use of the systems and methodology document left by the mission.
4. Implementation of the various methodological improvements recommended by the mission.
5. Use of the recommended diagnostic tools to improve data quality.

We understand from the BoU that all the short-term outcomes, apart from the first one, have been achieved. The CEAI is being used by BoU staff to produce monthly data series, which are published. A presentation of the IMF CEAI to senior BoU staff was planned in January 2013, to explain the underlying methodology, and seek formal approval.

No formal follow-up or monitoring of implementation by AFE has taken place (partly attributable to the departure of the RA at the end of December 2012), but BoU staff has maintained contact with the STX, who has been advising the team informally whenever they experience any problems with the CEAI model.

## 7.5 EVALUATION RATINGS

Key Evaluation Questions	Comments
<b>RELEVANCE</b>	
<b>Consistency with Program Document and Government Priorities</b>	
Consistency of activity with Program Document, AFE strategy, and approved work plan.	TA on practical aspects of the development of reliable economic indicators is at the core of AFE's strategy. It has been implemented in a number of regional countries. The TA was included in the AFE FY2013 work plan.  However, feedback from the AFE MFA Ra suggests that FAD does not provide TA to central banks.
Consistency of intervention(s) with national/regional priorities:	
<ul style="list-style-type: none"> <li>o Extent to which activity is linked to and supports national/regional strategy (if one exists – e.g., PRSP);</li> <li>o Extent to which activity is linked to and supports sector/topical reform strategy (if one exists);</li> </ul>	There is no national/sector strategy on this topic <i>per se</i> . Nevertheless, CEAI's are an important tool for economic management and the assessment undertaken as part of the AFE TA showed there was an important need to improve its effectiveness.
<ul style="list-style-type: none"> <li>o Extent to which strong country/institutional ownership of activity has been demonstrated.</li> </ul>	BoU has indicated that the assistance was very timely and the team has continued to own the activity of model generation and implementation because it addresses some of its work challenges.
Whether the activity is appropriately sequenced, given the completed/outstanding reform needs for that sector/institution:	Clearly the underlying indicators on which the CEAI is based also need further strengthening. Nevertheless, given the focus of AFE's macro-fiscal activities, this could be seen to be a priority area.
<ul style="list-style-type: none"> <li>o E.g., appropriateness of project expected outcomes given country/institutional absorptive and implementation capacity.</li> </ul>	
<b>Consistency with IMF Headquarter/other activities</b>	
Whether activity is appropriately focused in terms of subject area, taking into account the IMF's expertise, and integration with HQ and other Fund activity (e.g. other training and TA delivered including through the topical trust funds).	Given its practical 'how to' nature, the project complements other IMF work on macroeconomic policy advice, etc.
<b>Coordination with Development Partners</b>	
Whether the intervention has been effectively coordinated with and complements the work of other development partners.	There is no evidence that this was done. AFE is the only TA provider to BoU in this area.
<b>Context of donor/TA landscape of AFE TA</b>	
Why did the TA recipient choose the AFE as the TA provider as opposed to other donors?	We understand that in some ways the TA request came based on a suggestion from AFE.
How do workshop participants compare those provided by AFE with workshops from other donors?	N/A
<b>Score for Relevance</b>	<b>Good 3.5</b>
<b>EFFECTIVENESS</b>	
<b>Impact</b>	
Intervention's expected Impact achieved or likely to be achieved (to the extent defined in the activity's logframe).	Provided further investment made in refining the CEAI and training provided to maximize its effectiveness, it should contribute to more effective economic management and contribute to stronger economic growth and poverty reduction.

Key Evaluation Questions	Comments
<b>Outcomes</b>	
Intervention's outcomes achieved or likely to be achieved (as defined in its logframe): Short, medium and long term outcomes.	BoU expect the CEAI model to help in the generation of reliable monthly , quarterly and annual growth estimates of economic activity.
Significance of AFE's contribution/likely contribution to developing core economic functions and institution building in the country/region, through the activity.	BoU's capacity for economic analysis should improve as a result of the TA. However, sustainable capacity building will need more TA and training over an extended period. There is no provision in the BTO for further activity in this area, but we understand from AFE that this is likely.
<b>Score for Outcomes</b>	<b>Good 3.4</b>
<b>Outputs</b>	
Intervention's outputs achieved or likely to be achieved (as defined in its logframe), including: <ul style="list-style-type: none"> <li>o Timeliness of reports/workshop presentations;</li> <li>o Quality of reports/workshop presentations;</li> <li>o Appropriateness/applicability of advice, given existing capacity/constraints;</li> <li>o Whether outputs are likely to produce intended outcomes.</li> </ul>	<p>We were unable to review all the outputs of the TA, given some of these are embedded in the BoU. Nevertheless, BoU has indicated that the team is now able to have timely reports. The quality of estimates needs improvement but this may or may be a question of the CEAI model but the available indicators. The mission aide memoire is of high quality, with clear analysis and recommendations. However, we would have expected a clear implementation and TA plan as part of the output.</p> <p>The AFE RA has indicated: 'This assistance as was the case for Rwanda on the development of a CIEA was expected to be followed up with additional TA from the Monetary Advisor. FAD expressed that its role was not to assist central banks, so no TA plan could have been prepared in the macro fiscal area. In addition, a TA plan for following up was not applicable because the output and outcome were both achieved as a result of the mission. The mission provided training to the staff in charge of implementing the CIEA and the BoU is compiling and publishing the CIEA following the mission's recommendations.'</p> <p>We were not aware of the FAD restriction on TA being provided to central banks. In which case we question how the initial TA was provided in the first instance. The RA's assertion that no further TA was necessary is contradicted by the fact that the BoU has sought out assistance from the STX informally after the mission was completed and has indicated to us that further training is needed. We understand from the AFE CC that further TA is planned.</p>
<b>Score for Outputs</b>	<b>Good 3.5</b>
<b>EFFICIENCY</b>	
<b>Process and implementation efficiency</b>	
TA design has been efficiently carried out;	This appears to have been broadly the case, although for capacity building projects such as these, we would expect the initial mission to provide a clear implementation plan, identifying further TA needs.
Timeliness in executing the activity;	The activity appears to have been carried out in a timely manner.
Appropriateness/effectiveness of IMF's internal management of the activity;	Little evidence of this.
Appropriateness of selection of counterpart/workshop participants (as relevant);	The members of BoU staff chosen as counterparts were appropriate.
Quality and timeliness of management and backstopping in relation to activity;	Little evidence of this on paper, but given the high quality of the output, likely to have been appropriate.
The efficiency of planning and executing the TA/training delivery.	No evidence of lack of efficiency.
<b>Efficient use of resources (human and financial) and attention to cost effectiveness</b>	
Appropriateness of staffing composition for the	The RA and the STX appear to have been appropriately qualified, based on

Key Evaluation Questions	Comments
intervention;	the outputs and feedback from BoU.
Appropriateness of work allocation between HQ and AFE in relation to activity;	Given the practical nature of the TA, the project was appropriately implemented by AFE.
Whether expenditures have been in line with activity budget and evidence of analysis of variances;	No evidence of budget monitoring by the RA. Plan was for 8 person days of RA time, and 5 days of STX. Actual outturn has been 12 days each.
Whether activity, given its results, has been cost-effective compared to other TA delivery modes, given results;	<i>Prima facie</i> , a four person-week mission is appropriate given the scale of outputs produced. Nevertheless, this ignores follow-up TA and training needed to optimize the effectiveness of the tool.
Whether opportunities for efficiency gains during the intervention have been considered and explored.	No evidence that this was done in respect of TA delivery. The TA itself provided a model to develop CEAs more efficiently.
<b>Monitoring and reporting</b>	
Evidence of effective use of self-evaluation (i.e. monitoring) and reporting to improve the efficiency and effectiveness of activity;	<p>There is no evidence of monitoring implementation after the mission, neither was any provision made for AFE follow-up in the BTO. BoU staff kept in touch with the STX.</p> <p>The RA has commented: 'This assistance as was the case for Rwanda on the development of a CIEA was expected to be followed up with additional TA from the Monetary Advisor. FAD expressed that its role was not to assist central banks, so no TA plan could have been prepared in the macro fiscal area. In addition, no monitoring is applicable in this case because the output and outcome were both achieved as a result of the mission. The BoU is compiling and publishing the CIEA following the mission's recommendations.'</p> <p>In our opinion, evidence suggests that for the CEAI to be effectively implemented, further TA should have been provided, as was evident from the BoU requesting assistance from the STX and the further TA planned.</p>
Effectiveness in making use of TAIMS to monitor and manage project/workshop;	No evidence of TAIMS being used.
Effectiveness/progress in use of RBM and its usage in managing the intervention.	The project was presented as part of the FY2013 work plan, which provided 'objectives' and indicators for the TA. There is no reference to these in the mission Briefing paper or BTO.
Incorporation of lessons learnt in project design and implementation.	The RA has pointed out that the Aid Memoire contains an extensive section with background and approaches used in compiling CIEAs in other countries including in the US.
<b>Score for Efficiency</b>	<b>Modest 2.4</b>
<b>SUSTAINABILITY</b>	
<b>Sustainability of TA activity</b>	
Outcomes from intervention will last beyond/continue after completion of TA/training.	<p>There is a risk that without further TA/training support, outcomes may not be fully realized or be sustainable. Nevertheless, that fact that the BoU team is using the tool, and is committed to its refinement, suggests that the tool is likely to continue to be used. Further TA/training is needed to improve effectiveness.</p> <p>The RA has pointed out: 'This judgment is subjective and has not technical basis. There is no need of additional TA as the methodology was developed and the staff was trained. The BoU adopted the methodology and is publishing the CIEA following all recommendations from the mission.'</p> <p>To us, evidence contradicts the RA's assertion, and BoU has indicated further follow-up was indeed necessary, they reached out to the STX for help, and further TA is planned. The BoU has indicated that the CEAI needs</p>

Key Evaluation Questions	Comments
	further work to be perfected. We do not believe that the RA has demonstrated a realistic appreciation of what can be achieved in one mission.
For TA/training designed to deliver sustainability, local institutions/ capacities have been strengthened to sustain results beyond the life of the intervention:	<p>Training has been provided, both in the use of the tools and on wider macroeconomic analysis. We feel further hands on TA is usually needed over an extended period for such tools to be embedded and their use optimized. As indicated above, we understand that the STX has been informally supporting the implementation and that a further mission is planned in early 2013.</p> <p>The RA has commented: 'Comment is subjective and not accurate. This TA provided a methodology for compiling the CIA and was adopted by the BoU. Not extended period is required in this case and not additional TA follow up to the BoU in this area was envisaged for 2013.'</p> <p>The above statement is contradicted by information we have received from the AFE CC suggesting further TA is indeed planned.</p>
<ul style="list-style-type: none"> <li>o E.g., absorptive capacity improved and developed to sustainable level;</li> </ul>	
<ul style="list-style-type: none"> <li>o E.g., in-house training capacity built, where relevant.</li> </ul>	<p>No evidence of train the trainer activities being carried out.</p> <p>The RA has pointed out: 'Not true. The mission provided training to the technical staff responsible for compiling the CIEA. In January all other staff from the Statistics and Research departments were briefed and documented on the techniques and procedures surrounding the compilation of the CIEA.'</p> <p>We do not believe that the training described above by the RA constitutes a train the trainer approach to capacity building.</p>
For interventions designed to deliver sustainability, financial sustainability has been achieved (i.e., recipients will be implement the advice from own/other financial resources in a sustainable manner).	N/A – the tools recommended do not require a financial investment beyond BoU's resources.
Effectiveness in maintenance and use of institutional memory relating to the activity	No evidence of this. The RA responsible for the TA has now left the AFE. There has been no handover process as his replacement has not yet been identified.
<b>Contribution to building sustainable regional TA, implementation capability.</b>	None.
<b>Score for Sustainability</b>	<b>Good 2.8</b>

### Rating Based on Previous Evaluation Methodology

DAC criteria	Sub-criteria	Score	% weight	Weighted score	% weight	Total score	Rating
<b>Relevance</b>	Consistency with Program Document and Government Priorities	3.7	60%	2.22	<b>32%</b>	<b>1.11</b>	
	Consistency with IMF Headquarter/other activities	3.0	20%	0.60			
	Co-ordination with Development Partners	3.3	20%	0.66			
				<b>3.48</b>			<b>Excellent</b>
<b>Effectiveness</b>	Impact		-		<b>28%</b>	<b>0.93</b>	
	Outcomes: TA	3.4	30%	1.02			
	Outcomes: Regional capacity building	3.0	30%	0.90			
	Outputs	3.5	40%	1.40			
				<b>3.32</b>			<b>Good</b>
<b>Efficiency</b>	Process and implementation efficiency	2.7	40%	1.08	<b>22%</b>	<b>0.55</b>	
	Efficient use of resources (human and financial) and attention to cost effectiveness	2.6	40%	1.04			
	Monitoring and reporting	2.0	20%	0.40			
				<b>2.52</b>			<b>Good</b>
<b>Sustainability</b>	Sustainability of TA activity	2.8	75%	2.10	<b>18%</b>	<b>0.49</b>	
	Contribution to building sustainable regional TA, implementation capability	2.5	25%	0.62			
				<b>2.50</b>			<b>Good</b>
<b>TOTAL</b>						<b>3.08</b>	<b>Good</b>

## 7.6 KEY FINDINGS AND RECOMMENDATIONS

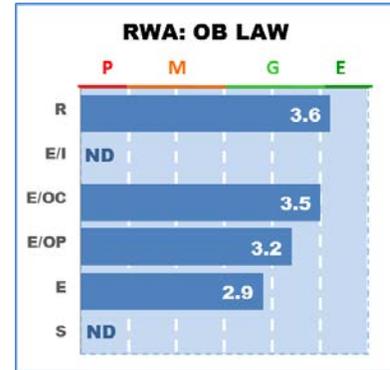
1. We believe that for capacity building projects such as this, one-off TA missions are unlikely to be adequate to optimize effectiveness of the use of tools and deliver sustainability. Follow-up missions should be planned to ensure tools are being used.
2. Similar projects should incorporate development of an implementation plan and a supporting TA and training program as part of the output of the first mission.
3. In addition to the above, a monitoring mechanism is needed to ensure that action plans are being implemented in a timely manner and action can be taken if needed.

## 8. RWANDA: ADVICE ON PROPOSED REVISION OF ORGANIC BUDGET LAW

### 8.1 INTRODUCTION AND SUMMARY OF RESULTS

The above project was selected for ‘desktop sample’ review, in accordance with the methodology set out both in our technical proposal and in the Evaluation’s Inception Report. The evaluation was carried out primarily based on:

- Project-related documentation available at AFE (Briefing Papers, Mission Reports and BTOs);
- Discussions with the responsible AFE PFM RA;
- Survey feedback from the Ministry of Finance and Economic Planning relating to the TA; and
- Written responses from the TA beneficiary on specific questions.



The project involved two missions by the RA (supported remotely by the FAD and an STX), in August and November 2011 respectively, to provide input into the drafting of an Organic Budget Law (‘OBL’) in Rwanda, which seeks to provide for substantial upgrading of the country’s budget framework. Around we understand from the TA beneficiary that around 80 percent of the AFE’s recommendations were incorporated in the draft bill that was presented to the Cabinet. Enactment of the bill, incorporating further amendments, is expected by May-June 2013. Our Evaluation ratings reflect the alignment of the work with AFE and Government of Rwanda (‘GoR’) priorities; the fact that a substantial proportion of the project’s outcomes are expected to be realized; the high quality of advice provided (offset slightly by the fact that not all outputs envisaged were produced, albeit for understandable reasons); and the need for more proactive monitoring of implementation of the OBL (a framework for which is in the process of being implemented at the regional level). We do not consider sustainability to be relevant for the project at this stage.

### 8.2 BACKGROUND<sup>33</sup>

At the time the project was implemented in August 2011, the GoR had undertaken a number of PFM reforms aimed at improving transparency, accountability and efficiency in management of public funds. The GoR had demonstrated a strong commitment to reforming public financial management systems as evidenced by the 2007 and 2010 PEFA. The progress made since 2007 had been supported by the PEFA undertaken in November 2010, in which the scoring improved in several areas since the previous 2007 PEFA. The Organic Budget Law No 37 of 12/2006 on state finances and property had been in place for the previous five years. During the five-year period of implementation, a number of gaps in the management of public finances had been identified. Financial governance structures and processes used to implement the then current law had matured and required the OBL to be revisited.

The GoR initiated a consultative process, led by a private consultant, to collect views to strengthen the public finance legal and regulatory framework. The Accountant General had requested TA from AFE to provide technical inputs needed to revise the existing OBL and quality assurance over changes proposed by government agencies. The mission therefore intended to provide TA on the proposed revisions to the OBL and assist in scoping the related work on updating the financial regulations and accounting manual.

<sup>33</sup> Sections 1.1.1 and 1.1.2 mainly drawn from the mission Briefing Papers.

### 8.3 AFE TECHNICAL ASSISTANCE

The project comprised two missions by one of the AFE PFM RAs:

- The first mission, in August 2011, provided the authorities with practical suggestions for improving the PFM legal framework away from an overemphasis on budget preparation and execution matters to the exclusion of key policy areas such as government business enterprises, enforcement, financial governance, and other non-budgetary entities impacting on fiscal risk management. This mission formed the first part of AFE inputs to this OBL review and, together with comments from FAD, provided assistance in drafting the PFM law on the basis of technical inputs that had been collated during earlier consultative processes.
- The second mission was undertaken in November 2011. The August mission had suggested a number of areas where the proposed OBL should be strengthened. These included: enhancing the definition of PFM roles and responsibilities; expanding the OBL scope to provide accountability principles governing public enterprises; sanctions for non-compliance; supporting an internal audit function; asset management; and codifying some of the current good inter-governmental fiscal relationships. The main objective of the second mission was to work with the drafting team: to incorporate into the proposed OBL those suggested changes which have been accepted by the team; to identify any additional areas that required strengthening in the PFM legal framework; and to equip the team for change managing the consultation process.

We understand that in addition to the RA, remote legal review comments were provided by an STX, who had been involved in the drafting of the Kenyan PFM Act. However, we have not seen any reference to this input in the Briefing Papers or BTOs of either mission.

The following table summarizes the main activities and outputs on the project:

Mis-sion	Dates	Inputs	Activities	Outputs	Notes/Comments
1.	Aug 2011	1 week RA (plus comments on draft law from FAD)	<ol style="list-style-type: none"> <li>1. Providing practical guidance on the appropriateness of suggested changes to the OBL to ensure consistency with proposed business processes and best international practice.</li> <li>2. Assisting the authorities in identifying gaps within the legal and regulatory framework, and the merits of codifying certain practices in the context of operating realities of the country.</li> <li>3. Identifying areas, if any, for additional AFE TA flowing from the proposed</li> </ol>	Report providing: <ol style="list-style-type: none"> <li>1. Commentary on the proposed changes to the OBL.</li> <li>2. Identification of follow-up TA to be provided by AFE and/or others.</li> </ol>	<p>Activities 1., and 2. Were completed. The BTO suggested TA could be delivered for follow-up guidance on the OBL (which was delivered in the second mission). Suggestions were made for assistance with drafting of financial regulations/guidelines flowing from the revised OBL. This is planned for March 2013.</p> <p>We have not seen evidence of the activities relating to point 4: Development of a plan for ongoing support through to promulgation of the revised OBL; and follows up visits to support activities on enhancing the PFM legal and regulatory framework</p>

Mis-sion	Dates	Inputs	Activities	Outputs	Notes/Comments
			<p>revisions to the OBL.</p> <ol style="list-style-type: none"> <li>4. Development of a plan for ongoing support through to promulgation of the revised OBL.</li> <li>5. Follow up visits to support activities on enhancing the PFM legal and regulatory framework.</li> </ol>		(other than the offer of support in relation to the drafting of regulations).
2.	Nov 2011	7 work days RA	<ol style="list-style-type: none"> <li>1. Review comments received from various stakeholders and where appropriate redraft OBL articles to strengthen the proposed OBL and ensure its alignment to the PFM reform agenda.</li> <li>2. Identify any outstanding issues in the proposed OBL where consensus amongst stakeholders had yet to be attained; provide options and recommendations for resolution of those issues.</li> <li>3. Develop a road map, identifying the critical tasks, timeframe and resources for finalization of the OBL and for instituting any resulting changes to the regulatory framework.</li> <li>4. Identify and document possible PFM areas for future AFE technical assistance.</li> </ol>	<ol style="list-style-type: none"> <li>1. An updated version of the revised OBL, including principles and suggested language to strengthen its role as a driver for the PFM reform agenda.</li> <li>2. A brief TA report outlining the following: (i) progress achieved in developing a revised OBL and the steps that remain to be undertaken before it is adopted; (ii) identification of OBL issues which have yet to be resolved, and suggested options; and (iii) Identification of changes in the regulatory framework that will be necessitated by the proposed revision of OBL and strategies for making those changes.</li> </ol>	<p>From the BTO, it appears that activity 1. was completed. With respect of activity 2., areas requiring consensus were identified, but it is not clear whether options and recommendations for resolving them were presented. Although broad suggestions for the next steps were provided, Activity 3, development of a roadmap, was not completed<sup>34</sup>. On activity 4, further TA was proposed to assist MINECOFIN with the discussion draft and compilation of options for financial regulations (as at the end of the first mission).</p> <p>With respect to outputs, we understand that 1 was produced. output 2, the TA report, was not produced.</p>

<sup>34</sup> The mission BTO states: ‘Road map: identifying the critical activities and resources for finalization of the draft PFM was not completed as most significant portion of the time was utilized to provide hands on support to the drafting of the articles in the draft PFM.’

## 8.4 PROJECT OUTCOMES

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The task of progressing from the 2006 law to a new comprehensive OBL in Rwanda appears to be a very major one. In terms of international experience it usually takes two-three years from initiating a review process to getting such a law on the statute book (Sri Lanka three years). In Rwanda this was not being done for the first time in that the 2006 OBL was already on the statute book. However, it would appear from the high level nature of the comments in the TA report that (i) the existing law is highly deficient in that it does not address vary major aspects of the PFM system; and (ii) it is not clear that the process of preparing for new legislation had actually been taken very far forwards by the working group that had been set up internally to make recommendations.

We would expect the main short-term outcomes of the project to be:

1. Draft Bill incorporating AFE's substantive comments accepted by Cabinet.
2. Implementation roadmap presented to MINECOFIN accepted and implementation started.
3. AFE TA plan supporting implementation of OBL agreed and implementation started.

Medium-term outcomes would include:

1. Bill incorporating AFE's substantive comments passed by Parliament.
2. Implementation of milestones arising from the roadmap and TA plans.

Longer-term outcomes would relate to wider PFM associated indicators, such as specific PEFA scores and budget related economic indicators affected by the provisions of the new OBL.

A review of the TA report and the draft OBL submitted to the cabinet suggests that the substantive recommendations were incorporated in that draft. The TA beneficiary has suggested that around 80 percent of the AFE recommendations were taken on board, the remaining suggestions not being consistent with the realities on the ground in Rwanda.

The TA beneficiary has indicated that the revised OBL was approved by Cabinet with amendments (we do not know how substantive these amendments have been). They are now finalizing the required amendments and translations and plan to send it to Parliament by end of February 2013. It is estimated that Parliament will pass it by May-June 2013.

The TA beneficiary has indicated that: 'The benefits of the East AFRITAC TA are very enormous and extremely value adding. It helps mainly when it comes to benchmarking with international or best practices.'

## 8.5 EVALUATION RATINGS

Key Evaluation Questions	Comments
<b>RELEVANCE</b>	
<b>Consistency with Program Document and Government Priorities</b>	
Consistency of activity with Program Document, AFE strategy, and approved work plan.	The project was broadly consistent with the Program Document and AFE strategy. Typically the OBL issues discussed are more legal/policy, rather than implementation oriented. The participation of FAD in the legal review process buttressed the AFE's work.
Consistency of intervention(s) with national/regional priorities:	
<ul style="list-style-type: none"> <li>o Extent to which activity is linked to and supports national/regional strategy (if one exists – e.g., PRSP);</li> </ul>	The updated OBL is considered to be at the heart of the GoR's PFM reform agenda.
<ul style="list-style-type: none"> <li>o Extent to which activity is linked to and supports sector/topical reform strategy (if one exists);</li> </ul>	
<ul style="list-style-type: none"> <li>o Extent to which strong country/institutional ownership of activity has been demonstrated.</li> </ul>	The TA was requested by the Minister of Finance, who is directly responsible for the area. Comments in the TA survey and feedback from the TA beneficiary further support the case for client ownership.
Whether the activity is appropriately sequenced, given the completed/outstanding reform needs for that sector/institution:	The TA recommended the incorporation of various structural/organizational strengthening in the OBL. During the first mission, the AFE provided an outline of a 'generic' organic PFM law to be used to guide the formulation of articles for the revised OBL and as a tool to assess the adequacy and completeness of new and revised articles of the revised draft. We understand that at a later stage, the STX involved in drafting the Kenyan PFM Act also provided input, bringing in regional insights.
<ul style="list-style-type: none"> <li>o E.g., appropriateness of project expected outcomes given country/institutional absorptive and implementation capacity.</li> </ul>	
<b>Consistency with IMF Headquarter/other activities</b>	
Whether activity is appropriately focused in terms of subject area, taking into account the IMF's expertise, and integration with HQ and other Fund activity (e.g. other training and TA delivered including through the topical trust funds).	This appears to be the case.
<b>Coordination with Development Partners</b>	
Whether the intervention has been effectively coordinated with and complements the work of other development partners.	No other donors were involved. However see comments relating to outputs and outcomes below.
<b>Context of donor/TA landscape of AFE TA</b>	
Why did the TA recipient choose the AFE as the TA provider as opposed to other donors?	Existing relationship, and understanding of reforms undertaken since 2006.
How do workshop participants compare those provided by AFE with workshops from other donors?	N/A
<b>Score for Relevance</b>	<b>Excellent 3.6</b>
<b>EFFECTIVENESS</b>	
<b>Impact</b>	
Intervention's expected Impact achieved or likely to be achieved (to the extent defined in the activity's logframe).	This is too early to assess.
<b>Outcomes</b>	
Intervention's outcomes achieved or likely to be achieved (as defined in its logframe): Short, medium and long term outcomes.	<p>AFE's substantive recommendations (c 80 percent) appear to have been incorporated in the draft bill presented to the Cabinet.</p> <p>Both the missions required the development of a roadmap to implement the</p>

Key Evaluation Questions	Comments
	provisions of the revised OBL. These were not produced due to shortage of time and the need to focus on legal drafting. The absence of an implementation roadmap, and a TA plan supporting it, in our opinion presents risks to realization of medium and long-term outcomes.
Significance of AFE’s contribution/likely contribution to developing core economic functions and institution building in the country/region, through the activity.	There for limited scope for achieving this within the context of the project, nevertheless, the intergovernmental structures suggested by the RA enhanced the prospects of capacity building and responsibilities for various agencies and ministers.
<b>Score for Outcomes</b>	<b>Good 3.5</b>
<b>Outputs</b>	
Intervention’s outputs achieved or likely to be achieved (as defined in its logframe), including: <ul style="list-style-type: none"> <li>o Timeliness of reports/workshop presentations;</li> <li>o Quality of reports/workshop presentations;</li> <li>o Appropriateness/applicability of advice, given existing capacity/constraints;</li> <li>o Whether outputs are likely to produce intended outcomes.</li> </ul>	<p>Given the apparent scale of task involved, setting out a typically international good practice standard is an appropriate thing for AFE to be doing. The proposals in the TA report under “Proposed process” in the TA report would appear to constitute an appropriate way forward in that it is setting out an institutional framework for addressing very major aspects of the way public finances are managed in Rwanda (e.g. role of the House of Deputies, status of Public Entities that do not fall under the central government budget etc.)</p> <p>No TA report was produced for the second mission, and the roadmap was not produced.</p>
<b>Score for Outputs</b>	<b>Good 3.2</b>
<b>EFFICIENCY</b>	
<b>Process and implementation efficiency</b>	
TA/workshop design has been efficiently carried out;	The fact that the roadmaps could not be produced despite being included in the ToRs of two missions suggests that the design did not allow for sufficient time. AFE has indicated that agreement on next steps made this roadmap unnecessary.
Timeliness in executing the activity;	This appears to have been the case.
Appropriateness/effectiveness of IMF’s internal management of the activity;	FAD produced comments on an early draft of the OBL (this was supplemented by expert comments from an STX).
Appropriateness of selection of counterpart/workshop participants (as relevant);	The counterparts were the Accountant General and Director General, Budgets. Appropriate.
Quality and timeliness of management and backstopping in relation to activity;	Comments on draft legislation, provided on a timely basis.
The efficiency of planning and executing the TA/training delivery.	Lack of time to complete the intended activities.
<b>Efficient use of resources (human and financial) and attention to cost effectiveness</b>	
Appropriateness of staffing composition for the intervention;	This appears to have been appropriate. An external reviewer was brought on board.
Appropriateness of work allocation between HQ and AFE in relation to activity;	Given potential sensitivities of direct IMF involvement in drafting the legislation, AFE’s involvement was appropriate.
Whether expenditures have been in line with activity budget and evidence of analysis of variances;	We understand that actual time spent on this project exceeded that in the budget. No evidence of variance analysis.
Whether activity, given its results, has been cost-effective compared to other TA delivery modes, given results;	2 one-week missions for assistance with drafting appear to have been an appropriate level of planned input. In reality, additional review inputs were provided by FAD and an STX. In addition, RA inputs went beyond two weeks. No information is available about the total cost of the project.
Whether opportunities for efficiency gains during the intervention have been considered and explored.	No evidence. These have not been considered.
<b>Monitoring and reporting</b>	
Evidence of effective use of self-evaluation (i.e. monitoring) and reporting to improve the efficiency and	Other than the follow-up mission, there has been no evidence of monitoring

Key Evaluation Questions	Comments
effectiveness of activity;	whether the recommendations were being implemented, and/or what action, if any needed to be taken to address any shortcomings in achieving results. AFE has indicated that the fact that the follow up mission was allowed constitutes <i>prima facie</i> evidence that recommendations to revamp OBL had been taken on board. In addition, a January 2013 PFM regional workshop developed templates for member countries to assess, <i>inter alia</i> , status of their PMF legislation and update status on progress in reform.
Effectiveness in making use of TAIMS to monitor and manage project/workshop;	No evidence in the papers, but we understand that the project was on TAIMS.
Effectiveness/progress in use of RBM and its usage in managing the intervention.	No evidence. RBM was implemented after the project started.
Incorporation of lessons learnt in project design and implementation.	No explicit evidence.
<b>Score for Efficiency</b>	<b>Good 2.9</b>

<b>SUSTAINABILITY</b>	
<b>Sustainability of TA activity</b>	
Outcomes from intervention will last beyond/continue after completion of TA/training.	The RA's participation in drafting meetings to discuss the provisions of the proposed OBL is likely to have improved capacity. We have not rated this criterion because at this stage of the project, we do not believe substantive capacity was intended to be built at the TA recipient.
For TA/training designed to deliver sustainability, local institutions/ capacities have been strengthened to sustain results beyond the life of the intervention:	Recommendations to improve sustainability were not developed. However, AFE has indicated that this likely to take place at a later stage, as the project is on-going.
o E.g., absorptive capacity improved and developed to sustainable level;	
o E.g., in-house training capacity built, where relevant.	
For interventions designed to deliver sustainability, financial sustainability has been achieved (i.e., recipients will be implement the advice from own/other financial resources in a sustainable manner).	N/A
Effectiveness in maintenance and use of institutional memory relating to the activity	N/A
<b>Contribution to building sustainable regional TA, implementation capability.</b>	This did not happen.
<b>Score for Sustainability</b>	<b>Not Demonstrated/Not Relevant</b>

## Rating Based on Previous Evaluation Methodology

DAC criteria	Sub-criteria	Score	% weight	Weighted score	% weight	Total score	Rating
<b>Relevance</b>	Consistency with Program Document and Government Priorities	3.8	60%	2.28	<b>32%</b> <b>(39%)</b>	<b>1.40</b>	
	Consistency with IMF Headquarter/other activities	3.6	20%	0.72			
	Co-ordination with Development Partners	3.0	20%	0.60			
				<b>3.60</b>			<b>Excellent</b>
<b>Effectiveness</b>	Impact		-		<b>28%</b> <b>(34%)</b>	<b>1.15</b>	
	Outcomes: TA	3.5	30%	1.05			
	Outcomes: Regional capacity building	3.5	30%	1.05			
	Outputs	3.2	40%	1.28			
				<b>3.38</b>			<b>Good</b>
<b>Efficiency</b>	Process and implementation efficiency	3.3	40%	1.32	<b>22%</b> <b>(27%)</b>	<b>0.76</b>	
	Efficient use of resources (human and financial) and attention to cost effectiveness	3.0	40%	1.20			
	Monitoring and reporting	1.5	20%	0.30			
				<b>2.82</b>			<b>Good</b>
<b>Sustainability</b>	Sustainability of RTAC/TA activity	N/A	75%		<b>18%</b>		
	Contribution to building sustainable regional TA, implementation capability	N/A	25%				
							<b>ND</b>
<b>TOTAL</b>						<b>3.31</b>	<b>Good</b>

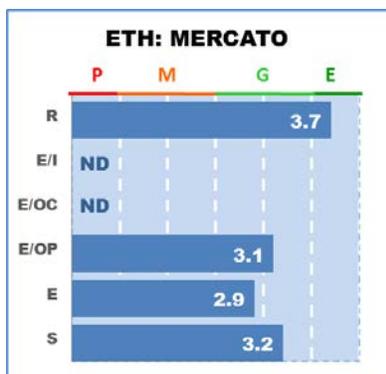
Weighting in brackets reflect adjustments after reallocating weighting relating to sustainability.

## 8.6 KEY FINDINGS AND RECOMMENDATIONS

1. There appears to have been a lack of time allocated to complete the set of tasks expected in the Briefing Papers, in both missions. AFE has indicated that the iterative nature of the exercise does allow for allocation of time to individual tasks. Tasks in the BP are expected to be accomplished during the mission days.
2. We believe that to achieve TA results, follow-up of TA advice is critical. This is particularly true in the case of legislation, where without effective implementation, very few outcomes can be realized. Development of an implementation roadmap and supporting TA plan would have provided an excellent opportunity to achieve results.
3. In order to implement RBM effectively, a mechanism is required that monitors implementation of TA advice.

## 9. ETHIOPIA: TA SUPPORT FOR THE MERCATO PROJECT

### 9.1 INTRODUCTION AND SUMMARY OF RESULTS



The project, formally entitled ‘unlocking tax potential of the Mercato Business area’ (‘the Mercato Project’), was selected for an in-depth desktop review for evaluating AFE TA, in accordance with the methodology set out both in our technical proposal and in the Evaluation’s Inception Report. The project is a component of FAD/AFE’s wider engagement in revenue administration reform in Ethiopia. The IMF’s work is an important illustration of the extended period of work that is necessary to transform large administrations, the complexities involved in delivering change, and the FAD’s patient, effective approach to this challenge. It is a strong example of effective co-operation between FAD, AFE, and now, the Tax Policy and Administration Topical Trust Fund (‘TPA-TTF’). Our review of the background to this project extends deeper than for other desktop reviews to

highlight the above.

The Mercato business district is arguably the largest open-air market in Africa, with an estimated 25,000 businesses serving over 200,000 customers daily. Tax compliance had been weak, partly due to the historically fragmented nature of tax administration in Ethiopia. With the consolidation of tax affairs under the Ethiopian Revenue and Customs Administration (‘ERCA’) in 2008, a process contributed to by sustained FAD recommendations over an extended period, and increased cooperation with the Addis City administration, the Mercato Project could be implemented, aimed at increasing tax compliance in the market and generating substantial revenues. AFE’s TA principally involved one three-week STX mission in May/June 2011 and a one-week follow-up mission in November 2011. The STX worked with an ERCA project team to develop an action plan, a resource business case, and some monitoring indicators. The ERCA operations in Mercato were launched in January 2012.

We have evaluated the Mercato Project, rather than the wider FAD work in Ethiopia. Relevance is rated as Excellent, reflecting the integration of the TA with AFE and ERCA strategy and the Government’s Growth and Transformation Plan. Outputs, efficiency and sustainability are rated Good, reflecting that the majority of the objectives have been met in these areas. An evaluation at a later stage of implementation, after the results start being demonstrated, may well rate the project even higher. With respect to outcomes, clearly some of these, such as the establishment of tax offices, training of staff, etc., are being realized. However, we have not been able to access information on other key indicators, such as taxpayer registrations, revenue generation, operational targets, etc. In the absence of such key information, we have been unable to arrive at a rating for outcome at this stage of the project’s development.

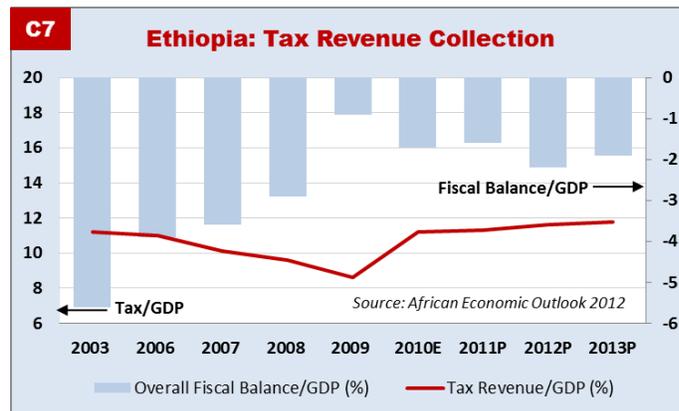
## Information Review

The evaluation was carried out on the basis of the following information:

- Project-related documentation available at AFE (Briefing Papers, Mission Reports, BTOs);
- Mission reports from relevant FAD missions to Ethiopia; and
- Internet research of news items relating to the Mercato project.

Being a desktop review, no field visit was undertaken.

## 9.2 IMF SUPPORT FOR REVENUE ADMINISTRATION REFORM IN ETHIOPIA



Ethiopia's Tax collections-to-GDP ratio lags behind the sub Saharan average of 17-18 percent .After a dip to 8.6 percent in 2008/09, it has increased steadily to 11.5 percent in 11.5 percent in 2011/12. The National Growth and Transformation Plan set a target of at least 15.2 percent in 2014/15. The review in this section highlights the extensive combined FAD, AFE, and the TPA-TTF efforts over an extended period to strengthen Ethiopia's tax administration framework. It also sets the AFE TA for the Mercato project in context.

FAD and AFE provided extensive revenue administration-related TA to Ethiopia during the period 1999- 2009 including: tax and customs diagnostic missions, peripatetic expert visits to review customs administration reform progress; strategic planning; risk management; and post-clearance audit.

Our review of documentation of FAD/AFE support for strengthening Ethiopian revenue administration extends back to January 2006, which saw a FAD mission produce a report entitled '*The Federal Republic of Ethiopia: A National Strategy for Tax Administration*'. The mission produced detailed analyses to highlight the weaknesses of the then current *modus operandi* to identify areas that needed reform. At that time, the administration of tax was fragmented between a number of ministries and institutions, as well as different levels of national and local government. Further decentralization was being contemplated. A key recommendation of the mission, a theme that has continued and the implementation of which the Mercato Project represents a key illustration, was to reverse this trend and consolidate the key administration responsibilities into one agency. The mission recommended that the Federal Inland Revenue Authority ('FIRA') should take on this responsibility. It also recommended the development of a new three-year tax modernization plan incorporating clear projects and proper sequencing (various initiatives were being undertaken in an uncoordinated manner); and a number of initiatives to increase capacity, organizational effectiveness, and funding in a number of areas to improve FIRA's performance.

In July 2008, the authorities merged the management of tax and customs under ERCA<sup>35</sup>. Despite this measure, and some operational process improvements, the fundamental causes of inefficiency and decline in revenue growth had not been addressed. The authorities were concerned that taxes had fallen to an estimated 8.1 percent of GDP in 2008/09, from 11.6 percent in 2004/05.

A September 2009 joint FAD/AFE mission identified in a report entitled *'The Federal Republic of Ethiopia: The Next Steps in Revenue Administration Reform'* the following combination of reasons as being the key contributor to the decline in tax collections:

1. Inefficiencies and evasion occasioned by the sharing of taxation powers between the federal and sub-national levels of government;
2. A very high level of exemptions, at 4.2 percent of GDP for the fiscal year ending 2008/09;
3. Large economic operators and business activities that were not in the tax net including: the airline industry, shipping lines, electricity supplies, and cement imports and sales; and
4. Persistent compliance management inefficiencies, an ineffective headquarters function, comparatively low staff skills and capacity, and unexploited data and performance management systems in ERCA.<sup>36</sup>

To address these issues above, the 2009 mission presented a highly detailed reform strategy and plan. It recommended again that ERCA should take a holistic approach to managing the taxpayer population at the national level. This measure would translate into administering most, if not all, major direct and indirect taxes at the federal level, with the collections shared or transferred to the regional governments and city administrations through the national budget, rather than the prevailing arrangements where collection responsibilities were shared. A particular need was to transfer collection of all direct and indirect taxes from Addis Ababa City, where 60 percent of business activities in Ethiopia are conducted, to ERCA. The report made a series of other recommendations for implementation within the short and medium-term, including:

- Reassessing exemptions;
- Strengthening ERCA headquarters oversight and accountability, streamlining its organizational structure and implementing robust data and performance monitoring systems;
- Embedding self-assessment arrangements for domestic taxpayers and importers and subjecting them to risk-based compliance audits;
- Strengthening the collection enforcement of tax and customs arrears by providing the necessary human and logistical resources.

The report also recommended a number of domestic tax and customs administration reforms aimed at enhancing effectiveness in revenue collection.

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<sup>35</sup> These were previously handled by the Ministry of Revenue, Ethiopian Customs Authority and the Federal Inland Revenue Authority

<sup>36</sup> TA mission report. *The Next Steps in Revenue Administration Reform*. October 2009.

The next FAD/AFE joint diagnostic mission held in December 2010 noted a number of improvements. It noted that key developments since the 2009 mission included:<sup>37</sup>

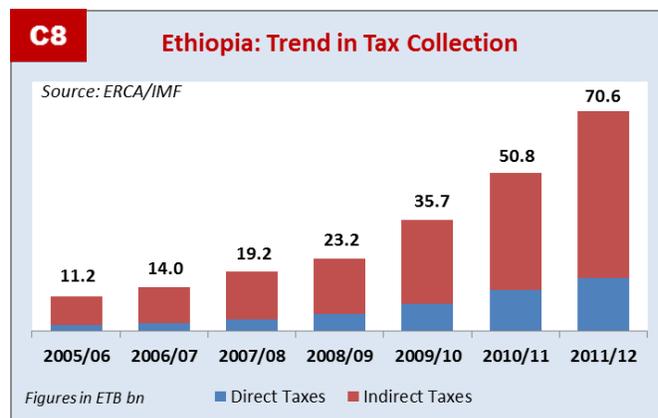
1. Development of a national tax policy and tax administration action plan in January 2010 that aligned with FAD recommendations;
2. Review and implementation of a better functionally aligned organizational structure that particularly separates headquarters program design and development from field operations; and
3. The well planned integration of Addis Ababa City tax administration operations with ERCA with implementation due to start in January 2011. That upcoming measure had already flushed out 104 large taxpayers eligible for federal level administration.

Other key developments included: implementation of a well-structured post-clearance audit function in the customs administration; development of a good customs risk management framework and linking its operations to the automated customs system; and consolidation of reform initiatives under the change and modernization function.

The report noted that collections for 2009/10 of Birr 35.2 billion (US\$1.9 billion<sup>38</sup>) exceeded the federal target of Birr 30.2 billion (US\$1.7 billion) by Birr 5 billion (US\$273 million), and achieved a tax to GDP ratio of 9.2 percent, a year-on-year GDP based growth rate of 33 percent over 2008/09, compared to a decline of 11 percent in 2008/09 over 2007/08. The federal revenue target for 2010/11 was Birr 41 billion (US\$2.2 billion) and ERCA was well on its way to surpassing it. The integrated administration initiative with Addis Ababa City would likely lead to even better federal level revenue collections as non-compliant taxpayers who have been sheltering under the City would be subject to joint management.

However, a number of challenges remained and needed to be addressed, key of which were:

- Exemptions, particularly on customs duties remained high and rising, from 4.4 to 5 percentage points of GDP in 2008/09 and 2009/10 respectively. Moreover, abuses had been detected and some offenders prosecuted;
- Non-timely collection of tax arrears; and
- Lack of non-revenue performance information that should be embedded into the regular reporting framework of ERCA.



The December 2010 mission made a number of key recommendations. The principal among which was: 'Conducting urgently a comprehensive study of the Mercato business area', published in January 2011. Mercato is within Addis Ababa City, it is the business hub of Ethiopia, tax non-compliance is considered to be high. It had hitherto been underserved by the Addis Ababa tax administration. Mercato would be a good test for tax collection under the integrated Addis Ababa City/ERCA arrangement. In identifying TA needs, the mission report stated: 'The immediate priority is the study of Mercato and implementation of the findings.'

<sup>37</sup> Briefing Paper, December 2010 FAD/AFE Diagnostic Mission. Consolidating the Reform Agenda and Compliance Management. February 2011.

<sup>38</sup> Exchange rate in February 2013, of US\$1= Birr 18.3, has been applied throughout this case study.

Developing compliance management strategic and tactical capacity to sustain the revenue mobilization effort, particularly assistance to develop taxpayer risk profiles, also ranks high on the technical assistance agenda.’

In addition to TA support for the Mercato project, the focus of our review, FAD and AFE have been providing follow up support in a number of areas to assist ERCA implement its reform plans. These have included:

1. A follow-up mission by the AFE RA in May/June 2011, to follow-up on the implementation of the recommendations of recent TAs, and to introduce/familiarize the STX who had been engaged to provide TA under the Mercato Project.
2. Two-week AFE STX mission in October/November 2011 to assist ERCA customs administration strengthen its headquarters function and initiate development of a National Targeting Center (NTC’).
3. Two-week joint FAD mission in December 2011 to review the status of revenue administration reform and modernization in Ethiopia, provide guidance on the way forward and discuss with the authorities interest in further support under the TPA-TTF. The mission overlapped with a FAD tax policy mission. It noted that in 2010/1, revenue collections by ERCA exceeded target by 24 percent, with total collections equivalent to a tax to GDP ratio of about 10.4 per cent (partly contributed to by a windfall tax on the commercial banking sector).
4. Two-week AFE STX mission in July 2012 to follow-up and assist ERCA to consolidate capacity in customs risk management, targeting, and post clearance audit.
5. Two-week FAD mission in July 2012 to review revenue administration reform progress and assist the authorities in designing a technical assistance work plan designed to strengthen the domestic tax administration’s compliance enforcement and integrity programs to be supported under the TPA-TTF. The mission recommended a series of nine missions, to take place between September/October 2012 and February 2015, to support this objective.
6. Two-week joint AFE RA and STX mission in September/October 2012 to provide ECRA TA on its planned organizational restructuring programme to service delivery, compliance management and revenue collections.

### 9.3 AFE TECHNICAL ASSISTANCE ON THE MERCATO PROJECT

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#### Background<sup>39</sup>

The Mercato business district is located in the western part of Addis Ababa. Mercato is generally acknowledged to be the business hub of the country and it is estimated that at least half of all cash transactions occur within this area. The district is a few square kilometres in size but the exact boundaries are difficult to define precisely. It has been stated that Mercato is the largest open-air market in Africa, with over 25,000 businesses catering daily for over 200,000 customers and traders.

The existing trading patterns in the Mercato area are non-traditional business practices as compared to most other areas. The majority of transactions are cash based, no receipts are issued, and accounting documentation is limited. There are many intermediaries or brokers working between wholesalers and retailers and who are transient. In many cases, the storefront operation may appear very small (e.g. a two or three-metre square stall) but will have behind it or off site a large warehouse capacity, thus hiding the true magnitude of the trading operation.

According to a recent IMF report, tax compliance within Mercato is estimated to be 25 percent. The 75 percent non-compliant population is in breach of its responsibilities for one of the following reasons:

1. failure to register properly and therefore not being in the tax net;
2. failure to file returns and/or to pay; and
3. failure to pay the appropriate amount of tax liability.

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<sup>39</sup> Drawn from Compliance Improvement Plan for the Mercato Business District. November 2011.

A survey by ERCA of taxpayers in Mercato found that 22.3 percent of the above businesses were not registered. This finding would support the notion of a very high non-compliance level if more than 22 percent were in breach of the first of the above three categories. A press report states 'Mercato is home to 18,000 legal businesses and 8,900 illegal businesses according to information obtained from ERCA. The authority hopes to increase the number of legal businesses to 22,500.'<sup>40</sup>

It was apparently very difficult for ERCA to obtain concrete information on the traders' business volumes, the segmentation of traders, the value of the overall business activity and consequently the tax implications. However, a sample of 100 previously-audited taxpayers within Mercato showed that initial taxpayer declarations of Birr 8.1million (US\$443,000) in tax liability resulted in tax changes of Birr 14.3 million (US\$781,000).

Compliance in Mercato would have a multiplier effect on tax compliance throughout the country for two reasons: firstly because of the practical result of the heavy trading which occurs between merchants outside the city and Mercato, and secondly because of the signal it would send to all taxpayers about ERCA's intention to increase compliance in a fair and responsible manner.

### TA Delivered

In identifying Mercato as a priority issue, the December 2010 FAD/AFE diagnostic mission had identified the need for a comprehensive study to identify the potential tax yield from the Mercato business area. The RA's Briefing Paper for the May/June 2011 handover mission also stated that: '[The STX] will be assisting ERCA carry out a taxpayer compliance management study of the Mercato business area'. The STX's mission Briefing Paper stated the mission's Purpose to be: 'to assist ERCA carry out a taxpayer compliance management study of the Mercato business area,... The study will develop a compliance approach and action plan to address compliance issues in Mercato'. The Detailed mission activities proposed for the STX did not include a study.

In the event, a study was not carried out by the mission. The AFE has indicated that this was because the FAD/AFE did not do studies. The action plan produced as part of the TA was intended to guide ERCA staff to walk through the various study-related FAD/AFE recommendations on their own.

It appears to us that the initial plan was to limit the TA to one mission. The STX's BTO states that 'This was a single visit assignment, however visits to follow-up on implementation of recommendations and to provide additional assistance could be considered. Comments during the exit meeting indicate an appetite by ERCA senior management for follow-up assistance. Based on observation, there is always the concern that in the absence of close oversight, action plans and agreed initiatives lose momentum.' In the event the RA's parallel mission report incorporated the provision for a follow-up TA mission on the Mercato Project within six months. AFE's FY2013 work plan envisages a further mission in the second quarter of 2013.

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<sup>40</sup> Revenue Authority's 'Mercato project' gains momentum. [www.capitalethiopia.com](http://www.capitalethiopia.com). 16 January 2012

### *May/June 2011 Mission*

The activities envisaged under the mission were:

- Refine the key compliance risks to be addressed by taxpayer segment of Mercato business area and develop a compliance improvement plan to address these risks.
- Develop a detailed and timetabled action plan to improve compliance in the Mercato business area. The action plan is to include both service and enforcement components, and clear milestones.
- Identify appropriate performance indicators to assist in the monitoring of the implementation plan.
- Identify the resources needed to implement the plan, and help it prepare a business case to management.

A key focus of the TA was to support the ERCA team to produce the outputs. The RA has stated that the AFE/FAD works with an embedded team of ERCA officers to ensure ERCA ownership of the final product. For example, with respect to the Mercato Project, the final document comes out as an ERCA product with the AFE's professional guidance, and that this has greatly enhanced acceptability and implementation of the recommendations therein.

The principal output of the TA has been a document entitled Compliance Improvement Plan for the Mercato Business District. The plan consists of six key strategies that are supported by more specific action items. Underpinning these strategies is the need to have reliable and timely information.

These strategies are based on segmentation of the taxpayer population (and related implementation actions) and are:

1. Simplification of processes
  - a. Single registration form
  - b. One stop registration centre
2. Targeted taxpayer education
  - a. Awareness sessions in conjunctions with partners such as business associations
  - b. Optimize use of new Call Centre by using ERCA staff for marketing/outreach activities
3. Getting more taxpayers in the net
  - a. Getting information/increasing physical presence (visits, covert intelligence, cross-checking information from other sources)
  - b. Horizontal coordination on getting 'tax message' out, by enhancing relationships with chambers, trade associations, etc.
  - c. Develop 'Block Management': segment Mercato area into geographic or administrative areas and allocate staff accordingly
  - d. Implement targeted tax service sites. Office with appropriate resources, staff, and skill sets.
4. Using all the tools along the compliance continuum (from educational tools to enforcement tools) as required
  - a. Selective enforcement: may need to use progressively more intensive enforcement tools to address continuing non-compliance.
  - b. Leverage existing mechanisms, such as offsetting tax credits against estimated dues, etc.
5. Partnering with key internal and external stakeholders
  - a. Address failures to register through coordinated approaches with key partners such as the Ministries of Trade and Industry and also the City Administration Line Bureaus. Develop transition plan.
  - b. Partners' coordination governance. Establish External Steering Committee, Develop Internal ERCA governance for coordinating with partners, headed by senior member of management, etc.

6. Enhancing risk management.
  - a. Enhance risk management capacity.
  - b. Apply risk management techniques against targeted sectors and taxpayers. [It is recognized in the report that ERCA may have to build its capacity in this area. Targeted risk analysis of:
    - i. Industry sectors
    - ii. Large taxpayers (top 20 taxpayers and their trading chains)
    - iii. Large importers (top 10).

The action plan gave deadlines for selected activities for implementing the above strategy, leading up to full implementation by January 2012. It also provided a 'Performance Monitoring Matrix', a simplified logframe, with, for each action: performance indicators; expected results; means of verification; and key success factors. The action plan listed the activities needed, but had significant gaps in respect of related deadlines.

A 'Resource Business Case' was also provided as part of the TA.

The overall business outcome was stated as: 'Funding the proposed action plan to address non-compliance in Mercato will lead to increased revenues, increased compliance, a more level playing field for traders, improved service delivery, and increased public confidence in the Government and ERCA.'

It outlined the benefits of the proposed action plan, gave estimates of some cost items (based on two options, one with a 60 percent capacity (of 340 staff) for four years and the second with full capacity from the start, but stated that: 'The majority of the expected costs of these activities is dependent upon consultations with partners and stakeholders. As these consultations will occur following senior management's consideration of this Plan, cost estimates will be more accurately determined at that time.'

Three possible streams for funding are thought to exist at this time:

1. re-allocation within ERCA,
2. Government funding, and
3. donor funding.

It stated that 'Perhaps a combination of all three possibilities would suit this situation.'

With respect to a 'cost benefit analysis', the report stated that: 'A traditional cost-benefit analysis is not available at this time due to the difficulty in ascertaining the real tax change potential in the Mercato district. However, it is reasonable to assume that efforts to increase compliance will produce positive revenue generation.' It went on to identify various qualitative benefits of the proposal. It was not possible to benchmark this initiative holistically against other experiences as, based on the available information, there is no other geographically-defined compliance problem of this magnitude.'

A benchmarking/best practice action item is included in the plan in the form of the "Block Management" concept. Research would be undertaken with Tanzanian officials to explore this in more depth.

### *November Mission*

The November mission updated the project's status as follows:

- ERCA had discussed the concepts articulated in the documents produced in June with its own management team and with the Addis Ababa City administration.
- The documents were revised slightly and accepted by ERCA in August 2011. Implementation of the plans was delayed pending finalization of the budget. The primary budget contributor is the City and a dedicated budget had now been approved for the remainder of this fiscal year. Consequently the action plan was being revised to reflect the financial reality for the remainder of 2011/12 and also for 2012/13.
- Another accomplishment was the establishment of a dedicated project team. Two persons had been assigned on a full-time basis to work with a member of management, to coordinate and monitor progress for this initiative. They were dedicated to this effort until the end of the fiscal year, June 2012 although this would be reviewed against the progress being achieved on the action plan. The expectation was to continue having this initiative monitored by ERCA's Operations Program Design and Development organization until such time as the Mercato offices (referenced in next paragraph). At that time, responsibility for this initiative would transfer to those offices and be monitored on an ongoing basis through the Branch Offices Coordination and Support organization, as is the normal operating practice of ERCA.
- A decision had been made on the range of clientele to be served, the number of offices, the size of these offices, and the structure of the offices. An organizational structure had been developed and human resource requirements identified for the desired two branch offices and ten associated satellite offices that will serve medium, small and micro taxpayers.
- Three members of staff in ERCA's dedicated project team visited the Tanzania Revenue Authority for two weeks spanning October/November to learn more about their tax compliance management approach in general and their "Block Management" concept. Having observed the practice in Tanzania, the project team was considering how this approach could be adapted to fit the Ethiopian environment and culture.
- As examples of the priority to establish the Mercato offices by January 2012, direction had been given to accelerate acquisition of computer equipment. Purchasing would follow an expedited process and also reallocation of equipment from lesser priority work areas was being considered. The selection of staff for these offices was being carefully reviewed as well. In addition to the requisite tax competency skills, senior management was cognizant of the need for managerial and inter-personal skills to effect a change in behavior of the non-compliant taxpayer community. The search for office space within the Mercato area for the Branch offices was being very aggressively pursued.

The Compliance Improvement Plan produced in June 2011 was updated in respect of the following:

1. Remove provision for an external steering committee.
2. Instead of one branch, or two branches serving medium and small taxpayers and one serving micro taxpayers, respectively, two 'service' offices (with 245 staff each), with up to 10 satellite offices. Branch offices would be expected to undertake all functions of tax administration including tax assessment, audit, arrears management, enforcement, etc. and to closely supervise and support the activities of the satellite offices. The major functions of satellite offices would focus on the registration of taxpayers, the provision of outreach services and the collection of tax declarations and payments. This change was decided upon by ERCA.
3. Start with 60 percent capacity and move to full after two, instead of the initial four years.
4. A substantially more detailed costing for the project was provided.
5. Addis Ababa City Administration was identified as a source of funding, and was seen as taking on a number of other responsibilities in implementing the plan.

6. A revised action plan, much fuller and with all activities having dates, was provided. There was a general deferral of milestone dates, ranging from a few weeks to a few months. The sequence of some activities was changed (e.g., setting up of the single registration office was moved ahead of designing a single registration form).

The 'Performance Management Matrix' did not show any significant changes.

### ***Monitoring Going Forward***

The STX's BTO envisaged that the project team would monitor very closely the progress against the action plan. It was expected that senior management will receive weekly reports outlining progress, variances, and associated issues. A discussion of this initiative was expected to occur on a bi-weekly basis with the Authority's senior management team.

For the remainder of this fiscal year, the monitoring would focus on the achievement of milestones towards establishing the foundation for this initiative. ERCA expected to begin monitoring more broadly against the key performance indicators (e.g. revenue, compliance) as identified in the Annex to the action plan in the subsequent fiscal year.

The immediate goal was to establish the Mercato office structure by January 2012. Once firmly in place, the associated action plan activities would be the responsibility of this organization. It would similarly be expected that the oversight of this initiative at Headquarters will transition from a project management approach to an ongoing management approach at that time. The timing of the actual transition, however, would be reviewed against the plan's progress as the fiscal year advances.

Although funding is in place for the remainder of this fiscal year, there was a need to secure adequate funding for subsequent years. ERCA had queried whether there had been any further discussions with the donor community, specifically CIDA, since the possibility of support from them had been raised initially in June.

The STX suggested that for the purposes of future follow-up by AFE it might be helpful for it to receive, at some appropriate point, a copy of one or more of the monitoring reports. The status indicated thereon may inform decisions about future visits.

### ***Subsequent Update***

A July 2012 FAD/AFE mission pointed out:

- Operations in Mercato commence during January 2012, and plans are underway to set up two tax main branches and 10 satellite offices;
- 450 staff are being trained to extensively man the two branches and satellite stations, initially focusing on offering taxpayer education and support services to the traders in the area; and
- Consultation and sensitization sessions led by the executive management of ERCA have been planned for December 2011 with Addis Ababa and Mercato political, civic and trade association leaders.

## 9.4 PROJECT LOGFRAME

### Project Inputs, Activities and Outputs

The following table summarises the main activities and outputs on the project to date:

Mis-sion	Dates	Inputs	Activities	Principal Outputs	Notes/Comments
<b>2011</b>					
1	May/ Jun	3 weeks, STX	<p>The expert, taking into account the recommendations of FAD mission of December 2010, is to work with an ERCA designated project implementation team to:</p> <ol style="list-style-type: none"> <li>1. Refine the key compliance risks to be addressed by taxpayer segment of Mercato business area and develop a compliance improvement plan to address these risks.</li> <li>2. Develop a detailed and timetabled action plan to improve compliance in the Mercato business area. The action plan is to include both service and enforcement components, and clear milestones.</li> <li>3. Identify appropriate performance indicators to assist in the monitoring of the implementation plan.</li> <li>4. Identify the resources needed to implement the plan, and help it prepare a business case to management.</li> </ol>	<ol style="list-style-type: none"> <li>1. An end-of-assignment report outlining the current status, key issues and guidance provided to the authorities. The report would include a compliance improvement plan, a timetabled action plan and a resource plan targeting Mercato business area.</li> <li>2. A joint ERCA and development partner report on tax compliance management in Mercato.</li> </ol>	The Compliance Improvement Plan, the Action Plan for 2011-2013, and the Resource Business Case was developed and presented to senior management on 10 June 2011.
2	Nov	1 week STX	<ol style="list-style-type: none"> <li>1. Review and update the action plan to improve compliance by taxpayers in the Mercato business area. The action plan should include both service and enforcement components, and identify specific milestones.</li> <li>2. Assist ERCA to continue the implementation and</li> </ol>	An end-of-assignment report outlining the current status, key issues and guidance provided to the authorities. The report to include assessment of progress to date and updated compliance improvement plan, time-tabled action plan, and a resource plan targeting Mercato business area.	See above for main changes. Worth noting that the Monitoring indicators did not present any targets – just ‘improvements’ increases’ etc., on the basis of which it is difficult to measure success.

Mis- sion	Dates	Inputs	Activities	Principal Outputs	Notes/Comments
			<p>use of appropriate performance indicators to monitor the implementation plan.</p> <p>3. Assist ERCA to refine the resource business case to improve compliance in the Mercato business area based on the realities currently on the ground.</p>		

## Project Outcomes

These would be the same as those established for the project, as presented in the TA Report<sup>41</sup> and reproduced below. However, as indicated in our Findings, these are as presented inadequate for monitoring purposes, as they do not provide specific targets or dates for meeting them (unquantified or unverifiable targets such as ‘increase’ or ‘improvement’ is inadequate for monitoring as it is impossible to know whether/if such targets have been reached).

Strategies	Performance Indicators	Expected Results	Means of Verification	Key Success Factors
Simplification of processes.	One-stop Registration Office is operational.	Increased ease for taxpayers to register.	Taxpayer survey.	Taxpayer satisfaction; increased registrations.
	Implementation of single registration form.	Increased ease for taxpayer to register; (collateral result may be increased consistency of information amongst public entities).	Taxpayer survey.	Taxpayer satisfaction; increased registrations.
Targeted taxpayer education.	Number of awareness/educational sessions held.	Increased taxpayer knowledge.	Taxpayer feedback from sessions.	Taxpayer satisfaction; increased compliance.
	Call Centre activity – references to Mercato, use of agents to deliver awareness sessions.	Increased participation by Mercato taxpayers.	Statistics kept by Call Centre.	Increased awareness.
Getting more taxpayers in the net.	Implementation of new tax office(s).	Increased service activity.	ERCA statistics.	Increased compliance.
	Overt activity: Number of outreach visits.	Increased registrations.	ERCA statistics.	Increased compliance.
	Covert activity: Number of intelligence leads fed into risk management system.	Improved information.		Improved risk management.
	Number of entries/links fed into risk management system.	Improved information.		Improved risk management.
	Implementation of “block management” concept.	Increased registrations; increased tax collections.	ERCA statistics.	Increased compliance.
	Number of visits/presentations to various organizations to deliver the tax message.	Increased awareness.	Feedback from visits.	Improved taxpayer education; improved compliance.
Using all tools along the compliance	Implementation of obliged use of electronic cash registers.	Increased number of transactions captured within tax system.	ERCA statistics.	Increased compliance; increased revenue

<sup>41</sup> Ethiopian Revenue and Customs Authority. Customs Improvement Plan for the Mercato Business District. July 2011-June 2013

Strategies	Performance Indicators	Expected Results	Means of Verification	Key Success Factors
continuum.	Implementation of obliged issuance of receipts by importers and wholesalers.	Increased number of transactions captured.	ERCA statistics.	Increased compliance; increased revenue.
	Increased number of audits.	Increase in tax change due to audit.	ERCA statistics.	Increased compliance; increased revenue.
	Increased use of all enforcement tools such as issuance of notional assessments, arrears collection mechanisms, prosecutions, etc.	Increased interaction with taxpayer community.	ERCA statistics.	Increased compliance; increased revenue.
Partnering with key stakeholders.	Implementation of transitional measure to oblige registration.	Increased registrations.	ERCA statistics.	Increased compliance.
	Implementation of Partner Coordination Governance.	Improved dialogue horizontally about tax compliance.	Minutes of meetings; member survey.	Improved public sector coordination.
Enhancing risk management.	Increased staff, skills, and inputs into tax risk management system.	Increased tax risk management capacity.	Number and quality of leads provided for intelligence, audit planning, investigations, etc.	Increased compliance.

## 9.5 EVALUATION KEQS AND RATINGS

Key Evaluation Questions	Comments
<b>RELEVANCE</b>	
<b>Consistency with Program Document and Government Priorities</b>	
Consistency of activity with Program Document, AFE strategy, and approved work plan.	The project is consistent with AFE strategy. The FY2012 work plan allocated 4 RA days and 10 STX days to this activity.
Consistency of intervention(s) with national/regional priorities:	
o Extent to which activity is linked to and supports national/regional strategy (if one exists – e.g., PRSP);	This project is consistent with the Ethiopian authorities' objective of increasing its Tax Revenue/GDP ratio to 15.2% by 2014/15, as set out in the National Growth and Transformation plan. The project is also an important component of ERCA's strategy of consolidating tax administration, and cooperation with the Addis City administration.
o Extent to which activity is linked to and supports sector/topical reform strategy (if one exists);	
o Extent to which strong country/institutional ownership of activity has been demonstrated.	High. As demonstrated by the investments made to date.
Whether the activity is appropriately sequenced, given the completed/outstanding reform needs for that sector/institution:	The project is an appropriately sequenced component of the overall Ethiopian revenue administration strategy. However, within the project itself, we feel that the project should have carried out (or provided for carrying out) a detailed survey at the outset as envisaged in the original FAD diagnostic recommendation. This would have enabled the development of a robust business case and better defined performance indicators.
o E.g., appropriateness of project expected outcomes given country/institutional absorptive and implementation capacity.	

Key Evaluation Questions	Comments
<b>Consistency with IMF Headquarter/other activities</b>	
Whether activity is appropriately focused in terms of subject area, taking into account the IMF's expertise, and integration with HQ and other Fund activity (e.g. other training and TA delivered including through the topical trust funds).	The project has been very well integrated into FAD's activities.
<b>Coordination with Development Partners</b>	
Whether the intervention has been effectively coordinated with and complements the work of other development partners.	We understand that that the FAD/AFE missions did facilitate connections with interested donors, and it appears that discussions are taking place, especially with GTZ and CIDA. The STX's BTO suggests that ECRA sought AFE's help in this regard. Considerable time has expired and any later donor assistance may not be as effective. We believe there was scope for AFE to have taken a more proactive role in this regard.
<b>Context of donor/TA landscape of AFE TA</b>	
Why did the TA recipient choose the AFE as the TA provider as opposed to other donors?	Part of a wider FAD program.
How do workshop participants compare those provided by AFE with workshops from other donors?	N/A
<b>Score for Relevance</b>	<b>Excellent 3.7</b>

<b>EFFECTIVENESS</b>	
<b>Impact</b>	
Intervention's expected Impact achieved or likely to be achieved (to the extent defined in the activity's logframe).	It's too early to say, but the potential for big impact exists.
<b>Outcomes</b>	
Intervention's outcomes achieved or likely to be achieved (as defined in its logframe): Short, medium and long term outcomes.	<p>We have not been able to establish in detail the extent to which the various steps in the detailed action plan has been implemented, although clearly some key actions have been taken. At this stage, based on the information available and the relatively early stage of the project's implementation, it is not possible for us to rate this outcome. However, with proper support, and accurate definition of outcomes, we feel that the potential exists for realizing strong outcomes.</p> <p>The IMF is of the opinion that the 'evaluation that the effectiveness of the TA has not been demonstrated is unreasonable and inconsistent with the wording of 'outcomes achieved or likely to be achieved'. Indeed the evaluator indicates that there is potential for big impact. Tax collections have grown significantly recently. While it is premature to attribute too much of this growth directly to the Mercato project, it is not unreasonable to believe it has made a contribution. Furthermore, the work undertaken in the two short AFE assignments continues to be pursued with the TPA-TTF program that was launched in mid-2012.'</p> <p>We do not disagree with the IMF's views relating to the growth in revenues at the national level and the work being done with the TPA-TTF. Nevertheless, in order to attribute a rating for the outcome relating to the project, we need concrete information on the extent to which the project's recommendations are being implemented, and what results are being achieved. Clearly outcomes are being achieved, as is evident from the establishment of the tax offices and training of staff.</p> <p>The 'Not Demonstrated' definition does not in this context mean no outcomes have been demonstrated. The ratings criteria table in Section 1.1 of this</p>

Key Evaluation Questions	Comments
	Volume II defines it as 'cannot be assessed'. In the absence of information on various key indicators, such as revenues being achieved, taxpayers being registered, etc., we could either arrive at a rating based on these being zero (in which case there is a risk that this criterion will be underrated), or they have been fully realized (in which case there is a risk we would be overrating the criterion).
Significance of AFE's contribution/likely contribution to developing core economic functions and institution building in the country/region, through the activity.	Not specifically targeted.
<b>Score for Outcomes</b>	<b>Not Demonstrated (cannot be assessed)</b>
<b>Outputs</b>	
Intervention's outputs achieved or likely to be achieved (as defined in its logframe), including: <ul style="list-style-type: none"> <li>o Timeliness of reports/workshop presentations;</li> <li>o Quality of reports/workshop presentations;</li> <li>o Appropriateness/applicability of advice, given existing capacity/constraints;</li> <li>o Whether outputs are likely to produce intended outcomes.</li> </ul>	We feel that the TA reports produced by the project were good. The approach of encouraging the ERCA project team to drive the development of the action plan, with the STX supporting it, was a good one. The overall strategy also appears to cover the key risk areas. However, we feel that especially the first draft of the action plan was inadequate. The resource case lacked any quantification of potential benefits, partly due to the lack of a proper study of the market. The performance indicators produced were not well-defined enough to enable monitoring. The final plan also had basic errors, such as dates in the wrong columns, etc.
<b>Score for Outputs</b>	<b>Good 3.1</b>
<b>EFFICIENCY</b>	
<b>Process and implementation efficiency</b>	
TA/workshop design has been efficiently carried out;	Overall, the TA has delivered good support to ERCA on the Mercato project. However, we feel that the design of the project could have been strengthened on the following fronts: <ul style="list-style-type: none"> <li>▪ The action plan would have benefited from the results of a detailed study, as recommended in the diagnostic report. Options should have been considered for this, to make the first mission more productive.</li> <li>▪ Projects such as these require a TA assistance plan, over the medium term, to deliver optimum support. In this case, it appears that the TA is being planned/provided on a mission-by-mission basis.</li> </ul>
Timeliness in executing the activity;	Activities were undertaken in a timely manner (although see comments on planning above).
Appropriateness/effectiveness of IMF's internal management of the activity;	Appears to have been appropriate. Diagnostic missions follow up on implementation status.
Appropriateness of selection of counterpart/workshop participants (as relevant);	Appropriate. Dedicated project team was established.
Quality and timeliness of management and backstopping in relation to activity;	Appears to have been the case. No direct evidence.
The efficiency of planning and executing the TA delivery.	As indicated above, we feel that in projects such as these, a medium term plan needs to be developed.
<b>Efficient use of resources (human and financial) and attention to cost effectiveness</b>	
Appropriateness of staffing composition for the intervention;	The STX appears to have had the appropriate skills. Perhaps the option of getting an additional STX from a regional country with similar issues (such as Tanzania) should have been considered).
Appropriateness of work allocation between HQ and AFE in relation to activity;	This has been appropriate.
Whether expenditures have been in line with activity budget and evidence of analysis of variances;	The actual TA exceeded the plan. No evidence of variance analysis.
Whether activity, given its results, has been cost-effective compared to other TA delivery modes, given	Appears to have been so. See our general comments on AFE efficiency elsewhere in the report.

Key Evaluation Questions	Comments
results;	
Whether opportunities for efficiency gains during the intervention have been considered and explored.	No evidence at a TA level. The approaches taken by ERCA on implementing the project are likely to produce efficiencies, e.g., use of single forms, etc.
<b>Monitoring and reporting</b>	
Evidence of effective use of self-evaluation (i.e. monitoring) and reporting to improve the efficiency and effectiveness of activity;	The November follow-up mission did assess implementation of the project since June. The RA updates on implementation status during his missions in the country. There is no structured monitoring system to monitor implementation against action plan milestones, or the performance indicators (which in any event are not suitable for monitoring purposes). Reliance is placed on the TA beneficiary to do this.
Effectiveness in making use of TAIMS to monitor and manage project/workshop;	No evidence.
Effectiveness/progress in use of RBM and its usage in managing the intervention.	No indication of this in the Briefing Papers or BTOs.
Incorporation of lessons learnt in project design and implementation.	Non evidence.
<b>Score for Efficiency</b>	<b>2.9 Good</b>

<b>SUSTAINABILITY</b>	
<b>Sustainability of TA activity</b>	
Outcomes from intervention will last beyond/continue after completion of TA.	Given the steps taken to date, this is highly likely. However, further TA is likely to be necessary to optimize results and sustainability.
For TA/training designed to deliver sustainability, local institutions/ capacities have been strengthened to sustain results beyond the life of the intervention: <ul style="list-style-type: none"> <li>o E.g., absorptive capacity improved and developed to sustainable level;</li> <li>o E.g., in-house training capacity built, where relevant.</li> </ul>	N/A
For interventions designed to deliver sustainability, financial sustainability has been achieved (i.e., recipients will be implement the advice from own/other financial resources in a sustainable manner).	Not clear. ERCA is in discussions with donors about funding.
Effectiveness in maintenance and use of institutional memory relating to the activity	N/A
<b>Contribution to building sustainable regional TA, implementation capability.</b>	No local consultants used.
<b>Score for Sustainability</b>	<b>3.2 Good</b>

### Rating Based on Previous Evaluation Methodology

DAC criteria	Sub-criteria	Score	Weight	Weighted score	Weight	Total score	Rating
<b>Relevance</b>	Consistency with Program Document and Government Priorities	3.8	60%	2.28	<b>32%</b>	<b>1.17</b>	
	Consistency with IMF Headquarter/other activities	3.9	20%	0.78			
	Co-ordination with Development Partners	3.0	20%	0.60			
				<b>3.66</b>			<b>Excellent</b>
<b>Effectiveness</b>	Impact		-		<b>28%</b>	<b>0.87</b>	
	Outcomes: TA	ND	30%				
	Outcomes: Regional capacity building	ND	30%				
	Outputs	3.1	<b>[100%]</b> 40%	3.10			
				<b>3.10</b>			<b>Good</b>
<b>Efficiency</b>	Process and implementation efficiency	2.8	40%	1.12	<b>22%</b>	<b>0.65</b>	
	Efficient use of resources (human and financial) and attention to cost effectiveness	3.2	40%	1.28			
	Monitoring and reporting	2.8	20%	0.56			
				<b>2.96</b>			<b>Good</b>
<b>Sustainability</b>	Sustainability of RTAC/TA activity	3.2	75%	2.40	<b>18%</b>	<b>0.55</b>	
	Contribution to building sustainable regional TA, implementation capability	2.7	25%	0.68			
				<b>3.08</b>			<b>Good</b>
<b>TOTAL</b>						<b>3.24</b>	<b>Good</b>

*Outcome-related weightings reallocated to outputs as former were not rated.*

## 9.6 KEY FINDINGS AND RECOMMENDATIONS

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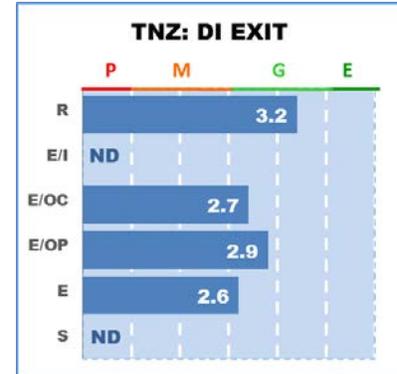
1. We feel that TA projects which involve advice on implementation would almost always require one or more follow-up missions to monitor and help in implementation. The project's effectiveness, certainty at the TA beneficiary, commitment from the STX (if relevant), etc. would be enhanced if these are planned in advance, rather than on an *ad hoc* mission-by-mission basis. There is a big gap between the last mission under the project, in November 2011, and the one proposed in 2013.
2. The performance indicators in the monitoring framework are not monitor-able. It is impossible to effectively measure against indicators if targets are defined as 'increase', or 'improve' etc. Even though adequate data may not have been available at the time the monitoring framework was drawn up, it should have clearly indicated the need for, e.g., quantitative indicators and dates, which could have been inserted at a later date.
3. It is important for the AFE to monitor progress in implementation of TA advice, and the results achieved, to effectively implement RBM, it. Although this is possible to do on missions relating to other projects, in this case, as suggested by the STX, there would have been the potential to exercise closer monitoring by asking ERCA to share its internal monitoring reports on implementation and performance indicators.
4. When a project is based on the recommendations of a diagnostic mission, and especially when it refers to it explicitly in the Briefing paper, it should highlight major deviations from the recommendations of the former. In this case, the 2010 diagnostic mission recommended a study of the market. We feel that the reasons for not undertaking the study should have been outlined in the Briefing Paper for the Mercato Project. We believe even if there is a policy for the IMF/AFE to conduct a study, there is scope for the RA/STX to provide guidance, for example, on the drafting of the questionnaires, and selection of target participants.

## 10. TANZANIA: ADVICE ON TAKING OVER EXIT DESTINATION INSPECTION CONTRACT

### 10.1 INTRODUCTION AND SUMMARY OF RESULTS

The above project was selected for ‘desktop sample’ review, in accordance with the methodology set out both in our technical proposal and in the Evaluation’s Inception Report. The evaluation was carried out primarily based on:

- Project-related documentation available at AFE (Briefing Papers, Mission Reports and BTOs);
- Discussions with the AFE Revenue Administration RA;
- Feedback from the AFE STX responsible for providing advice under the project;
- Feedback from the TRA on specific questions on implementation of recommendations; and
- Survey feedback from TRA relating to the project.



The project involved two two-week missions, in October/November 2010 and 2011 respectively, to (i) assess the capability of the Tanzania Revenue Authority (‘TRA’) to take over a Destination Inspection (‘DI’) contract from a private sector contractor (this was the third such assessment); and (ii) make recommendations to improve TRA’s performance following the takeover; followed up by an assessment of TRA post DI take-over after approximately one year, during the second mission. Our ratings reflect the fact that the TRA has successfully taken over the contract. However, revenue performance post take-over has been, at best uncertain. Moreover, implementation of the project’s recommendations has been weak. Also, AFE’s monitoring of the project post completion has not been effective. Given TRA has only started the process of implementing some of the project’s recommendation, and in light of the uncertainty about revenue performance, in our opinion it is not possible to assess the sustainability of the project’s results on the basis of available information.

### 10.2 BACKGROUND

By the time the project started in October 2010, the TRA has benefited from very substantial multi-donor financial and technical assistance support through a basket funding arrangement to support the tax administration project (‘TAP’); and the tax modernization project (‘TMP’) thereafter<sup>42</sup>. The TMP had been modeled to support the implementation of TRA’s corporate plan, and was being supported by Danida, Dfid, the Government of Tanzania, and the World Bank. The IMF FAD and AFE had also supported TRA, with activities including a full diagnostic review of revenue administration operations in October 2002 and customs administration missions in 2004, 2005, and 2006. AFE assistance had also focused on integrating the operations of the DI company and customs administration, and strengthening risk-based compliance management approaches.

TRA and COTECNA Inspection S.A. of Switzerland (‘COTECNA’) entered into a seven year contract for the provision of scanning and destination inspection services in November 2003. For performing this contract, COTECNA established and subcontracted TISCAN Ltd, as wholly owned subsidiary of COTECNA. The contract was effective from 1 January 2004 and due to end on 31 December 2010. The primary objective of the contact was to protect revenue and allow TRA, and the

<sup>42</sup> Much of this section is drawn from the Briefing Paper relating to the first mission.

Tanzania Customs and Excise Department in particular, time to build its capacity to cope with the changes arising from the country's adoption of the Agreement on Customs Valuation ('ACV'). As a result, COTECNA and TISCAN were expected to work closely with TRA and the trade community generally to implement capacity building programs for the TRA. Similarly, TRA was expected to complement the programs implemented under the DI contract through capacity building initiatives that would ensure that sufficient capacity exists at the end of the seven years for it to fully assume the responsibilities.

Despite the efforts by the TRA in preparing to take over the DI services, some challenges remained, including:

- a) limited skills and practical experience in administering TISCAN's CVR system;
- b) development of new process flow;
- c) acquisition of resources; and
- d) maintenance of scanners.

To ensure a smooth takeover of DI functions after the expiry of the TISCAN contract, TRA formed a Joint (TRA/TISCAN) Steering Committee chaired by the Commissioner for Customs and Excise (and included the General Manager of TISCAN), and a technical committee to monitor and review progress of the implementation of the TISCAN Exit Action Plan. TRA believed that based on the measures put in place over time in various areas of operations in Customs, the takeover of DI will be smooth and will not adversely affect revenue collection and quality of goods entering the country.

### 10.3 AFE TECHNICAL ASSISTANCE

This was a rapid response, short-term project, aimed at facilitating the transfer of responsibilities of DI functions by the TRA. It comprised two missions:

- The first mission was aimed at assessing the capacity of TRA to take over DI responsibilities (there had already been two earlier assessments, one of which was a self-assessment), and make recommendations to strengthen TRA's capabilities to discharge its new responsibilities.
- The second mission, which took place 10 months after the takeover, was aimed at assessing the results to date and make any further recommendations. The second mission also involved other activities that are outside the scope of this evaluation.

The following table summarizes the main activities and outputs on the project:

Mis-sion	Dates	Inputs	Activities	Outputs	Notes/Comments
1.	Oct/ Nov 2010	2 weeks STX	<ol style="list-style-type: none"> <li>1. Assess TRA's preparedness to exit the existing destination inspection contract.</li> <li>2. Provide concrete advice on specific steps to be taken to ensure a smooth transition from the current contract to a self-administered one.</li> </ol>	An end-of-assignment report outlining the current status, key issues and recommendations designed to ensure a smooth exist from DI to a TRA self-administered system, and recommendations for follow-up action and TA.	The assessment confirmed conclusions of the two earlier assessments (one self-evaluation and one by the University of Dar es Salaam University Consultancy Bureau) that the TRA was ready to take over TISCAN's work. The move should increase revenue and that revenue was not at risk. It made various recommendations and a brief action plan to enable the takeover. It highlighted concerns over IT support, efficiency of the Customs Service

Mis-sion	Dates	Inputs	Activities	Outputs	Notes/Comments
					Center, which was prone to high error rates, capacity of brokers/agents, scanners strategy, and procurement of proposed new Customs Operating System, and made recommendations to address these issues.
2.	Oct/ Nov 2011	2 weeks STX <sup>43</sup>	<p>Review the status of implementation of post destination inspection and make necessary recommendations.</p> <p>The mission provided for activities related to the establishment of a National Targeting Centre, which is beyond the scope of this evaluation.</p>	<p>End of assignment report with findings.</p> <p>Other outputs not related to project being reviewed</p>	Results of the assessment were mixed. The revenue results were at best uncertain. Error rates continued to be high and a new scanner strategy aimed at improving its effectiveness had not been implemented. Although some of the recommendations from the first mission had been implemented, most of the substantive ones hadn't.

## 10.4 PROJECT OUTCOMES

Given the short-term nature of this intervention, our focus is on short-term outcomes. We have principally sought to assess the impact of the transfer and the degree to which TA recommendations were adopted.

- Impact on revenue:

Year	Revenue (Tshs billion)	% Change	Volume of Trade	% Change	CIF Value of Trade	% Change
Jan-June 2010	989.9		60,166		3,707	
Jan-June 2011	1,225.9	+23.8	69,094	+14.8	5,282	+42.4
Jan-June 2012	1,083.1	+10.4	82,124	+36.0	6,841	+84.0

Source: TRA

During the 2011 follow-up mission, the STX noted that revenue collections had increased 23.8 percent between January and June 2011 post DI, compared to the same period the previous year under the DI contract. During the same period, trade volume increased 14.8 percent, while the value of trade increased 42.4 percent. The consultant concludes that the 'more study is required to determine whether CED revenue performance is keeping pace with growth in the value of trade'. *Prima facie*, revenue has not kept pace with value of trade. The consultant's report from the second mission says 'The TRA Research and Policy Department is aware of this and is already actively studying the issue.' The table above with updated data for January to June 2012 shows an even larger negative deviation in revenues (up 10.4 percent) as a proportion of both trade value (up 84 percent) and volumes (up 36 percent).

<sup>43</sup> Only a small part of the mission was dedicated to the DI project being evaluated.

As of February 2013, TRA has not been able to provide an explanation for this trend. It has provided us its 2013/14 2017/18 corporate plan, saying that 'CED revenue in the coming five years is in line with growth forecast in international trade in that period'.

The IMF has pointed out (based on the 2011 figures) that: 'the evaluator's conclusions may be incomplete and possibly premature about revenue performance both in the post-DI cessation period and in the longer-run. In the immediate period after the end of DI, the rate of duties collected may have decreased due to factors out of the control of customs, such as exemptions, and the value of trade increasing much faster than the volume might suggest improved effectiveness in the performance of customs.'

Similarly, the STX involved in the project (again, with the benefit of the FY2011 figures only) indicated that 'The relationship between revenue and CIF is complex and the product of many factors, only one of them customs performance. For example, exemption activity, policy changes to rates and tax treatment, court and *quasi* court trade rulings, and changes to the makeup of trade over time, all affect CIF. In particular the last item affects it. If for example the basket of imports changes and more high value low tax trade occurs, CIF is higher but revenue could fall. This would have no relationship to customs performance. These issues all affect CIF. We monitor revenue/CIF to identify possible performance problems. It is an indicator of a possible problem, not an absolute measure of success or failure. Since details about the other factors affecting CIF were unknown, the expert was unwilling to state categorically that revenue was not keeping pace. He recommended further study to better understand possible major influences. It appears the study was not done so we do not know the story on key other factors affecting the CIF. While one can clearly say that mathematically revenue has not kept pace with CIF, it is pure speculation that this means failure, more so this far after the fact.'

We believe that on balance, especially in face of: a) a persistent decline over two years (Revenue/CIF Value has almost halved from 26.7 percent in H1 2010 to 15.8 percent in H1 2012, and Revenue/Volume has fallen from 1.6 percent to 1.3 percent); and b) the lack of an adequate explanation for this from TRA, this is more likely to be an indicator of weakening performance. Moreover, the fact that a satisfactory explanation for this significant decline has not been forthcoming from TRA signals to us weaknesses in monitoring of the project's performance.

- Error rates at CSC: Reject rates continued to be very high at the end of 2011, at 73.5 percent (compared with 80 percent previously). This was primarily attributed to Agents and Traders, either due to their poor training or as a result of them doing it deliberately, e.g., deliberately understating invoices. The consultant had recommended training and this had been agreed (it's not clear whether it was done). The consultant had also recommended the development and enforcement of new Agent standards. This wasn't implemented. After the second mission, the consultant recommended regulation of Agents, with a 10-point implementation plan. We provide updated information on this recommendation below. A February 2013 update from TRA in fact showed an increase in error rates from the 2011 level, being 76 percent as at the end of December 2012. The AFE has pointed out that adjustments to correct errors due to declarations being filled badly was there during DI regime and is there now. The solution lies in (1) building the capacity of the customs clearing agents more, and (2) TRA rigorous management of the agents (including licensing and renewals). This work is not specifically included in AFE's 2013 work plan for Tanzania, and perhaps should therefore be considered.

- Scanner hit rate: Pre-DI exit the scanner hit rate was judged by the STX to be poor, at only 1.4 percent in 2009 and 1.7 percent in 2010. The consultant had recommended a revised strategy to improve the effectiveness of scanners and also to enable more targeted scanning. This was not adopted. Post DI contract, for the first six months of 2011, the hit rate was even lower, at 0.9 percent. In January to June 2012 this indicator was even weaker, at 0.42 percent. The AFE has indicated that the scanner stats should be examined with a broader view. Scanner deployment in most African countries (including Tanzania) is not an agenda mainly being pushed by Customs administrations. It is about security (and security organs push) than Customs. It is therefore not surprising that as governments push for more goods to be scanned, the hit rate will continue to decrease.
- Continuing relationship with TISCAN: To lower the risk of exit, the consultant had recommended negotiation of contracts with TISCAN to provide IT support and for overseas price verification on a selective basis. Neither of these issues could be agreed by the parties (although TRA did hire TISCAN IT staff to provide support).
- Fees: The consultant had recommended various options for reducing/reassessing the fees levied by TRA to meet the costs of the TISCAN contract. One of these was accepted.
- IT contract: The consultant had recommended an independent consultant be engaged to design the specification for a proposed new customs operation system. This was accepted.
- New price reference database. The TRA implemented the principles of the consultant's recommendations relating to the transfer to a new price reference database.

The Commissioner General had requested another follow up mission in May 2012. We have not seen any indication of this in the FY2013 work plan.

The second mission, in October/November 2011, recommended the following:

- Research trade patterns in depth to determine whether CED revenue performance is keeping pace appropriately with the growth in trade value-- by January 1, 2012. This has evidently not been done.
- Pass a regulation under the Tanzania Central Freight Bureau Act of 1981 to implement the recommended policy options to regulate agents and improve professionalism- by January 2012. We do not believe this was a realistic deadline, especially given the Christmas/Holiday period in between. The STX involved has indicated that 'the period seemed reasonable at the time because - it was only a regulation, detailed advice was given (a draft regulation in fact) and both parties were anxious and willing to move very quickly'. The IMF has pointed out: 'While a two-month lead-time to implement regulations to better control customs agents was very challenging, we disagree with the evaluator's opinion that this was unrealistic. This was a valid response to a crisis situation at the time.' The 'draft regulation' left was in fact a general template that would have required adaptation for Tanzania. The fact that these regulations have not yet been adopted suggests to use that the TRA clearly did not share the AFE/IMF's sense of crisis and urgency, and the critical shortcomings the regulations were intended to address so urgently remain in practice.

The TRA has indicated that: 'TRA and SUMATRA [Surface and Marine Transport Regulatory Authority] formed a joint committee with a view of exchanging notes and views in order to set out the best way of regulating the conducts, practices, qualifications and standards for licensing the CFAs. TRA presented a consultant's work on the policy to regulate agents and improve professionalism while SUMATRA presented a study report on Performance Indicators and Benchmarks for CFAs. The committee agreed that the two documents be merged in to one that would cutter for both ends. While merging of the documents was under way the committee learned of the presence of another proposed draft act on the National Accreditation Board for Freight Forwarding Practitioners, a World Bank funded project engineered by TAFFA. The committee was of the view that the Accreditation Board may be charged with the role of dealing with professional qualifications of the individual practitioner and TRA/Sumatra committee proceed on the licensing procedures. TRA/SUMATRA documents have been merged and submitted to Legal Services Department for their technical input.

- Implement the proposed Corrective Implementation Plan to support the regulation above- by May 2012. This was not done, but the TRA has indicated that it stopped issuance of new licenses since 2010 pending implementation of the new licensing regime.
- Increase staff in the Licensing (3), Risk management (7) and Intelligence (5) areas by January 2012. Two staff members have been posted to the Licensing Unit, and one officer to the Risk and Intelligence Unit.
- Develop a new scanner strategy based on selectivity -- by April 2013. The TRA has indicated: 'The Government considers scanners as an important tool for detecting contraband especially on exports. Currently it is planned to subject more exports for scanning. However, on imports review is being made for the aim of reducing percent of containers from scanning. The main challenge is to accommodate containers going to ICDs which are removed from Port before the selectivity status is determined. TRA has developed new Cargo Management system and Risk management system. These two systems will be integrated into New Customs Clearance system that expected to be operational by early 2014. Therefore these systems will be linked to scanner operations and will enable only those containers selected for scanner to be scanned.'
- Implement monthly ASYCUDA reports on the performance (the use and hit rate) of each risk profile- by December 2011. TRA response: 'Monthly report generated by New Customs Risk management System not issued for the month of January 2013 since of the officers were in Training on User system. Monthly reports expected to be generated from end of February 2013 onward.'
- Complete a full review and refinement of all risk profiles -by September 2012 for incorporation in the new operating system. TRA response: 'Part of User requirements to the New Customs Risk management system. Risk Management System has been developed and its implementation commenced at DSM port on 27<sup>th</sup> Dec 2012 and rolled out at Julius Nyerere International Airport (JNIA) on 4<sup>th</sup> January 2013.'
- Implement a NTC incorporating enforcement targeting and intelligence resources-by September 2013. TRA response: 'Business Intelligence Unit established at Corporate level to provide guidance Macro Enforcement targeting and Intelligence related issues.'

- Implement performance measurement for results in CED operations - by July 2012. TRA: 'Macro and Primary Indicators recommended by IMF Study report have been incorporated as part of the System User requirements of development of Customs Risk management, cargo Management, and New Customs Automated system (NCS). Development for Risk and Cargo Management systems completed in December 2012 whereas Development of NCS is underway.'
- Implement data matching across the TRA- by January 2012. TRA: 'Data matching has started through Business intelligence sectoral analysis works on manufacturing sector, transport sector, telecommunications, motor vehicles and employment incomes.'

## 10.5 EVALUATION RATINGS

Key Evaluation Questions	Comments
<b>RELEVANCE</b>	
<b>Consistency with Program Document and Government Priorities</b>	
Consistency of activity with Program Document, AFE strategy, and approved work plan.	The project was consistent with the Program Document and AFE strategy, given its area of operation and implementation-oriented nature. It was an <i>ad hoc</i> , quick response intervention and was not part of an approved work plan.
Consistency of intervention(s) with national/regional priorities:	
<ul style="list-style-type: none"> <li>○ Extent to which activity is linked to and supports national/regional strategy (if one exists – e.g., PRSP);</li> <li>○ Extent to which activity is linked to and supports sector/topical reform strategy (if one exists);</li> </ul>	The project facilitated the taking over by TRA of the activities of a private sector contractor. This was envisaged at the outset of the contract. The purpose of the project was to assess whether this was feasible. It is not clear from the documentation available whether this transfer was part of an explicit national strategy, but we surmise that it was at least consistent with the national Revenue Administration strategy. The STX has pointed out that the project was part of a deliberate strategy of the TRA and a long standing, oft repeated recommended strategy by AFE and FAD.
<ul style="list-style-type: none"> <li>○ Extent to which strong country/institutional ownership of activity has been demonstrated.</li> </ul>	The evidence of this is mixed. Clearly the Commissioner General sought AFE's opinion about whether the TRA was capable of taking over the contract. However, the evidence suggests that there was mixed commitment to follow the TA advice beyond getting this assurance. Moreover, this was the third assessment of the same matter (aimed specifically at getting the IMF's views on the transfer of responsibility).
Whether the activity is appropriately sequenced, given the completed/outstanding reform needs for that sector/institution:	The contract provided for a gradual handover of the DI responsibilities to TRA and the assessment was that at least most of the necessary pre-conditions had been met. A credible transition mechanism was also in place. However, a number of operational weaknesses remained (which were current even during the TISCAN contract), which were not addressed after the transfer despite recommendations. The process of implementing some of these has started very recently.
<ul style="list-style-type: none"> <li>○ E.g., appropriateness of project expected outcomes given country/institutional absorptive and implementation capacity.</li> </ul>	
<b>Consistency with IMF Headquarter/other activities</b>	
Whether activity is appropriately focused in terms of subject area, taking into account the IMF's expertise, and integration with HQ and other Fund activity (e.g. other training and TA delivered including through the topical trust funds).	The TRA had received other TA from FAD, although not directly related to the project area. The issue is whether at the time of the assessment there should have been further TA offered/provided to address the deficiencies identified.
<b>Coordination with Development Partners</b>	
Whether the intervention has been effectively coordinated with and complements the work of other	TRA had historically received TA from other donors. There is no evidence in the documentation whether this related to the DI area. Similar to the previous

Key Evaluation Questions	Comments
development partners.	point, there might have been an opportunity to approach other donor(s) to address the deficiencies identified during the initial assessment. The IMF has pointed out that the TRA has received massive donor financing and TA from multiple sources beyond AFE over many years, including in customs administration matters apparently from DFID which the AFE documentation used for the desk evaluation may not have revealed. There is no evidence in the TA reports that the work of other donors considered and opportunities for coordination considered.
<b>Context of donor/TA landscape of AFE TA</b>	
Why did the TA recipient choose the AFE as the TA provider as opposed to other donors?	AFE had a historic relationship with the TRA; was able to react quickly; and had the expertise/credibility to carry out the assessment.
How do workshop participants compare those provided by AFE with workshops from other donors?	N/A
<b>Score for Relevance</b>	<b>3.2 Good</b>
<b>EFFECTIVENESS</b>	
<b>Impact</b>	
Intervention's expected Impact achieved or likely to be achieved (to the extent defined in the activity's logframe).	<p>The STX has pointed out that the project's impact was 'immediate and profound'. IMF support with the opinion that TRA was capable without TISCAN allowed the end of PSI, which was long overdue. 'The fact that the TRA has done a poor job of implementing recommended operational strengthening measures related to the issue, while true, is ancillary to the central issue. Also, If one is to judge success or failure, the analysis is missing a key factor and is one sided looking at only revenue pre and post, plus implementation or not of recommended operational improvements. These are valid but incomplete. What is missing is the annual and compounded cost of the PSI program to the government and the view (the experts opinion, but widely held throughout FAD) that it actually hindered modernization while in effect. This cost (now gone) and opportunity cost is very large and should be considered in a balanced assessment.'</p> <p>We acknowledge the TRA has taken over the contract should be the overriding factor. The absence of the type of analysis pointed out above makes it unfeasible for us to draw any conclusions about the project's likely impact. Nevertheless, we are concerned at the unexplained deteriorating trend in revenue performance and the absence of any improvements in the performance indicators, which the STX considers to be incidental (which were not highlighted as such in the TA reports and a number of recommendations made to improve them).</p>
<b>Outcomes</b>	
Intervention's outcomes achieved or likely to be achieved (as defined in its logframe): Short, medium and long term outcomes.	<p>The information available shows generally weak results. Although some of the TA recommendations were accepted, the more substantive areas were not. The figures prima facie suggest deterioration in performance as a result of the contract take over. The main deficiencies, such as CSC error rates, and the hit rates for scanners, were not addressed and some showed deterioration.</p> <p>In addition to points relating to revenues above, the STX has pointed out that he does not agree that CSC error rates and scanner hit rates are important enough to be used as overall indicators of success or failure. They are second tier indicators. What the analysis says about poor follow up seems true, according to the STX the point is that these are not critical. Other activity like revenue performance, release times, inspection rates and hit</p>

Key Evaluation Questions	Comments
	<p>rates are more important.</p> <p>In arriving at our assessment of the outcome we have taken into account the fact that the TRA has been able to take over and operate the customs exit contract. Revenue has declined proportionately and although it could be for a number of reasons, on balance the fact that this has happened over an extended period and in fact it is getting worse suggests weakening of performance. Other indicators have not improved, but are not significantly worse than at the time of the takeover. Updated information suggests that some of the areas highlighted by the project are being addressed, albeit after significant delays.</p>
Significance of AFE’s contribution/likely contribution to developing core economic functions and institution building in the country/region, through the activity.	There is limited scope for achieving this goal within the context of the project.
<b>Score for Outcomes</b>	<b>2.7 Good</b>
<b>Outputs</b>	
<p>Intervention’s outputs achieved or likely to be achieved (as defined in its logframe), including:</p> <ul style="list-style-type: none"> <li>o Timeliness of reports/workshop presentations;</li> <li>o Quality of reports/workshop presentations;</li> <li>o Appropriateness/applicability of advice, given existing capacity/constraints;</li> <li>o Whether outputs are likely to produce intended outcomes.</li> </ul>	<p>In our view, the quality of the reports and recommendations were good, rather than excellent. The key issues requiring attention were, in our opinion, identified. Although the STX has pointed out that all recommendations were discussed at length with officials, evidence suggests that the more critical recommendations for improvement were not pursued at least in the timescale suggested/apparently agreed. Moreover, TRA has subsequently pointed out (e.g., on the matter of scanners) that some of the objectives set in the recommendations were not practical given the government's priorities. It is not clear to us, for example, the recommendation in the second mission to pass regulation on Agents within two months was practical (see comments from the IMF and STX on this point in Section 10.4 above).</p>
<b>Score for Outputs</b>	<b>2.9 Good</b>
<b>EFFICIENCY</b>	
<b>Process and implementation efficiency</b>	
TA design has been efficiently carried out;	The scope of the project, and the ToRs, were very focused. Perhaps provision could have been made to provide TA to assist with the implementation of the recommendations.
Timeliness in executing the activity;	The responsiveness to the initial request, with the STX being on the ground in less than two months and in time for the contract hand over, was strong and timely.
Appropriateness/effectiveness of IMF’s internal management of the activity;	There is not much evidence of this from the paperwork. The STX has pointed out that ‘that does not mean it was absent’.
Appropriateness of selection of counterpart/workshop participants (as relevant);	N/A
Quality and timeliness of management and backstopping in relation to activity;	There is not much evidence of this from the paperwork. The STX has pointed out this does not mean it was absent.
The efficiency of planning and executing the TA delivery.	TA was carried out efficiently.
<b>Efficient use of resources (human and financial) and attention to cost effectiveness</b>	
Appropriateness of staffing composition for the intervention;	The STX appeared to be a specialist in the area, and the staffing is considered to have been appropriate.
Appropriateness of work allocation between HQ and AFE in relation to activity;	The project was handled by AFE, and given the practical nature of its scope, was appropriate.
Whether expenditures have been in line with activity budget and evidence of analysis of variances;	No evidence.
Whether activity, given its results, has been cost-	To the extent that the main benefit has been to give TRA assurance on its

Key Evaluation Questions	Comments
effective compared to other TA delivery modes, given results;	<p>capacity to take over the contract, and that it was done within the first mission, this is the case. However, there had been two previous assessments and the mission benefited from the work. The added value from recommendations relating to improving performance has not been realized. We consider the results to have been mixed in terms of cost efficiency. In any event, there is no record of the costs incurred on the project to make a definitive assessment in this regard.</p> <p>The STX has pointed out that he believes that the extent to which a client does or does not implement AFE's advice should not reflect on the assessment of AFE's performance. We partially agree with this, but the Evaluation ToRs require us to report on the project's performance, which includes criteria relating to the results of the implementation of AFE's advice, and what action AFE has taken to monitor and support such implementation, especially given the introduction of RBM.</p>
Whether opportunities for efficiency gains during the intervention have been considered and explored.	There is no evidence that opportunities for improvements in efficiency of TA delivery were considered during the project. At the same time, the recommendations made during the intervention were indeed aimed at improving TRA's efficiency, albeit these were mostly not implemented.
<b>Monitoring and reporting</b>	
Evidence of effective use of self-evaluation (i.e. monitoring) and reporting to improve the efficiency and effectiveness of activity;	Other than the follow-up mission, there has been no evidence of monitoring whether the recommendations were being implemented, and/or what action, if any needed to be taken to address any shortcomings in achieving results.
Effectiveness in making use of TAIMS to monitor and manage project/workshop;	No evidence.
Effectiveness/progress in use of RBM and its usage in managing the intervention.	Although RBM was introduced in FY2012, and the second mission took place during that period, the project is not mentioned in the SXC report on outputs and results from projects.
Incorporation of lessons learnt in project design and implementation.	No explicit evidence.
<b>Score for Efficiency</b>	<b>2.6 Good</b>
<b>SUSTAINABILITY</b>	
<b>Sustainability of TA activity</b>	
Outcomes from intervention will last beyond/continue after completion of TA/training.	<p>To the extent that the main objective was to assess TRA's capacity to take over the contract, this is not relevant because sustainability in this context relates to the ability for TRA to sustain any improvement in capacity following from the project's recommendations. The significant majority of recommendations for improving capacity have not been implemented to date, with work having started on some components only recently. In our opinion, the latest (H1 2012) indicators do not suggest an improvement in sustainability.</p> <p>The IMF, with the benefit of 2011 indicators, has commented: 'Given that the evaluation was undertaken as a desk review without evidence of further follow-up with the authorities, the poor evaluation of sustainability may be unreasonable. Notwithstanding the insufficient preparations and planning by the authorities, and then the failure to heed the AFE advice when solicited, the fact remains that DI came to an end and the TRA has had to adapt to its cessation, including safeguarding revenues in the longer term. A more recent update of customs revenue performance is needed to justify the poor sustainability assessment.'</p> <p>On balance, given that the TRA is still in the process of starting addressing</p>

Key Evaluation Questions	Comments
	the capacity/performance issues highlighted in the project, we believe that at this stage it is not possible to rate sustainability of the project. We have therefore rated this criterion as Not Demonstrated. However, without further TA in this area it seems to us that the results of the project will have very weak sustainability.
For TA/training designed to deliver sustainability, local institutions/ capacities have been strengthened to sustain results beyond the life of the intervention:	
o E.g., absorptive capacity improved and developed to sustainable level;	
o E.g., in-house training capacity built, where relevant.	
For interventions designed to deliver sustainability, financial sustainability has been achieved (i.e., recipients will be implement the advice from own/other financial resources in a sustainable manner).	N/A
Effectiveness in maintenance and use of institutional memory relating to the activity	N/A
<b>Contribution to building sustainable regional TA, implementation capability.</b>	This did not happen.
<b>Score for Sustainability</b>	<b>Not Demonstrated/Cannot be Assessed</b>

### Rating Based on Previous Evaluation Methodology

DAC criteria	Sub-criteria	Score	% weight	Weighted score	% weight	Total score	Rating
<b>Relevance</b>	Consistency with Program Document and Government Priorities	3.0	60%	1.80	<b>32% (39%)</b>	<b>1.26</b>	
	Consistency with IMF Headquarter/other activities	3.6	20%	0.72			
	Co-ordination with Development Partners	3.6	20%	0.72			
				<b>3.24</b>			<b>Good</b>
<b>Effectiveness</b>	Impact		-		<b>28% (34%)</b>	<b>0.87</b>	
	Outcomes: TA	2.7	30%	0.81			
	Outcomes: Regional capacity building	2.0	30%	0.60			
	Outputs	2.9	40%	1.16			
				<b>2.57</b>			<b>Good</b>
<b>Efficiency</b>	Process and implementation efficiency	2.8	40%	1.12	<b>22% (27%)</b>	<b>0.66</b>	
	Efficient use of resources (human and financial) and attention to cost effectiveness	2.7	40%	1.08			
	Monitoring and reporting	1.3	20%	0.26			
				<b>2.46</b>			<b>Good</b>
<b>Sustainability</b>	Sustainability of TA activity	-	75%	-	<b>18%</b>	<b>-</b>	
	Contribution to building sustainable regional TA, implementation capability	-	25%	-			
				<b>-</b>			<b>ND</b>
<b>TOTAL</b>						<b>2.79</b>	<b>Good</b>

*Sustainability-related weightings reallocated to outputs as former were not rated.*

## 10.6 KEY FINDINGS AND RECOMMENDATIONS

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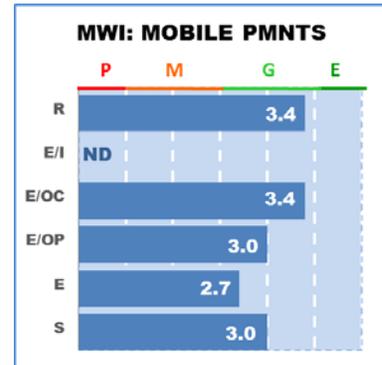
1. Lack of monitoring implementation of TA suggests weakness in project management systems at AFE.
2. *Ad hoc* projects such as this are particularly susceptible to delivering weak results in terms of project outcomes.
3. Some of the recommendations, e.g., passing regulations within two months of mission, were unrealistic, although as pointed out by IMF and the STX, there were reasons for this at that time.

# 11. MALAWI: REGULATION AND OVERSIGHT OF MOBILE PAYMENTS AND RELATED ISSUES

## 11.1 INTRODUCTION AND SUMMARY OF RESULTS

The above project was selected for ‘desktop sample’ review, in accordance with the methodology set out both in our technical proposal and in the Evaluation’s Inception Report. The evaluation was carried out primarily based on:

- Project-related documentation available at AFE (Briefing Paper, *aide memoire* and BTO); and
- Discussions with the AFE Monetary Policy and Payments System RA (who was not familiar with the project, as it was implemented by his predecessor).
- Survey feedback from the Reserve Bank of Malawi (‘RBoM’) relating to the project.



The project involved a team comprising the AFE Payments System RA and a STX going on one mission in October/November 2010 to provide advice on a number of wide-ranging issues facing the RBoM, including: addressing issues relevant for cross-border and multi-currency payment systems; facilitating national retail payments integration and modernization in a way consistent with global and regional developments; examining aspects relevant for RBoM in relation to the evolving mobile payments; and assisting RBoM’s effort to develop a supportive regulatory and oversight framework consistent with its ongoing responsibility in these areas.

Our ratings reflect our assessment of the recipients’ reported implementation of the project’s recommendation, along with feedback received about constraints faced thereto, the feedback received from the recipient on our survey, and the weak follow-up and monitoring of the recommendations.

## 11.2 BACKGROUND<sup>44</sup>

Since October 2006 Malawi had had in place a substantial IMF-Norges Bank (‘NB’) project - Central Bank Modernization - that had provided TA to RBoM, in a range of areas including all aspects of monetary policy and operations, foreign exchange operations, some aspects of payments system modernization, currency management, strategic planning, and organizational review. With most of RBoM’s TA needs met through the NB engagement, the authorities did not pursue AFE TA engagement. However, at the conclusion of the Steering Committee meeting in April 2009, RBoM expressed an interest in the resumption of AFE TA in areas not covered by the NB involvement. The request for new capacity-building assistance focused on assistance for the development of a central bank policy communication strategy and training of RBoM staff on bond pricing (in support of monetary operations). An AFE mission delivered TA in these areas in February/March 2010.

Subsequently, RBoM made another request for AFE assistance to help guide its efforts to develop approaches to regional and national payments system developments, including for emerging mobile payments.

<sup>44</sup> This section has been drawn from the project’s Briefing Paper.

Over the years, RBoM received substantial technical assistance in the payment systems area from MCM and NB. MCM assistance was at the back of the implementation of the Real Time Gross Settlement system called the Malawi Inter-bank Transfers and Settlement System ('MIT ASS'). The NB technical cooperation program particularly focused on providing advice on the definition and execution of the RBoM's oversight role. Particular emphasis was, hence, placed on establishing and implementing the framework for RBoM's oversight role and functions, and on providing advice on updating and revising the Vision and Strategy Framework for Malawi's national payments system. Benefitting from these TA engagements, various payments system related initiatives were implemented. These included the definition of RBoM's regulatory and oversight role, the drafting of suitable legislation, the establishment of the electronic check clearing house, the introduction of electronic payment cards (smartcard), electronic funds transfers, and an electronic bidding system. Alongside these developments, being a member of both regional groupings - COMESA and SADC - RBoM was assessing ways to align its own system modernization efforts with the regional cross-border payment integration initiatives under both COMESA and SADC. In addition, at the national level, Malawi had recently embraced both bank-based and non-bank based mobile payment models. As a result, a few banks were offering mobile funds transfer service and one mobile network operator was piloting their mobile payments product. The more recent emergence of mobile payments services, however, had remained outside of the NB technical cooperation. With the emergence of the new payment service, RBoM was developing suitable regulatory and oversight response. Complementing the NB initiative, the AFE TA aimed to support RBoM's effort in addressing these developments.

Malawi's National Payment System Vision and Strategy Framework for the period 2009-2013, produced by the Reserve Bank of Malawi, and jointly endorsed by the National Payments Council and the Bankers Association of Malawi appears to have provided a framework for the AFE TA and supported implementation of the recommendations.

### 11.3 AFE TECHNICAL ASSISTANCE

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The purpose of the project, which comprised one TA mission, was to assist the National Payments System Department ('NPSD') at RBM to assess strategies towards regional payment arrangements, national retail payments integration and modernization efforts, as well as approaches to deal with the emerging mobile payments environment. The mission also aimed to support NPSD's effort to enhance institutional capacity to monitor, regulate and oversee the operation of regional and national payment arrangements, including mobile payments systems.

The main issues to be addressed involved institutional capacity creation at the RBM in the payments system area involving:

- addressing issues relevant for cross-border and multi-currency payment systems;
- facilitating national retail payments integration and modernization in a way consistent with global and regional developments;
- examining aspects relevant for RBM in relation to the evolving mobile payments; and
- assisting RBM's effort to develop a supportive regulatory and oversight framework consistent with its ongoing responsibility in these areas.

A TA mission, comprising the then AFE Payments System RA and a specialist from the European Central Bank, undertook a two-week TA mission in November 2010.

The following table summarizes the main expected activities and outputs of the project<sup>45</sup>:

Mis-sion	Dates	Inputs	Activities	Outputs	Notes/Comments
1.	Oct/ Nov 2010	2 weeks: 1 RA, 1 STX	<ol style="list-style-type: none"> <li>1. Walk-through of issues relevant for the RBM in relation to regional payment arrangements;</li> <li>2. Reviewing the range of payment instruments and services available in Malawi, as well as related challenges for further integration and development;</li> <li>3. Examining mobile payments products and services offered and planned; and</li> <li>4. Identifying and discussing with RBM the key issues and challenges from a policy, regulatory and oversight perspective in relation to the areas mentioned above.</li> </ol>	<i>Aide memoire</i> with recommendations in respect of: <ol style="list-style-type: none"> <li>1. The participation of Malawi in regional payment arrangements;</li> <li>2. Facilitating further development of the national retail payments market;</li> <li>3. Ensuring safe and reliable mobile payments products and services; and</li> <li>4. Developing, in the long term, a comprehensive payments system oversight framework.</li> </ol>	The mission made 16 recommendations relating to: <ol style="list-style-type: none"> <li>1. The legal framework and in particular on strengthening the National Payments Bill that was about to go to Parliament.</li> <li>2. Oversight practices in the NPSD.</li> <li>3. Oversight practices in RBM's Banking Supervision Department.</li> <li>4. Formalizing cooperation with the Malawi Communications Regulatory Authority</li> <li>5. RBM taking a lead role in developing a national switch.</li> </ol>

#### 11.4 PROJECT OUTCOMES

Outcomes for the project were not defined in the Briefing Paper. From the expected activities and outputs, we would construct the main medium- and long-term outcomes of the project to be:

1. Malawian banks' full participation in regional payment arrangements.
2. Development of a national retail payments network, and in particular a national switch.
3. Growth of mobile payment products and services, with effective regulation and supervision.
4. Development of an effective and comprehensive payments system oversight framework.

We would normally expect to see indicators and their expected achievement dates.

For a short-term, one mission project such as this, however, our focus on evaluating the short-term outcomes, and that is principally the extent to which the mission's recommendations were implemented. In addition, whether there was appropriate follow-up by AFE with TA to assist in the implementation of the recommendations.

<sup>45</sup> From the project's Briefing Paper.

The following is a summary the mission’s principal recommendations<sup>46</sup> and their implementation status as provided by the TA beneficiary:

	Recommendations	Imple-mented? <sup>47</sup> Date(s), if yes	Actual action taken to date, or reasons, if not	Current status
<b>Legal Framework</b>				
1	RBM should further refine the draft National Payment System Bill in a manner that will give a firm legal footing to its oversight of the mobile payments service offered by the mobile network operators <sup>48</sup> .	Yes in February 2012	Draft refined as recommended	Draft submitted to Government for enactment in 2013
2	Until the new National Payment System legislation can be developed, RBM should take steps to provide an appropriate legal footing for the oversight activity that it currently undertakes. The mission recommends that RBM use powers to issue circulars under the Reserve Bank of Malawi Act to achieve this objective.	Yes in March, 2011	Mobile Payments Guidelines issued	
<b>Oversight Practices – National Payment Systems Department</b>				
3	NPSD should become the pivotal point for RBM’s regulatory and oversight initiatives in respect of mobile payments services.	Yes in 2011	NPSD is providing leadership and coordination of initiatives in NPS regulatory and oversight reforms	
4	RBM could, through NPSD, require the telecom companies engaged in this activity to be licensed as a payments service provider.	Done.	Licensing provisions have been included in the draft Payments Systems Bill	Telecom companies engaged in this activity are required to obtain prior approval or no objection from RBM to be payments service provider
5	RBM may like to require that the mobile payments service providers present the results of a comprehensive internal risk analysis covering, <i>inter alia</i> , infrastructure, hardware, software, data and human aspects of their operations including those services that are subcontracted to outside agencies.	Yes in 2011	Provisions included in the Mobile Payments Guidelines	
6	There are potential AML/CFT risks that could arise and in addressing this, NPSD should discuss the issues with FIU and devise a regulatory and oversight strategy to deal with them	Yes in 2011	Provisions for addressing AML/CFT risks included in Mobile Payments Guidelines	
7	NPSD should pursue with the mobile network operator the issue of service commissions remaining in e-money and ensure that appropriate accounting and system interfaces are created to convert it	Yes in 2011	Issues resolved and verified before RBM’s approval of full launch of system	

<sup>46</sup> Extracted from the mission’s *aide memoire*

<sup>47</sup> If not fully implemented, please indicate extent (e.g. x%)

<sup>48</sup> With reference to the areas detailed in the *aide memoire*

	into cash and maintain the isolation of the escrow/settlement accounts.			
8	Taking into account the risks arising out of unauthorized money/value transfer through hacking, denial of service on account of technology failure etc., NPSD should discuss approaches mobile companies could adopt to assess the liabilities arising out of such events and appropriate counter measures that can be taken such as insuring themselves against such risks.	Yes	Need for Assessment of liabilities and countermeasures highlighted and discussed with mobile companies during systems demonstrations and review of audit report	
9	Because of the potential legal risk, any security procedure adopted by mobile companies for authenticating mobile payment users needs to be recognized by law as a substitute for signature. RBM should consider how the legal basis of the particular technology as a means for authenticating electronic record, could be validated.	Yes	Provisions for authentication of electronic entries and records included in the draft Payments Systems Bill	
<b>Oversight Practices – Bank Supervision Department</b>				
10	BSD should ensure that banks have risk management systems in place that reflect the risk associated with the operation of the escrow or settlement accounts. The primary risks are liquidity risk and operational risk.	Yes	This is part of risk based supervision carried out by BSD	
11	If the network operator is covered under the Anti-Money Laundering legislation, RBM should consider these entities when undertaking a national risk assessment to determine the best approach to developing a national AML system on the basis of risk.	Yes	Part of risk based supervision	
12	Based on its assessment of the risks, RBM, in consultation with FIU, should design a framework for AML oversight of the activity of the mobile payments system that reflects the level of risk indicated by a national risk assessment.	Yes	There is cooperation between BSD and NPSD on mobile payments and AML oversight related issues	
<b>Cooperation With Malawi Communications Regulatory Authority</b>				
13	Since telecom companies provide the mobile payments service, it is important that RBM develop a formal relationship with their regulator – Malawi Communications Regulatory Authority.	Yes	There is a direct working relationship between RBM and MACRA on mobile payments. Another working relationship is through the National Payments Council (a grouping of financial institutions and other payment systems service providers).	NPSD is considering to ‘cement’ the working relationship through an MOU to be in place in 2013
14	NPSD, in cooperation with MACRA, should verify the implementation of the business continuity plans, ensure the efficiency and adequacy of the data back-up arrangements, appropriateness of the technology platforms and risk	Yes	Provisions included in the Mobile Payments Guidelines.	RBM holds ad hoc meetings with MNOs to check compliance

	management systems adopted by the network operator.			
15	RBM should seek MACRA’s cooperation to review and audit detailed system architectures deployed by the service providers for effecting mobile payments.	Yes	This is part of “licensing requirements” which MNOs have to meet even without the consent of MACRA. This also forms part of RBM’s oversight activity. Any mobile payments solution provider failing to comply with this requirement risks his product being “de-licensed”	Although this is part of RBM’s oversight function, specific clauses will be included in the proposed MOU
<b>Retail Payments Infrastructure</b>				
16	Malawi needs an interoperable switching platform with broad participation by financial institutions in order to attract the transaction volume that is key to the provision of reliable and efficient payment service. RBM should take the lead role in bringing this about.	Yes	RBM is implementing an integrated national switch funded by the World Bank which is expected to be operated by financial institutions	The selection process for the vendor to supply the switch is currently in progress

The following are comments from the Malawi AFR Team:

The TA evaluation report needs to make a sharper distinction between its assessment of the performance of this particular TA project and the progress to date in the development of payments systems in Malawi. While the report’s assessment that *“the range of (TA) advice was wide, given the diversity of the areas being addressed, and without any guidance on implementation or indication of follow-up”*, it is not true that there has been insufficient progress in the payments area as a result.

It is important to note that the RBoM is already the beneficiary of considerable TA from other development partners in payments systems and that this has resulted in some progress area. Other entities providing TA include: the World Bank, under the ongoing roll-out of the FSTAP, as well as TA provided by the Alliance for Financial Inclusion in Africa and the SADC Regional Integration Project.

The current status of each of the medium- and long-term project outcomes listed in the evaluation report (p139) is as follows:

- 1. Malawian banks’ full participation in regional payment arrangements.**  
*Current status:* Participation in the *SADC Regional Integration Project*, whereby commercial banks are participating in the *SADC regional clearing system* as well as the *COMESA Regional Payment Settlement System*.
- 2. Development of a national retail payments network, and in particular a national switch.**  
*Current status:* A national switch is being developed under FSTAP, which is being financed by the World Bank. Under this project, the current Real Time Gross Settlement System (RTGS) (namely, the “Malawi Interbank Transfer and Settlement System” (MITASS)) is being replaced by a new Automated Transfer System (ATS), which is a common platform that encompasses both an RTGS and an Automated Clearing House (ACH) that will be entirely owned and operated by the RBM.

3. **Growth of mobile payment products and services, with effective regulation and supervision.**  
**Current status:** The work in the area of mobile banking is being spearheaded by *Alliance for Financial Inclusion in Africa*, but is still very much a work in progress. Guidelines have recently been established for assessing providers of mobile banking services.
4. **Development of an effective and comprehensive payments system oversight framework.**  
**Current status:** Assistance is also being provided by *Alliance for Financial Inclusion in Africa* in this area. However, there are some important gaps, as there is reportedly no Payments Systems Law currently in place. The law was reportedly submitted to Parliament several years ago (after receiving feedback from the Fund and from Norges Bank), but it is still awaiting passage. This is seen as a major handicap, as the RBM is currently forced to rely on moral suasion to influence banks in the payments systems area.

AFE reportedly conducted a needs assessment last year, which should provide a comprehensive update of the current status, and reflect the progress made in the payments systems area since its provision of TA in November 2010. AFE's provision of any additional TA in this area should be carefully coordinated with other TA providers in order to complement other ongoing work.

We understand that the AFE has not been monitoring the implementation of these recommendations. Our review of the AFE FY2012 Activity Report, and the FY2013 Work Plan suggests no TA was provided or planned in the areas of Payments System or Mobile Payments.

## 11.5 EVALUATION RATINGS

Key Evaluation Questions	Comments
<b>RELEVANCE</b>	
<b>Consistency with Program Document and Government Priorities</b>	
Consistency of activity with Program Document, AFE strategy, and approved work plan.	This was more of a policy/strategy mission, rather than one that was implementation oriented.
Consistency of intervention(s) with national/regional priorities:	
o Extent to which activity is linked to and supports national/regional strategy (if one exists – e.g., PRSP);	The project is consistent with Malawi's National Payment System Vision and Strategy Framework for the period 2009-2013.
o Extent to which activity is linked to and supports sector/topical reform strategy (if one exists);	
o Extent to which strong country/institutional ownership of activity has been demonstrated.	The beneficiary's response suggests that implementation of recommendations has been undertaken, some in partnership with other TA providers.
Whether the activity is appropriately sequenced, given the completed/outstanding reform needs for that sector/institution:	This is not clear. The intervention looked like it was aimed at addressing a series of issues, rather than developing a coherent strategy based on a detailed diagnostic (which, given the wide ranging topic, would have needed to be extensive). The areas covered were wide ranging, and we believe it is unlikely that RBoM would have had the capacity to effectively implement many of the recommendations without further TA. We understand TA is being provided by other TA partners in selected areas.
o E.g., appropriateness of project expected outcomes given country/institutional absorptive and implementation capacity.	
<b>Consistency with IMF Headquarter/other activities</b>	
Whether activity is appropriately focused in terms of subject area, taking into account the IMF's expertise, and integration with HQ and other Fund activity (e.g. other	As indicated above, in our opinion this was more of a policy-oriented mission, rather than focused on implementation.

Key Evaluation Questions	Comments
training and TA delivered including through the topical trust funds).	
<b>Coordination with Development Partners</b>	
Whether the intervention has been effectively coordinated with and complements the work of other development partners.	TA is being provided by the World Bank and Alliance for Financial Inclusion in Africa. As indicated in our comments related to outputs below, we would have expected the TA report to address issues relating to implementation, and access to other donors to assist in that process.
<b>Context of donor/TA landscape of AFE TA</b>	
Why did the TA recipient choose the AFE as the TA provider as opposed to other donors?	Not clear.
How do workshop participants compare those provided by AFE with workshops from other donors?	N/A
<b>Score for Relevance</b>	<b>Good 3.4</b>

<b>EFFECTIVENESS</b>	
<b>Impact</b>	
Intervention's expected Impact achieved or likely to be achieved (to the extent defined in the activity's logframe).	The topics covered in the report, along with wider developments in the mobile payments area, are likely to have significant impact on the Malawi financial landscape. It may be difficult to assess AFE's contribution in this process looking at this project in isolation.
<b>Outcomes</b>	
Intervention's outcomes achieved or likely to be achieved (as defined in its logframe): Short, medium and long term outcomes.	This has been difficult to assess given the desktop nature of this evaluation. Response from the TA beneficiary suggests all the recommendations have been acted upon. Nevertheless, it is difficult to establish the degree to which implementation of the recommendations have in fact been completed. For example, the IMF points out that payments related legislation has stalled for number of years. The beneficiaries indicate they have incorporated proposed amendments to the bill, and have submitted it to the government in 2013. There is no certainty when this will be passed. In addition, it is not clear, for example in areas related to banking sector supervision, the extent to which recommendations have been fully implemented by RBoM. Our rating for outcomes is therefore based on an assumption that the recommendations have been, or are likely to be, implemented substantially and are likely to deliver the majority of the expected outcomes.
Significance of AFE's contribution/likely contribution to developing core economic functions and institution building in the country/region, through the activity.	None evident.
<b>Score for Outcomes</b>	<b>Good 3.4</b>
<b>Outputs</b>	
Intervention's outputs achieved or likely to be achieved (as defined in its logframe), including: <ul style="list-style-type: none"> <li>o Timeliness of reports/workshop presentations;</li> <li>o Quality of reports/workshop presentations;</li> <li>o Appropriateness/applicability of advice, given existing capacity/constraints;</li> <li>o Whether outputs are likely to produce intended outcomes.</li> </ul>	The recommendations were extensive and covered the areas outlined in the mission's briefing paper. However, they were very much focused on 'what' to do. There was no implementation plan, or milestones – no 'how' to do it.
<b>Score for Outputs</b>	<b>Good 3.0</b>
<b>EFFICIENCY</b>	
<b>Process and implementation efficiency</b>	
TA design has been efficiently carried out;	<i>Ad hoc</i> mission giving strategic advice. Without a plan for any follow-ups to assist with implementation, or provision for donor coordination, such missions risk producing sub-optimal results.

Key Evaluation Questions	Comments
Timeliness in executing the activity;	Appears to have been timely.
Appropriateness/effectiveness of IMF's internal management of the activity;	No evidence on paper.
Appropriateness of selection of counterpart/workshop participants (as relevant);	Appropriate.
Quality and timeliness of management and backstopping in relation to activity;	No evidence on paper.
The efficiency of planning and executing the TA/training delivery.	As indicated above, we believe provision of advice for implementation, If necessary, should have been considered in the TA design.
<b>Efficient use of resources (human and financial) and attention to cost effectiveness</b>	
Appropriateness of staffing composition for the intervention;	Appears to have been so.
Appropriateness of work allocation between HQ and AFE in relation to activity;	It appears to us that this type of mission falls more within the remit of HQ, rather than AFE.
Whether expenditures have been in line with activity budget and evidence of analysis of variances;	No evidence.
Whether activity, given its results, has been cost-effective compared to other TA delivery modes, given results;	This is difficult to assess based on the information available.
Whether opportunities for efficiency gains during the intervention have been considered and explored.	No evidence of opportunities being considered to provide more efficient TA. The TA recommendations if fully implemented would contribute to the improved efficiency and effectiveness of Malawi's payments system.
<b>Monitoring and reporting</b>	
Evidence of effective use of self-evaluation (i.e. monitoring) and reporting to improve the efficiency and effectiveness of activity;	No post mission monitoring of implementation.
Effectiveness in making use of TAIMS to monitor and manage project/workshop;	Not used.
Effectiveness/progress in use of RBM and its usage in managing the intervention.	Not used – mission took place before RBM was implemented.
Incorporation of lessons learnt in project design and implementation.	Not evident.
<b>Score for Efficiency</b>	<b>2.7 Good</b>
<b>SUSTAINABILITY</b>	
<b>Sustainability of TA activity</b>	
Outcomes from intervention will last beyond/continue after completion of TA/training.	To the extent that recommendations are being followed up, results are likely to be sustainable.
For TA/training designed to deliver sustainability, local institutions/ capacities have been strengthened to sustain results beyond the life of the intervention:	N/A
o E.g., absorptive capacity improved and developed to sustainable level;	
o E.g., in-house training capacity built, where relevant.	
For interventions designed to deliver sustainability, financial sustainability has been achieved (i.e., recipients will be implement the advice from own/other financial resources in a sustainable manner).	N/A
Effectiveness in maintenance and use of institutional memory relating to the activity	This has been weak.
<b>Contribution to building sustainable regional TA, implementation capability.</b>	None evident.
<b>Score for Sustainability</b>	<b>Good 3.0</b>

### Rating Based on Previous Evaluation Methodology

DAC criteria	Sub-criteria	Score	% weight	Weighted score	% weight	Total score	Rating
<b>Relevance</b>	Consistency with Program Document and Government Priorities	3.7	60%	2.22	<b>32%</b>	<b>1.05</b>	
	Consistency with IMF Headquarter/other activities	2.5	20%	0.50			
	Co-ordination with Development Partners	2.8	20%	0.56			
				<b>3.28</b>			<b>Good</b>
<b>Effectiveness</b>	Impact		-		<b>28%</b>	<b>0.87</b>	
	Outcomes: TA	3.4	30%	1.02			
	Outcomes: Regional capacity building	3.0	30%	0.90			
	Outputs	3.0	40%	1.20			
				<b>3.12</b>			<b>Good</b>
<b>Efficiency</b>	Process and implementation efficiency	3.0	40%	1.20	<b>22%</b>	<b>0.61</b>	
	Efficient use of resources (human and financial) and attention to cost effectiveness	3.2	40%	1.28			
	Monitoring and reporting	1.3	20%	0.26			
				<b>2.74</b>			<b>Good</b>
<b>Sustainability</b>	Sustainability of TA activity	3.0	75%	2.25	<b>18%</b>	<b>0.46</b>	
	Contribution to building sustainable regional TA, implementation capability	1.3	25%	0.33			
				<b>2.58</b>			<b>Good</b>
<b>TOTAL</b>						<b>2.99</b>	<b>Good</b>

### 11.6 KEY FINDINGS AND RECOMMENDATIONS

1. The project provided wide ranging strategic guidance on ‘what’ to do. Without guidance on ‘how’ to do it, particularly in a relatively new area such as mobile payments, the possibilities of achieving results are jeopardized. In our opinion, projects such as these need to have clear implementation plans as part of the output.
2. There was no evidence that there was follow up after the mission took place to see if there were any issues relating to carrying out the recommendations.
3. There is no evidence of monitoring of implementation of advice.
4. There is no evidence of other donors active in the financial sector/payments area having been consulted.

## 12. MALAWI: STRENGTHENING OF THE NATIONAL TREASURY

### 12.1 INTRODUCTION AND SUMMARY OF RESULTS

The above project was selected for ‘desktop sample’ review, in accordance with the methodology set out both in our technical proposal and in the Evaluation’s Inception Report. The evaluation was carried out primarily based on:

- Project-related documentation available at AFE (Briefing Papers, Mission Reports, BTOs, and AFE annual reports to the SC); and
- A phone interview with the AFE RA responsible for the project.

The project’s original AFE diagnostic mission took place in July/August 2008, building on a FAD diagnostic report of May 2007 and on a FAD assessment of the implementation of an Integrated Financial Management Information System (‘IFMIS’), which took place in May 2007. Nevertheless, Malawi’s procurement of the relevant IT system, from EPICOR, as well as the country’s initial cash management implementation efforts, originate from before the above-mentioned diagnostic missions. The project involved the RA and STXs providing TA through seven missions<sup>49</sup>. This initiative has supported Malawi in improving its overall cash management, *inter alia* by (i) steering the implementation of the country’s IFMIS, (ii) improving the quality of cash flow forecasting, (iii) strengthening its capacity to manage its overall cash position, (iv) enhancing reporting, along with overall transparency, as well as (v) bringing about both savings and interest income through more integrated/unified cash management.

Although progress has been made, the project has experienced considerable delays. In addition to capacity constraints and staff turnover, delays in implementing relevant modules of IFMIS, and slow changes in budgeting practices, and other factors have contributed to the Malawian authorities still needing to progress in this area. A 2012 Enhanced Credit Facility, which requires *inter alia* substantial improvements in cash management, should provide added impetus to the project. Our evaluation ratings reflect the achievements to date, but that there have been delays and achievement of outcomes, and its sustainability carries risks given the project’s track record to date.



<sup>49</sup> These activities were implemented in the framework of either FAD’s or AFE’s work program. AFE officials were also present at FAD-led missions. The review excludes a FAD-led IFMIS diagnostic mission which covered, *inter alia*, cash management. The first mission assessed in this desktop review was undertaken in July/August 2008 and focused primarily on cash management.

## 12.2 BACKGROUND

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An effective government cash management framework supports the achievement of multiple strategic and operational goals. These objectives range from contributing to budget implementation through appropriate gathering of information on past flows, the present cash position, as well as its expected future evolution. The aim in this area is to decrease borrowing costs and foregone income by optimizing the return of financial assets. In addition, effective cash management allows for appropriate management of financial flows, cash transactions and banking processes, while also helping make liquidity available to government bodies pursuant to their statutory obligations. Such a framework also helps support the management of public debt; allows the conduct of monetary policy more efficiently through enhanced liquidity management; and provides for efficient consolidation of all government income streams. Finally, adopting a thorough and disciplined approach boosts the transparency of public financial management and helps prevent fraud.

The key dimensions of a cash management framework following international best practices relate to:

- Revenue collection: ensuring same-day depositing and recording of cash inflows;
- Agency funding: either actively (deposits on the night before) or passively (nightly reimbursements);
- Disbursements: executed electronically and not by check or cash handouts;
- Bank account structure: seeking to minimize the number of accounts, and in all cases to manage government cash as a unity (for example, by avoiding overdraft in certain accounts while others have idle balances);
- Sweeping; transferring all funds daily to the treasury's revenue hub;
- Group set-off arrangements: to ensure that all government cash is treated in a consolidated manner;
- Regular cash forecasting, which supports the development and implementation of cash management strategies;
- Daily cash targets and deficit financing;
- Cash accounting and financial reporting (e.g. on deficits, on agency performance, on monetary operations and on debt market operations);
- Assurance of integrity (through daily reconciliation and reporting); and
- Minimization of banking fees, through a transparent and cost effective tendering system.

In addition, the institutional framework necessary to support these activities needs to be established or strengthened.

In 2005 Malawi procured and implemented IFMIS running on the EPICOR software platform, which was originally customized and applied by the Government of Tanzania. Only the core functionalities of this modular system were implemented, covering a ledger, accounts payable, purchase orders, cash release, cash control, commitment control and fiscal reporting. Adding further functionalities and migrating to a web-based version were important concerns.

This worthwhile initiative was highly complex both from a technical and from a human, point of view. In 2008 an AFE diagnostic mission found a number of challenges affecting the capabilities of the Government of Malawi to manage its cash in an effective fashion. Issues included:

- Fragmentation of accounting and reporting systems;
- Lack of daily information on budget execution;
- Weak cash forecasting capacities;
- Inefficient bank account setup;
- Lack of integrity assurance systems for fiscal & monetary data;
- Inappropriate systems for sweeping at commercial banks' accounts;
- Sub-optimal borrowing costs; and

- Costly transaction fees from commercial banks.

Government cash management involves enormous amounts, even for a small economy such as Malawi's. In fact, government expenditure has hovered between 30 per cent and 40 per cent of GDP in the past five years. Government debt is also accumulating fast, from 35 per cent in 2010 to almost 49 per cent of GDP in 2012. In 2012 public expenditure reached approximately US\$16.6 billion, while government debt almost US\$21 billion.

A proliferation of government bank accounts compounds the difficulty of managing their cash balances. At the time of the 2008 AFE diagnostic, the ministry of finance managed 35 revenue-holding accounts; 5 accounts for ordinary payments; 32 local government holding accounts; and around 400 donor project accounts. In addition, government agencies and local governments managed their own accounts.

The efficient and effective management of government cash resources is critical. Especially for a Least Developed Country such as Malawi. The inception of AFE's TA on cash management in Malawi hence filled a very important technical niche. Given the amounts at stake, this assistance is both relevant and opportune.

### 12.3 AFE TECHNICAL ASSISTANCE

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The Government of Malawi ('GoM') singled out cash management as one of its priorities for AFE TA ever since the country joined the Center in 2006. Since that year, and throughout 2007, the GoM's Treasury received support for the introduction of cash flow planning from a US Treasury advisor based in Lilongwe. In 2007, an AFE mission provided diagnostic and initial advice on cash management as well. However, AFE's support in this area started in earnest following the Center's needs assessment and diagnosis mission of mid-2008.

Throughout the years, AFE's support in PFM has covered general issues relating to the development of a Medium-term Fiscal Framework ('MTFF') and a Medium-term Expenditure Framework ('MTEF') for Malawi, along with the implementation of Program Based Budgeting ('PBB'). The Center has focused on government cash management along two broad axes. The first one focuses on supporting the optimization of Malawi's IFMIS: implementation, extension, integrity, interface with other systems, accounting, reporting, and cash controls. The second axis complements the former and revolves around improving the country's government cash management framework. This latter line of work particularly touches on issues such as cash flow forecasting, consolidation of government bank accounts, management of revenue collection and agency funding. Various national and international assessments relating to the rapid deployment of the IFMS and quick wins were positive. More recent reviews on the extension of functionality, the coverage of data capture and the control environment have been less favorable. A key issue has been to create and maintain the institutional structures necessary to manage such a system. AFE's work has been considered useful and is well appreciated.

Since the very beginning, AFE has remained involved in Malawi through a series of missions to the country. Its approach has broadly followed a rolling TA cycle usually started by taking stock of the situation, followed by the identification of solutions and action plans. This diagnosis constituted the basis for providing technical support. In the process of providing concrete technical advice, the Center monitors the implementation of the plans/strategies.

More specifically, the following PFM missions have been undertaken to date to deliver TA under this project:

1. July/August 2008: Cash management diagnostic;
2. February 2009: Integration of accounting systems and fiscal reporting;
3. August 2009: Integration of accounting systems and fiscal reporting;
4. January 2010: Cash management, accounting Integration and fiscal reporting;
5. October/November 2010: Technical assessment of GoM's IFMIS;
6. December 2011 (FAD/AFE Mission): PFM reform stocktaking; and
7. October 2012: Strengthening cash management.

In addition, the Center has organized a number of national and regional workshops on cash management as well as on other PFM topics, in which GoM TA counterparts have participated. National training workshops have taken place during AFE country visits.

The following table summarizes the main activities and outputs (including workshops) of the project to date:

Mis-sion	Mths	Inputs	Activities	Outputs	Notes/Comments
<b>2008</b>					
1.	Jul / Aug	2 weeks RA + STX	<ol style="list-style-type: none"> <li>1. Appraised Malawi's technical cooperation needs as regards reforming its cash management systems.</li> <li>2. Advised GoM on international best practices in the area.</li> <li>3. Explored possibilities for an AFE TA in this area.</li> <li>4. Organized a training workshop on int'l best practices.</li> </ol>	<ol style="list-style-type: none"> <li>1. Presentation on international best practice.</li> <li>2. Diagnosis of current cash management systems.</li> <li>3. Recommendations for strategic and operational improvements.</li> <li>4. Outlines of four TA projects to implement the above recommendations.</li> </ol>	The four projects developed related to: <ol style="list-style-type: none"> <li>1. Integration of Cash Accounting Systems.</li> <li>2. Development of Cash Flow Forecasting Framework.</li> <li>3. Financial Reporting.</li> <li>4. Review of banking overdraft arrangements.</li> </ol>
<b>2009</b>					
2.	Feb	2 weeks STX	Assisted the authorities with the integration of the heterogeneous government accounting systems and with the production of in-year fiscal reports.	<ol style="list-style-type: none"> <li>1. Recommendations for integrating accounting systems &amp; automated fiscal report production.</li> <li>2. Action plan &amp; agreement of GoM on priorities.</li> <li>3. AFE set out to prepare specifications for fiscal reporting within IFMIS.</li> </ol>	AFE helped integrate accounting data on revenues, expenditures and resources in an automated manner in order to generate in-year fiscal reports as per senior management's information needs.
3.	Aug	2 weeks RA + STX	<ol style="list-style-type: none"> <li>1. Reviewed government cash management, accounting and fiscal reporting practices.</li> <li>2. Held consultations with key stakeholders on the elements of a TA project.</li> <li>3. Provided recommendations for improvement.</li> </ol>	<ol style="list-style-type: none"> <li>1. Stock taking of progress since previous mission.</li> <li>2. Recommendations for improvement.</li> <li>3. Detailed TA program agreed upon with the relevant authorities in Malawi.</li> </ol>	This mission followed a regular pattern: It reviewed progress made by GoM, provided specific advice on technical issues and updated the recommendations for remaining TA.

Mission	Mths	Inputs	Activities	Outputs	Notes/Comments
<b>2010</b>					
4.	Jan	2 weeks RA + STX	<ol style="list-style-type: none"> <li>1. Reviewed IFMIS design, functions &amp; use against expectations.</li> <li>2. Identified outstanding issues &amp; ways to resolve them within the system.</li> <li>3. Determined linkages to existing/recommended systems and evaluated their effectiveness, or how to implement them.</li> <li>4. Prioritized outstanding issues (e.g. backup &amp; security) &amp; set timeline.</li> </ol>	<ol style="list-style-type: none"> <li>1. Assessment report, with associated timeline to address priority issues.</li> <li>2. Guidance to the authorities for further advancement of GoM's IFMIS agenda.</li> <li>3. Updated matrix of recommendations and action plan.</li> </ol>	This mission constituted an external review of the IFMIS, assessing linkages to other GoM systems (e.g. budget planning, payroll & revenue collection) and identifying areas for improvement to meet acceptable standards & functional requirements.
5.	Oct / Nov	2 weeks RA + STX	<ol style="list-style-type: none"> <li>1. Assessed implementation success &amp; gaps (IFMIS functionality, processes, continuity, system coverage; reporting &amp; sustainability).</li> <li>2. Presented identified gaps to stakeholder workshop.</li> <li>3. Conducted workshop on asset transactions &amp; linkages to other modules.</li> <li>4. Sketched out way to activate module on asset transactions.</li> </ol>	<ol style="list-style-type: none"> <li>1. Design, functionality and use of the IFMIS application reviewed.</li> <li>2. Outstanding issues, identified and prioritized</li> <li>3. Linkages to other PFM systems assessed.</li> <li>4. Assessment report &amp; timeline for advancing the IFMIS agenda.</li> <li>5. Priorities confirmed with key stakeholders.</li> </ol>	<ol style="list-style-type: none"> <li>1. AFE remained in contact with MoF authorities and provided follow-up assistance to finalize the IFMIS implementation plan.</li> <li>2. The Accountant General requested support in developing guidelines, recording &amp; valuing assets; and for providing quality assurance, as GoM advances in its software upgrade project.</li> </ol>
<b>2011</b>					
6.	Dec	2 weeks RA + other AFE + 2 FAD staff	<ol style="list-style-type: none"> <li>1. Reviewed integrity of the existing IFMIS.</li> <li>2. Identified remaining PFM challenges.</li> <li>3. Formulated a medium term plan.</li> </ol> <p>(FAD- led mission)</p>	Review & recommendations relating to: <ol style="list-style-type: none"> <li>1. IFMIS integrity.</li> <li>2. Financial reporting.</li> <li>3. Cash flow forecasting.</li> <li>4. MTEF and program budgeting reforms.</li> <li>5. PFEM reform program design, incl. Reserve Bank of Malawi ('RBM').</li> <li>6. No. of gov't bank accounts.</li> <li>7. Accounts surveillance.</li> </ol>	Grave concerns had arisen due to the detection of fraudulent transactions in IFMIS, resulting in serious financial loss to the GoM.
<b>2012</b>					
7.	Oct	2 weeks RA + expert	<ol style="list-style-type: none"> <li>1. Assessed processes for cash flow forecasts and calculating releases.</li> <li>2. Found ways to simplify or enhance processes to improve predictability.</li> <li>3. Advised on interfaces with the RBM for payments &amp; statements.</li> <li>4. Determined scope &amp;</li> </ol>	<ol style="list-style-type: none"> <li>1. Proposed model &amp; action plan for extending Treasury Single Account ('TSA').</li> <li>2. Proposed strategy for enhancing cash forecasting &amp; mgm't capacities.</li> <li>3. Examples of improved forecasting techniques &amp; active cash mgm't.</li> </ol>	The mission focused on harnessing IT advances, especially to improve: <ol style="list-style-type: none"> <li>1. Reliability of forecasts for procurement and cash purposes.</li> <li>2. Use of forecasts for predictable budgeting and cash releases.</li> <li>3. Nat'l payment system,</li> </ol>

Mis-sion	Mths	Inputs	Activities	Outputs	Notes/Comments
			limitations of GoM banking arrangements. 5. Identified options for strengthening control over its aggregate cash. 6. Reviewed active cash mgm't practices (e.g. treasury bills, overdraft).	4. Brief TA report identifying emerging challenges on cash mgm't & banking arrangements.	automatic clearing house system, bank connectivity and IFMIS.
<b>Workshops</b>					
1.	July / Aug 2008	During mission 1 above	National workshop on international best practices regarding government cash management, accounting & fiscal reporting practices		
2.	Oct / Nov 2010	During mission 5 above	National workshop for the Accountant General's management team focusing on the nature of asset transactions and the dependencies/linkages to other modules		
<p>In addition, Malawi has benefited from a number of regional workshops relevant to the project, including those listed below:</p> <ol style="list-style-type: none"> <li>1. Workshop on IFMIS - Managing Risks. Kigali, Rwanda: 23 to 26 April 2012.</li> <li>2. Tools to Guide and Drive Public Financial Management reforms. Kampala, Uganda: 3 to 6 October 2011.</li> <li>3. Improving the effectiveness of Cash Management Units. Mombasa, Kenya: 27 to 29 September 2010.</li> <li>4. Regional Workshop on Integrated Financial Management Systems. Mombasa, Kenya: 15 to 17 February 2010.</li> <li>5. Cash Management Reforms. Nairobi, Kenya: 22 to 26 September 2008.</li> <li>6. Second-Generation Treasury Reforms, 2008. Nairobi, Kenya: 26 to 30 November 2007.</li> </ol>					

## 12.4 PROJECT RESULTS

There were no results defined for the project prior to AFE’s initial engagement or to its 2008 needs assessment and diagnosis mission. Nevertheless, sketches of project logframes were provided during that mission, focusing principally on activities and outputs. The current AFE-level logframes provide for outcomes and indicators for missions, and our general comments on that subject are provided in the Report.

Based on the above information, as well on a wider review of the project’s documentation, we have established the principal outcomes set out below. The following list also suggests outcome indicators, as well as their possible sources of verification.

Outcomes			Indicator <sup>50</sup>	Sources of Verification
Short-term (up to 1 year)	Medium-term (2-3 years)	Long-term (4-10 years)		
<ul style="list-style-type: none"> <li>▪ GoM continuously implements IFMIS.</li> <li>▪ Major system bugs are fixed.</li> </ul>	System is more robust functions are expanded; & links with other systems enabled.	<ul style="list-style-type: none"> <li>▪ Government cash mgn’t policies are well informed and respond effectively &amp; efficiently to evolving needs.</li> <li>▪ High level of transparency in the conduct of public sector cash mgn’t.</li> <li>▪ Borrowing costs decrease &amp; more interest generated from Gov’t cash positions, while substantial savings are also attained.</li> </ul>	<ul style="list-style-type: none"> <li>▪ No. of partial &amp; complete system breakdowns.</li> <li>▪ No. of IFMIS functions enabled.</li> <li>▪ No. of links being used.</li> <li>▪ Frequency &amp; accuracy of the reports produced.</li> <li>▪ Nature of audit observations.</li> <li>▪ Difference between predictions against actual cash flow.</li> <li>▪ Quantity and amount of illegal actions detected.</li> <li>▪ Sweeping frequency.</li> <li>▪ Delays in tackling irregularities.</li> <li>▪ No. of active gov’t accounts (excluding zero balance).</li> <li>▪ Total bank fees paid + interest gained &amp; paid as % of yearly cash flow.</li> </ul>	<ul style="list-style-type: none"> <li>▪ IMF surveillance reports.</li> <li>▪ EPICOR logs.</li> <li>▪ Treasury books.</li> <li>▪ Review of accounting reports.</li> <li>▪ Audit reports.</li> <li>▪ Review of reports.</li> <li>▪ AFE expert opinion.</li> <li>▪ Treasury reports.</li> <li>▪ AFE reports.</li> <li>▪ AFE recommendations matrix.</li> <li>▪ AFE <i>aide memoirs</i>.</li> <li>▪ Bank reports.</li> <li>▪ Interview with officials.</li> <li>▪ Treasury accounts.</li> <li>▪ Commercial banks’ statements.</li> </ul>
Improved capacity to produce relevant accounting reports.	Reports are produced and used appropriately by senior mgn’t.			
Improved capacity to undertake cash flow forecasting.	Cash flow forecasting undertaken regularly & professionally.			
Integrity assurance systems are being implemented.	Minimum level of (or no) fraudulent activity on Gov’t accounts.			
Overnight sweeping to all gov’t accounts. Irregularities detected & addressed.	Number of gov’t accounts decreases, tending towards a TSA.			
Costly transaction fees with commercial banks are reduced.	Costly transaction fees with commercial banks are eliminated.			

After over four years of TA, short-term outcomes have generally materialized to a large degree. A preliminary review however indicates a number of difficulties, which effectively hinder achieving medium- and long-term outcomes. A FAD-led mission in December 2011 concluded that, despite the progress made, cash management at GoM still suffers from serious structural deficiencies, including inadequate systems for bank reconciliation, unreliable cash flow forecasting processes and limited cash management capacity.

<sup>50</sup> Indicators would also have pre-specified dates. We have excluded these given the *ex-post* nature of the exercise. Where the outcome spans a period (e.g., a number of MoUs to be agreed, staff capacity building, etc.), periodic benchmarks would be expected.

With respect to the four main components of the project:

1. Progress on integrating cash accounting systems has been good. IFMIS has been rolled out across all government agencies. Nevertheless, there are still major issues outstanding in terms of accuracy and timeliness of the reports and a significant proportion of transactions are still not captured by the system.
2. There has been limited progress with respect to the cash flow forecasting framework, with weaknesses in budgeting processes (e.g., over-optimistic revenue forecasts) outside the cash management unit's immediate control affecting performance. Moreover, daily forecasts are needed: at present these are produced approximately monthly.
3. Progress on financial reporting issues is heavily dependent on implementation of IFMIS. Nevertheless, the RA believes significant efforts have been made to increase disclosures on financial liabilities, and to make accounting officers accountable for the resources devoted to them.
4. Limited progress has been achieved to date on consolidating banking arrangements, again, partially affected by IFMIS upgrade-related delays. In particular, extension of core TSA has been restrained by RBoM core application and connectivity issues.

The system still suffers from payment arrears and cash rationing. Cheques are still used extensively to make payments.

It appears that AFE has provided solid TA, which does contribute towards higher-level outcomes. Nevertheless a number of other elements - mostly national initiatives - are necessary in order to secure the achievement of such results. In addition, a number of risks (or assumptions) may still jeopardize the project's impact. Some of the key factors include: (i) continued commitment by GoM to the reform process; (ii) political stability; (iii) absence of violent external shocks affecting the Malawian economy; (iv) strengthening institutional arrangements for management and control of PFM; (v) ability to recruit and retain appropriate technical personnel; and (vi) financial and technical means to ensure support and further expansion of current IT system. In addition, the impetus provided by the 2012 IMF Enhanced Credit Facility, that requires significant strengthening in the PFM area, should contribute positively to the achievement of results.

## 12.5 EVALUATION RATINGS

Key Evaluation Questions	Comments
<b>RELEVANCE</b>	
<b>Consistency with Program Document and Government Priorities</b>	
Consistency of activity with Program Document, AFE strategy, and approved work plan.	The need for TA on this particular topic has been established since AFE's inception and GoM's membership of AFE since 2006.
Consistency of intervention(s) with national/regional priorities:	
<ul style="list-style-type: none"> <li>o Extent to which activity is linked to and supports national/regional strategy (if one exists – e.g., PRSP);</li> </ul>	As part of the TA, a rolling action plan has been established. AFE has supported the GoM in executing this plan. However, the project's delays create some uncertainty about the GoM's commitment to prioritize reform in this area. The new IMF Enhanced Credit Facility, which requires significant improvement in cash management, should help accord greater priority to this area.
<ul style="list-style-type: none"> <li>o Extent to which activity is linked to and supports sector/topical reform strategy (if one exists);</li> </ul>	
<ul style="list-style-type: none"> <li>o Extent to which activity is linked to and supports sector/topical reform strategy;</li> </ul>	
<ul style="list-style-type: none"> <li>o Extent to which strong country/institutional ownership of activity has been demonstrated.</li> </ul>	The ownership of this project by the GoM is reflected in the implementation of several recommendations during the period between AFE missions. Nevertheless, progress has been slow, partly because of delays in reforms outside the direct remit of the project.
Whether the activity is appropriately sequenced, given the completed/outstanding reform needs for that sector/institution:	Although an action plan was proposed at the outset in 2008, and it highlighted need for input/cooperation from outside parties, no comprehensive analysis of dependencies and risks to implement it was

Key Evaluation Questions	Comments
<ul style="list-style-type: none"> <li>E.g., appropriateness of project expected outcomes given country/institutional absorptive and implementation capacity.</li> </ul>	<p>carried out. As a result, a number of these external factors have impaired project progress.</p> <p>The timetable proposed for specific improvements in the 2008 action plan may be considered overambitious in light of the issues' technical complexity, the implementation capacity of the national institutions, and, with hindsight, the time it has taken to address issues such as IFMIS. TA has been ongoing for several years, and is still necessary. Fortunately, AFE has been able to remain engaged with the Treasury on this project during such an extended period.</p>
<b>Consistency with IMF Headquarter/other activities</b>	
Whether activity is appropriately focused in terms of subject area, taking into account the IMF's expertise, and integration with HQ and other Fund activity (e.g. other training and TA delivered including through the topical trust funds).	This relevant area of work falls within the IMF's core technical expertise. There has been a high degree of integration with FAD, both at the technical and at an operational level. The project made effective use of the specific skills and expertise of the RAs and of STXs for this topic.
<b>Coordination with Development Partners</b>	
Whether the intervention has been effectively coordinated with and complements the work of other development partners.	RAs and STXs have consistently met with other in-country development partners. There is an active Public Finance Expenditure Management ('PFEM') program supported by a basket of donors under a World bank Trust Fund. There is also GIZ presence embedded in the Ministry of Finance. We understand that reasonable cooperation exists between the AFE cash management project and these other initiatives.
<b>Context of donor/TA landscape of AFE TA</b>	
Why did the TA recipient choose the AFE as the TA provider as opposed to other donors?	The GoM has requested TA from AFE since 2006. The IMF is seen as one of the technical leaders in this area.
How do workshop participants compare those provided by AFE with workshops from other donors?	Our comments related to workshops are provided separately in the report.
<b>Score for Relevance</b>	<b>3.5 Good</b>

<b>EFFECTIVENESS</b>	
<b>Impact</b>	
Intervention's expected Impact achieved or likely to be achieved (to the extent defined in the activity's logframe).	Yes, AFE is making progress towards achieving the project's goals. However in order to increase the probability of reaching its intended impact in a substantial and sustainable way. More intensive TA modalities might still be needed.
<b>Outcomes</b>	
Intervention's Outcomes achieved or likely to be achieved (as defined in its logframe): Short, medium and long term Outcomes.	<p>The short-term outcomes of the project have been achieved to an acceptable degree even though a substantial amount of time was required.</p> <p>Despite the good quality of the TA, as highlighted in Section 12.4 above, there remain serious obstacles for the GoM to achieve the project's long- and even medium-term expected outcomes.</p> <p>The IMF Enhanced Credit Facility should add impetus.</p> <p>Eventually a substantial majority of outcomes are likely to be achieved, but this may still take considerably more time.</p>
Significance of AFE's contribution/likely contribution to developing core economic functions and institution building in the country/region, through the activity.	Project has helped with some improvement in cash management capacity at the Accountant General's office.
<b>Score for Outcomes</b>	<b>2.9 Good</b>

Key Evaluation Questions	Comments
<b>Outputs</b>	
Intervention's Outputs achieved or likely to be achieved (as defined in its logframe), including: <ul style="list-style-type: none"> <li>o Timeliness of reports/workshop presentations;</li> <li>o Quality of reports/workshop presentations;</li> <li>o Appropriateness/applicability of advice, given existing capacity/constraints;</li> <li>o Whether Outputs are likely to produce intended Outcomes.</li> </ul>	Recommendations have been consistent, pertinent and of good quality Labeling so many missions as "needs assessments" or "diagnosis" exercises seems somewhat surprising. Most missions actually updated the recommendation matrix and provided substantive advice. The TA has been well adapted to local implementation conditions. Outputs will certainly contribute towards reaching project outcomes. As indicated previously, the initial action plan should have addressed the dependencies of the project's outcomes more explicitly.
<b>Score for Outputs</b>	<b>3.5 Good</b>
<b>EFFICIENCY</b>	
<b>Process and implementation efficiency</b>	
TA/workshop design has been efficiently carried out;	TA design was carried out reasonably effectively. However, the project has exceeded its initial duration substantially. Ideally the initial 2008 action plans should have explicitly identified the risks/dependencies of the project on factors beyond the project, and sought to address them from the outset. Also, for example only one mission on the project was undertaken in 2011 (because a second mission was undertaken on accrual accounting); and also in 2012 (due to delays in IFMIS implementation and lack of progress). There is a need to balance focus with breadth of coverage.
Timeliness in executing the activity;	The activities (missions) were conducted in a timely manner. Given the number and the complexity of the issues being addressed, perhaps more frequent missions would have been advisable, at least when progress was evident.
Appropriateness/effectiveness of IMF's internal management of the activity;	The internal management of the series of missions appears to have been smooth and effective. On one occasion, an STX failed to accompany the RA on mission as originally planned.
Appropriateness of selection of counterpart/workshop participants (as relevant);	Counterparts were appropriate.
Quality and timeliness of management and backstopping in relation to activity;	This appears to have been appropriate on the basis of available information.
The efficiency of planning and executing the TA/training delivery.	Planning and execution were appropriately managed.
<b>Efficient use of resources (human and financial) and attention to cost effectiveness</b>	
Appropriateness of staffing composition for the intervention;	The use of the time of the RAs and the STXs while on mission was efficient, as evidenced by the large number of action points duly delivered in each mission. Regional experts were systematically involved. The scope for leveraging more STX time (perhaps to go on missions independently of the RA) should be explored.
Appropriateness of work allocation between HQ and AFE in relation to activity;	This allocation appears appropriate
Whether expenditures have been in line with activity budget and evidence of analysis of variances;	No evidence of total expenditure or that variance analysis takes place.
Whether activity, given its results, has been cost-effective compared to other TA delivery modes, given results;	Given the weak results to date, and in the absence of full cost information, this is difficult to assess.
Whether opportunities for efficiency gains during the intervention have been considered and explored.	We have seen no evidence of this, in respect of TA delivery.
<b>Monitoring and reporting</b>	
Evidence of effective use of self-evaluation (i.e. monitoring) and reporting to improve the efficiency and effectiveness of activity;	There was a smooth transition between the two RAs involved in the project. However the monitoring of the implementation of the recommendations is considered to be primarily a responsibility for the national authorities. Monitoring of implementation is done during missions. Various <i>aide memoires</i> have consistently reminded GoM of the status of advancement of the various technical recommendations provided.
Effectiveness in making use of TAIMS to monitor and manage project/workshop;	We have seen no evidence of TAIMS utilization.

Key Evaluation Questions	Comments
Effectiveness/progress in use of RBM and its usage in managing the intervention.	RBM was not explicitly formulated and used during implementation, other than, since FY2012, logframe results indicators for missions at the AFE reporting level.
Incorporation of lessons learnt in project design and implementation.	There appears to be no systematic process within AFE to capture, disseminate and incorporate lessons learnt. This is dependent on the individual RA's experience and practices and inputs from backstoppers and country presentations at regional workshops. The project has benefited from the continuity of its main Malawian counterpart.
<b>Score for Efficiency</b>	<b>3.0 Good</b>

<b>SUSTAINABILITY</b>	
<b>Sustainability of TA activity</b>	
Outcomes from intervention will last beyond/continue after completion of TA/training.	The outcomes attained are likely to be sustained because they have led to permanent changes in the way business is conducted at the Treasury. However, outcomes to date are very limited and critical outcomes are yet to be attained.
For TA/training designed to deliver Sustainability, local institutions/ capacities have been strengthened to sustain results beyond the life of the intervention:	
<ul style="list-style-type: none"> <li>o E.g., absorptive capacity improved and developed to sustainable level;</li> </ul>	The project is likely to have helped build some institutional capacity at its counterpart institutions. Absorptive capacity seems to have increased as GoM staff becomes more familiar with the project's technical concepts, as well as with the use of its IFMIS.
<ul style="list-style-type: none"> <li>o E.g., in-house training capacity built, where relevant.</li> </ul>	There is no evidence that the TA missions have been specifically oriented towards building up of in-house training capacity. Nevertheless, national training on cash forecasting focused on a train the trainer approach.
For interventions designed to deliver sustainability, financial sustainability has been achieved (i.e., recipients will be implement the advice from own/other financial resources in a sustainable manner).	Malawi has consistently sought to implement the recommendations through its own resources and PFEM basket funding. Nevertheless the project is likely to require substantial additional TA, in order to attain its outcomes.
Effectiveness in maintenance and use of institutional memory relating to the activity	All reports and document required for assessment of this project were readily available from the RA.
<b>Contribution to building sustainable regional TA, implementation capability.</b>	The use of regional experts has contributed to this goal.
<b>Score for Sustainability</b>	<b>2.8 Good</b>

### Rating Based on Previous Evaluation Methodology

DAC criteria	Sub-criteria	Score	Weight	Weighted Score	Weight	Total score	Rating
<b>Relevance</b>	Consistency with Program Document and Government Priorities	3.4	60%	2.04	<b>32%</b>	<b>1.11</b>	
	Consistency with IMF Headquarter/other activities	3.7	20%	0.74			
	Co-ordination with Development Partners	3.5	20%	0.70			
				<b>3.48</b>			<b>Good</b>
<b>Effectiveness</b>	Impact		-		<b>28%</b>	<b>0.85</b>	
	Outcomes: TA	2.9	30%	0.87			
	Outcomes: Regional capacity building	2.6	30%	0.78			
	Outputs	3.5	40%	1.40			
				<b>3.05</b>			<b>Good</b>
<b>Efficiency</b>	Process and implementation efficiency	3.0	40%	1.20	<b>22%</b>	<b>0.66</b>	
	Efficient use of resources (human and financial) & attention to cost effectiveness	3.0	40%	1.20			
	Monitoring and reporting	3.0	20%	0.60			
				<b>3.00</b>			<b>Good</b>
<b>Sustainability</b>	Sustainability of TA activity	2.7	75%	2.03	<b>18%</b>	<b>0.50</b>	
	Contribution to building sustainable regional TA, implementation capability	3.0	25%	0.75			
				<b>2.78</b>			<b>Good</b>
<b>TOTAL</b>						<b>3.12</b>	<b>Good</b>

## 12.6 KEY FINDINGS AND RECOMMENDATIONS

### Key Findings

1. This project has provided Malawi with high-quality technical inputs in an extremely relevant and complex subject.
2. It is not clear whether the project scope was not slightly excessive in the context of limited AFE resources, country absorptive a capacity.
3. Initial diagnostics and action plans need to address all key dependencies and risks to the implementation of the action plans and achievement of deadlines/milestones.
4. Despite the progress made, Malawi still has ample room for improvement in order to achieve the project's long-term aims. Substantial additional TA is still required.

### Recommendations

1. There appears to be scope to leverage the exchange of experiences at a regional level. As such AFE should deepen its attachment program (perhaps with continued secondment from Tanzanian officials). In addition, study tours could also be a useful, yet potentially cost-efficient tool.
2. Synergies with other donors could be sought more proactively in order to increase the chances of achieving the project's goals.
3. A serious assessment must be made in order to identify all necessary conditions to achieve the project's outcomes. Efforts should be made to mobilize all necessary support especially to address dependencies outside the project's remit.