REGIONAL TECHNICAL ASSISTANCE CENTER FOR EAST AFRICA

AFRITAC
East

PROGRAM DOCUMENT

PHASE V

May 2020–April 2025

INTERNATIONAL MONETARY FUND

AFRITAC East is a multi-donor initiative supported by the following recipient countries and donors:

Eritrea

Ethiopia

Kenya

Malawi

Rwanda

Tanzania

Uganda

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LIST OF ABBREVIATIONS

AFE/Center East AFRITAC

AFRITACs Africa Regional Technical Assistance Centers

AML-CFT Anti-Money Laundering and Combating the Financing of Terrorism

ATI Africa Training Institute

CD Capacity Development

COMESA Common Market for Eastern and Southern Africa

CPI Consumer Price Index

DfID Department for International Development (United Kingdom)

EAC East African Community

EAMU East African Monetary Union

ESS External Sector Statistics

EU European Union

FAD Fiscal Affairs Department (IMF)

FMI Financial Market Infrastructure

FPAS Forecasting and Policy Analysis System

FPW Field Person Weeks

FSR Financial Sector Supervision and Regulation

FX Foreign Exchange

GDP Gross Domestic Product

GFS Government Finance Statistics

GFSM 2014 Government Finance Statistics Manual 2014

ICD Institute for Capacity Development (IMF)

IMF International Monetary Fund

IT Information Technology

LEG Legal Department (IMF)

LoU Letter of Understanding

MCM Monetary and Capital Markets Department (IMF)

MEFMI Macroeconomic and Financial Management Institute for Eastern and Southern Africa

MFA Macroeconomic and Fiscal Analysis

MONOPS Monetary Policy Operations

MPC Monetary Policy **Committee**

NAS National Account **Statistics**

NPS National Payment System

PSDS Public Sector Debt Statistics

PFM Public Financial Management

PFMI CPSS/IOSCO Principles for Financial Market Infrastructures

PPI Producer Price Index

QPM Quarterly Projection Model

RA Resident Advisor or Revenue Administration

RBM Results Based Management or Reserve Bank of Malawi (in Box 2)

RCDC Regional Capacity Development Center

RRA Rwanda Revenue Authority

RDB Rwanda Development Board

RSS Real Sector **Statistics**

RTAC Regional Technical Assistance Center

SC Steering Committee

SCT Single Customs Territory

SDGs Sustainable Development Goals

SNA System of National Accounts (2008)

STX Short-Term Expert

TADAT Tax Administration Diagnostic Assessment Tool

TA Technical Assistance

TSA Treasury Single Account

UK United Kingdom

VAT Value Added Tax

TABLE OF CONTENTS

ii

List of abbreviations

1

SECTION I
EXECUTIVE SUMMARY

5

SECTION II
BACKGROUND AND ACHIEVEMENTS IN PHASE IV

6 **A** What Does East AFRITAC Do?

8 **B** Achievements During Phase IV

Revenue Administration

Public Financial Management

Macro-Fiscal Analysis

Financial Sector Regulation and Supervision

Monetary Policy and Operations

Financial Market Infrastructure and Payments

Real Sector Statistics

Government Finance Statistics

24 **C** Findings and Recommendations of the Mid-Term Evaluation

25

SECTION III
RELEVANCE OF EAST AFRITAC SUPPORT TO THE REGION

26 **A** Including South Sudan as a new Member

27 **B** Addressing the Region's Macroeconomic and Financial Sector Challenges

31 **C** Specific Risks and Risk Mitigation to Improve CD Delivery

35

SECTION IV
EAST AFRITAC STRATEGIC PRIORITIES FOR PHASE V

36 **A** Customs and Tax Administration

38 **B** Public Financial Management (Including Macro-Fiscal Analysis)

40 **C** Monetary Policy and Operations Frameworks

42 **D** Financial Market Infrastructure and Payments

43 **E** Financial Sector Supervision

45 **F** Macroeconomic Statistics

Real Sector Statistics

Government Finance Statistics

External Sector Statistics

47 **G** Regional Integration

49

SECTION V
EAST AFRITAC GOVERNANCE, OPERATIONS, AND FINANCIAL MANAGEMENT

50 **A** Governance

52 **B** Operations

54 **C** Financial Management

55 **D** Resource Needs and Sustainability

FIGURES

9 **Figure 1.** Revenue administration performance indicators

12 **Figure 2.** Public financial management performance indicators

14 **Figure 3.** Macro-fiscal analysis performance indicators

15 **Figure 4.** Financial sector regulation and supervision performance indicators

17 **Figure 5.** Monetary policy and operations performance indicators

19 **Figure 6.** Financial market infrastructure and payments performance indicators

21 **Figure 7.** Real sector statistics performance indicators

22 **Figure 8.** Government finance statistics performance indicators

28 **Figure 9.** East AFRITAC Member Countries: Selected macroeconomic indicators

51 **Figure 10.** East AFRITAC governance structure

TABLES

27 **Table 1.** Member countries' selected characteristics

56 **Table 2.** Phase V Budget (in Millions of US$)

BOXES

10 **Box 1.** Reforming Tax Administration: The Case of Rwanda

18 **Box 2.** Modernizing the Monetary Policy Framework in Malawi

33 **Box 3.** Results-Based Management at East AFRITAC: Phase IV Achievements and Phase V Prospects.

ANNEXES

57 **Annex I.** Phase IV External Mid-Term Evaluation of East AFRITAC: Recommendations and IMF Staff Response

60 **Annex II.** Sectoral Strategic Logframes for Phase V

SECTION I

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

1. This program document outlines the proposed capacity development (CD) strategy for Phase V of the IMF's Regional Technical Assistance Center for East Africa (East AFRITAC). It highlights the main achievements of Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Tanzania (including Zanzibar), and Uganda during Phase IV, with CD support from the Center. The proposed strategic plan for the Phase V period (May 2020-April 2025) is designed to help member countries achieve strong, sustainable, and inclusive growth and make progress on their Sustainable Development Goals (SDGs) and Financing for Development agendas.

2. The recent external evaluation rated East AFRITAC's performance over Phase IV positively. It found that the Center has been providing high-quality CD support, achieved most of its objectives and milestones, and used its resources effectively and flexibly in response to evolving demand and priorities and availability of financing. The evaluation report made a number of recommendations to increase further the effectiveness and efficiency of East AFRITAC's support to its member countries, many of which are already being addressed. The proposed strategy for Phase V is also consistent with the recommendations made in the 2018 Review of the IMF's CD Strategy.

3. During Phase V, East AFRITAC will continue to help member countries further build their capacity to design and implement economic policies consistent with their priorities. Most member countries need to create fiscal space for critical public investment and social spending and to restore their capacity to address future adverse shocks. This ambitious agenda requires higher revenue mobilization and more efficient spending. Reducing vulnerability to shocks, including at the individual level, is also an important shared objective, which requires more developed and sound financial systems. Finally, better data are needed to inform policymaking. East AFRITAC is well placed to respond to these needs and will focus its support on tax and customs administration, public financial management (including macro-fiscal analysis), financial sector regulation and supervision, monetary policy analysis, frameworks, and operations, and macroeconomic statistics. The Center will also continue to support regional integration efforts. Particular attention will be paid to the Center's more fragile members, including South Sudan, which is expected to join in May 2020.

4. Continued close collaboration with development partners and other providers of CD will help make CD support more effective and sustainable. Strong collaboration with partners will reinforce synergies and align stakeholders to the same CD goals. The Center will also rely on results-based management to foster project implementation, strengthen monitoring, and guide the allocation of resources. Strategic logical frameworks are presented in this report and will be detailed for each project before the start of Phase V in collaboration with the authorities.

5. The Phase V budget envelope will be about US$59 million. The externally financed budget (about US$56 million) will be mostly financed by development partners (US$50 million). It is proposed to keep overall member contributions to 10 percent of the total financing needs (about US$6 million); the breakdown of this amount among member countries will be discussed in the coming months. The IMF's direct contribution will be about US$3 million.

SECTION II

BACKGROUND AND AND ACHIEVEMENTS IN PHASE IV

SECTION II

A

WHAT DOES EAST AFRITAC DO?

ROLE OF REGIONAL CAPACITY DEVELOPMENT CENTERS

6. The Regional Capacity Development Centers (RCDCs) are a collaborative venture between the IMF, the recipient countries, and bilateral and multilateral donors. Their strategic goal is to help countries strengthen human and institutional capacity to design and implement macroeconomic and financial policies that promote growth and reduce poverty. RCDCs are financed by contributions from donors, beneficiary countries, and the IMF. RCDCs across the world–including the five Regional Technical Assistance Centers for Africa ("AFRITACs") covering almost all countries in sub-Saharan Africa–provide a regional approach to capacity development (CD), which helps to better tailor support to regional priorities, improve coordination with stakeholders on the ground, increase the responsiveness of CD interventions to address member countries' emerging needs, and foster peer learning. RCDCs also assist member countries and regional bodies in their regional integration efforts.

7. CD from RCDCs is fully integrated with other CD provided by the IMF and with the IMF's broader lending and surveillance activities. In the case of sub-Saharan African countries, the IMF's African Department (AFR) identifies CD needs and priorities across sectors in each country, in close consultation with the member country and the IMF's CD Departments. These needs and the associated strategic objectives are fully informed by the IMF's policy dialogue with the countries. The resulting Regional Strategy Note and Country Strategy Notes set out medium-term CD agendas for the region and for each country. To best meet countries' needs, specific delivery modes are chosen depending on the complexity of the task and countries' implementation capacity. Diagnostic missions led by IMF headquarters (HQ), often including RCDC staff, generate multi-year blueprints for reform projects. Support for implementation is often devolved to the relevant RCDC, given its resident experts' deep country knowledge and relationship with member countries. RCDC training is closely coordinated with the overall technical assistance (TA) program and other training available from the IMF.

EAST AFRITAC PHASE IV MEMBERS AND CONTRIBUTORS

8. East AFRITAC was the first AFRITAC, established in 2002, and is based in Dar es Salaam, Tanzania. During Phase IV, the Center had seven member countries: Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Tanzania (including Zanzibar), and Uganda. All member countries but Kenya are low-income countries, and some of them (Eritrea and Malawi) are considered fragile states by the IMF. Assistance is also provided at the regional level to the East African Community (EAC) Secretariat. All the CD support provided by East AFRITAC is demand-driven.

9. East AFRITAC's Phase IV was funded by various stakeholders. Donor partners included, by size of financial contributions: the European Union (EU); the United Kingdom (UK); the Netherlands; Germany; Switzerland; and the European Investment Bank. Together, donor partners contributed about 80 percent of the total budget. Member countries jointly contributed about 10 percent, and the IMF the remaining 10 percent. Tanzania, as the host country, also contributed through the provision of free office space and the secondment of administrative staff from the Bank of Tanzania.

MAIN AREAS OF EXPERTISE AND MODES OF DELIVERY

10. East AFRITAC's work covers areas of IMF expertise and supports global and country-led development agendas. The main topic areas are public financial management (PFM, including macro-fiscal analysis), which contributes to better government spending; tax administration, which contributes to more efficient and higher revenue mobilization; monetary policy and operations, which contributes to lower and less volatile inflation; financial sector supervision (including the oversight of financial market infrastructures (FMIs) and payments), which contributes to the sustainable development and resilience of the financial system; and real sector and government finance statistics, which contribute to better information for policymaking. These areas are at the core of global development initiatives (e.g., the Financing for Development agenda, the G20's Compact with Africa) and reform agendas of member countries.

11. The delivery of CD support takes many forms to best meet the needs of member countries. East AFRITAC resident experts ("advisors"), with the support of IMF HQ staff and short-term experts, implement the annual work plans, which include diagnostic and TA missions, in-country hands-on training workshops, regional workshops and courses, and other peer learning activities (e.g., professional attachments). The training and peer learning activities are complemented by the IMF's free online courses and face-to-face training courses at the Africa Training Institute (ATI) or IMF HQ.

12. East AFRITAC TA and training are highly integrated and complementary. Stand-alone, hands-on training events are mainly delivered at the country level and are closely related to the areas of TA provision. The topics covered by regional workshops also overlap with areas of TA provision. Training is often embedded in TA missions. Such training is hands-on and highly specific, and its format varies depending on topic areas and circumstances.

SECTION II

B ACHIEVEMENTS DURING PHASE IV

13. The implementation of East AFRITAC's work program over Phase IV has been satisfactory. The execution rate of work plans measured in terms of activities over the first four years has been close to 94 percent. The Center was able to respond flexibly to changing needs, as illustrated by the significant share of resources that was reallocated during each financial year within sectors and across countries or by the rising share of hands-on training in line with member countries' demand for this form of support.[1] Feedback from the authorities on East AFRITAC support has been consistently very positive. The recent independent evaluation of East AFRITAC, which was completed in April 2019, found that the Center has been providing high-quality CD support, achieved most of its objectives and milestones, and used its resources effectively and flexibly in response to evolving demand and priorities and availability of financing.[2]

14. East AFRITAC has contributed to many achievements by its member countries' finance ministries, central banks, other financial sector regulators, revenue administrations, and statistical agencies. The many areas of progress are detailed below and in a series of charts and tables providing a sectoral view. In the past few years the Center has used two results-based management (RBM) frameworks to design its work plans and monitor implementation progress. The first one was specific to the Center and used during the first two years of Phase IV. The second one is the new, IMF-wide framework and has been implemented since May 2017 (i.e., the beginning of FY 2018). While these two frameworks are broadly consistent, they are not identical, which introduces a break in the presentation of the results below. For instance, the milestones in the earlier framework were rated as either completed or postponed/cancelled, while the new framework has four different ratings to assess the status of milestones. Some of the milestones[3] also tended to be more activity-based under the previous approach, while the current approach focuses on outcomes.

1. REVENUE ADMINISTRATION

15. Comprehensive tax administration diagnostics using the TADAT methodology and related training were conducted, often jointly with other development partners, in Ethiopia, Kenya, Malawi, Rwanda, Tanzania, Uganda, and Zanzibar. The assessments and training helped the countries: (i) assess their tax administration systems against international good practice; (ii) identify strengths and weaknesses of their tax administrations; (iii) develop informed and prioritized reform programs to improve the effectiveness of the tax administration systems; (iv) build capacity by introducing international good practice in tax administration; and (v) begin to embed the TADAT methodology in their performance monitoring evaluation and reporting frameworks. Repeat TADAT assessments were recently conducted in Rwanda and Uganda, allowing to measure comprehensively the progress made in these countries in reforming tax administration.

[1] This share is now close to 40 percent of total human resource use.

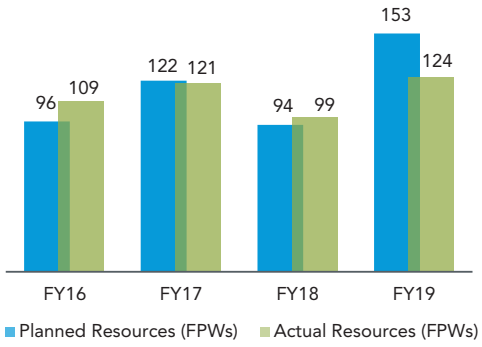
[2] The report can be found on East AFRITAC's website at: http://www.eastafritac.org/

[3] To make things more comparable over the entire period in Figures 1-8, milestones completed under the previous framework were assigned a 4 rating (corresponding to "fully achieved" under the new framework), while milestones cancelled/postponed were assigned a 1 rating ("not achieved" under the new framework).

16. The ensuing support from the Center targeted some of the main revenue administration weaknesses identified in the TADAT assessments. This has included strengthening core tax administration functions, such as taxpayer registration (all member countries; see Box 1 for a description of the progress made by Rwanda in ensuring the integrity of its taxpayer register and the implications for the broadening of the tax base) and compliance risk analysis (all member countries except Eritrea). Support was also provided to improve core customs administration functions, such as post-clearance audit practices (Malawi, Rwanda, and Uganda). Ethiopia undertook a diagnostic of customs operations. At the regional level, the EAC was supported to improve the functioning of its Single Customs Territory. More recently, the focus has been on strengthening revenue administration management and governance arrangements. For instance, Uganda has developed a detailed medium-term revenue strategy (MTRS) to improve the design of its tax policy, legislation and administration; Kenya a medium-term reform strategy for tax administration; Malawi a framework for assessing the impact of compliance activities as well as new tax and administrative measures and strengthened domestic taxes and customs headquarters function; and Eritrea is strengthening its tax legislative framework.

FIGURE 1. REVENUE ADMINISTRATION PERFORMANCE INDICATORS

RESOURCE EXECUTION



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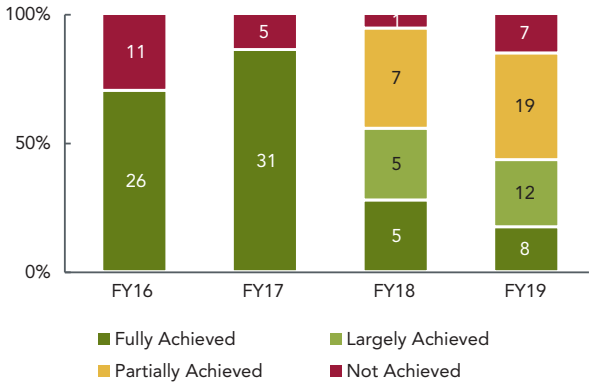
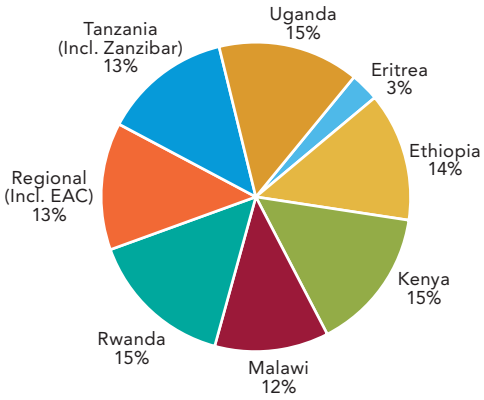
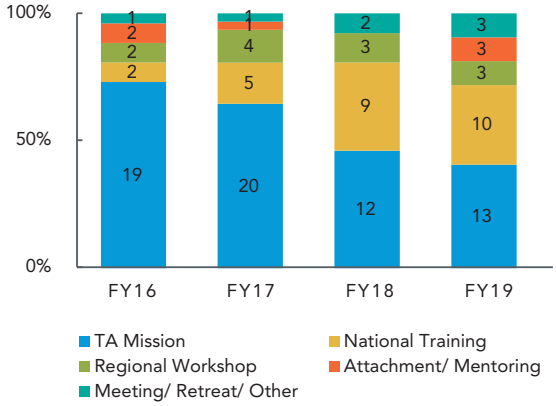


*Until FY17 milestones were rated as complete or postponed/cancelled. From FY18 onwards ratings use the CD PORT ratings, part of the Results Based Management system. FY 16/17 ratings were adapted to the new system.

RESOURCE DISTRIBUTION by COUNTRY (FY16 - FY19)



COMPLETED ACTIVITIES



EXECUTION RATES BY SECTOR, ACTUAL VS PLANNED RESOURCES (% OF FPWS)

	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania (Incl. Zanzibar)	Uganda	Regional (Incl. EAC)	ALL
FY16	108	166	106	116	274	62	88	97	114
FY17	100	102	69	88	136	117	96	102	99
FY18	0	119	105	113	96	104	177	92	105
FY19	52	113	142	75	142	102	68	41	82

Color Coding: Execution rate <99 (Grey color); execution rate > 99 (green color); not applicable (white color)

BOX 1. REFORMING TAX ADMINISTRATION: THE CASE OF RWANDA

In 2015 a Tax Administration Diagnostic Assessment Tool (TADAT) mission assessed the status of the Rwanda Revenue Authority's (RRA) tax administration operations and observed strong performance in the promotion of taxpayer voluntary compliance, taxpayer dispute resolution, and internal audit and external oversight. Nonetheless, the assessment also underscored that this strong performance was significantly undermined by persistent problems with the accuracy/reliability of the taxpayer registration database and uncertainty regarding the numbers of active and inactive taxpayers. Reliability was affected by, inter alia, limited use of third-party data to identify potential new taxpayers, non-harmonized industry and business activity classification codes (between RRA and the Rwanda Development Board (RDB)), difficulties in maintaining an up-to-date register (by de-registering inactive taxpayers) and resulting uncertainty regarding the actual number of active taxpayers. It was clear that if the integrity of the database of registered taxpayer could be established, there would be significant scope to improve taxpayer compliance and revenue performance.

Since the 2015 TADAT assessment, the RRA has managed to create a high integrity register with East AFRITAC support. The RRA took the following steps to reach that objective:

- A bulk data cleansing program for all taxpayers was completed, while ensuring very strong validation and integrity checks before uploading the cleansed data into their new eTAX registration module. Large and medium taxpayers where given priority. Exceptional progress was made in improving the integrity of the taxpayer register thanks to focus, planning and investment.
- The business policies and practices were reviewed for active and inactive determinations, and deregistration procedures were streamlined and endorsed by the senior management team. The process for determining if a taxpayer is inactive is an active one (i.e., not automatic), in which specific information on status (like business is defunct awaiting deregistration) is considered.
- Better knowledge of taxpayers by ensuring accurate demographic data, business classification (with training of RRA staff provided by the National Institute of Statistics of Rwanda), correct tax accounts and third-party data. Better data has allowed more effective action on filing (e.g., mobile phone numbers are used to send SMSs to remind taxpayers to file).
- Strategies to identify new registrants have relied extensively on the more systematic use of third-party information and business intelligence system. The latter has included identifying potential taxpayers registered in local taxes and importers and exporters without tax accounts. Also, following the review of corporate income tax and personal income tax turnovers, taxpayers achieving the required threshold were registered for VAT.
- Implementation of quality assurance processes to ensure new registrations are accurate, identifying and addressing errors caused by taxpayer or staff, and also of processes to address synchronization issues with third parties such as the RDB.

All these steps quickly led to a significant increase in new registrants, which was quantified by taxes in 2017/18 (see Text Table below). Their contribution to total tax revenue amounted to 1.1 percent that year. The cumulative impact of new registrants on total tax revenue over the period 2016/18 was close to 2 percent.

Text Table: The contribution of new taxpayers who paid tax in 2017/18, in Rwf billions

TEXT TABLE: THE CONTRIBUTION OF NEW TAXPAYERS WHO PAID TAX IN 2017/18, IN RWF BILLIONS

Tax Type	Number of new registered taxpayers who paid domestic tax in 2017/18	Domestic tax paid by new registered taxpayers in 2017/18 (Billion Rwf)	Total domestic tax paid by all domestic registered taxpayers in 2017/18 (Billion Rwf)	Percentage contribution of tax paid by new registered taxpayers to total domestic tax paid in 2017/18
PAYE	776	3.5	281.7	1.20%
Profit Tax	817	0.2	93.5	0.20%
Excise	1	0.003	73.8	0.00%
VAT	628	5.1	274.9	1.90%
WHT on Public Supplies (other than VAT)	100	0.3	38.2	0.80%
Other WHT	134	0.5	83.5	0.60%
Total		**9.6**	**845.5**	**1.10%**

Source: RRA 2017/2018 Annual Activity Report

Two factors seem to have played a significant role in RRA's success: the close collaboration with other parts of the government (facilitated by the overall objective of raising more revenue and easing the business environment); and strong and sustained commitment to reform of RRA top management.

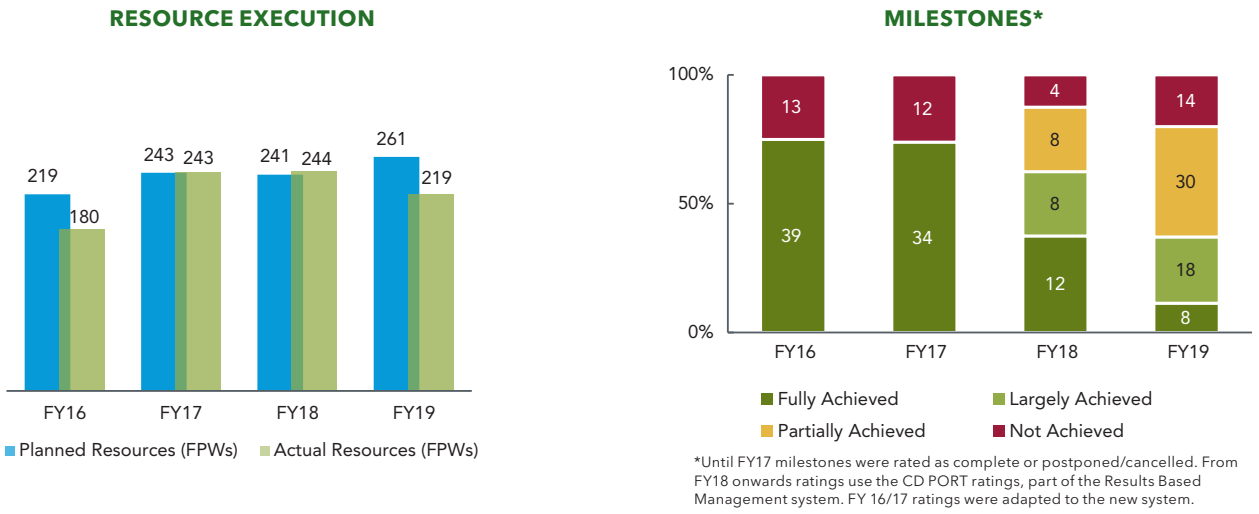
East AFRITAC has provided extensive support to the RRA to implement this reform agenda in the past few years. This support was delivered through TA missions and regional workshops. The RBM framework was used to set objectives and monitor progress. The targeted outcome was "strengthening the integrity of the taxpayer base and ledger". The verifiable indicators for this outcome area were derived from the TADAT (TADAT POA1-1: more accurate and reliable taxpayer information held in centralized database; and TADAT POA1-2: knowledge of taxpayer base and potential taxpayers improved through robust taxpayer registration policies and procedures). The milestones in this area have all been rated either fully achieved or largely achieved. More recently, advice to RRA has focused on the implementation of sustainable support capabilities, including a headquarters function to undertake quality assurance, maintenance, reporting and business analysis.

2. PUBLIC FINANCIAL MANAGEMENT

17. Support was provided to strengthen key public financial management functions:

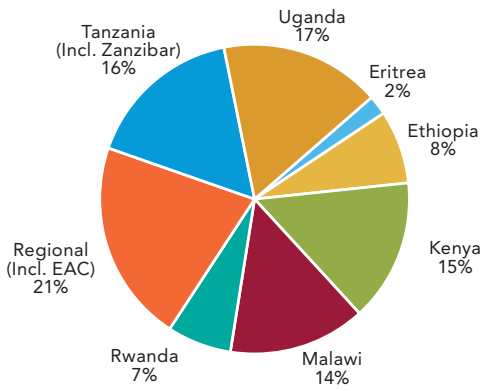
- **Comprehensive, credible and policy-based budget preparation.** Medium-term expenditure frameworks have been strengthened to various extents in all member countries. The focus has been on strengthening baseline costing in Kenya, Malawi, and Uganda. Countries with more advanced performance budgeting frameworks, such as Rwanda, have received support to strengthen the policy orientation of their budget framework on a pilot basis.
- **Improved budget execution and control.** Financial control and accountability have been improved in Malawi and commitment controls in Tanzania and Uganda. More recently, the focus has been on assessing and strengthening public investment management frameworks and practices, (e.g., Kenya, Malawi, and Uganda).
- **Improved coverage and quality of fiscal reporting.** Progress has been made in the transition to the International Public Sector Accounting Standards (Ethiopia, Kenya, Rwanda, Tanzania, and Uganda). Kenya has developed a revised chart of accounts and policy guidelines for the valuation of assets and liabilities as part of the planned move to accrual accounting. Tanzania has expanded the coverage of its consolidated financial statements, incorporating 640 public sector entities and increasing disclosure on nonfinancial assets and pension fund liabilities. Malawi and Zanzibar have improved their fiscal and financial reporting, and EAC countries have harmonized and expanded their fiscal reporting in the context of convergence towards the East African Monetary Union (EAMU).
- **Improved and better integrated assets and liability management frameworks.** Cash management and forecasting capacity has been strengthened in most countries (Ethiopia, Kenya, Malawi, Tanzania and Uganda) and the implementation of treasury single accounts has made progress in some of them (Ethiopia, Kenya, Malawi and Uganda, which is now focusing on the incorporation of development partners' funds into its TSA).
- **Stronger PFM laws and institutions.** Uganda adopted a Charter for Fiscal Responsibility, Ethiopia produced a PFM reform strategy and Zanzibar revised its PFM regulations to support the new PFM Act.
- **Regional integration.** At the regional level, annual workshops were held to help EAC Partner States with the harmonization of PFM practices towards EAMU. Progress was made, among others, on the development of a fiscal surveillance framework, the development of action plans for harmonization, and the move towards general government reporting.

FIGURE 2. PUBLIC FINANCIAL MANAGEMENT PERFORMANCE INDICATORS

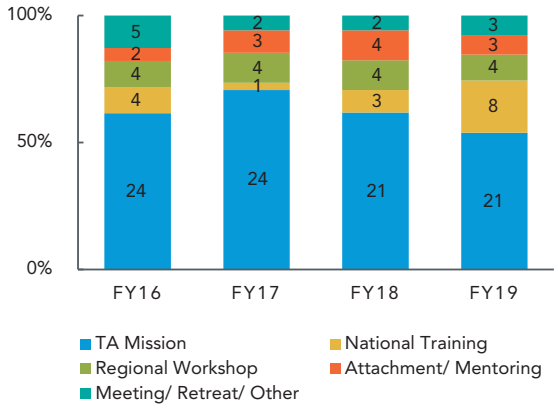


*Until FY17 milestones were rated as complete or postponed/cancelled. From FY18 onwards ratings use the CD PORT ratings, part of the Results Based Management system. FY 16/17 ratings were adapted to the new system.

RESOURCE DISTRIBUTION by COUNTRY (FY16 - FY19)



COMPLETED ACTIVITIES



EXECUTION RATES BY COUNTRY, ACTUAL VS PLANNED RESOURCES (PERCENT OF FPWS)

	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania (Incl. Zanzibar)	Uganda	Regional (Incl. EAC)	ALL
FY16	67	74	71	124	59	57	77	115	82
FY17	200	0	105	100	0	104	224	113	100
FY18	33	115	89	114	55	109	129	115	101
FY19	100	43	81	71	66	84	107	107	84

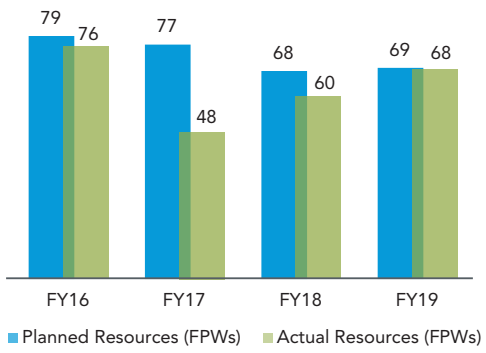
Color Coding: Execution rate <99 (Grey color); execution rate > 99 (green color); not applicable (white color)

3. MACRO-FISCAL ANALYSIS

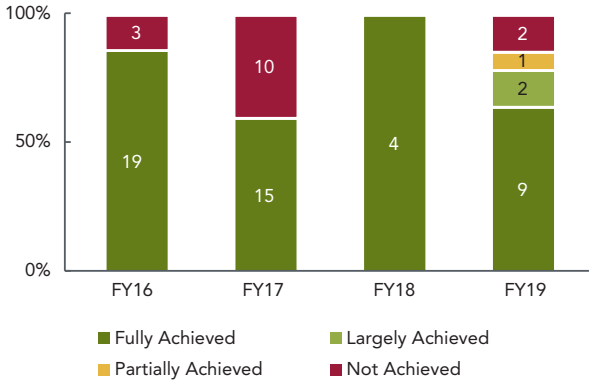
18. East AFRITAC has helped its member countries develop and improve datasets and their use for macroeconomic analysis (Malawi, Zanzibar), forecasting capacity (Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Uganda, and Zanzibar), budgeting, reporting and management of fiscal risks. Forecasting tools and macro-fiscal databases were developed in Eritrea, Malawi, Rwanda, Tanzania, and Uganda, and composite indicators of economic activity were established in Ethiopia and Uganda. Training on macro-fiscal forecasting and medium-term fiscal frameworks has also been provided in all member countries. Kenya, Rwanda, Tanzania, and Uganda completed Fiscal Transparency Evaluations (FTEs). These evaluations assessed the comprehensiveness, clarity, reliability, timeliness, and relevance of reporting on public finances against international standards. They also assessed the fiscal risks faced by these countries and the extent to which they are recognized, disclosed and managed. Advice was provided on the design of fiscal risks statements, which are now produced by Kenya, Malawi, and Uganda. Advice was also provided at the regional level, thus facilitating the preparation and submission of fiscal risk statements and medium-term convergence programs to the EAC Secretariat by EAC partner states.

FIGURE 3. MACRO-FISCAL ANALYSIS PERFORMANCE INDICATORS

RESOURCE EXECUTION

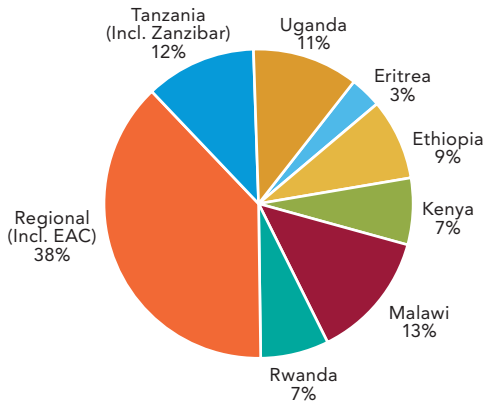


MILESTONES*

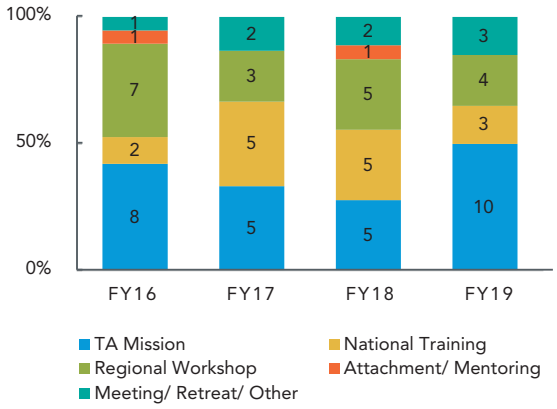


*Until FY17 milestones were rated as complete or postponed/cancelled. From FY18 onwards ratings use the CD PORT ratings, part of the Results Based Management system. FY 16/17 ratings were adapted to the new system.

RESOURCE DISTRIBUTION by COUNTRY (FY16 - FY19)



COMPLETED ACTIVITIES



EXECUTION RATES BY COUNTRY, ACTUAL VS PLANNED RESOURCES (PERCENT OF FPWS)

	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania (Incl. Zanzibar)	Uganda	Regional (Incl. EAC)	ALL
FY16	100	100	33	100	88	100	111	114	96
FY17	100	26	167	78	0	27	61	76	63
FY18	100	167	0	129	61	67	69	114	88
FY19	100	186	34	92	75	100	140	129	99

Color Coding: Execution rate <99 (Grey color); execution rate > 99 (green color); not applicable (white color)

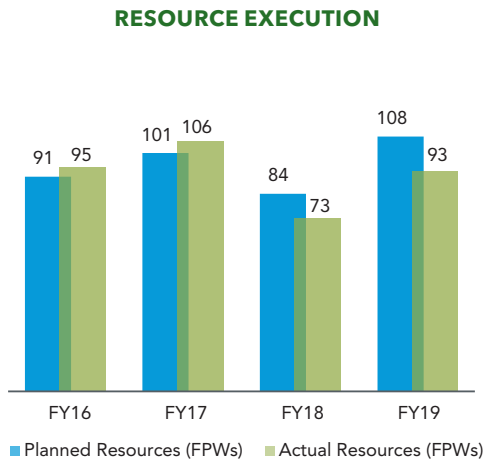
4. FINANCIAL SECTOR REGULATION AND SUPERVISION

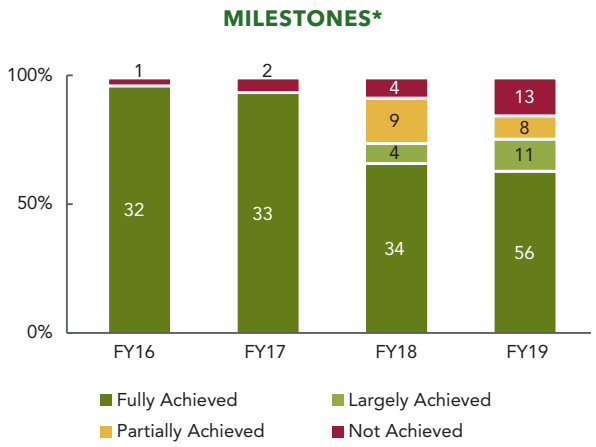
19. An important objective has been to improve the compliance of bank supervision with international standards. In this area, progress has been made on: (i) building capacity in consolidated supervision (Kenya, Malawi, Tanzania and Uganda); (ii) moving towards Basel II-III frameworks (Kenya, Malawi, Rwanda, Tanzania, and Uganda); (iii) improved and better integrated risk-based supervision frameworks (all member countries); and (iv) strengthening anti-money laundering and combating the financing of terrorism (AML-CFT) supervision (Malawi, Rwanda, Tanzania, and Uganda). Support was also provided on other issues such as implementing international financial reporting standards, crisis management frameworks, agent banking and correspondent banking relationships, technology risks, Islamic banking, and foreign exchange bureau supervision. At the regional level, the Center has also supported EAC bank supervisors in developing the regional standards for consolidated supervision that were adopted in mid-2015.

20. A second main objective has been to improve the compliance of insurance supervision with international standards, and in particular the implementation of risk-based supervision and solvency frameworks for the insurance sector. The Center collaborated closely with the Toronto Centre on these issues. Support was provided at the regional level through workshops (financial analysis and stress testing, risk-based supervision and risk-based capital for insurers) and at the national level (all member countries).

21. A third main objective has been to strengthen micro-prudential supervisory frameworks through strengthened systemic risk monitoring, stress-testing and crisis management. Support has been provided at the regional level through workshops (e.g., financial soundness indicators) and at the national level (Kenya, Rwanda, and Tanzania). At the regional level, the Center has contributed to the IMF's work advising the EAC on its architecture for financial sector supervision under EAMU.

FIGURE 4. FINANCIAL SECTOR REGULATION AND SUPERVISION PERFORMANCE INDICATORS





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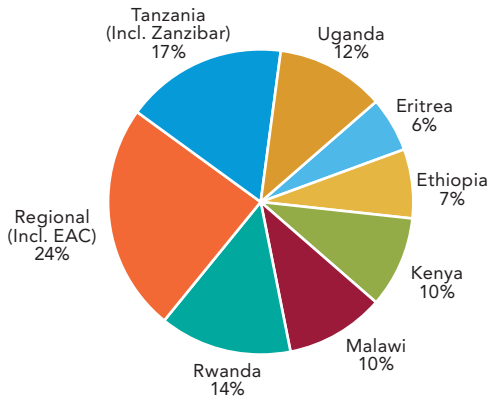
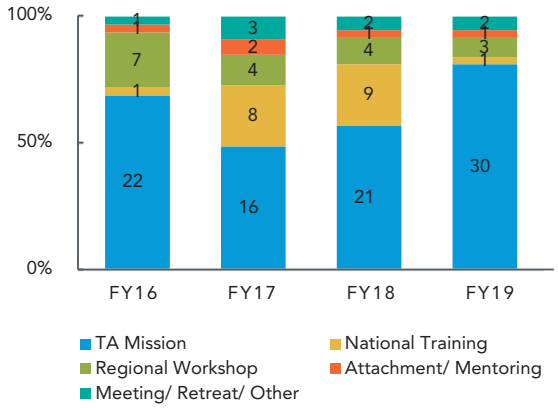
RESOURCE DISTRIBUTION by COUNTRY (FY16 - FY19)



COMPLETED ACTIVITIES



EXECUTION RATES BY COUNTRY, ACTUAL VS PLANNED RESOURCES (PERCENT OF FPWS)

	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania (Incl. Zanzibar)	Uganda	Regional (Incl. EAC)	ALL
FY16	100	85	361	131	69	86	79	121	104
FY17	100	162	79	95	104	102	61	123	105
FY18	92	30	52	79	181	124	74	91	88
FY19	109	94	66	53	111	86	125	86	86

Color Coding: Execution rate <99 (Grey color); execution rate > 99 (green color); not applicable (white color)

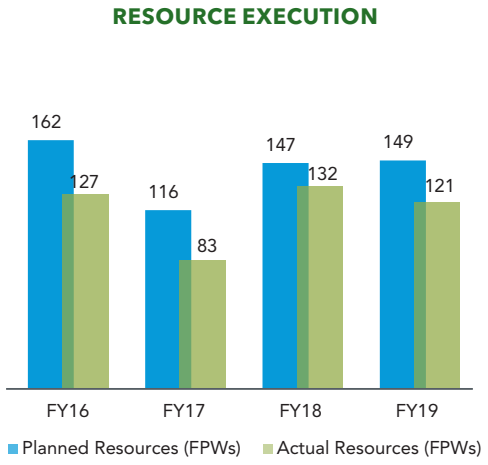
5.MONETARY POLICY AND OPERATIONS

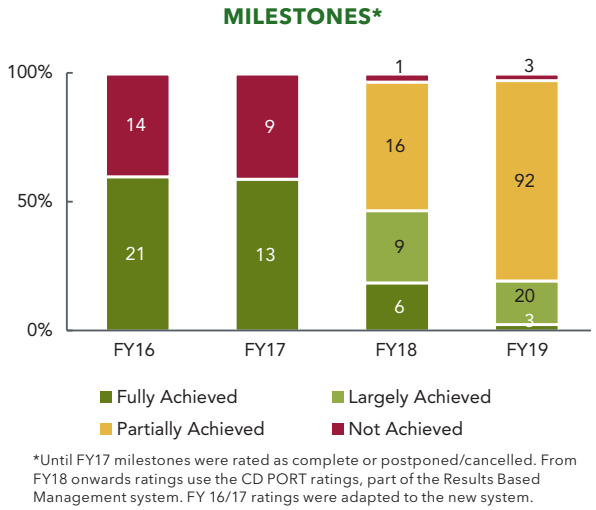
22. The Center has worked closely with member country central banks to improve monetary policy formulation and implementation, and to harmonize the EAC countries' monetary operations and frameworks in the context of convergence towards EAMU. Considerable work has been undertaken and progress made on the first objective of developing modeling, forecasting, and policy analysis capacity (Kenya, Malawi, Rwanda, Tanzania, Uganda and coordination at the EAC level). Box 2 illustrates the progress made by Malawi in this and related areas. This support was delivered by IMF HQ and financed by the Center.

23. Modernizing monetary policy and operations frameworks has also been a key focus, with the development of operational frameworks (Ethiopia, Malawi, Rwanda and Tanzania) and their harmonization (EAC countries), improved liquidity management (Ethiopia, Malawi, Rwanda and Tanzania), foreign exchange interventions (Malawi) and management (Ethiopia, Malawi, Rwanda and Tanzania), and the development and operationalization of lender of last resort frameworks (Tanzania and Uganda). At the EAC level, the Center helped develop a harmonized framework for collateral and standing facilities.

24. The objective of developing key financial markets for higher monetary policy effectiveness was addressed by supporting the development of repurchase agreement markets, through capacity building both at the regional and country level (Malawi, Rwanda, Tanzania and Uganda).

FIGURE 5. MONETARY POLICY AND OPERATIONS PERFORMANCE INDICATORS





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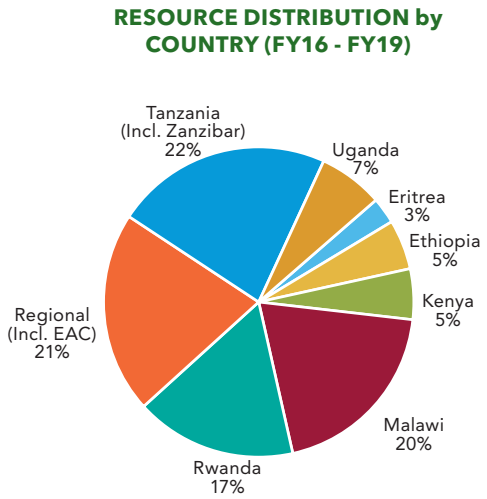
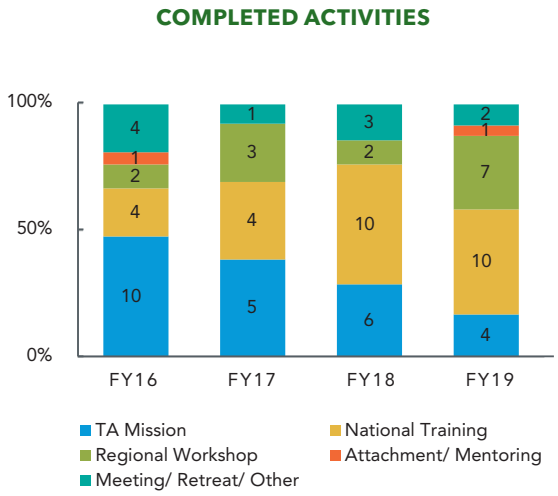




EXECUTION RATES BY COUNTRY, ACTUAL VS PLANNED RESOURCES (PERCENT OF FPWS)

	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania (Incl. Zanzibar)	Uganda	Regional (Incl. EAC)	ALL
FY16	na	130	66	233	45	102	44	132	78
FY17	na	0	0	70	161	104	79	45	72
FY18	139	0	0	140	117	141	53	49	90
FY19	49	145	0	122	89	62	15	109	82

Color Coding: Execution rate <99 (Grey color); execution rate > 99 (green color); not applicable (white color)

BOX 2. MODERNIZING THE MONETARY POLICY FRAMEWORK IN MALAWI

Malawi experienced for years relatively high and persistent inflation (e.g., it exceeded 20 percent between 2012 and 2016). This and other factors led the Reserve Bank of Malawi (RBM) to embark on a gradual process of modernizing its monetary policy (MP) framework and operations. The RBM is committed to move from a money-based to an interest rate-based monetary policy framework and to inflation targeting over the medium-term.

In this endeavor the RBM has faced a need to develop institutional and human capabilities in several areas:

- MP formulation (through development of a Forecasting and Policy Analysis System (FPAS))
- MP implementation (by improving monetary operations and developing money markets)
- MP communications (by revisiting the RBM's communication strategy)

At the authorities' request, the IMF launched in June 2016 a medium-term, multi-faceted CD project to assist the RBM's modernization efforts. The project is a joint effort of the RBM, East AFRITAC, and the IMF's MCM and ICD departments. The CD project combines ICD's customized training (CT), MCM's and East AFRITAC's TA, and classroom training courses provided by ATI—allowing for multiple synergies along the TA-training continuum.

The project consists of three interrelated and complementary workstreams covering the above-mentioned CD areas:

(i) Customized training in macroeconomic analysis and forecasting, modernizing decision-making processes at the RBM, and effective use of model-based forward-looking staff analysis in policy decision making (delivered through ICD's FPAS development CT)

(ii) Enhancing monetary operations, developing money markets, and transitioning to a fully interest rate-based operational framework with the policy rate serving as the operating target for the overnight interbank interest rate (delivered through MCM's and East AFRITAC's monetary operations TA)

(iii) Streamlining the communication of the monetary policy decisions and enhancing the communication strategy of the RBM to increase the effectiveness of the monetary transmission mechanism (delivered jointly by ICD and MCM, in close cooperation with the African and Communications Departments).

With strong commitment of RBM management, FPAS development has made steady progress: (i) the forecasting practice is better formalized and centered on the core Macroeconomic Modelling Unit (MMU) operating a quarterly projection model (QPM); (ii) the quality of staff analysis has been improving, with the focus shifted to structured forward-looking assessment of macroeconomic conditions, both domestic and external; (iii) the Monetary Policy Committee (MPC) has increasingly relied on the staff's model-based analysis and forecast in their decision making; and (iv) RBM officials have publicly announced a 5 percent medium-term inflation target and their intention to adopt a full-fledged inflation targeting regime in the medium term.

Furthermore, there have been tangible improvements in the communications function of the RBM: (i) a one year-ahead schedule of MPC meetings has been published; (ii) the policy decision press-release (i.e., the MPC statement) has become more structured, analytical, and forward-looking; (iii) an MPC press briefing presentation now includes explicit inflation forecast and is published on the website following the announcement; and (iv) a Monetary Policy Report has started to be published. These positive developments on the policy formulation and external communication fronts have also been underpinned by a more active role of the policy interest rate in signaling the monetary policy stance.

The RBM also made progress in the implementation of monetary policy operations in 2017-18, with an increasing focus on trying to align the overnight interbank rate with the announced policy rate. The RBM took steps to encourage money market development. More information is published daily (e.g., the previous day's liquidity situation, interbank market transactions, RBM open market operations, and recourse to the Lombard facility) and helps improve price discovery and market functioning. In addition, the RBM has done bilateral foreign exchange swaps, and is reviewing the Master Repurchase Agreement to encourage the development of an interbank repo market.

All these reforms have been accompanied by a decline of inflation to single digits. While other factors have contributed to these developments (e.g., lower food prices and better fiscal management), the improved MP framework, operations, and the development of the money market are also likely to have made monetary policy more effective.

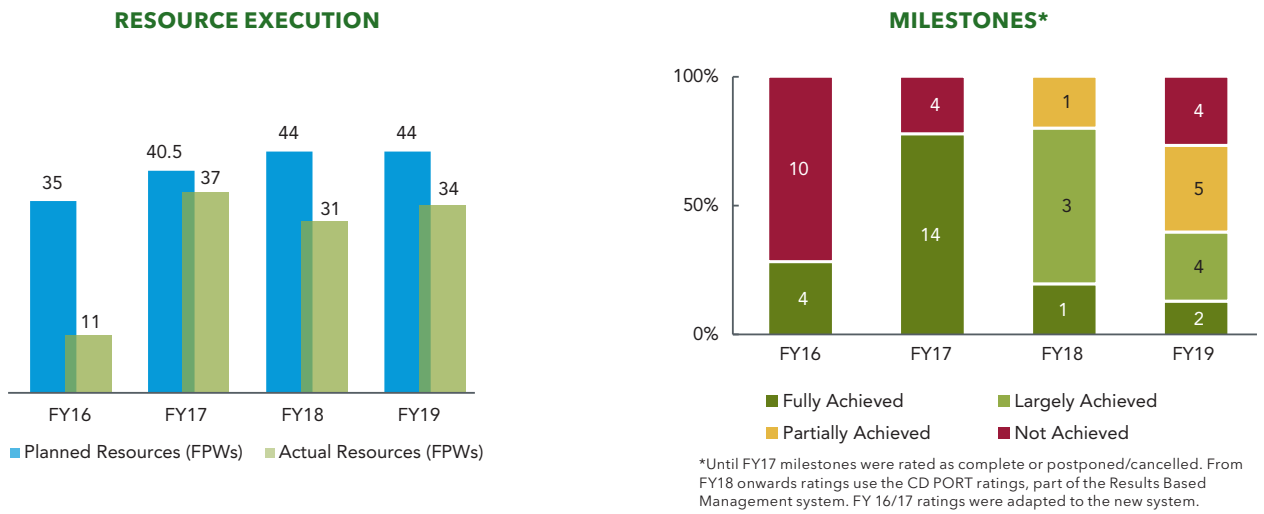
A number of challenges remain to be addressed and will likely require continued support. On the technical side, for example, the MMU needs more regular practice with the QPM to better

translate the team's macroeconomic intuition and expert judgments into model-specific assumptions. A process for systematic evaluation of the model's performance and forecast errors is required to improve the quality of analysis. Moreover, to ensure sustainability of FPAS practice at the RBM and hedge against staff turnover risk, a comprehensive reference manual (i.e., operational guidelines) for the QPM infrastructure needs to be developed. Some aspects of the operations framework, such as clarifying the precise role of the policy rate and of the standing facilities, as well as continuing managing liquidity to ensure that the overnight rate is aligned with the announced policy rate will be needed. These reforms will ensure smooth and predictable liquidity conditions, help stabilize interbank rates, further strengthen policy transmission and foster money and capital market development.

6. FINANCIAL MARKET INFRASTRUCTURE AND PAYMENTS[4]

25. The Center's work has focused on building oversight capacity and proficiency in conducting assessments of the FMIs against the international risk management standards: the CPSS-IOSCO principles for financial market infrastructures (PFMI) and on helping countries harness the benefits of fintech developments while addressing the inherent risks. Member countries have made good progress advancing their modernization agendas for their FMIs by developing or updating oversight policy frameworks (Eritrea, Ethiopia, Rwanda, and Tanzania), enhancing risk management strategies and strengthening legal and regulatory frameworks in line with international good practice (Kenya, Tanzania and Uganda). Training and peer-learning opportunities were also provided at the regional level.

FIGURE 6. FINANCIAL MARKET INFRASTRUCTURE AND PAYMENTS PERFORMANCE INDICATORS



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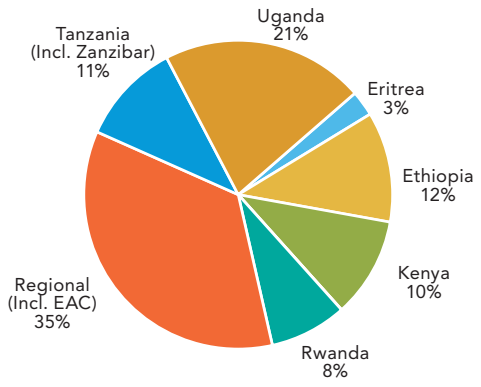
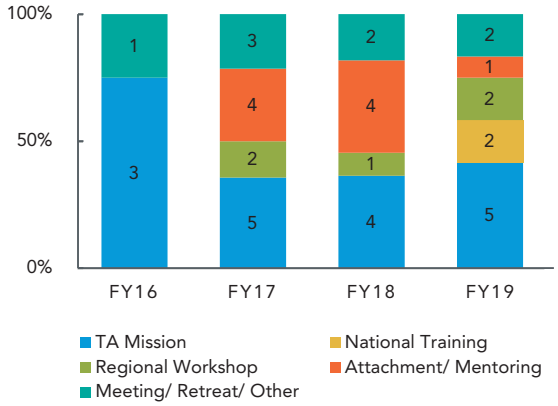
[4] The financial market infrastructures (FMIs) and payments advisor joined in February 2016 and is shared with AFRITAC South.

RESOURCE DISTRIBUTION by COUNTRY (FY16 - FY19)



COMPLETED ACTIVITIES



EXECUTION RATES BY COUNTRY, ACTUAL VS PLANNED RESOURCES (PERCENT OF FPWS

	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania (Incl. Zanzibar)	Uganda	Regional (Incl. EAC)	ALL
FY16	na	0	50	0	0	0	43	50	30
FY17	na	na	73	0	0	112	115	139	90
FY18	50	76	92	na	na	29	66	100	71
FY19	0	100	na	na	95	na	68	79	78

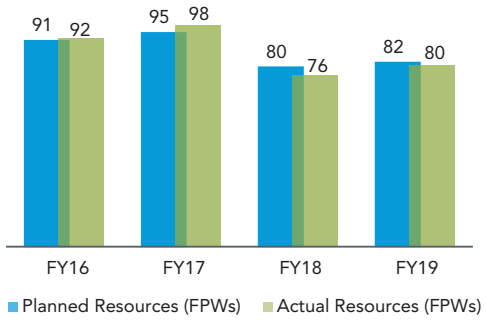
Color Coding: Execution rate <99 (Grey color); execution rate > 99 (green color); not applicable (white color)

7. REAL SECTOR STATISTICS

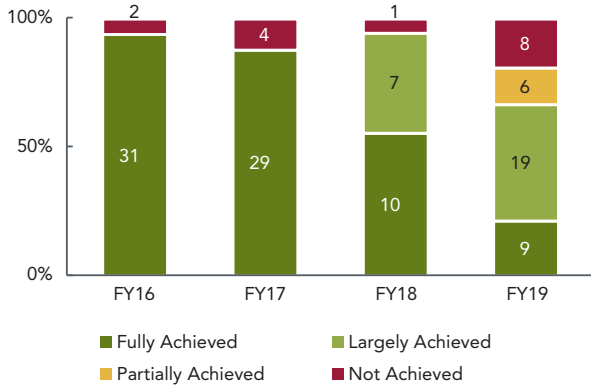
26. The main objective has been to strengthen the compilation and dissemination of real sector statistics for evidence-based decision-making. The emphasis has been placed on the quality, coverage, periodicity and timeliness of national accounts and price statistics. Regarding the national accounts, the focus has been on improving source data and supporting national accounts rebasing and developing quarterly national accounts data (all member countries except Eritrea, where training was provided). Price statistics work has focused on rebasing consumer price indices (CPIs; Ethiopia, Malawi, Rwanda, and Tanzania), developing import-export price indices (Kenya and Tanzania), improving and expanding producer price indices (PPIs; Ethiopia, Kenya, Rwanda, Tanzania, and Uganda), and initiating work on property price indices (Uganda and at the regional level). Support was also provided at the regional level to facilitate the harmonization of statistics critical in the context of the convergence towards EAMU.

FIGURE 7. REAL SECTOR STATISTICS PERFORMANCE INDICATORS

RESOURCE EXECUTION



MILESTONES*



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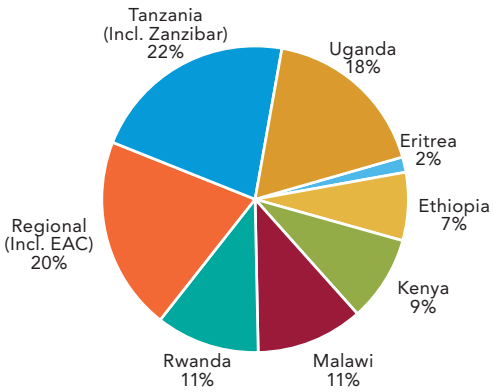
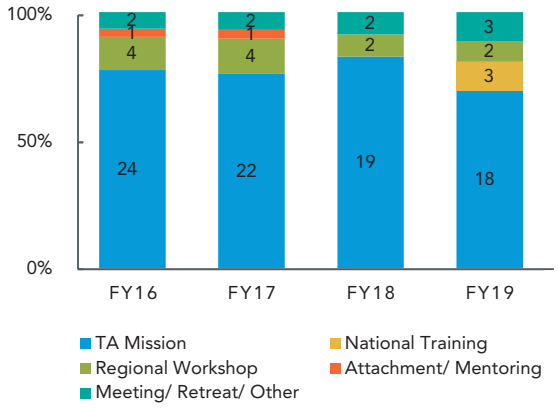
RESOURCE DISTRIBUTION by COUNTRY (FY16 - FY19)



COMPLETED ACTIVITIES



EXECUTION RATES BY COUNTRY, ACTUAL VS PLANNED RESOURCES (PERCENT OF FPWS)

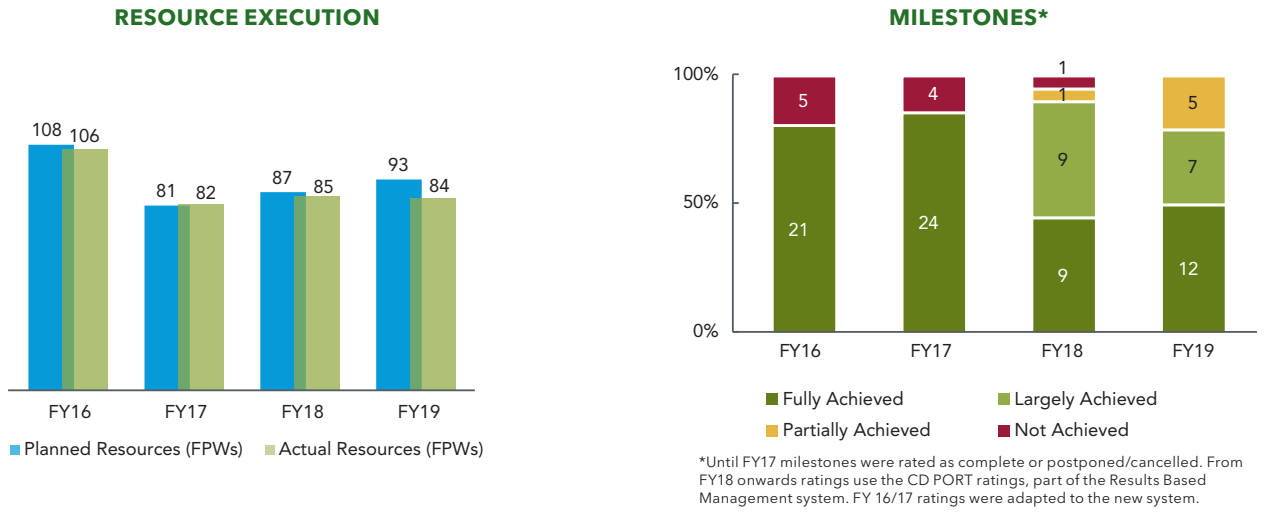
	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania (Incl. Zanzibar)	Uganda	Regional (Incl. EAC)	ALL
FY16	na	100	100	100	100	106	100	98	101
FY17	na	35	100	138	100	100	100	128	103
FY18	0	50	68	200	100	116	100	109	95
FY19	100	66	52	71	107	117	130	104	98

Color Coding: Execution rate <99 (Grey color); execution rate > 99 (green color); not applicable (white color)

8. GOVERNMENT FINANCE STATISTICS

27. The main objective has been to improve government finance statistics (GFS) through a move toward international standards, to facilitate fiscal policy formulation and analysis. The work program was also motivated by the EAC integration process' need for high quality and harmonized fiscal and public-sector debt statistics to assess macroeconomic convergence towards EAMU. Significant advances have been made by member countries in developing/disseminating new datasets with a broader coverage of the general government and the development of new EAC GFS/debt statistics guidelines, which will help harmonize the production of fiscal data. More recently, the focus has been improving the quality of fiscal data and the compilation of high frequency data, with support from the Center covering among others the dissemination of the public sector institutional tables and the alignment of charts of accounts to the standard of the GFS Manual (GFSM) 2014. While support was initially provided to the four EAC countries, CD programs were subsequently launched for Eritrea, Ethiopia, Malawi, and Zanzibar. Support to EAC countries has been highly coordinated at the EAC level to facilitate the harmonization of GFS. Other recent achievements include: Rwanda compiled its initial annual public-sector data and successfully migrated its macro-fiscal framework to concepts based on the GFSM 2014 which feeds directly to the IMF data for surveillance; Uganda has migrated its macro-fiscal framework to GFSM 2014 concepts; Tanzania compiled general government data for FY 2016/17 with a full coverage of extrabudgetary units, and public corporations' data, and Eritrea, Ethiopia and Zanzibar compiled for the first-time budgetary central government (BCG) data using the GFSM 2014 methodology. Kenya and Rwanda now compile quarterly BCG data.

FIGURE 8. GOVERNMENT FINANCE STATISTICS PERFORMANCE INDICATORS



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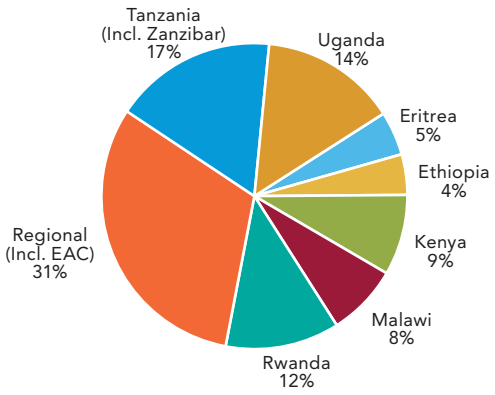
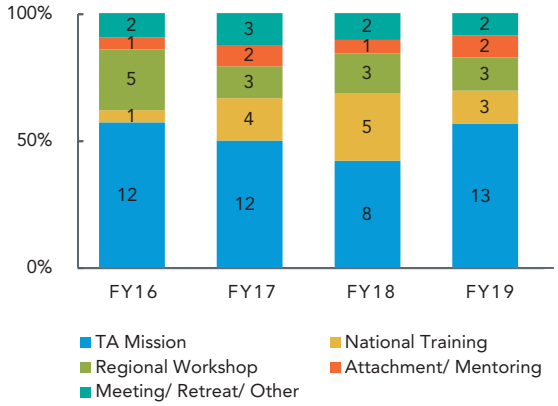
RESOURCE DISTRIBUTION by COUNTRY (FY16 - FY19)



COMPLETED ACTIVITIES



EXECUTION RATES BY COUNTRY, ACTUAL VS PLANNED RESOURCES (PERCENT OF FPWS)

	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania (Incl. Zanzibar)	Uganda	Regional (Incl. EAC)	ALL
FY16	na	na	119	na	113	93	165	81	98
FY17	na	78	32	188	89	134	128	92	101
FY18	101	50	202	101	107	79	248	81	98
FY19	83	117	76	147	71	100	99	84	91

Color Coding: Execution rate <99 (Grey color); execution rate > 99 (green color); not applicable (white color)

SECTION II

C

FINDINGS AND RECOMMENDATIONS OF THE MID-TERM

28. The independent mid-term evaluation of the Center was completed in February 2019. It covers the first half of Phase IV (July 2015-January 2018). The overall objective of the evaluation was to assess the extent to which East AFRITAC has achieved its objectives by assessing the relevance, effectiveness, efficiency, sustainability, and impact of its activities. The evaluation team did a desk review of documents and data; in-person or telephone interviews and group discussions with IMF staff, external experts, and government officials; an online survey; and three country visits (Rwanda, Tanzania, and Uganda).

29. The evaluation shows strong and even results along the higher ratings of the DAC[5] criteria on programming, planning, governance, operations, and budget management. According to the evaluation report, "planning has been effective and responsive […]. Governance and operations are guided by clear processes and procedures. Budget management continues to be complex and limited in terms of the Coordinator's role. […] Alignment of East AFRITAC and Steering Committee objectives and operations has improved in the last few years, with better participation of donors and country members in the design and endorsement of the work plans. Despite challenges, East AFRITAC was able to manage difficulties such as financing uncertainty and adapt the work plan across sector and countries. Execution rates have remained high in Phase IV."

30. The evaluation report made a number of recommendations to increase further the effectiveness and efficiency of East AFRITAC's support to its member countries. These recommendations are presented below. IMF staff agrees with most of them, many of which are already being addressed (see Annex I for more detail). These recommendations will also inform Phase V operations.

- Recommendation 1. Build upon improvements made in work planning for the remainder of Phase IV and in the next phase. Continue to expand the participatory approach to work planning and expand authorities' participation beyond needs assessment.
- Recommendation 2. Improve AFE's cost-effectiveness and budget management capabilities. Give the coordinator greater input and authority in budget and operational decisions. Encourage advisors to identify cost-saving measures.
- Recommendation 3. Improve the use of RBM to monitor progress and manage performance. Account for local conditions when identifying objectives and setting timelines.
- Recommendation 4. Address gaps under the Center's governance arrangements. Revise complex lines of reporting, engage country representatives and facilitate communication between and around the governance, planning, and delivery of CD activities.
- Recommendation 5. Ensure sustainability in all CD activities after delivery. Implement impact surveys in all activities, improve planning and sequencing of activities to avoid duplication. Also, when possible, advise East AFRITAC member countries earlier about upcoming missions to better coordinate internal participation.

[5] DAC refers to the OECD's Development Assistance Committee.

SECTION III

RELEVANCE OF EAST AFRITAC SUPPORT TO THE REGION

SECTION III

A INCLUDING SOUTH SUDAN AS A NEW MEMBER

MACROECONOMIC CHALLENGES FACING SOUTH SUDAN

31. South Sudan experienced a civil war that has led to a humanitarian crisis, with thousands of people dead, millions displaced, and widespread food insecurity. Nearly 40 percent of the population are either internally displaced or live as refugees in neighboring countries and more than half of the population currently requires humanitarian assistance. The peace agreement signed in September 2018 has improved the prospects for the achievement of lasting peace. It provides a broad framework for a power sharing arrangement under a new transitional government of national unity. The agreement specifies an eight-month pre-transition period up to May 2019 before the formation of a new unity government, but because of delays in implementation, especially on security arrangements, the parties agreed in May 2019 to an extension of the pre-transition period.

32. Real GDP is estimated to have declined by about 25 percent in the past three years, and real disposable income by 70 percent since 2011. Inflation, which had reached 550 percent in September 2016, gradually declined to about 40 percent in December 2018. Reserve coverage of imports is very low and the gap between the parallel market exchange rate and the official rate very high. The steep decline in oil production and a sharp drop in oil prices have also caused large shortfalls in government revenue. Continued high government spending led to massive fiscal deficits that were either monetized or financed through accumulation of arrears. South Sudan is currently in debt distress.

33. Addressing the macroeconomic imbalances and reforming the public financial management systems will be required to rebuild confidence and regain access to external financial support from development partners. The immediate priority is to restore macroeconomic stability and rebuild economic buffers. Addressing the macroeconomic imbalance, supported by improvements in oil management and public financial management, is key to rebuild confidence in government policies. This will be necessary to regain access to external financial support from development partners.

CD SUPPORT FROM THE IMF

34. The IMF launched a dedicated five-year CD program in 2012 funded by a multi-donor trust fund. While the needs for capacity building are enormous, efficient provision of CD has been a challenge because of political instability, high staff turnover, limited local resources, and insufficient political commitment to reform. As a result, delivery of CD was scaled back in 2015 to focus on areas with sufficient traction. These included core functions of the central bank, macroeconomic analysis and coordination, production of statistics, and tax administration. The escalation of violence in July 2016 led to a nearly complete stop of CD activities. Some CD has been provided offsite during the most recent period. It is expected that the multi-donor trust fund for South Sudan will be discontinued in 2020.

35. It is proposed that South Sudan become an East AFRITAC member at the beginning of Phase V. The authorities have expressed interest in joining the Center to benefit from capacity building opportunities available to its members. South Sudan is not yet member of an AFRITAC. Joining East AFRITAC would allow South Sudan to continue receiving TA and training in macroeconomic and financial areas when the resources in the multi-donor trust fund are exhausted. Should the political and security situation stabilize there, support from the Center would need to be complemented through other means, as South Sudan is likely to require heavy support and modalities (e.g., resident advisors) that East AFRITAC would not be able to provide.

SECTION III

B

ADDRESSING THE REGION'S MACROECONOMIC AND FINANCIAL SECTOR CHALLENGES

RECENT DEVELOPMENTS

36. The macroeconomic performance of member countries has remained strong on average in recent years.[6] Unlike in many other sub-Saharan African countries, the impact of the 2013-14 commodity price shock on East African economies has been limited. Average growth remained relatively high, at about 5 percent over 2015-18, allowing for a continued increase in per-capita income and living standards. Significant progress has also been made in controlling inflation. Inflation rates remained in single digits in most countries, with Malawi recording a significant decrease over the recent period (see Figure 9).

TABLE 1: EAST AFRITAC MEMBER COUNTRIES—SELECTED CHARACTERISTICS

Country	Population* (2018, in millions)	GDP per Capita* (2018, in US$)	2017 HDI** (World Rank)
Eritrea	N.A.	N.A.	0.440 (179)
Ethiopia	94.1	853	0.463 (173)
Kenya	48.0	1,857	0.590 (142)
Malawi	19.7	351	0.477 (171)
Rwanda	12.0	791	0.524 (158)
South Sudan	13.0	303	0.388 (187)
Tanzania	51.0	1,134	0.538 (154)
Uganda	38.8	724	0.516 (162)

*Source: IMF World Economic Outlook Database (2019).

**Human Development Index (HDI) is a composite measure of key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. World ranking is shown in brackets out of 189 countries. Source: UNDP Human Development Indices and Indicators (2018).

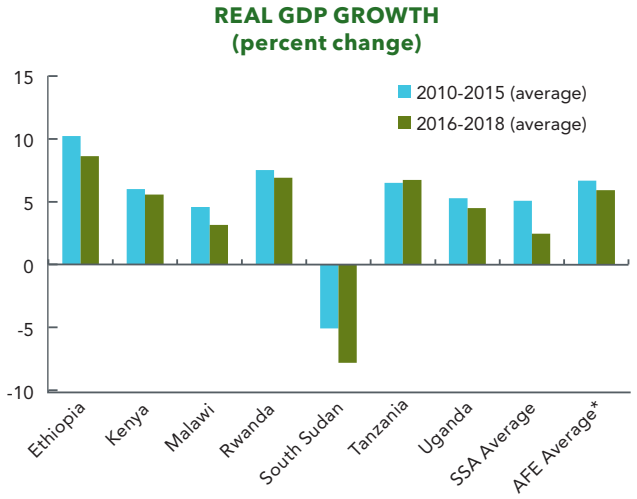
[6] The following paragraphs refer to the economic performance of current member countries (i.e., excluding South Sudan).

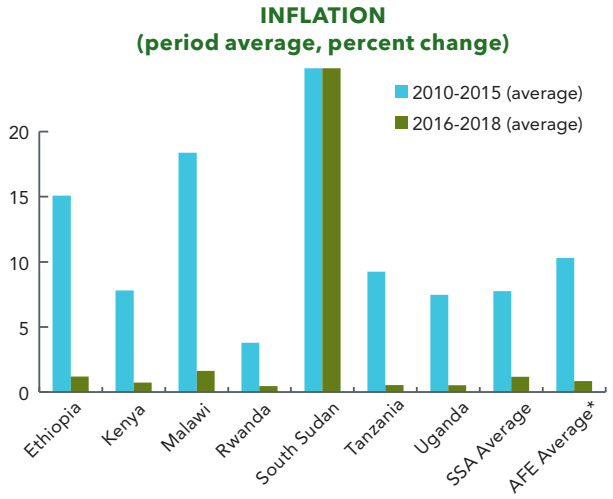
37. Despite sustained macroeconomic progress, member countries still have significant poverty challenges to address. While there are important differences among the group, per capita income remains low in all of them. Poverty rates have generally decreased but are still high. According to the UN's Human Development Index, six of the seven member countries are classified as having low human development. Other development challenges, like large infrastructure gaps, affect all these countries to different extents.

38. Fiscal vulnerabilities have increased. Public debt to GDP ratios have increased significantly in recent years in most member countries. According to the latest joint IMF/World Bank debt sustainability analyses, the risk of external debt distress is low in Rwanda, Tanzania and Uganda, moderate in Kenya and Malawi, and high in Ethiopia. Eritrea, which is in arrears to some external creditors, is considered in debt distress. The recent increase in debt ratios is due to relatively high fiscal deficits in some of the member countries. The recourse to borrowing to address development needs, such as higher public investment in infrastructure, reflects not only the ample availability of external financing from a range of sources, but also insufficient progress on revenue mobilization and prioritization and efficiency on the expenditure side. In some cases, higher debt ratios also reflect the materialization of fiscal risks, such as the impact of exchange rate depreciation on foreign currency-denominated debt.

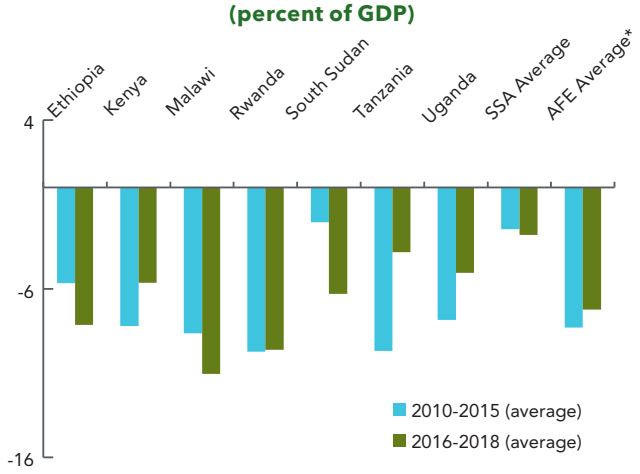
39. Financial sector depth and breadth remain limited (except in Kenya), and the modernization of monetary policy regimes (both analytical and operational) needs to continue. Bank credit to the private sector as a share of GDP, a common measure of financial sector depth, has not increased significantly in the recent past and households and small and medium enterprises typically have limited access to the formal financial system. However, some countries (e.g., Kenya, Rwanda, Tanzania, and Uganda) have made significant progress in financial inclusion thanks to the spectacular development of mobile money, which was born in East Africa. Significant progress has been made in some member countries in modernizing monetary policy frameworks, but the transmission of monetary policy signals remains weak on average.

FIGURE 9. EAST AFRITAC MEMBER COUNTRIES: SELECTED MACROECONOMIC INDICATORS

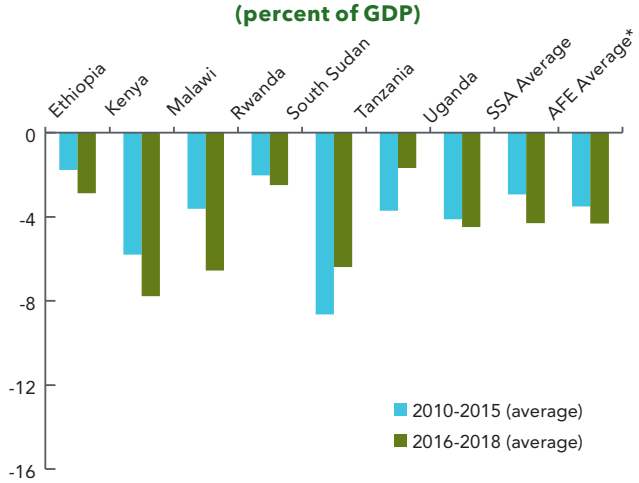




CURRENT ACCOUNT BALANCE (percent of GDP)



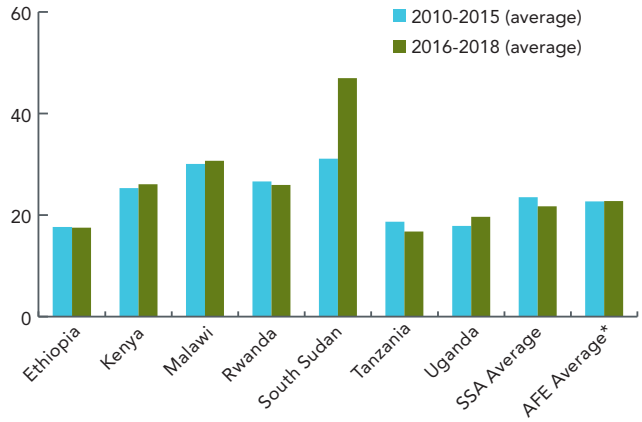
OVERALL FISCAL BALANCE (percent of GDP)



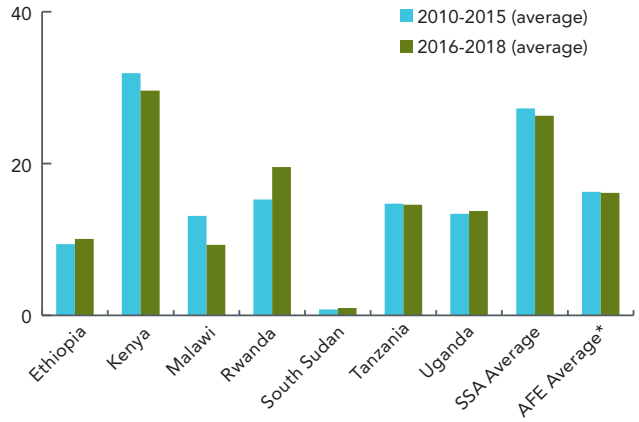
GENERAL GOVERNMENT GROSS DEBT (percent of GDP)

GOVERNMENT REVENUE, EXCL. GRANTS (percent of GDP)

GOVERNMENT EXPENDITURE (percent of GDP)



CLAIMS ON NONFINANCIAL PRIVATE SECTOR (Percent of GDP)**



Source: Country authorities, and IMF staff calculations and estimates (April 2019 Regional Economic Outlook).

* Excluding Eritrea and South Sudan. Eritrea is not included in the charts because significantly updated information was not yet available for publication at this writing. South Sudan will join East AFRITAC in phase V.

** Claims on nonfinancial private sector are liabilities of the private sector to the banking system.

MAIN POLICY PRIORITIES RELEVANT FOR EAST AFRITAC WORK

40. The overarching policy priority is to achieve or maintain high, inclusive, and sustainable growth. As indicated above, the region has made great strides in improving social outcomes in the past 15 years. Continued strong growth will be critical to further raise living standards and meet the Sustainable Development Goals (SDGs) by 2030. The development challenge is growing as the region is on the brink of a significant demographic transition, with very large numbers of new workers (including many women) set to join the labor force. Member countries will need to implement reforms that both generate productivity gains and boost job creation. While the reform agenda to address these issues is broad and multi-faceted, stronger economic institutions and management will have an important role to play.

41. Member countries need to create fiscal space for critical public investment and social spending and to restore their capacity to address future adverse shocks. This ambitious agenda requires first and foremost higher revenue mobilization. Recent IMF estimates suggest that countries in sub-Saharan Africa could raise tax revenues by three to five per cent of GDP over the next five years. Raising domestic revenue does not necessarily mean only raising tax rates. Countries that have succeeded in in this area paid special attention to expanding the tax base, simplifying the tax system and tackling exemptions and incentives. Spending better should also be a top priority. This means prioritizing and allocating resources more effectively to support inclusive growth, but also making sure that once funds are allocated they are well managed. Spending better requires better public financial management, from budgeting to execution and reporting. Developing stronger and more transparent fiscal policy frameworks, with credible fiscal anchors, will not only help ensure accountability and debt sustainability; they will also help persuade civil society to support reform efforts.

42. Reducing vulnerability to shocks, including at the individual level, requires a more developed and sound financial system. Access to finance remains an issue for certain segments of businesses and the population, despite considerable progress made with the recent development of mobile money in many East African countries. Developing further the financial system is therefore desirable, both to support growth and increase people's and businesses' capacity to deal with economic volatility. At the same time, this should be done in a way that will not create financial instability down the road. Strong and agile supervision, extending to new areas, is required to allow for innovation (like mobile money and fintech) while ensuring a sound financial system. A more developed financial system, together with modernized policy and operations frameworks, can also make monetary policy more effective, thus contributing to lower and more stable inflation.

43. Better data will be needed to inform policymaking. While significant progress has been made in macroeconomic statistics, there are still significant gaps that affect the capacity of the authorities to analyze situations and design and implement relevant policies. For instance, national accounts rebasing exercises regularly lead to significant revisions to national income and activity estimates; this raises a host of issues for deciding on the macroeconomic policy stance, designing redistributive policies, and assessing whether revenue mobilization efforts have been successful, just to name a few. Other examples include the still limited information on the activity of the broader public sector provided by fiscal statistics, which affects the government's capacity to manage the public sector and fiscal risks originating from it. Further improving the quality, coverage, and timeliness of macroeconomic information remains critical.

EAST AFRITAC'S ROLE IN ADDRESSING THESE CHALLENGES

44. The key objective of the Center in Phase V is to help member countries further build their capacity to design and implement economic policies consistent with their priorities. East AFRITAC is well placed to respond to the needs of its member countries, given its expertise in macroeconomic and financial issues and its experience in assisting member countries in developing human and institutional capacity, both at the national and regional levels, to design and implement their desired policy strategies.

45. The strategy and objectives for Phase V have been identified through extensive consultation. Discussions were conducted with member countries, IMF HQ, development partners, and other CD providers. These consultations indicated that East AFRITAC should continue to assist member countries in the following priority areas:

- Tax and customs administration
- Public financial management (including macro-fiscal analysis)
- Financial sector regulation and supervision
- Monetary policy analysis, frameworks, and operations
- Macroeconomic statistics

46. The priority areas are fully aligned with the IMF CD strategy, broader regional goals, and areas of expertise. Prospective areas of engagement for the new phase are closely linked to the IMF commitments to the Financing for Development agenda to facilitate the attainment of the SDGs, through increased domestic resource mobilization, better spending of public resources, broader financial inclusion, and enhanced macroeconomic statistics for policy analysis.

SECTION III

C SPECIFIC RISKS AND RISK MITIGATION TO IMPROVE CD DELIVERY

POLITICAL AND ECONOMIC RISKS

47. While most member countries have enjoyed relative political stability, some have faced situations affecting the delivery of CD support. For instance, missions to Kenya were suspended for a few months because of the political and security situation there in the wake of the general election in August 2017. In other cases, changes in governments have resulted in changes in reform priorities, staffing arrangements, and access to key decision-makers, with a possible impact on the authorities' ability to adhere to initially agreed work plans for CD (e.g., Ethiopia, Tanzania). South Sudan, a prospective member, has been beset by political instability and security challenges, which have affected the provision of CD support. Conversely, should these challenges be addressed, the demand for CD could increase significantly. The same holds for Eritrea in the wake of the normalization of its relations with the international community.

48. Economic shocks also affect policy and CD priorities. All member countries remain vulnerable to exogenous shocks that impact economic activity, prices, government finances, and external and financial sector stability. Examples of such shocks are drought or flood events, which remain frequent and affect the livelihood a large fraction of the population. Commodity price fluctuations affect all countries in the region; in the future, this impact might differ across countries, as some of them are poised to become significant natural resource producers. Access to external finance, whether from markets or donors, can also be a source of economic shocks.

49. Addressing those shocks will require continued agility from the Center. East AFRITAC will need to preserve, and perhaps even increase, its capacity to reallocate its resources across countries and sectors at relatively short notice. Contingency reserves sufficient to respond to variations in country requirements arising from changing political and economic conditions are also desirable.[7] The higher flexibility and use of reserves will be guided by a strong results-based approach thanks to the new RBM framework (see Box 3).

[7] This practice started in FY 2020, with the introduction of a 2 percent contingency line in the budget.

ENGAGEMENT AND COORDINATION

50. Close engagement and coordination with all the main stakeholders are critical to the success of CD efforts. Coordination among key stakeholders (Steering Committee–SC– members, country authorities, development partners, and East AFRITAC staff) has continued to develop, but has not always been sufficient to ensure strong ownership, engagement, and mutual accountability for results in countries or specific institutions. This has been illustrated by the difficulty to get comprehensive feedback on logframes under the new RBM system. Strengthened coordination and engagement are desirable during Phase V.

51. Greater interaction with, and engagement of, SC members on program design and monitoring will be sought. SC members of beneficiary countries would ideally be familiar with the entire IMF CD program of their country and actively coordinate with all beneficiary agencies to help ensure the effective use of East AFRITAC support. An important aspect of this would be to ensure that the agencies benefitting from East AFRITAC CD support incorporate the targeted outcomes in their strategic plans.

However, it should be recognized that the varying level of engagement among member country representatives may reflect different levels of organizational capacity and institutional issues that may take time to address. East AFRITAC and the rest of the IMF, in particular resident representatives in member countries, will continue to do their best to explain to the authorities the role of country representatives at the SC and to encourage the national authorities to facilitate communication and coordination across beneficiary institutions and with other providers of CD. This could be done, in particular, by the coordinator during his/her regular visits to member countries.

52. Resident advisors and the coordinator will engage more actively with developing partners to coordinate more effectively, maximize synergies and avoid duplication. More systematic sharing of information on missions in areas of common interest could be envisaged, for instance through a briefing at the start of the mission and a debriefing at the end, time permitting. More active collaboration "upstream", i.e., at the design and planning stages, could also be considered where the risk of overlap is significant. Finally, joint activities, such as regional workshops or seminars, could be conducted.

ABSORPTIVE CAPACITY

53. Reform implementation in member countries remains constrained by individual capacity and institutional capability, including staffing. While training provided by the Center seems to have had a significant impact, according to surveys, higher individual capacity may not have always translated into increased institutional capability. The latter may indeed require additional factors, such as better human resource policies, organizational restructuring, or even civil service reform. Inadequate staffing and/or high staff turnover have been an issue in some institutions supported by East AFRITAC, particularly those in charge of compiling macroeconomic statistics. Other challenges affecting reform implementation include financial or information technology (IT) constraints and insufficient coordination across institutions.

54. Better recognizing absorptive capacity challenges and the need for complementary organizational reforms will increase the impact of East AFRITAC support during Phase V. Individual skills development will continue to be a major focus in all sectors. This will be delivered through training embedded in TA missions, national training events, and through training and peer learning through regional seminars, workshops, and professional attachments. Greater attention will be paid to aligning reform recommendations with absorptive capacity, with due recognition of the diversity of countries and institutions. In addition, while addressing technical and capacity challenges will remain at the core of East AFRITAC support, more explicit attention will be paid to complementary reforms of human resources and systems management, when required.

BOX 3. RESULTS-BASED MANAGEMENT AT EAST AFRITAC: PHASE IV ACHIEVEMENTS AND PHASE V PROSPECTS.

In line with the recommendations of the 2013 mid-term evaluation, East AFRITAC improved the transparency and accountability on its CD activities with a more programmatic and systematic approach to designing work plans and monitoring implementation progress.

During phase IV, a standardized catalog of outcomes and indicators was developed by IMF HQ and has been used to develop logical frameworks (logframes) with a medium-term horizon for all TA activities. These logframes describe the initial situations ("baselines"), the targeted outcomes, and the verifiable indicators and critical steps ("milestones") that will facilitate monitoring. East AFRITAC now reports on the effectiveness of its CD activities using harmonized and agreed-upon indicators to inform the Steering Committee of the successes and challenges of CD delivery. Significant outreach efforts have been made over the past two years to familiarize the authorities with the new RBM framework and ensure that there is agreement on the logframes.

The new RBM system was implemented together with an IT system called Capacity Development–Projects, Outputs, and Results Tracking (CD-PORT). CD-PORT has been complemented at East AFRITAC with specific tools to address the Center's reporting and analytical needs. For instance, country notes or sector notes can now be updated and produced easily, which provide an overview over several years of how resources have been allocated and how effectively they have been used. These notes have been used for the present document.

The new RBM system has been in place since May 2017, and it is therefore still too early to reap its full benefits. For instance, the implementation period has been too short to rate outcome implementation, given that outcomes are medium-term targets. The new system is expected to deliver its full benefits in the next few years, when more data become available. The information derived from the system will allow the Center to assess more systematically which projects are on track and which are not. Projects found to be off track will require careful review to determine the origin of the problem (e.g., does it come from the authorities' side, for instance from a lack of capacity or political support, or does it reflect inadequate support from the Center?) and whether/how it can be addressed.

Efforts in the coming years will also focus on the analysis of data integrity and consistency across projects. RBM governance guidelines are expected to be updated in light of lessons learned to ensure homogenous assessments of CD achievements across the IMF. For instance, issues around the scope of training evaluation will need to be clarified. The type of training provided by East AFRITAC varies greatly and may need to be evaluated differently. Some training activities are closer to seminars and rely more on informal peer to peer knowledge sharing, which is challenging to assess effectively within the RBM framework.

A new CD management platform, Capacity Development Management and Administration Program (CDMAP), is currently under development. CDMAP will support more efficient and transparent implementation of the CD governance framework by addressing gaps and inconsistencies in processes and systems underlying CD operations across the Fund, with systems that can incorporate changes in policies over time. It will provide easily-accessible data, supporting better decision-making on CD, and strengthen linkages between CD, surveillance, and lending. In addition, CDMAP will strengthen the framework for medium-term, country-centered planning and budgeting at the portfolio and country levels by streamlining and harmonizing processes and systems across the IMF (including RCDCs), better capturing demand, allowing aggregation of workplans across all delivery modalities, and supporting prioritization. It will also facilitate performance results monitoring by making input and use of data easier for HQ and field-based staff. It will significantly improve the user experience compared to CD-PORT, which was one of the recommendations of the mid-term evaluation of East AFRITAC Phase IV.

SECTION IV

EAST AFRITAC STRATEGIC PRIORITIES FOR PHASE V[8]

[8] Strategic priorities are summarized in strategic logframes available in Annex II.

SECTION IV

A CUSTOMS AND TAX ADMINISTRATION

GENERAL CONSIDERATIONS

55. Revenue mobilization is a top priority for all member countries and an area where demand has exceeded East AFRITAC's capacity to deliver in recent years. As a result, a second revenue administration advisor will be recruited, allowing for more support to member countries on customs administration issues. Support will continue to focus on three strategic objectives:

- **Strengthened revenue administration and governance arrangements.** Strengthening reform management capacity generally requires action in a number of areas, such as: establishing key performance indicators, regularly reported and monitored; appropriate institutional settings, including a clear separation of roles and responsibilities between headquarters and local branches; and improving IT strategies and systems, and human resources strategies and practices. A number of TADAT indicators will be used to monitor progress towards best international practice.[9]
- **Strengthened core tax administration functions.** The focus here will be on improving the management of filing compliance and strengthening self-assessment used to declare tax liabilities. TADAT indicators will be used here too to monitor progress towards best international practice.[10]

[9] Improved public perceptions on integrity (TADAT POA9-27); improved identification, assessment, ranking and quantification of compliance risks (TADAT POA2-3); better mitigation of risks through a compliance improvement program (TADAT POA2-4); improved monitoring and evaluation of compliance risk mitigation activities (TADAT POA2-5); and better identification, assessment and mitigation of institutional risks (TADAT POA2-6).

[10] Improved accuracy and reliability of taxpayer information held in centralized database (TADAT POA1-1); improved knowledge of taxpayer base and potential taxpayers through robust taxpayer registration policies and procedures (TADAT POA1-2); effective management of tax accounts (TADAT POA8-23); improved perceptions of service and monitoring (TADAT POA3-9); improvement of management of tax arrears (TADAT POA5-15); appropriate range of tax audits and other initiatives used to detect and deter inaccurate reporting and fraud (TADAT POA6-16); automated cross-checking used to verify return information (TADAT POA6-16); and sound methodologies used to monitor the extent of inaccurate reporting and tax gaps (TADAT POA6-18, RA-GAP results).

- **Improved customs administration core functions.** With the recruitment of a second revenue administration advisor, work in this area will intensify. The following reform areas are expected to be supported: effective application of procedures based on international standards for valuation, origin and the tariff classification of goods improved; consistent application of risk-based control selectivity; strengthening trade control progressively through a properly designed post-clearance audit program; strengthening the framework to control special regimes and exemptions; and higher effectiveness of the fight against fraud and smuggling.

EMERGING ISSUES

56. Member countries will be assisted in the implementation of new initiatives (e.g., single windows, coordinated border management, and authorized economic operators) and alignment of customs procedures (including transit) with international standards and regional integration. Support will also be provided to customs administrations on strengthening the legal base, procedures and capacities to exchange information with the tax department, other government agencies and foreign customs. For tax administrations, a new area of support will be the strengthening of self-assessment used to declare tax liabilities. Support will also be provided to improve human resources strategies and practices and the effectiveness of transparency and accountability supported by independent external oversight and internal controls.

EXPECTED OUTCOMES DURING PHASE V[11]

57. The main targeted outcomes are summarized below, by strategic objectives:

- **Strengthened revenue administration and governance arrangements.** Malawi and South Sudan* would institutionalize their reform capacity by adopting a clear reform strategy and a strategic management framework; Eritrea, Kenya, Malawi, Rwanda and South Sudan* would strengthen their organizational arrangements for effective delivery of strategy and reforms; Eritrea, Kenya, Uganda, Zanzibar and South Sudan* would strengthen functions that enable more effective delivery of strategy and reforms; Uganda* would improve the effectiveness of transparency and accountability supported by independent external oversight and internal controls; Ethiopia, Kenya, Malawi, Rwanda, Tanzania and Zanzibar would strengthen the management of corporate priorities through effective risk management; and Malawi* would implement effectively a new or modernized tax legislation.

- **Strengthened core tax administration functions.** Eritrea* and South Sudan* would strengthen taxpayer services initiatives to support voluntary compliance; Eritrea, Kenya, Zanzibar and South Sudan* would increase the proportion of taxpayers who meet their filing and payment obligations as required by law; Eritrea, Ethiopia, Malawi, Rwanda, Tanzania and Uganda would improve the effectiveness of audit and other verification programs to ensure accuracy of reporting; and Eritrea, Malawi and South Sudan* would strengthen the integrity of the taxpayer base and ledger.

- **Improved customs administration core functions.** The EAC would make progress on trade facilitation and service initiatives that better support voluntary compliance; Ethiopia, Rwanda, Tanzania and South Sudan* on ensuring that foreign trade operators better comply with their reporting and payment obligations; Uganda and the EAC would improve the effectiveness of customs control during the clearance process to ensure accuracy of declarations; and Ethiopia, Rwanda, Tanzania, Uganda, South Sudan* and the EAC would improve the effectiveness of audit and anti-smuggling programs to ensure enforcement of custom laws

[11] An asterisk after the name of a country flags a new area of East AFRITAC support to the concerned country, compared to Phase IV.

SECTION IV

B PUBLIC FINANCIAL MANAGEMENT (INCLUDING MACRO-FISCAL ANALYSIS)

GENERAL CONSIDERATIONS

58. Member countries have made progress in strengthening their PFM systems during previous phases. In most countries this has been achieved across all strategic objectives. In others, focus has been on establishing a solid foundation on the core fundamentals, such as developing the medium-term budget framework, strengthening financial controls over government resources, and financial reporting.

59. Phase V will build on the ongoing reforms to further enhance skills, systems and practices. It is expected that most of the ongoing projects from the previous phase on improving the medium-term orientation of the budget, budget documentation, strengthening expenditure controls, annual fiscal reporting, public investment management, cash management and implementation of treasury single accounts (TSA) will continue. Member countries will also be supported to ensure their reform strategies adequately reflect the current situation and propose appropriate timing, prioritization and sequencing of reform activities. In light of financing constraints and the planned increased support to revenue administration reforms, the number of PFM advisors will be reduced from four to three, including one specializing in macro-fiscal analysis. Addressing the additional pressures coming from new thematic areas (see below) and South Sudan's membership will require careful prioritization within and across countries, taking into account, among others, needs, traction of past advice, and the availability of support from other providers of CD.

EMERGING ISSUES

60. Fiscal risk management. The start of Phase V coincides with a heightened sensitivity to fiscal risks in member countries. As mentioned earlier, debt vulnerabilities have increased across the membership. As the debt-to-GDP ratios have grown, so too has the exposure to new types of fiscal risks. A sound and credible macro-fiscal framework will be increasingly important for designing and evaluating fiscal policy that maintains sustainability, supports inclusive growth, and protects the most vulnerable. Similarly, it will be important that fiscal risks in each country are well-understood, closely tracked, and carefully managed. Some of the East AFRITAC member countries (Kenya, Rwanda, Tanzania, and Uganda) underwent the Fiscal Transparency Evaluation (FTE) and have been focused on developing fiscal risk statements as part of the budget documentation. These developments reflect, among others, high-level commitments made in the context of convergence to EAMU. During Phase V, work is expected to move to identification and management of specific fiscal risks arising out of sub-national government, state-owned enterprises, contingent liabilities and public-private partnerships. Debt sustainability analysis and the integration of debt sustainability tools with macro-fiscal forecasting frameworks has also been flagged as an emerging priority in all macro-fiscal departments. Macro-fiscal sensitivity analysis and forecast error analysis tools are also expected to be in increasing demand, as they underpin more in-depth analysis in fiscal risk statements and debt sustainability analyses.

61. Gender-responsive budgeting. Some member countries have made good progress in this area, while others are at the very beginning of the reform process. An East AFRITAC regional workshop on gender budgeting (2018) allowed member countries to exchange on their experiences and to express interest in TA and training in mainstreaming gender related policies in the preparation of budget programs.

EXPECTED OUTCOMES DURING PHASE V

62. AFE will support further progress against the six PFM strategic objectives:

- **Improved PFM laws and effective institutions.** Member countries that have updated their PFM legal frameworks and medium-term reform strategies (Ethiopia, Kenya, Rwanda, Tanzania and Uganda,) would make progress in the implementation of the PFM legislations and achievement of the identified priorities. Malawi*, Zanzibar and South Sudan* would develop a comprehensive legislative and regulatory framework covering all stages of the PFM cycle. Comprehensive and effective use of Integrated Financial Management Information Systems (IFMIS) to support PFM systems, processes and practices would be made in all countries including Eritrea* and South Sudan*. South Sudan* and Zanzibar* would enhance the capacity of their ministries of finance and develop appropriate institutional structures to implement and sustain PFM reforms.

- **Comprehensive, credible, and policy-based budget preparation.** All member countries would strengthen the strategic focus of the medium-term fiscal framework and publish comprehensive and realistically costed annual and medium-term budget frameworks. In addition, Ethiopia, Rwanda, Tanzania and Uganda would strengthen the use of programs to formulate performance-informed budgets and Ethiopia, Kenya, Rwanda, Tanzania, and Uganda would strengthen budget preparation at the sub-national level. All member countries would also strengthen revenue forecasting; the development of macro-fiscal forecasting tools (including debt sustainability analysis tools); and the presentation and explanation of macro-fiscal forecasts.

- **Improved budget execution and control.** Kenya, Malawi, Tanzania (including Zanzibar), Uganda, and South Sudan* would strengthen system-based and manual financial controls, including bank reconciliation, commitment and expenditure controls, and the prevention, clearance and reporting of expenditure arrears. Ethiopia*, Kenya, Malawi, Rwanda, Tanzania, and Uganda would strengthen public investment management systems to achieve improved appraisal, selection, and implementation of investment projects.

- **Improved coverage and quality of fiscal reporting.** All member countries would continue improving the comprehensiveness, frequency and quality of in-year and annual fiscal reports in line with International Public Sector Accounting Standards, and timely publication of audited annual financial statements. In addition, Eritrea, Ethiopia*, Kenya, Malawi, Rwanda, and Uganda would align the chart of accounts and budget classification with GFSM 2014.

- **Improved asset and liability management.** Ethiopia, Kenya, Malawi, Tanzania (including Zanzibar), Uganda, and South Sudan* would strengthen cashflow forecasting and move beyond monthly cash rationing to more active cash management and expand coverage of TSA arrangements for government transactions. In addition, Ethiopia, Kenya, Malawi and Tanzania would achieve better integration of cash and debt management to support effective management of liquidity.

- **Strengthened identification, monitoring and management of fiscal risks.** Ethiopia*, Kenya, Malawi, and Rwanda would strengthen central fiscal oversight and analysis of public corporations. In addition, Kenya*, Malawi, Rwanda, Tanzania, and Uganda would achieve comprehensive disclosure and management of contingent liabilities and other specific fiscal risks. Ethiopia, Kenya, Malawi, Rwanda, and Uganda would develop their fiscal risk registries and fiscal risk statements. All member countries would assess and present macro-fiscal sensitivity analysis and alternative macroeconomic and fiscal scenarios, including through the Parliamentary Budget Offices in Kenya, Tanzania, and Uganda. Kenya, Rwanda, Uganda, and Tanzania would develop their long-term fiscal sustainability analysis. Natural resource revenue management has become a priority in some member countries (Kenya, Tanzania, and Uganda) and East AFRITAC would continue to provide support to missions from HQ in this area.

SECTION IV

C

MONETARY POLICY AND OPERATIONS FRAMEWORKS

GENERAL CONSIDERATIONS

63. Member countries have made substantial progress in controlling inflation in the past decade, thanks in part to the modernization of their monetary policy and operations frameworks. Many member countries (EAC countries and Malawi) have moved to more forward-looking, interest rate-based policy frameworks, with support from the IMF, including East AFRITAC, both on operations frameworks consistent with the new policy frameworks and on strengthening forecasting and policy analysis capacity.

64. Reform of monetary policy and operations frameworks will need to continue during Phase V. Many central banks have introduced policy rates to signal the stance of policy, but deviations between policy and actual market rates are still common. Moreover, operational deficiencies such as the lack of a clearly defined operating target for monetary policy, sometimes reflecting illiquid money markets, continue to hamper the implementation of interest rate-based policy frameworks and are a constraint for the central banks to benefit fully from forecasting and policy analysis systems (FPAS).[12] Despite notable improvements in the communications function of several central banks, many of them are still lacking a structure, organization and policies/strategies supporting effective communication.

65. FPAS work delivery will be coordinated from the field. Demand for FPAS support remains very strong, and this area of work has received highly positive feedback from beneficiary central banks. Despite significant progress, the FPAS agenda is far from being fully implemented. More training is required to ensure that forecasting teams can run and adjust projection models comfortably on their own. Traction with senior staff and decision-makers needs to be developed further in some central banks. This justifies not only continuation of the program, but also a change in the modality of delivery. This work, currently delivered from IMF HQ, will be coordinated by a new advisor in East AFRITAC. This modality will be fully consistent with the practice in other sectors and allow for more regular interactions with the beneficiary centrals banks. Support of monetary operations will be delivered by another advisor, who will also coordinate the work program on FMI and payment systems (see below).

EXPECTED OUTCOMES DURING PHASE V

66. The main targeted outcomes are summarized below, by strategic objectives:

- **Enhancing the effectiveness of monetary policy implementation and strengthening central banks' operational framework within the monetary policy regime of choice, by targeting the following outcomes:**

(a) The central bank has an operational strategy consistent with the monetary policy framework and the country circumstances (Ethiopia*, Kenya, Malawi, Rwanda, Tanzania, Uganda, and South Sudan).

[12] Customized training and TA on developing FPAS typically focuses on: (i) developing a forecasting infrastructure, including data management, the near-term forecasting tools and a quarterly projection model (QPM); (ii) developing a forecasting calendar, organizing forecasting teams and streamlining internal communication practices; (iii) incorporating forward-looking model-based analysis and forecast into the actual Monetary Policy Committee cycle of the central bank; and (v) streamlining decision-making and external communication processes.

(b) The central bank has a sufficiently accurate liquidity forecasting framework to guide the liquidity management operations (Eritrea*, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, Uganda and South Sudan).

(c) An effective interest rate corridor is developed to limit volatility in market interest rates within an acceptable range, consistent with the chosen type of interest rate corridor (Ethiopia*, Kenya, Malawi, Rwanda, Tanzania, and Uganda).

(d) The central bank has adequate operational instruments and is able to formulate an operational strategy to deal with changing liquidity conditions (Ethiopia*, Kenya, Malawi, Rwanda, Tanzania, Uganda).

(e) The interbank market has adequate breadth and depth to facilitate monetary policy transmission (Ethiopia*, Kenya, Malawi, Rwanda, and Tanzania).

- **Enhancing the effectiveness and consistency of central bank foreign exchange (FX) operations with the chosen monetary policy and FX regime, by targeting the following outcomes:**

(a) The capacity of the FX market is sufficiently developed to facilitate the efficient allocation of foreign exchange and so that an adequate degree of price discovery can occur (Ethiopia*, Kenya, Malawi, Rwanda, and Tanzania).

(b) The authorities have a clear FX intervention policy that is consistent with the chosen FX regime and its well understood by markets and the public (Ethiopia*, Kenya, Malawi, Rwanda, and Tanzania).

(c) The exchange rate is sufficiently flexible in response to changes in supply and demand. The degree of flexibility is consistent with the desired FX and monetary policy regime. The transition process to a more flexible regime is appropriately sequenced (Kenya, Malawi, Rwanda, Tanzania, and Uganda).

- **Managing the foreign reserves to serve strategic objectives: safety, liquidity and optimal return, by targeting the following outcomes:**

(a) The central bank has effective and consistent investment policy and guidelines (Eritrea).

- **Improving the economic analysis and forecasting capabilities at the central bank for the monetary policy decision-making process tailored to the specific monetary and exchange rate policy regime.** The emphasis will be placed on:

(a) Improved economic analysis and forecasting capabilities at the central bank (Ethiopia*, Kenya, Malawi, Rwanda, Tanzania, and Uganda);

(b) The full integration of FPAS into the monetary policy decision-making process (Kenya, Malawi, Rwanda, and Tanzania)

SECTION IV

D

FINANCIAL MARKET INFRASTRUCTURE AND PAYMENTS

GENERAL CONSIDERATIONS

67. East AFRITAC's support during Phase V will continue to focus on improving risk management practices for the FMIs, enhance proficiency to undertake initial assessments of the FMIs against the international standards and strengthen legal frameworks for the national payments system (NPS). Much of the support provided in Phase IV has been on explaining the standards and building capacity and confidence to undertake at least one FMI assessment. The PFMI promulgates standards for FMI risk management and oversight. After successfully building capacity to both improve risk management practices and assess FMI compliance with the PFMI, the focus will be on enhancing compliance with the regulatory, supervisory and oversight responsibilities.

EMERGING ISSUES

68. Managing risks related to mobile payments and retail payment innovations enabled by the new financial technologies (fintech) is an emerging priority. On the retail front, banks have a range of partnership arrangements with mobile network operators and third-party service providers. Throughout the region, these services underpin the authorities' financial inclusion and economic development agendas and are increasingly viewed as being of systemic importance. These developments have prompted the IMF to undertake research into supervision and oversight practices within the EAC to identify the main policy considerations for managing risks related to electronic money issuance. Ultimately, this will inform a policy view and guidance on consumer protection strategies and approaches in the event of the failure of a mobile payment service provider or a bank holding mobile money trust balances. At the EAC level, crisis management and resolution frameworks are being discussed.

EXPECTED OUTCOMES DURING PHASE V

69. The FMI and payments area targets a single strategic objective: National payment system development and reform—enhancing the safety and efficiency of the financial system. East AFRITAC support in Phase V will help upgrade regulatory frameworks, improve oversight practices and support the design and implementation of NPS reform strategies. They will enable full adoption of the PFMI, greater transparency, the development of the financial markets and support financial system stability. They will also support the development of safe and efficient retail payment systems and instruments.

70. The following outcomes are targeted for member countries:

- The authorities develop and implement a national strategy for NPS development (Eritrea and South Sudan*);
- FMIs operate on the basis of a sound, transparent and enforceable legal and regulatory framework that supports the efficiency and the safety of payment arrangements and the development of the financial markets (Ethiopia and Uganda);
- The oversight and supervisory framework for FMIs is established in line with their statutory powers (Ethiopia*, Kenya, Malawi*, Rwanda, Tanzania, Uganda);
- Systemically important FMIs comply fully with international standards (Ethiopia, Kenya*, Malawi*, Rwanda, Tanzania, Uganda);
- Retail payment systems are efficient, sound and interoperable and support the offer of a wide range of payments instruments and services (Ethiopia, Kenya, Malawi*, Rwanda*, South Sudan*, Tanzania, Uganda*).

SECTION IV

E

FINANCIAL SECTOR SUPERVISION

GENERAL CONSIDERATIONS

71. Phase V will build on the ongoing reforms to further enhance supervisory and regulatory capacity and processes. It is expected that most of the ongoing projects from the previous phase on risk-based supervision, risk-based capital and simplified solvency II for insurers, Basel II/III implementation, International Financial Reporting Standards implementation, consolidated supervision, fintech supervision, strengthening corporate governance assessment frameworks, strengthening risk analysis processes, onsite and offsite processes, stress-testing and macroprudential supervision will continue. East AFRITAC will continue to work with member countries to ensure their reform strategies adequately reflect the current situation and propose appropriate timing, prioritization and sequencing of reform activities.

EMERGING ISSUES

72. Some of the member countries (e.g., EAC countries) have seen significant growth in fintech firms over the last few years. During Phase IV, East AFRITAC has provided training to keep supervisors informed about recent developments in information and communications technology supervision, building cyber resilience, the emerging range of practice for fintech supervision and regulation and regulatory technology (regtech) and supervisory technology (suptech). Additionally, during Phase IV, Rwanda and Tanzania received support on macroprudential policy. During Phase V, efforts will continue on consolidating micro and macroprudential supervisory frameworks to support financial resilience and stability.

EXPECTED OUTCOMES DURING PHASE V

73. The main targeted outcomes are listed below five strategic objectives:

- **Basel II/III implementation: banks have strong capital and liquidity positions that adequately cover their risks and contribute to financial system stability.** All member countries (except Eritrea and South Sudan) would ensure that their banks have adequate capital adequacy made up of high-quality capital instruments that is in line with issued regulations on Basel II/III.
- **Risk-based supervision and other supervisory processes: more efficient use of supervisory resources to better oversee key risks in the banking system.** All member countries would ensure that risk assessment frameworks for banks and micro-finance institutions are strengthened to: (i) enhance the quality and timeliness of regulatory data; and (ii) improve the flexibility of reporting systems.

- **Insurance regulation and supervision: improved financial stability via early detection of and effective and timely responses to insurance sector vulnerabilities.** Member countries would ensure that: (i) effective risk-based supervision processes are in place and being used for their intended purpose(s) (Eritrea, Ethiopia, Kenya, Rwanda, Malawi, South Sudan*, Tanzania and Uganda); and (ii) risk-based capital requirements are imposed and insurance supervisors take actions if insurers breach the requirements (Ethiopia, Kenya, Rwanda, Malawi, Tanzania and Uganda). In this regard, support will be aimed at implementing a simplified solvency II framework. Simplified Solvency II is an innovative approach to enhance insurance supervisory standards in East Africa, based on the concept of proportionality. It aims to strengthen: minimum capital requirements (Pillar I), supervisory review processes (Pillar II) and market discipline/disclosure requirements (Pillar III).
- **Securities markets supervision: put in place a securities regulation and supervision framework that addresses key risks in the sector system.** Kenya, Malawi, Rwanda, Tanzania and Uganda would enhance risk-based supervision, market discipline/disclosure and transparency and risk-based capital framework for securities firms. They would ensure that: (i) market intermediary supervisory frameworks in place are compliant with international standards; and (ii) secondary markets regulatory framework in place are also compliant with international standards.
- **Stress-testing: improved financial stability via early detection of and effective and timely responses to banking/financial sector vulnerabilities.** Ethiopia* (banking and insurance), Kenya (banking, capital markets and insurance), Malawi* (banking and insurance), Rwanda (banking, capital markets* and insurance*), Tanzania (banking, capital markets* and insurance*), and Uganda (banking*, capital markets* and insurance*) would enhance their stress testing frameworks to ensure: (i) effective stress-testing model(s) are in place and being used for their intended purpose(s); and (ii) staff have the capacity to run stress testing model(s) effectively and interpret results.

SECTION IV

F MACROECONOMIC STATISTICS

1. REAL SECTOR STATISTICS

GENERAL CONSIDERATIONS

74. During Phase V, capacity will continue to be built to improve the quality and coverage of real sector statistics to inform decision-making and monitoring and evaluation of development programs. During Phase IV, support on the national accounts included updating supply and use tables to derive reconciled GDP estimates, GDP rebasing, and institutional sector accounts development. CPIs and PPIs were also rebased and improved. All these activities were aimed at improving national accounts volume estimates and inflation data available for decisions. During Phase V, member countries will further improve and develop national accounts and price statistics focusing on coverage, accuracy, reliability, timeliness and periodicity of updated benchmark data. The emphasis will be on strengthening staff capacity to routinely assess source data, undertake revision studies, and enhance the use of administrative data. Support on price statistics will include improving and expanding coverage to obtain better inflation data. Assistance to further implement the latest international standards will be matched to countries' data development.

EXPECTED OUTCOMES DURING PHASE V

75. The main targeted outcomes are summarized below, by strategic objectives:

- **National Accounts.** Eritrea*, Ethiopia*, Malawi*, and Tanzania* would improve and enhance the use of administrative data from revenue authorities to support the compilation of both quarterly and annual national accounts statistics. Member countries would regularize GDP rebasing to align to the recommended 5-year cycle. Further data review would be undertaken to improve the concepts and methods used to compile national accounts. Support to Eritrea and South Sudan* is espected to initially focus on staff training and progressively develop data sources and compilation methods.
- **Price statistics.** Improving and developing price indices will lead to more comprehensive measures of inflation and better national accounts deflators. All member countries, except Eritrea and South Sudan, would improve/develop import and export price indices; rebase existing PPIs and develop other relevant PPIs (including in the agriculture sector). Member countries would improve (update and revise) and/or develop their CPIs.

2. GOVERNMENT FINANCE STATISTICS

STRATEGIC CONSIDERATIONS

76. During Phase V, member countries will continue to build capacity to improve the quality and coverage of fiscal and public debt statistics to inform policy analysis and formulation to contribute to improved public financial management. Support to member countries will continue on expanding coverage, improving the compilation methods and techniques in line with the latest international standards, improving timeliness in reporting and dissemination, and strengthening the legal framework to facilitate compilation in Eritrea and South Sudan. The emphasis will be on strengthening staff capacity to compile reliable data; improve the quality of source data; develop data revision policies; document the practices used in compilation; compile high frequency data; migrate to an accrual basis of recording, compile balance sheet data, and migrate the macro-fiscal framework to GFSM 2014 concepts that will facilitate a deeper analysis of fiscal data. Support will be geared towards improving sectoral and instrument coverage in public debt data compilation.

EMERGING ISSUES

77. All member countries need to expand the coverage of fiscal data compilation to generate consolidated public sector accounts for the entire public sector and to migrate macro-fiscal frameworks to GFSM 2014 concepts. In addition, there is a need to support the EAC Secretariat in compiling region-wide fiscal data to support the EAC convergence program.

EXPECTED OUTCOMES DURING PHASE V

78. Staff capacity to compile fiscal and public debt data in line with the latest methodologies would improve. Eritrea and South Sudan* would establish a legal and institutional framework to facilitate the collection and compilation of fiscal and public debt data. All member countries would improve sectorization, data sources, classification,[13] and migrate to an accrual basis of recording. Kenya, Malawi, Rwanda, Tanzania, and Uganda would expand coverage to the public sector and migrate the fiscal framework to GFSM 2014 concepts. All member countries would compile high frequency data (quarterly and monthly) and expand sectoral and instrument coverage for public sector debt statistics (PSDS) in line with the PSDS Guide 2011. Efforts will be geared towards improving timeliness in fiscal and public debt data reporting, dissemination and development of statistical data revision policies by all member countries. The EAC would compile region-wide fiscal data for its member countries to support the EAC convergence program.

3. EXTERNAL SECTOR STATISTICS

79. After the first 2 years of Phase V, the advisor position on GFS is expected to be switched to external sector statistics (ESS) to provide greater support in this area, where demand is high and support is currently provided from IMF HQ. The objective of the support would be to further enhance the quality and reliability of the ESS, with a view to better supporting economic policy-making.

80. The following main outcomes would be targeted: (i) achieve consistency within the ESS datasets, as well as with other macroeconomic datasets (such as national accounts, monetary and financial statistics, and GFS); (ii) achieve further harmonization of ESS among the EAC member countries (specifically in the goods, services and financial account), within the EAMU framework; (iii) strengthen the source data and assist countries to tap new ESS data sources, including on the informal and digital economy, in order to address the existing gaps in the coverage of ESS; and (iv) improve the frequency and timeliness of balance of payments and the international investment position statistics. At the initial stage, a stocktaking exercise would be conducted to identify each country's specific needs, following the good progress made under a UK-funded project in the region, which will end at end-April 2020.

[13] Both economic and functional along COFOG (Classification of the functions of government).

SECTION IV

G

REGIONAL INTEGRATION

81. East AFRITAC will continue to support regional integration efforts, particularly among EAC countries. The EAC's economic integration agenda is anchored on three main undertakings: implementing a customs union, a single market, and eventually a monetary union. East AFRITAC's support will continue to focus on the required harmonization of policies, practices, and data and to be delivered both at the regional and national levels. More specifically:

- **Customs and revenue administration.** Support will be provided to the EAC Secretariat to further improve the functioning of the EAC Single Customs Territory.
- **Public financial management.** East AFRITAC will continue to assist in the harmonization of PFM frameworks and practices. This will include supporting implementation of International Public Sector Accounting Standards, mainstreaming fiscal risk analysis and reporting, and more generally moving towards fiscal reporting consistent with EAMU requirements.
- **Financial sector supervision and regulation.** Convergence of regulatory and supervisory frameworks is part of the EAC's regional integration agenda. This is also motivated by the growing importance of cross-border transactions and institutions. East AFRITAC's capacity building efforts will continue to support these developments through bilateral TA and regional workshops.
- **Monetary policy and operations.** Monetary policy frameworks and operations and repo markets need to be harmonized before the introduction of a single currency and monetary policy in the EAC. East AFRITAC will continue to support this convergence process. The Center will work closely with the East African Monetary Institute once it is established.
- **Macroeconomic statistics.** East AFRITAC will continue to provide extensive support to the EAC's objective to have comparable, timely, and high-quality data to monitor the convergence to EAMU. Most of the support will be delivered at the national level and will aim at adopting international best practices in the concerned areas. Close coordination with the EAC Secretariat (and eventually with the East African Statistics Bureau once it is established) will continue to ensure that bilateral efforts are consistent with regional requirements and to facilitate peer learning.

SECTION V

EAST AFRITAC GOVERNANCE, OPERATIONS, AND FINANCIAL MANAGEMENT

SECTION V

A

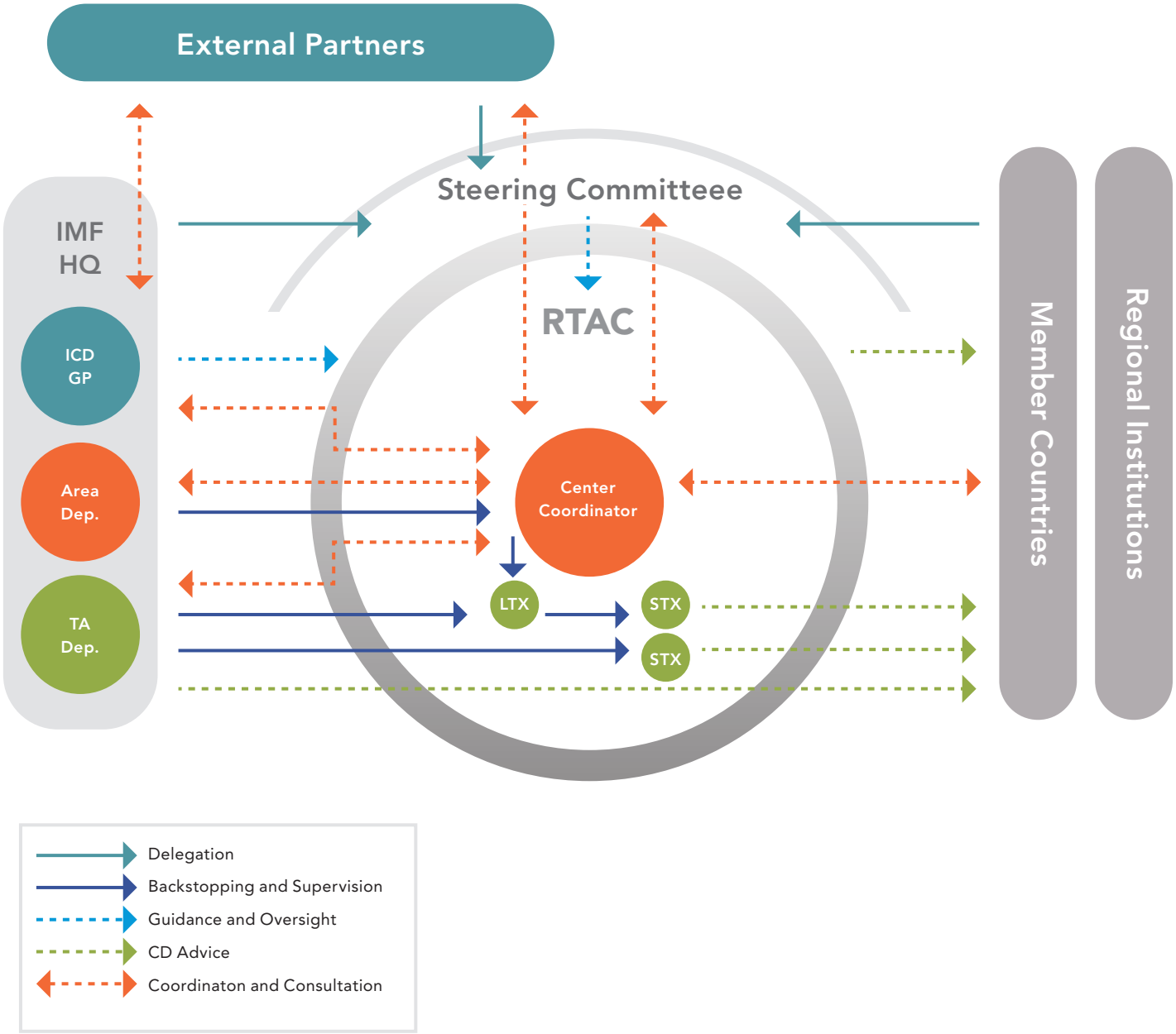
GOVERNANCE

82. East AFRITAC is governed by, and administered in accordance with, the provisions of the IMF's Framework Administered Account for Selected Fund Activities (the "SFA Instrument"), the Essential Terms and Conditions for the administration of the East AFRITAC subaccount, and the East AFRITAC program document. The Center is further guided by and follows the policies, principles, and procedures outlined in the IMF's RTAC Handbook, which was released in 2015 and has since been updated regularly. The handbook refers to aspects of governance, program management, fundraising, communication, human-resource issues, administration, finance, and evaluation. The areas covered below summarize the key features.

83. East AFRITAC is strategically guided by a Steering Committee (SC) which is composed of representatives from its member countries, donors, and IMF staff (see Figure 10 for the overall governance structure). The EAC Secretariat is also represented at the SC. The SC's main responsibilities are to provide strategic guidance to the Center and help set priorities; endorse the annual work plan and related budget; and review annual reports and the program document. The Center invites other stakeholders, such as regional or international organizations and prospective donors, to SC meetings as observers. The SC is chaired by one of the member countries on a rotating basis; the main role of the chair is to preside over SC meetings and to work with the Center coordinator on the preparation of the agenda.

84. The current governance structure helps promote member country ownership, donor involvement, and the Center's accountability. The SC members provide feedback to the Center on its past operations and help ensure that annual work plans: (i) reflect the needs of member countries (through member country representatives); (ii) are well coordinated with CD delivered by other providers (through member country and development partner representatives); and (iii) are well-integrated with the other CD, surveillance, and lending activities of the IMF (through IMF representatives).

FIGURE 10. EAST AFRITAC GOVERNANCE STRUCTURE



SECTION V

B OPERATIONS

85. The Center comprises a coordinator, resident advisors and support staff seconded by the Tanzanian authorities. The Center coordinator is responsible for day-to-day management of East AFRITAC and its operations, with strategic guidance from the SC and general oversight from the IMF. In consultation with the SC and the IMF's African Department, CD Departments, and Institute for Capacity Development (ICD), the coordinator leads the preparation of the work plan and budgets and monitors their implementation.[14] The coordinator is in regular contact with country authorities, donors, and other CD providers in the region to keep them fully informed of the Center's activities and facilitate coordination. East AFRITAC staff is also composed of specialist resident advisors in each of the CD areas, an economist, and office support personnel, mostly seconded from the Bank of Tanzania. Short-term experts are drawn upon for specific assignments, with regional expertise sought were possible. Strong quality control is exercised by IMF HQ, which also selects and hires East AFRITAC resident advisors and provides them with the technical support to ensure quality and consistency in their advice and activities. IMF HQ reviews and authorizes the reports produced by resident advisors. Short-term experts for peripatetic and/or specific assignments are recruited through IMF HQ from its roster of qualified experts and are supervised by the resident advisors and IMF HQ.

86. The annual East AFRITAC work plan is developed in close consultation with member countries within the framework of the IMF CD prioritization process. The process starts with the identification and prioritization of CD needs by the authorities; the process is facilitated by an annual questionnaire sent by the Center and using the RBM framework. Around the same time, donors and regional organizations are also consulted on their priorities and CD activities for coordination purposes. The next step is to match these requests with the IMF's own priorities, which are informed by continuous dialogue with member countries through surveillance, programs or TA diagnostic work and summarized in country strategy notes for IMF CD. The development of the annual work plan is synchronized with the IMF's resource allocation plan and budget cycle, to ensure that the work of the Center is closely coordinated with the CD delivered by the IMF through other vehicles. In parallel, the focus is on the development of multiyear projects, which facilitates the planning and reporting of longer-term interventions. However, some interventions are necessarily shorter term by their nature or are required to respond to new urgent needs. The implementation of the work plan is monitored via the RBM framework.[15]

87. The delivery of CD is carefully coordinated with other IMF multi-partner vehicles, such as the Data for Decisions Fund (D4D), the Financial Sector Stability Fund (FSSF), the Revenue Mobilization Trust Fund (RMTF), and the Tax Administration Diagnostic Assessment Tool (TADAT), as well as with vehicles or tools jointly

[14] The budget process at East AFRITAC is a collaborative and iterative effort that includes the IMF's African department, both HQ and the center coordinator; implementing (or CD) departments; and ICD in its corporate functions. The annual budget process is initiated and led by the coordinator, in close consultation and coordination with concerned departments. The coordinator also manages the implementation of the work plan and the execution of the annual budget and can initiate changes to planned activities or budget lines during the fiscal year to respond to changing circumstances. The budget management rules give a leading role to the coordinator, allowing him/her to take into account local operating conditions.

[15] CDMAP will not affect the RBM framework itself.

implemented with other development partners, such as the Debt Management Facility (DMF) and Public Expenditure and Financial Accountability (PEFA). These complementarities enable the Center to maximize the impact of its interventions and avoid overlap or duplication of efforts.

88. East AFRITAC endeavors to coordinate as closely as possible with development partners and regional organizations. As mentioned above, development partners are consulted at the time work plans are prepared. Best efforts are made by advisors to meet with interested development partners while on mission, particularly in areas where other development partners are involved (e.g., PFM, revenue administration).[163] The Center coordinator also holds regular meetings with development partners during periodic visits to member countries to brief them about East AFRITAC's activities and exchange on coordination issues and the scope for collaboration. Development partners are routinely invited to attend regional workshops of interest to them. Collaboration with regional partners to optimize the Center's support to the region is actively sought too. In some cases, the Center has worked jointly with other development partners, for instance in the conduct of comprehensive tax administration assessments using the TADAT tool. Collaboration with the EAC Secretariat has been very close on a range of issues for years, and that with the Common Market for Eastern and Southern Africa (COMESA) and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) has increased significantly in the recent past, with the joint organization (together with AFRITAC South) of regional workshops. Joint activities with the other AFRITACs and ATI also allow the Center to increase the range and the scope of peer learning opportunities and to leverage scarce resources.

89. East AFRITAC communicates and shares information through different channels to keep all stakeholders updated on recent and forthcoming CD activities. The Facebook page (https://www.facebook.com/EastAFRITAC) has been used to showcase selected missions, workshops and relevant IMF publications to the users (including publications on emerging issues such as gender, climate change, and inequality). Free online courses delivered by the IMF are also shared along with content from other IMF pages, such as the one on capacity development (https://www.facebook.com/IMFCapacityDevelopment). The Facebook page has close to 26,000 "likes", with an audience concentrated in East Africa in the 25-44 age group, which represents about 80 percent of all users. The East AFRITAC website (http://www.eastafritac.org) is integrated with the Facebook page and is the main repository for longer-lasting information. The East AFRITAC secure website is used to share TA reports with parties with a legitimate interest (e.g., donors financing the Center). Another mode of broad communication is the publication of quarterly newsletters and annual reports.

90. East AFRITAC will continue to work closely with all stakeholders so that their specific visibility needs are addressed. It will continue to recognize donor contributions and will discuss with them how to further raise donor visibility, including in the Center's outreach, during fundraising and other events, in the local media, and through its publications. East AFRITAC will continue to invite interested donors to participate in regional workshops and courses of interest to them and explore how to use these events to give participating donors more visibility.

[16] These meetings are an opportunity to share relevant information and coordinate on the provision of support to the authorities. In some cases, advisors have been able to participate in meetings of established development partners coordination groups.

SECTION V

C

FINANCIAL MANAGEMENT

91. Contributions from donors and member countries will be made into a multi-development partner East AFRITAC Subaccount under the SFA Instrument. This Subaccount will be used to receive and disburse financial contributions for the Center's activities; all resources contributed to the Subaccount will be for the sole use of East AFRITAC. The basis for the financial arrangements between donors or member countries and the IMF will be a letter of understanding establishing the purposes of the contributions related to this program document and subject to the terms and conditions of the Subaccount, as well as the SFA framework instrument. The IMF manages the trust fund in accordance with its financial regulations, and other applicable IMF practices and procedures.

92. The IMF will provide donors with reports on the expenditures and commitments of the East AFRITAC subaccount through Partner Connect, a secure external gateway. Annual reporting on the execution of East AFRITAC's work plan and budget will be provided at each SC meeting. Costs will be on an actual basis. The operations and transactions conducted through the subaccount during the IMF financial year will be audited as part of the IMF's Framework Administered Account and the report of the External Audit Firm will continue to be posted on the IMF's external website as part of the IMF's Annual Report.

SECTION V

D

RESOURCE NEEDS AND SUSTAINABILITY

93. The overall volume of CD delivery will increase moderately in the new phase to facilitate the addition of South Sudan. As discussed above, a second resident advisor in revenue administration will be added, while the number of advisors in PFM (including macro-fiscal analysis) will be reduced from 4 to 3. The addition of a resident advisor coordinating FPAS work will be essentially a change in the modality of delivery, rather than an increase the volume of work in this area. The total number of advisors will therefore increase from 9.5 to 10 (2 in revenue administration, 3 in PFM, 1 in financial sector supervision, 1 in FMIs and monetary operations, 2 in macroeconomic statistics, and 1 in FPAS). The management of the RBM framework—including regular tracking of milestones and results—is expected to be supported by local staff (economist or dedicated staff).

94. Accordingly, the Phase V budget envelope is targeted to be around US$59 million (see Table 2). The externally financed budget (about US$56 million) will be mostly financed by development partners (US$50 million). It is proposed to keep overall member contributions to 10 percent of the total financing needs (about US$6 million); the breakdown of this amount among member countries will be discussed in the coming months. The IMF's direct contribution will cover all the costs related to the Center coordinator (about US$3 million). As the host country, Tanzania will be expected to continue to provide office space and seconded administrative staff (not included in the budget), in addition to its financial contribution as a member. Budget envelopes per sectors will remain indicative, so as to keep adequate flexibility. To further enhance flexibility, the Phase V program budget includes a strategic budget reserve at 2 percent of the total budget. Such flexibility is key to promptly address unforeseen member country needs as they arise.

95. Financial sustainability considerations have been incorporated into the strategy. So far, the IMF has signed contribution agreements with the UK and China. Other development partners, such as the EU and Norway, have also signaled their interest in supporting Phase V. Continued financial needs under Phase V and budgetary pressures in traditional donor countries raise issues of financial sustainability. A multi-pronged approach will be taken to risk mitigation, which, depending on the magnitude of any financing or timing gap, could be through: (i) establishing long-term strategic partnerships with more donor partners; (ii) further diversification of the donor base; (iii) additional voluntary member country contributions; and (iv) if needed, an orderly scaling back of programs to match resources based on a careful prioritization process.

TABLE 2: EAST AFRITAC BUDGET. PHASE IV REVISED AND PHASE V PROJECTED (IN USD MILLION)

	Working Budget Phase IV	Total Budget Phase V
Public Financial Management	12.94	12.70
Revenue Administration	5.67	8.88
Banking Supervision and Regulation	5.15	6.06
Monetary Policy Operations	2.73	2.17
Financial Market Infrastructures	1.28	2.48
Real Sector Statistics	4.78	5.41
Government Finance Statistics	4.45	5.60
Financial and Fiscal Law	0.10	-
Admin Project	0.93	1.88
Customized Training	2.16	3.87
Training project	1.15	1.38
Governance and Evaluation	0.76	0.91
Financial Integrity Group	0.18	-
Strategic Budget Reserve	0.19	1.03
	-	-
Sub Total	42.48	52.36
	-	-
Trust Fund Management	2.96	3.59
	-	-
Total	45.44	55.95
	-	-
IMF Expenses	3.66	2.96
	-	-
Total	49.10	58.91

Source: Partners Connect and staff calculations

ANNEX I. PHASE IV EXTERNAL MID-TERM EVALUATION OF EAST AFRITAC: RECOMMENDATIONS AND IMF STAFF RESPONSE

Recommendation	IMF Response	Action(s)	Timing	Responsible
Recommendation 1: Build upon improvements made in work planning for the remainder of Phase IV and in the next phase. (1.1) Continue a participatory approach in work planning, but make it an iterative process until finalization, rather than limiting authorities' participation to the annual needs assessment only.	Agree	When the proposed work plan is sent to the members of the Steering Committee, the agency-specific work plans will be sent by the resident advisors to their counterparts, to keep them informed. Work plans will be sent again to technical counterparts after the Steering Committee meeting, reflecting any changes in the wake of the meeting. The latter communication will also formally launch the scheduling process.	From FY 2020	East AFRITAC
(1.2) Establish objectives that can be realistically achieved and reflect targets that are appropriately sequenced, consider other reform needs, provide assessment of other complementary donor programs and consideration for partnerships, and objectively verifiable milestones and indicators.	Agree	We will continue to pay great attention to aligning reform recommendations with absorptive capacity, with due recognition of the diversity of countries and institutions. In addition, while addressing technical and capacity challenges should remain at the core of East AFRITAC support, more explicit attention will be paid to complementary reforms of human resources and systems management, when required. Close engagement and coordination with all the main stakeholders will continue	From FY 2021	East AFRITAC
Recommendation 2: Improve AFE's cost-effectiveness and budget management capabilities. (2.1) Give the CC greater input and authority in budget decisions and operations. The process of budget formulation and management will benefit from the CC's intimate knowledge of local operating conditions.	Agree	An internal note recently clarified the role of the CC and other IMF stakeholders in several areas. The annual budget process is initiated and led by the CC, in close consultation and coordination with concerned departments. The CC also manages the implementation of the workplan and the execution of the annual budget and can initiate changes to planned activities or budget lines during the fiscal year to respond to changing circumstances. The budget management rules give a leading role to the CC, allowing him/her to take into account local operating conditions.	From FY 2020	East AFRITAC and IMF HQ
(2.2) Encourage RAs to identify cost-effective measures when designing or reviewing CD activities.	Agree	The recent adoption of a detailed chart of accounts for East AFRITAC's budgets and operations and the availability of recent financial information in CD-PORT allow IMF stakeholders, including RAs, to monitor more closely whether the level and composition of spending are consistent with the initial work plan. AFE will explore how to involve RAs more closely in sectoral budget management, including to give them greater incentives to identify cost-effective measures when designing or reviewing CD activities.	From FY 2020	East AFRITAC

Recommendation	IMF Response	Action(s)	Timing	Responsible
Recommendation 3: Improve the use of RBM to monitor progress and manage performance. (3.1) Using process indicators, account for local conditions when identifying objectives to set timelines that are realistic and achievable. There are some milestones that go through requirements beyond the IMF's control. This process should be tracked or documented by an indicator to make it clear that there is this requirement that is the responsibility of the authorities to complete.	Partly agree	While some process indicators could be considered to facilitate monitoring, assessment, and attribution, the existing RBM framework can already be (and is) used for this purpose. Efforts in the coming years will also focus on the analysis of data integrity and consistency across projects.	From FY 2020	East AFRITAC
(3.2) Ensure that CDMAP will be the single resource for RBM work for all IMF staff and improve the user experience of the system from CD PORT.	Agree	The Capacity Development Management and Administration Program (CDMAP) will support more efficient and transparent implementation of the CD governance framework by addressing gaps and inconsistencies in processes and systems underlying CD operations across the Fund. It will provide easily-accessible data, supporting better decision-making on CD and strengthening links between CD, surveillance, and lending. More specifically, CDMAP will strengthen the framework for medium-term, country-centered planning and budgeting at the portfolio and country level by streamlining and harmonizing processes and systems across the IMF (including RTACs), better capturing demand, allowing aggregation of workplans across all delivery modalities, and supporting prioritization. It will also facilitate performance results monitoring by making input and use of data easier for HQ and field-based staff. Improving the user experience, compared to CD-PORT, is an important objective of CDMAP.	From FY 2022	East AFRITAC and IMF HQ
Recommendation 4: Address gaps under the AFE's governance arrangements. (4.1) Revisit and revise the complex networks of reporting lines and areas of responsibility among the CC, RA, and AFR.	Partly disagree	The complex network of reporting lines and areas of responsibility reflects to a large extent the multiplicity of stakeholders; and ensures, amongst other things, that regional experts can benefit from cutting-edge expertise in HQ through direct supervision. However, the CDMAP project is expected to lead to more standardization and harmonization of processes with clearly defined roles under a single system for all CD operations. This should help clarify, and could simplify in some cases, the current network of reporting lines and areas of responsibility. As mentioned above, a recent note already aimed at clarifying roles and responsibilities during the budget process.	From FY 2022	East AFRITAC and IMF HQ

Recommendation	IMF Response	Action(s)	Timing	Responsible
(4.2) AFE should continue to be active in engaging country representatives to support SC decision-making and to facilitate communication between representatives and operational staff of the beneficiary government unit.	Agree	East AFRITAC and the rest of the IMF, in particular resident representatives, will continue to do their best to explain to the authorities the role of country representatives at the Steering Committee and to encourage the national authorities to facilitate communication and coordination across beneficiary institutions and with other providers of CD. This could be done, in particular, by the coordinator during his regular visits to member countries.	From FY 2020	East AFRITAC and IMF
(4.3) While possibly not within the scope of this evaluation, the Team also recommends more active involvement among SC members and authorities in the governance, planning, and delivery of CD activities.	Agree	Greater interaction with, and greater engagement of, SC members on program design and monitoring, including earlier and more focused reporting and results evaluation, is desirable. SC members of beneficiary countries would ideally be familiar with the entire CD program of their country and actively coordinate with all beneficiary agencies to help ensure the effective use of CD.	From FY 2020	Member countries
Recommendation 5: Ensure sustainability in all CD activities after delivery. (5.1) Fully implement the impact surveys in all CD activities.	Disagree	Impact surveys are already conducted for certain forms of training. Extending this to all CD activities would be highly time and resource intensive and might also generate a survey fatigue on the authorities' side. The immediate priority for technical assistance should rather be to implement consistently and thoroughly the new RBM system over several years, so as to gather more reliable data on whether support delivered by the Center is reaching its objectives. External evaluations are also meant to help assess impact.		
(5.2) Improve the planning and sequencing of CD activities and coordinate with other development partners to avoid duplication, where needed.	Agree	East AFRITAC will continue to coordinate closely with development partners and to explore ways to do this even more effectively.	From FY 2020	East AFRITAC and DPs
(5.3) Monitor any hindrances to flexibility of meeting CD demands created by the new financial reporting system and adjust the system as necessary.	Agree	As indicated above, an internal note recently clarified the role of the coordinator and other IMF stakeholders in RTAC budget management. This note will be used in the preparation and execution of the FY 2020 budget. The note recognizes the importance of flexibility to address changes in circumstances and needs and specifies how to manage changes to planned activities or budget lines during the fiscal year. To further enhance flexibility and help address unforeseen needs, the note also recommends the budgeting of a strategic reserve of about 2 percent of the total budget.	From FY 2020	East AFRITAC and IMF HQ

ANNEX II: SECTORAL STRATEGIC LOGFRAMES FOR PHASE V

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Financial Market Infrastructure and Payments	National payment system development and reform—enhancing the safety and efficiency of the financial system	The authorities put in implementation a national payment strategy and subsequent action plan that lays out key steps for developing (or reforming) an effective national payment systems	(1) The national payments strategy is officially adopted; (2) Appropriate planning for implementing the national payment strategy is undertaken and actions are defined	●								●	
Financial Market Infrastructure and Payments	National payment system development and reform—enhancing the safety and efficiency of the financial system	FMIs operate on the basis of a sound, transparent and enforceable legal and regulatory environment that is able to support the efficiency and the safety of payment arrangements	There are adequate regulations issued governing FMIs		●						●		
Financial Market Infrastructure and Payments	National payment system development and reform—enhancing the safety and efficiency of the financial system	The oversight and supervisory framework for FMIs is set up by the relevant authorities according to their statutory powers	(1) The authorities are compliant with the five responsibilities in the PFMIs; (2) Authorities conduct regular assessments against the CPSS-IOSCO principles for FMIs		●	●	●	●	●		●		
Financial Market Infrastructure and Payments	National payment system development and reform—enhancing the safety and efficiency of the financial system	Systematically important FMIs comply fully with international standards	The following FMIs comply with the CPSS-IOSCO Principles for FMIs: Systemically important payment systems including the RTGS system		●		●		●		●		
Financial Market Infrastructure and Payments	National payment system development and reform—enhancing the safety and efficiency of the financial system	Systematically important FMIs comply fully with international standards	The following FMIs comply with the CPSS-IOSCO Principles for FMIs: Central securities depository and securities settlement systems					●	●		●		

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Financial Market Infrastructure and Payments	National payment system development and reform—enhancing the safety and efficiency of the financial system	Retail payment systems are efficient, sound and interoperable and support the offer of a wide range of payments instruments and services	Regulation on mobile payments is proportionate to risks and allows for safe and efficient offering of mobile payment services	●	●						●		
Financial Sector Supervision	Banks have strong capital and liquidity positions that adequately cover their risks and contribute to financial system stability	Banks have adequate capital adequacy made up of high quality capital instruments that is in line with issued regulations on Basel II/III	(1) Banks raise high quality capital to meet the new requirements; (2) Banks' disclosures show that their capital adequacy and risk exposures are in line with new requirements		●	●	●	●	●		●		
Financial Sector Supervision	Improved supervisory effectiveness through enhanced capacity in IFRS knowledge related to provisioning.	Improved provisioning guidelines and implementation of the guidelines provisioning is commensurate with credit risk and sufficient for capital adequacy assessment	(1) Issued guidelines and regulations compliant with IFRS and Basel principles; (2) Bank's financial statements and supervisory reports comply with international standards	●	●	●	●	●	●		●	●	
Financial Sector Supervision	Improved supervisory effectiveness through enhanced capacity in IFRS knowledge related to provisioning.	Enhanced knowledge of IFRS by CB supervisors and banks, including dealing with specific provisioning issues to balance requirements by IFRS and Basel principles.	(1) Banks' compliance with IFRS and provisions of NPL regulations as evidenced by a) banks' auditors' reports and b) supervisory reports; (2) Supervisory capacity in applying IFRS and balancing accounting and regulatory requirements, as evidenced in banks' improvement in 1 above	●	●	●	●	●	●		●	●	

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Financial Sector Supervision	Improved financial stability via early detection of and effective and timely responses to insurance sector vulnerabilities.	Effective risk based supervision in place and being used for their intended purpose(s)	(1) Ratings are assigned, reviewed and revised periodically; (2) Template provided by TA is adopted.	●	●	●	●	●	●		●	●	
Financial Sector Supervision	Improved financial stability via early detection of and effective and timely responses to insurance sector vulnerabilities.	Risk-based capital requirements are imposed and Insurance Supervisors take actions if insurers breach the requirements	(1) Recommendations provided by TA have been implemented; (2) Quantitative impact studies have been conducted		●		●	●	●		●		
Financial Sector Supervision	More Efficient use of supervisory resources to better oversee key risks in the banking system	Bank risk assessment frameworks strengthened: a) Quality and timeliness of regulatory data enhanced; and b) Flexibility of reporting system improved	(1) Majority of banks implement risk identification, management and reporting practices to required standard; (2) Reports have been modified and adopted to require more relevant data for risk assessment; (3) Databases and management practices modified to ensure data adequacy and integrity	●	●	●	●	●	●		●	●	
Financial Sector Supervision	Put in place a securities regulation and supervision framework that addresses key risks in the sector system	Market intermediary supervisory framework in place that is compliant with international standards	(1) Risk-based processes and manuals are implemented; (2) Staffing levels are reviewed and enhanced			●	●	●	●		●		

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Financial Sector Supervision	Put in place a securities regulation and supervision framework that addresses key risks in the sector system	Secondary markets regulatory framework is in place that is compliant with international standards	(1) Prudential and risk management framework for trading platforms, central depositories and clearing house, is established; (2) Market surveillance reporting and systems are established for various trading requirements			●			●		●		
Financial Sector Supervision	Improved financial stability via early detection of and effective and timely responses to [banking/ financial sector] vulnerabilities	Effective stress testing model(s) in place and being used for their intended purpose(s)	Model and template provided by TA are adopted		●	●	●	●	●		●		●
Financial Sector Supervision	Improved financial stability via early detection of and effective and timely responses to [banking/ financial sector] vulnerabilities	Staff have capacity to run stress testing model(s) effectively and interpret results	Staff prepares stress testing reports using the provided model and training		●	●	●	●	●		●		●
Forecasting and Policy Analysis	Developing and implementing a Forecasting and Policy Analysis System (FPAS) to the monetary policy decision-making process in all types of monetary policy and exchange rate regimes	Improved economic analysis and forecasting capabilities at the CB	A Modeling and Forecasting Unit (MFU) is set up.		●								

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Forecasting and Policy Analysis	Developing and implementing a Forecasting and Policy Analysis System (FPAS) to the monetary policy decision-making process in all types of monetary policy and exchange rate regimes	Improved economic analysis and forecasting capabilities at the CB	A near-term forecasting toolkit is operational, used in the regular forecasting exercise rounds, and regularly updated.			●	●	●	●		●		
Forecasting and Policy Analysis	Developing and implementing a Forecasting and Policy Analysis System (FPAS) to the monetary policy decision-making process in all types of monetary policy and exchange rate regimes	Improved economic analysis and forecasting capabilities at the CB	Satellite models are operational and regularly used and regularly updated.			●	●	●	●		●		
Forecasting and Policy Analysis	Developing and implementing a Forecasting and Policy Analysis System (FPAS) to the monetary policy decision-making process in all types of monetary policy and exchange rate regimes	Improved economic analysis and forecasting capabilities at the CB	A quarterly projection model (QPM) is operational, used in the regular forecasting rounds, and regularly updated for medium-term forecasting.			●	●	●	●		●		
Forecasting and Policy Analysis	Developing and implementing a Forecasting and Policy Analysis System (FPAS) to the monetary policy decision-making process in all types of monetary policy and exchange rate regimes	FPAS fully integrated into the monetary policy decision-making process	Inter-divisional Forecasting Team (FT) created			●							

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Forecasting and Policy Analysis	Developing and implementing a Forecasting and Policy Analysis System (FPAS) to the monetary policy decision-making process in all types of monetary policy and exchange rate regimes	FPAS fully integrated into the monetary policy decision-making process	MPC understands the structure of the core QPM and the underlying FPAS mechanisms and uses staff projections in their policy decision making.			●	●	●	●				
Forecasting and Policy Analysis	Developing and implementing a Forecasting and Policy Analysis System (FPAS) to the monetary policy decision-making process in all types of monetary policy and exchange rate regimes	FPAS fully integrated into the monetary policy decision-making process	Regular interactions between MPC and FT take place according to the forecast calendar			●	●	●	●				
Forecasting and Policy Analysis	Developing and implementing a Forecasting and Policy Analysis System (FPAS) to the monetary policy decision-making process in all types of monetary policy and exchange rate regimes	FPAS fully integrated into the monetary policy decision-making process	Forecasting team presents macroeconomic developments and forecast report to the monetary policy committee (MPC) according to their meetings calendar.			●	●	●	●				
Forecasting and Policy Analysis	Developing and implementing a Forecasting and Policy Analysis System (FPAS) to the monetary policy decision-making process in all types of monetary policy and exchange rate regimes	FPAS fully integrated into the monetary policy decision-making process	Policy press-releases are regularly published			●	●	●	●				

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Forecasting and Policy Analysis	Developing and implementing a Forecasting and Policy Analysis System (FPAS) to the monetary policy decision-making process in all types of monetary policy and exchange rate regimes	FPAS fully integrated into the monetary policy decision-making process	Monetary Policy (Inflation) Report is published			●	●	●	●				
Government Finance Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	The legal and institutional environment is conducive to compiling macroeconomic and financial statistics; the relevance and practical utility of existing macroeconomic and financial statistics are monitored; Management processes are in place to monitor the quality of macroeconomic and financial statistics; and Institutional Integrity, Transparency, and Ethical Practices meet statistical standards	(1) An adequate statistical law exists to allow the compiling agency to collect source information and safeguard confidential information, through legal requirements and penalties				●					●	
Government Finance Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Source data are adequate for the compilation of these macroeconomic statistics	(1) Source data are adequate for compilation of fiscal and debt data covering the entire public sector	●	●	●	●	●	●	●	●	●	

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Government Finance Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Higher frequency data have been compiled and/ or disseminated internally and/or to the public	1) Data for central government are compiled on quarterly basis 2) Public sector debt statistics compiled and disseminated on a quarterly basis	●	●	●	●	●	●	●		●	
Government Finance Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Macroeconomic data sets used by policy-makers have been made more intersectorally consistent (reduced discrepancies)	1) Fiscal and debt data are consistent or reconcilable with those obtained through other data sources and/ or statistical frameworks 2) Macro fiscal frameworks migrated to GFSM 2014 concepts	●	●	●	●		●	●	●	●	
Government Finance Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Data revision policy and inventory of practices have begun and/ or have been released internally and/or to the public	Revision policy has been assessed, documented and disseminated	●	●	●	●	●	●	●	●	●	
Government Finance Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	A new data set (covering the general government or public sector) has been compiled and/ or disseminated internally and/or to the public	More granular data for GFS and PSDS have been compiled and/or disseminated internally and/or to the public	●	●	●	●		●	●	●	●	
Government Finance Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Resources are adequate for compiling macroeconomic and financial statistics	(1) The number of staff compiling the topical area of statistics is adequate for compilation; (2) Office space and equipment are adequate for compilation									●	●

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Government Finance Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Staff capacity increased through training, especially on developing source data and compilation methods	The number of staff trained to compile the statistics is adequate	●	●	●	●	●	●		●	●	●
Government Finance Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Data are compiled using the concepts and definitions of the latest manual/ guide	The overall conceptual framework, concepts, and definitions of GFS and PSDS are in broad conformity with guidelines outlined in the most recent manual for these statistics	●	●		●		●	●		●	●
Government Finance Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Data are compiled using the classification of the latest manual/ guide	The classification (Economic and COFOG) used for the GFS is in broad conformity with the guidelines outlined in the relevant manual/guide	●	●	●	●	●	●	●	●	●	
Government Finance Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Data are compiled using the sectorization of the latest manual/ guide	Sectorization used for the GFS and PSDS is in broad conformity with guidelines outlined in the relevant manual/guide		●		●		●	●		●	
Government Finance Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Data are compiled using the appropriate basis of recording consistent with the latest manual/ guide	Data for the GFS and PSDS are compiled using the appropriate basis of recording consistent with the latest manual/guide or internationally accepted standards/ good practices	●	●	●	●	●	●	●	●	●	
Government Finance Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Data are compiled using the coverage and scope of the latest manual/ guide	1. The coverage and scope of the GFS and PSDS are broadly consistent with the guidelines outlined in the relevant manual/ guide	●	●		●		●	●		●	

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Monetary Policy and Operations Frameworks	Enhancing the effectiveness and consistency of central bank FX operations with the chosen monetary policy and FX regime	The capacity of the FX market is sufficiently developed to facilitate the efficient allocation of foreign exchange and that an adequate degree of price discovery can occur	(1) FX is generally available to customers through any bank/dealer at a price consistent with a unified FX market; (2) FX queues are non-existent; (3) The exchange rate responds to shifts in supply and demand; (4) Bid-offer spreads are reasonable and two-way markets are present in most (normal) circumstances		●	●	●	●	●				
Monetary Policy and Operations Frameworks	Enhancing the effectiveness and consistency of central bank FX operations with the chosen monetary policy and FX regime	The authorities have a clear FX intervention policy that is consistent with the chosen FX regime and its well understood by markets and the public	(1) An internal policy document exists that defines the objectives of intervention, the criteria for its use and the indicators that will be used to assess the success of intervention operations; (2) Appropriate instruments are available for the conduct of FX intervention including spot markets and potentially forward and derivatives markets if appropriate; (3) A public document or statement exists that explains the goals of FX intervention and how intervention will be conducted		●	●	●	●	●				

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Monetary Policy and Operations Frameworks	Enhancing the effectiveness and consistency of central bank FX operations with the chosen monetary policy and FX regime	The exchange rate is sufficiently flexible in response to changes in supply and demand. The degree of flexibility is consistent with the desired FX and monetary policy regime. The transition process to a more flexible regime is appropriately sequenced	(1) The range of FX hedging instruments is developed to allow agents to adequate manage FX risks associated with a flexible exchange rate; (2) Prudential regulations are developed to ensure FX risks are adequately monitored and managed in the financial sector; (3) A transition plan is developed which appropriately sequences reforms such that FX flexibility does not give rise to macroeconomic risks, imbalances or financial stability concerns			●	●	●	●		●		
Monetary Policy and Operations Frameworks	Manage the foreign reserves to serve strategic objectives: Safety, Liquidity and Optimal Return	CB has effective and consistent investment policy and guidelines	CB investment policy guidelines are consistent with the IMF guidelines for reserve management	●									
Monetary Policy and Operations Frameworks	Enhance the effectiveness of monetary policy implementation and strengthen central banks' operational framework within the monetary policy regime of choice	The central bank has an operational strategy consistent with the monetary framework and the country circumstances	A well-articulated operational strategy outlining how the central bank will align market conditions with its announced stance of monetary policy and who it will deal with		●	●	●	●	●		●		

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Monetary Policy and Operations Frameworks	Enhance the effectiveness of monetary policy implementation and strengthen central banks' operational framework within the monetary policy regime of choice	The central bank has a sufficiently accurate liquidity forecasting framework to guide the liquidity management operations	(1) A consistent liquidity table is constructed on a daily basis (or at least at a frequency of regular monetary operations), drawing information from all relevant sources within and outside the central bank; (2) Liquidity forecasting is derived from the liquidity table, and the forecasts are done on a regular basis with an appropriate forecasting horizon (consistent with reserve maintenance period and operational framework); (3) Liquidity forecasting can be used to plan the type, amount and tenor of liquidity management instruments	●	●	●	●	●	●		●		

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Monetary Policy and Operations Frameworks	Enhance the effectiveness of monetary policy implementation and strengthen central banks' operational framework within the monetary policy regime of choice	An effective interest rate corridor is developed to limit volatility in market interest rates within an acceptable range, consistent with the chosen type of interest rate corridor	(1) Standing facilities are operational on a daily basis as a backstop instrument for liquidity adjustment purposes to help limit interest rate volatility; (2) The central bank has in place standing facilities (lending and deposit facilities) with open access to all eligible counterparties (given sufficient collateral in the case of lending facility); (3) The regulations pertaining to the use of standing facilities should be publicly available for transparency		●	●	●	●	●		●		
Monetary Policy and Operations Frameworks	Enhance the effectiveness of monetary policy implementation and strengthen central banks' operational framework within the monetary policy regime of choice	The central bank has adequate operational instruments and is able to formulate operational strategy to deal with changing liquidity conditions	(1) The design of reserve requirements (RR) should be consistent with its main objective; (2) Appropriate Open Market Operations (OMO) instruments are available with varieties in terms of type and maturity to deal with different liquidity conditions (cyclical/structural, excess/shortage); (3) The central bank is able to allocate and strategize liquidity instruments to help achieve its monetary policy objective		●	●	●	●	●		●		

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Monetary Policy and Operations Frameworks	Enhance the effectiveness of monetary policy implementation and strengthen central banks' operational framework within the monetary policy regime of choice	The interbank market has adequate breadth and depth to facilitate monetary policy transmission	(1) The financial system has supportive infrastructure for interbank trading; (2) The interbank market has sufficient trading volume at standard maturities, e.g. overnight; (3) Market trading information is available on a real-time basis to the central bank; (4) The central bank is able to disseminate market trading information (in aggregate form) on a timely basis; (5) Interbank reference rates can be calculated		●	●	●	●	●				
Public Financial Management	Comprehensive, credible, and policy based budget preparation	A more credible medium-term macro-fiscal framework that supports budget preparation	(1) Percentage variation between forecast and actuals of the main macroeconomic variables; (2) Percentage variation between revenue outturn and approved budget (PEFA PI-3)	●	●	●	●	●	●	●	●	●	
Public Financial Management	Comprehensive, credible, and policy based budget preparation	A more credible medium-term macro-fiscal framework that supports budget preparation	Presentation and explanation of medium-term macroeconomic and fiscal forecasts (PEFA PI-14, FTC 2.1.2)	●	●		●	●	●	●	●	●	
Public Financial Management	Strengthened Identification, Monitoring, and Management of Fiscal Risks	Disclosure and management of contingent liabilities and other specific risks are more comprehensive	(1) Reporting specific fiscal risks (FTC 3.1.2); (2) Reporting contingent liabilities and other risks (PEFA PI-10.3, OBI 42)		●	●	●	●	●		●		

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Public Financial Management	Strengthened Identification, Monitoring, and Management of Fiscal Risks	Analysis and presentation of macroeconomic risks are enhanced	Disclosure of macro-fiscal sensitivity analysis or alternative scenarios (FTC 3.1.1, PEFA 14.3, OBI 15)	●	●	●	●	●	●	●	●	●	
Public Financial Management	Strengthened Identification, Monitoring, and Management of Fiscal Risks	Presentation and analysis of long-term fiscal sustainability are enhanced.	Disclosure of long-term fiscal sustainability analysis (FTC 3.1.3)			●		●	●		●		
Public Financial Management	Improved Asset and Liability Management	More central government revenues and expenditures are deposited and disbursed through a Treasury Single Account	(1) Timeliness of transfer of collected revenue to the Treasury (PEFA PI-20.2); (2) Extent of consolidation of cash balances by the Treasury (PEFA PI-21.1)		●		●		●		●	●	
Public Financial Management	Improved Asset and Liability Management	Cash flow forecasts for central government is more accurate and timely	(1) Timeliness and accuracy of cash forecasting and monitoring (PEFA PI-21.2); (2) Effectiveness and timeliness of cash flow forecasting and cash balance management (DEMPA DPI 11)		●	●	●		●	●	●	●	
Public Financial Management	Improved Asset and Liability Management	Cash and debt management are strengthened and better integrated	(1) Satisfactory debt management practices, records and controls (PEFA PI-13); (2) Effectiveness and timeliness of cash flow forecasting and cash balance management (DEMPA DPI 11)		●	●	●		●		●		

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Public Financial Management	Improved budget execution and control	Budget execution and controls are strengthened	(1) Predictability of in-year resource allocation (PEFA PI-21); (2) Stock of expenditure arrears as share of expenditure and frequency of monitoring (PEFA PI-22); (3) Effectiveness of internal controls for non-salary expenditure (PEFA PI-25)			●	●		●	●	●	●	
Public Financial Management	Improved budget execution and control	Appraisal, selection, and implementation of public investments is improved	Appraisal, selection, costing and monitoring of public investment projects (PEFA PI-11, PIMA 9, PIMA 10, PIMA 13, PIMA 14, FTC 2.1.4)		●	●	●	●	●		●		
Public Financial Management	Comprehensive, credible, and policy based budget preparation	A more comprehensive and unified annual budget is published	(1) Comprehensiveness of budget documentation (PEFA PI-5); (2) Share of central government operations outside financial reports (PEFA PI-6); (3) Comprehensiveness of fiscal information available to the public (PEFA PI-9); (4) Share of revenues, expenditure and financing of central government entities presented on gross basis (Budget unity) (FTC 2.1.1)	●	●		●	●	●	●	●	●	
Public Financial Management	Comprehensive, credible, and policy based budget preparation	Information on resources and performance by program is included in budget documentation	Availability of performance information for service delivery (PEFA PI-8, FTC 2.3.2)		●		●	●	●		●		

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Public Financial Management	Comprehensive, credible, and policy based budget preparation	Planning and budgeting for public investments is more credible.	(1) Inclusion of medium-term projections for investments in budget (PEFA PI-11.3, FTC 2.1.4); (2) Allocation of funds for investments (PIMA 2, and 6 to 10)		●	●	●	●	●		●		
Public Financial Management	Comprehensive, credible, and policy based budget preparation	Budget preparation of subnational governments is efficient and transfers to them from central government are timely and governed by a rules-based system.	(1) Transparency and timeliness of transfers to subnational governments (PEFA PI-7); (2) Effectiveness, orderliness and timeliness of budget preparation process (PEFA PI-17)		●	●		●	●		●		
Public Financial Management	Improved coverage and quality of Fiscal Reporting	The chart of accounts and budget classifications are aligned with international standards	(1) Consistency and comparability of budget classification with international standards (PEFA PI-4, FTC 1.3.1)	●	●	●	●	●			●		
Public Financial Management	Improved coverage and quality of Fiscal Reporting	Comprehensiveness, frequency, and quality of fiscal reports is enhanced	(1) Completeness, timeliness and consistency of annual financial reports (PEFA PI-29); (2) Comprehensiveness, accuracy and timeliness of in-year budget reports (PEFA PI-28); (3) Fiscal reports' coverage of institutions (FTC 1.1.1); (4) Extent of financial data integrity (PEFA PI-27)	●	●	●	●	●	●	●	●	●	

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Public Financial Management	Improved coverage and quality of Fiscal Reporting	Audited annual financial statements are published, timely, and scrutinized by parliament	(1) Legislative scrutiny of audit reports (PEFA PI-31); (2) Timeliness of Annual Financial Statements (FTC 1.2.2)	●	●	●	●	●	●	●	●	●	
Public Financial Management	Strengthened Identification, Monitoring, and Management of Fiscal Risks	Central fiscal oversight and analysis of public corporation risks are strengthened	(1) Comprehensiveness and timeliness of monitoring and reporting public corporation's fiscal risks (PEFA PI -10.1, FTC 3.3.2); (2) Disclosure of quasi-fiscal activities (OBI 38)		●	●	●	●					
Public Financial Management	Strengthened Identification, Monitoring, and Management of Fiscal Risks	Disclosure and management of contingent liabilities and other specific risks are more comprehensive	(1) Reporting contingent liabilities and other risks (PEFA PI-10.3, OBI 42); (2) Reporting specific fiscal risks (FTC 3.1.2); (3) Disclosure and authorization of guarantees (FTC 3.2.3); (4) Disclosure and management of public-private partnerships (FTC 3.2.4)			●	●	●	●		●		
Public Financial Management	Improved PFM laws and effective institutions	A more comprehensive legal framework covering all stages of the public financial management cycle is enacted	Comprehensive PFM legislation (FTC 2.2.1)				●	●				●	
Public Financial Management	Improved PFM laws and effective institutions	The capacity of ministry of finance to plan, implement and sustain PFM reforms is enhanced	(1) Diagnostic of PFM systems; (2) Strategic and/ or operational PFM action plans; (3) Reformed organizational structure							●		●	

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Public Financial Management	Improved PFM laws and effective institutions	PFM information systems are improved	Comprehensive Financial Management Information System (TSS Indicator - World Bank FMIS Assessment Framework)	●	●	●	●			●		●	
Real Sector Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Source data are adequate for the compilation of these macroeconomic statistics	Source data are adequate for compiling national accounts, prices and Industrial Production Index (IPI) data, source data are obtained from comprehensive data collection programs that take into account country-specific conditions; and source data reasonably approximate the definitions.	●	●	●	●	●	●	●	●	●	
Real Sector Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Improved timeliness of data made available internally and/ or to the public (shorter delays)	Data for quarterly GDP are disseminated within 90 days after the end of the reference period.				●						
Real Sector Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Revision studies and revision policy and practices have begun and/ or have been released internally and/or to the public	Revision studies and policy for both annual and quarterly GDP have been assessed, documented and disseminated.		●	●		●	●		●		
Real Sector Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Metadata released internally and/or to the public have been strengthened consistent with the dataset to enhance interpretation and analysis	Metadata sufficient to support data analysis for national accounts statistics have been developed and are available to users.		●		●						

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Real Sector Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Staff capacity increased through training, especially on developing source data and compilation methods	The number of staff trained to compile national accounts and price statistics is adequate.	●	●	●	●	●	●	●	●	●	●
Real Sector Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Data are compiled using the coverage and scope of the latest manual/ guide	The coverage and scope of the national accounts statistics are broadly consistent with the guidelines outlined in the relevant manual/guide.	●	●	●		●	●		●	●	●
Real Sector Statistics	Strengthen macroeconomic and financial statistics compilation and dissemination for decision making	Data are compiled using appropriate statistical techniques, including to deal with data sources, and/ or assessment and validation of intermediate data and statistical outputs	(1) Improvements are made to strengthen consistency in the methodologies used. (2) Improvements are made to methodologies used in order to better approximate 2008 SNA ideals (Production approach compiled at sufficient level of detail; Volume measures are derived using proper procedures).	●	●	●	●	●	●	●	●	●	
Revenue Administration	Improved customs administration functions	Trade facilitation and service initiatives better support voluntary compliance	Implementation of new initiatives, such as Single Window, coordinated border management, and Authorized Economic Operator										●
Revenue Administration	Improved customs administration functions	Foreign trade operators better comply with their reporting and payment obligations	Alignment of customs procedures (including transit) with international standards and regional integration objective improved		●			●	●			●	

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Revenue Administration	Improved customs administration functions	Customs control during the clearance process more effectively ensures accuracy of declarations	(1) Effective application of procedures based on international standards for valuation, origin and the tariff classification of goods improved; (2) Risk-based control selectivity applied more consistently								●		●
Revenue Administration	Improved customs administration functions	Audit and anti-smuggling programs more effectively ensure enforcement of customs laws	(1) A larger share of trade controlled progressively through a properly designed post clearance audit program; (2) Framework to control special regimes and exemptions strengthened; (3) Effectiveness of the fight against fraud and smuggling increased; (4) Legal base, procedures and capacities strengthened to exchange information with the tax department, other government agencies and foreign customs		●			●	●		●	●	●
Revenue Administration	Strengthened revenue administration management and governance arrangements	Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	(1) Reform management capacity strengthened or in place for reform implementation, including dedicated resources; (2) Key performance indicators established, regularly reported and monitored				●	●				●	

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Revenue Administration	Strengthened revenue administration management and governance arrangements	Organizational arrangements enable more effective delivery of strategy and reforms	(1) Appropriate institutional settings in place; (2) Clear separation of roles and responsibilities between HQ (definition of standard operation procedures, planning and monitoring) and local branches (execution) adopted	●		●		●				●	
Revenue Administration	Strengthened revenue administration management and governance arrangements	Support functions enable more effective delivery of strategy and reforms	(1) Improved ICT strategies and systems to support the tax administration; (2) Improved human resources strategies and practices to support the tax administration	●		●	●			●	●	●	
Revenue Administration	Strengthened revenue administration management and governance arrangements	Transparency and accountability are more effectively supported by independent external oversight and internal controls	Public perceptions of integrity increased (TADAT POA9-27)								●		

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Revenue Administration	Strengthened revenue administration management and governance arrangements	Corporate priorities are better managed through effective risk management	(1) Improved identification, assessment, ranking and quantification of compliance risks (TADAT POA2-3); (2) Better mitigation of risks through a compliance improvement program (TADAT POA2-4); (3) Improved monitoring and evaluation of compliance risk mitigation activities (TADAT POA2-5); (4) Better identification, assessment and mitigation of institutional risks (TADAT POA2-6)		●	●	●	●	●	●			
Revenue Administration	Strengthened revenue administration management and governance arrangements	Effective implementation of a new tax or modernized legislation	New/modernized tax implemented on scheduled date				●						
Revenue Administration	Strengthened core tax administration functions	Taxpayer services initiatives to support voluntary compliance are strengthened	Taxpayer perceptions of service monitored and improved (TADAT POA3-9)	●								●	
Revenue Administration	Strengthened core tax administration functions	A larger proportion of taxpayers meet their filing obligations as required by law	(1) Management of filing compliance improved; (2) Self-assessment used to declare tax liabilities and strengthened	●		●				●		●	
Revenue Administration	Strengthened core tax administration functions	A larger proportion of taxpayers meet their payment obligations as required by law	Management of tax arrears improved (TADAT POA5-15)	●		●			●			●	

Sector	Strategic Objective	Outcome	Verifiable Indicators	Eritrea	Ethiopia	Kenya	Malawi	Rwanda	Tanzania	Zanzibar	Uganda	South Sudan	EAC
Revenue Administration	Strengthened core tax administration functions	1. The integrity of the taxpayer base and ledger is strengthened	1) More accurate and reliable taxpayer information held in centralized database (TADAT POA1-1); 2) Knowledge of taxpayer base and potential taxpayers improved through robust taxpayer registration policies and procedures (TADAT POA1-2); 3) Effective management of tax accounts (TADAT POA8-23)	●			●					●	
Revenue Administration	Strengthened core tax administration functions	Audit and other verification programs more effectively ensure accuracy of reporting	(1) Appropriate range of tax audits and other initiatives used to detect and deter inaccurate reporting and fraud (TADAT POA6-16); (2) Automated cross-checking used to verify return information (TADAT POA6-16); (3) Sound methodologies used to monitor the extent of inaccurate reporting and tax gaps (TADAT POA6-18, RA-GAP results)	●	●		●	●	●		●		

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