20 YEARS

AFRITAC East

REGIONAL TECHNICAL ASSISTANCE CENTER FOR EAST AFRICA

BUILDING MACROECONOMIC CAPACITY IN EAST AFRICA

INTERNATIONAL MONETARY FUND

AFRITAC East is a collaborative venture between the IMF and the following member countries and development partners:

Eritrea

Ethiopia

Kenya

Malawi

Rwanda

South Sudan

Tanzania

Uganda

Ministry of Foreign Affairs of the Netherlands

UKaid
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Swiss Confederation

Federal Department of Economic Affairs, Education and Research EAER
State Secretariat for Economic Affairs SECO

COVID-19 Crisis CD Initiative

INTERNATIONAL MONETARY FUND

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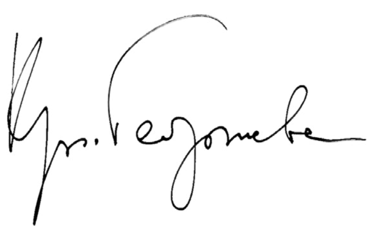
Preface

KRISTALINA GEORGIEVA
Managing Director
IMF

For 20 years now, the IMF's Regional Technical Assistance Center for East Africa has been helping countries in the region on issues of sustainability, inclusivity, and resilience. The center plays an essential role in building macroeconomic capacity and empowering African economic institutions to address tomorrow's challenges.

This work embraces the spirit of the African proverb: "tomorrow belongs to people who prepare for it today." Such long-term capacity-building efforts boost economic growth and promote regional cooperation.

The IMF will continue to stand with Africa, working alongside our member countries as they strive to meet their Sustainable Development Goals and improve the lives and livelihoods in the region. We thank the IMF's development partners and our African member countries for allowing us to share in this journey.



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Abbreviations and Acronyms

AFRITACs	Africa Regional Technical Assistance Centers
AfDB	African Development Bank
BCG	Budgetary Central Government
COVID-19	Coronavirus Disease 2019
CAMELS	Capital Adequacy, Asset Quality, Management Soundness, Earnings and Profitability, Liquidity, and Sensitivity to Market Risk
EAC	East African Community
EU	European Union
FMIS	Financial Management Information System
FPAS	Forecasting and Policy Analysis System
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GG	General Government
HQ	Headquarters
ICD	Institute for Capacity Development (IMF)
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
IRD	Inland Revenue Department
MEFMI	Macroeconomic and Financial Management Institute for Eastern and Southern Africa
NPS	National Payment System
NRA	National Revenue Authority
OPF	Oversight Policy Framework
PAP	Project Analysis and Public Investment Management Department
PPP	Public-Private Partnership
PBB	Performance-Based Budgeting
PFM	Public Financial Management
PFMI	CPSS/IOSCO Principles for Financial Market Infrastructures
RBS	Risk-Based Supervision
RTGS	Real-Time Gross Settlement
SOE	State-Owned Enterprise
SUT	Supply and Use Table
TADAT	Tax Administration Diagnostic Assessment Tool
TSA	Treasury Single Account
UK	United Kingdom
US	United States
VAT	Value-Added Tax

Foreword

ABEBE AEMRO SELASSIE
Director
IMF African Department

On October 23, 2002, the late Tanzanian President Benjamin Mkapa inaugurated the IMF Regional Technical Assistance Center for East Africa (AFRITAC East), the first such center in Africa, which Tanzania had volunteered to host in Dar es Salaam. He noted that AFRITAC East reflected the "unprecedented mutual respect between the IMF and African countries." He also made it clear that if Africa is to define its own economic destiny, it must "self-develop, plan strategically, ask the right questions, reply intelligently to questions about the decisions we make, [and] reason deeply and logically." Given the pace of change in the world's economies, he commended the IMF for its support of "flexibility in the design of home-grown programs, and readiness to experiment with new and more efficient and effective ways of delivering needed technical assistance." To build sustainable institutional capacity, he added: "The focus should no longer be on filling gaps in technical capacity in the various Ministries, Departments, and Agencies or on 'fire-fighting' efforts."

AFRITAC East was created partly in response to requests in 2001 from African heads of state and governments for the IMF to step up capacity development. A reflection of AFRITAC East's success is that today, 20 years after its establishment in 2002, there are six IMF regional centers providing technical assistance and training to 46 countries in sub-Saharan Africa.

A collaboration among the IMF, its member countries, and bilateral and multilateral development partners, the center supports member countries in the implementation of their priorities, enhancing country ownership and commitment while encouraging the efficient use of scarce resources. Being based in the region also ensures that the center's staff familiarize themselves with evolving local needs and allows for customized, more flexible, and faster responses to capacity-building priorities. This partnership has also strengthened the mutual accountability of both the IMF and the center's member countries for clearly defined and time-bound results. It also facilitates the coordination with development partners for maximum efficiency and effectiveness.

In this booklet, AFRITAC East celebrates the achievement of countries in the region since 2002. This regional approach has been a clear success, yielding notable results. As the stories here will illustrate, the results span the full range of work areas of the center. This includes strengthened revenue mobilization capacity; better prioritization and selection of investment projects; more efficient spending controls, enhanced monetary policy implementation; development of risk-based financial sector supervision; and strengthened capacity to produce more timely, reliable, and harmonized statistics that will further support policy making and regional integration.

There is no doubt in my mind that the center will continue to respond to members' evolving needs, tackling new challenges such as climate change, taking advantage of new opportunities such as digitalization, and promoting gender-equality and inclusive growth.

Before closing, I wish to acknowledge the indispensable support of our development partners along the way—it is crucial to remember that none of the achievements would have been possible without their unstinting financial support.

AFRITAC East offices are hosted in the Bank of Tanzania's Buildings in Dar es Salaam

Acknowledgments

This booklet was prepared by staff of the IMF AFRITAC East under the general direction of Xiangming Li (Center Director).

The primary contributors to this booklet include current and past advisors of the center—including Guy Anderson, Imran Aziz, Courtney Christie-Veitch, Ian De Vere Carrington, Djaima Costa, Georgios Genimakis, Timmi Graversen, Callie Hugo, Dirk Jan Grolleman, Florence Kuteesa, Duncan Last, Berlin Msiska, Roderick O'Mahony, Kenneth Ochola, Matthew Quillinan, Paul Seeds, Carina Selander, and Amra Srdanovic. It was edited by Xiangming Li and William Wakuganda (the Economist at AFRITAC East).

The booklet also benefited from member countries and development partners contributions—including Eritrea, Ethiopia, Kenya, Rwanda, South Sudan, Tanzania (including Zanzibar) and Uganda—and the following development partners: China, The European Union, Germany, Switzerland, and the United Kingdom.

Finally, this booklet benefited from review and comments from the IMF Management and Departments—including AFR, FAD, ICD, LEG, MCM, and STA.

Remarks on the Overall Impact of AFRITAC East over the Past 20 Years

FROM COUNTRY AUTHORITIES

EMMANUEL M. TUTUBA
Permanent Secretary
Ministry of Finance and Planning, Tanzania

"As we commemorate the 20-year anniversary of AFRITAC East for strengthening institutional capacity and delivering capacity development services in the region, I would like to congratulate AFRITAC East for its milestones achieved so far. The center has done a commendable job of sharpening the skills of government officials in the region to better master their day-to-day operations. To say it is enough would be untrue—we need to continue learning to keep pace with technological advancement, emergent new thinking, and innovative processes as member countries continuously evolve and new challenges emerge. I also extend my sincere appreciation to the IMF for its prompt response in establishing regional centers in Africa aimed at bringing technical assistance closer to the recipients. Previously, Washington, DC-based staff at IMF headquarters delivered these services, with occasional mission visits to countries in the region. The Government of Tanzania stands ready to continue hosting the center and provide any other support needed. I urge colleagues from other AFRITAC East member countries to continue their support of the center, including meeting our commitments and ensuring our participation in the center's capacity-building program to reap the requisite knowledge useful for our nations. The center has gurus and programs in revenue administration, public financial management, financial sector regulation and supervision, monetary policy and operations, and economic and financial statistics—no one should miss out. It is my sincere hope that member countries will continue to work with the center to address new challenges and take advantage of new opportunities as they emerge."

FLORENS LUOGA
Governor
Bank of Tanzania

"It is my great honor and pleasure to commemorate the 20-year anniversary of this noble partner, the AFRITAC East, the first center to be established in Africa in 2002 and based in Dar es Salaam, Tanzania. Most interestingly, the Bank of Tanzania is privileged to house the center in the state-of-art twin towers, facilitating its immense contribution in serving the member countries.

I would like to express my sincere appreciation to the IMF and IMF AFRITAC East for always being ready and proactive in providing us with technical support in various areas. The center in particular has been providing technical support in a wide range of policy issues and reform agenda in the region that has proven to be very helpful in enabling us to discharge our duties efficiently and effectively.

The training and technical assistance missions that the region, and Tanzania in particular, have benefited from AFRITAC East have contributed to the massive transformation in financial sector and payment systems landscape, financial market infrastructure, improved economic and financial statistics, and modernized conduct of monetary policy, to mention a few.

The Bank of Tanzania will continue to engage IMF AFRITAC East in modernizing monetary policy formulation and implementation as we move toward the introduction of forward-looking and interest rate-based monetary policy. But also running programs together to ensure stability of the financial sector."

PATRICK NJOROGE
Governor
Central Bank of Kenya

"Over the last 20 years, AFRITAC East has supported the Central Bank of Kenya in fulfilling its mandate in the evolving environment. And I think there is no other area that has seen a significant change as banking and payments space, and AFRITAC East has helped us in upgrading our skills in this area. For instance, bank supervision has evolved dramatically in terms of the manner, in terms of the tools, and in terms of the overall framework in keeping with the international best practices. AFRITAC East has helped us develop and adopt, for instance, the risk-based supervision that we have put in place. Secondly, it has also helped us entrench the ICAAP (the internal Capital Adequacy Assessment Process) in our bank supervision environment with commercial banks. And thirdly, it has also helped us in cross-border bank supervision."

SEMERETA SEWASEW
State Minister of Finance for Economic Cooperation
Ethiopia

"The continued support from IMF AFRITAC East to Ethiopia has given us the opportunity to enhance our Public Financial Management system. In partnership, we have been able to assess the strengths and the weakness of our governance system. We have also received support to implement mechanisms to improve the efficiency, effectiveness, and transparency of the public budget. It remains essential for Ethiopia to stay on course to continue to strengthen our governance system to ensure effective and efficient service delivery as well as good governance. Thank you again IMF AFRITAC East for your support."

ALBINA CHUWA
Director General
National Bureau of Statistics, Tanzania

"Since the start of its operations, AFRITAC East's support has been useful in harmonization of statistics in the region for quality monitoring and evaluation of development programs."

GITHII MBURU
Commissioner General
Kenya Revenue Authority

"AFRITAC East has collaborated with Kenya Revenue Authority in capacity building and process improvement programs that have assisted the Authority in leveraging data and technology to enhance tax and customs compliance. This has no doubt contributed to the Authority's capacity to execute its mandate and to achieve the desired outcomes."

RICHARD TUSABE
Minister of State in charge of National Treasury, Rwanda

"As we celebrate AFRITAC East 20th Anniversary, we appreciate the great role played by the center in supporting the transformation of Rwanda's PFM agenda. AFRITAC East has been a close partner in rebuilding and positioning Rwanda to meet international indicators for the quality of PFM, with stronger overall scores. Considerable progress has been made in strengthening PFM over the past two decades which include: updating legal and regulatory framework, capacity building interventions, computerization of government financial management systems, expanding tax base and strengthening revenue collection systems as well as adopting international best practices in fiscal and financial reporting. We look forward to AFRITAC East's continued support"

PATRICK K. MUGOYA
Commissioner General
National Revenue Authority,
South Sudan

"Despite South Sudan National Revenue Authority (NRA) being the newest revenue agency in the region and having only joined AFRITAC East in May 2020, we have already worked with the center to re-engineer core tax administration processes and develop user specifications and functional requirements for an Integrated Tax Administration System. The center has also been instrumental in reviewing the ongoing rollout of web-based registration, filing and payment functionalities of a new integrated tax administration system dubbed e-Tax. The NRA expects AFRITAC East support to enhance revenue mobilization also through customs modernization, audit capacity, and simplified tax code and processes."

JOHN RWANGOMBWA
Governor
National Bank of Rwanda

"AFRITAC East has been a major player in Rwanda's monetary policy transformation since the beginning of the last decade. With a domestic economy undergoing tremendous structural changes, the center's capacity development assistance helped the National Bank of Rwanda (NBR) adapt to the evolving environment and reposition itself to modernize Rwanda's monetary policy in various ways. A hallmark of the success of the series of customized technical assistance missions and trainings supported by the center was the development of the Forecasting and Policy Analysis System (FPAS) as the main framework of policy formulation in the price-based monetary policy setup adopted in 2019. Under this framework, a team of skilled sectoral experts and model operators (a.k.a. Forecasting Team) capitalizes on their strong command of analytical tools to support decision-making and communication in a structured monetary policy process. This framework was crucial for building resilience, transparency and credibility of monetary policy in Rwanda, facing the vagaries of the economic crisis in the wake of the COVID-19 pandemic, and supporting ongoing economic recovery efforts."

FIKADU DIGAFIE
Vice Governor and Chief Economist
National Bank of Ethiopia

"Ethiopia appreciates AFRITAC East's various capacity building supports during the last 20 years especially in areas like Financial Sector Regulation and Supervision, Monetary Policy Operation and Financial Market Infrastructure and Payment Systems among others. These various technical and financial supports have enabled us to improve our supervision techniques, monetary policy operation and payment system significantly. We hope that AFRITAC East's capacity building support will continue in the coming years as we still need various financial and technical support on areas like Forecasting and Policy Analysis, FX Market Development, Inter-bank Money Market Development among others. Maintaining safe and sound financial sector, stable price and exchange rate as well as strong economic growth are our core objectives for which we need this kind of partnership with IMF and AFRITAC East."

FROM DEVELOPMENT PARTNERS

JUTTA URPILAINEN
European Commissioner for
International Partnerships

"The European Union is proud to support AFRITAC East's work, which has enabled beneficiary countries to successfully improve revenue mobilization and fiscal governance. I look forward to continuing our long-standing partnership with the IMF to support countries in their efforts to strengthening further their institutional capacity. Achieving an inclusive and climate-resilient post-pandemic economic recovery is a core objective of our partnerships with African countries."

JOCHEN FLASBARTH
State Secretary
Federal Ministry for
Economic Cooperation and
Development, Germany

"Germany is convinced of the significance of the capacity development that has been provided by the IMF AFRITACs over the last 20 years. The respective technical assistance and training empowers government officials to apply good financial governance principles in the management of their country's financial resources. It is important to continue supporting our partner governments in building a better and more equitable Africa."

AMBASSADOR DOMINIQUE PARAVICINI
Head of Economic Cooperation
and Development Division
State Secretariat for Economic
Affairs, Switzerland

"Embedded in their region and in close contact with member countries, Regional Capacity Development Centers play a crucial role in the delivery of capacity development by providing tailor-made hands-on advice and peer-learning opportunities"

AI MING
Deputy Director-General
International Department
People's Bank of China

"China attaches great importance to Africa's development and supports the IMF 's capacity development projects in Africa. We also appreciate the efforts of AFRITAC East in promoting the economic development of the region. We believe that the cooperation between China and the IMF in supporting capacity development in Africa will be further strengthened."

MILJAN SLADOJE
Economics Adviser
Public Finance and Tax
Department, Foreign,
Commonwealth and Development
Office, United Kingdom

"East Africa is a priority region for UK partnership. AFRITAC East has complemented UK support on public financial management and domestic resource mobilization by providing technical assistance and training that is of excellent quality and driven by priorities of its member countries. AFRITAC East also promotes important emerging issues, such as gender (e.g., support for gender-responsive budgeting), climate change and debt transparency. These areas are critical for macroeconomic stability, growth and provision of public services and will continue to play a crucial role in the post-pandemic economic recovery."

Introduction

DOMINIQUE DESRUELLE
Director
IMF Institute for Capacity Development

"Twenty years ago, the IMF, African countries, and global partners launched a new capacity development paradigm in Africa. By creating its first center on the continent—the East Africa Regional Technical Assistance Center based in Tanzania—the IMF made a giant step forward to help build stronger economic institutions in Africa. I have witnessed it with my own eyes while visiting the continent on multiple occasions in my current and previous capacities, particularly while working in the IMF's Institute for Capacity Development (ICD) and African Department. The local footprint and the long-term presence of experts help build close relationships with country officials and tailor our support to local conditions. In the years that followed the opening of AFRITAC East, four additional technical assistance centers and a regional training center were opened in Africa. In the future, we are looking forward to seeing AFRITAC East help its member countries overcome the challenges of the COVID-19 pandemic, further strengthen their economic institutions, and achieve their national economic and development goals. Safeguarding the future of our centers in Africa to meet the increasing demand for technical assistance and training from African countries will be one of my top priorities as Director of ICD."

Delivering sustainable capacity development in member countries has been a key objective of the IMF. Until the establishment of AFRITAC East, capacity development support in the region was largely provided by staff based at headquarters (HQ) in Washington with only occasional mission visits to countries. By the early 2000s, it had become evident that HQ-based visits had to be complemented by more sustained hands-on support to build lasting capacity in the regions.

The establishment of AFRITAC East has considerably increased the IMF's footprint in the region and represented a major innovation and addition to the IMF capacity building in Africa. With well-qualified experts located in the region, the center was able to provide prompt, tailored, sustained, and consistent hands-on support—which facilitated learning by doing and turned knowledge into wisdom. Country authorities have noted that not only its proximity but also its governance structure have made them feel part of the center. By bringing members together through workshops and attachment programs,[1] the center has also been promoting peer-to-peer learning, regional harmonization and integration. The partnership structure also fosters coordination with development partners in each country, which is critical to avoid duplication and maximize synergies.

The center's work areas are grounded in the IMF's core expertise in five areas: (1) public financial management (PFM), including macro-fiscal analysis, which increases the effectiveness of government spending; (2) revenue administration, which contributes to more efficient and higher revenue mobilization; (3) monetary policy and foreign exchange operations, including a new and popular workstream on forecasting and policy analysis systems (FPAS), which makes monetary policy more effective, strengthens the transmission mechanism, and lowers inflation; (4) financial sector supervision, including the oversight of financial market infrastructures and

[1] Enabling one member country to visit another country, either inside or outside the region, to learn the experience of how certain reforms are implemented.

payments, which supports the sustainable development and resilience of the financial system; and (5) real sector and government finance statistics, so that more accurate information is available to policymakers for decision-making purposes. These areas play a central role in the reform agendas of the center's member countries. "The center is not only an integral part of IMF capacity development system," says Catherine Pattillo, Deputy Director at the IMF African Department, "it provides critical support to the IMF's two other mandates, surveillance and lending, as the capacities that the center helps to build are essential for implementing sound economic policies."

An important objective for AFRITAC East is the ability to constantly adapt as member countries develop and new challenges emerge. While the high-level topic areas have remained constant over the years, significant changes to the content have emerged. For example, at the outset PFM support in budget preparation was often focused on data collection for capital investment, but as countries progressed, this focus has shifted to better selection of investment projects. The center has also become skilled in adapting its work plans as country needs change and new areas emerge. For example, when the COVID-19 pandemic first broke out, despite member country lockdowns, the center was able to move quickly to help countries address the emerging challenges. The center helped countries to raise revenue while guarding against the spread of COVID-19, re-prioritize spending to meet new urgent needs, implement monetary and financial sector measures to safeguard macroeconomic stability, and still have the ability to collect statistics while limited by the lockdowns. An example of this agility is exemplified by the center's support of revenue authorities to enhance risk management to identify and address noncompliance through desk reviews, reducing the need for in-person contacts. The center's excellent working relationship with its member countries has been crucial to virtual support delivery.

As a collaborative venture, AFRITAC East has been financed by contributions from development partners, its member countries, and the IMF. "AFRITAC East is a true partnership with an inclusive governance model where everyone's voice is heard and all have skin in the game," says Roger Nord, Deputy Director at the IMF Institute for Capacity Development. "This means that we are all fully invested in the success of the center." Currently, The Netherlands, the United Kingdom, European Commission, Norway, China, Germany, Switzerland, and the IMF COVID-19 Crisis Capacity Development Initiative support AFRITAC East. Over the past 20 years, the center also received support from the African Development Bank, Australia, Canada, Denmark, European Investment Bank, Finland, France, Italy, Luxembourg, Russia, and Sweden, in addition to contribution from its member countries.

Moving forward, the center will continue to take advantage of the opportunities that have opened in the virtual world through hybrid engagement, such as the targeted virtual follow-up after actual missions and virtual pre-mission preparation meetings. The center also intends to leverage the possibilities presented by webinars and hybrid events both to reach broader audiences and to tap into a wider pool of experts.

As always, AFRITAC East will continue to work with members to address new challenges and take advantage of new opportunities. Recently, in collaboration with IMF HQ, the center is gearing up to support countries on new topics such as fintech, including central bank digital currency and crypto assets, assessing climate change-related risks, building fiscal resilience to climate change, and promoting inclusive growth including through fostering gender equality.

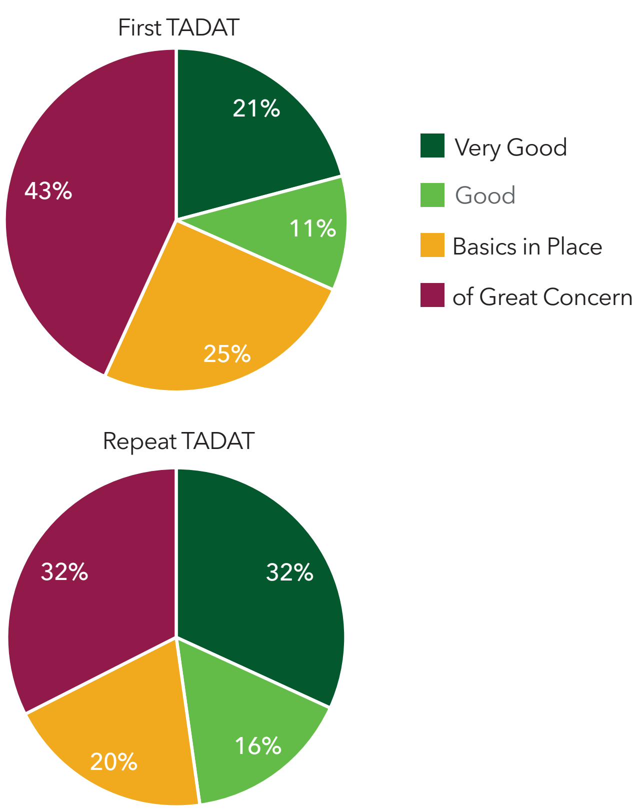
The following is a sample of short stories and quotes from representatives who have both benefited and contributed to the success of the center over the past 20 years.

Public Finances: Collect More and Spend Better

VITOR GASPAR
Director
IMF Fiscal Affairs Department

"For 20 years, AFRITAC East has helped countries in the region reform toward strengthening fiscal institutions, through hands-on capacity development across the range of fiscal topics—integrated with IMF's lending and surveillance activities. The Fiscal Affairs Department looks forward to its continued success."

FIGURE 1. SIGNIFICANT PROGRESS OF THREE COUNTRIES ASSESSED TWICE



TADAD = Tax Administration Diagnostic Assessment Tool
Source: TADAT Secretariat

PROGRESS IN TAX AND CUSTOMS ADMINISTRATION

For all countries, building revenue systems that are efficient, effective, trusted, and sustainable is necessary to ensure adequate public resources for building human capital, investing in infrastructure, and providing services for citizens and businesses. Such systems are also the foundation for building accountable, effective, and respected government institutions.

The transformation in the revenue administrations of the region begins with improving core tax and customs administration functions and reinforcing arrangements for revenue administration and governance. The center also supports regional harmonization of customs administrations to promote regional integration and foster international trade.

In the area of **domestic tax administration**, countries in the region have made notable progress in the last 20 years. By 2017, the center's six out of the eight member countries had completed a first round of diagnostic assessments using the Tax Administration Diagnostic Assessment Tool (TADAT). The assessment helps country authorities, and other stakeholders, share a realistic view of the health of the system of tax administration—a major institution in every country. The assessment results guide the reform agenda and provide a baseline to monitor progress toward international good practice. More recent progress is evident in the repeated TADAT undertaken by three of the six countries, with areas rated as very good to good increased from 32 percent during the first round to 48 percent in the repeat assessments (Figure 1.).

Areas with significant progress include

- use of efficient collection systems
- use of electronic filing
- existence of a mechanism to monitor public confidence in the tax administration
- currency and accessibility of information for taxpayers
- obtaining taxpayer feedback on products and services
- an independent, workable and graduated dispute resolution process

Guided by the TADAT results and with the center's support, member countries have stepped up efforts on building capacity in several areas to enhance (1) the integrity of the registered taxpayer base; (2) the effectiveness of risk management; (3) the monitoring and management of non-filers; (4) enforcement and verification actions to detect and deter inaccurate reporting; (5) an independent, workable and graduated dispute resolution process; and (6) the internal assurance mechanisms.

In **customs administration**, support was provided to improve core functions, such as effective and efficient customs control during the clearance process, post-clearance audit practices, and better compliance by foreign trade operators on reporting and payment obligations.

In the case of Kenya, AFRITAC East in coordination with the IMF HQ, has been supporting Kenya's ambitious reform of customs administration to meet international standards, implement customer-focused reforms, and deliver services of the highest quality since the 2000s. The authorities developed a strategy for: (1) establishing a modern automated environment for processing import and export entries; (2) facilitating trade by speeding up the clearance process and integrating customs services department processes with those of other agencies; (3) reducing compliance costs by simplifying and eliminating paper-based systems and procedures; and (4) improving compliance through better service and more effective enforcement. In support of these goals and with the support of the IMF, by 2010 the authorities had achieved notable results. Some examples included:

(1) Strengthened organizational and administrative arrangements
(2) Developed an enabling human resource, communication strategies, and performance-monitoring and evaluation mechanism
(3) Embedded risk-based approaches in customs processes, which is supported by enhanced cargo tracking, transit management, and post-clearance assurance capabilities

In Ethiopia, the center supported the authorities in drafting a manual for post-clearance audit, developing a compliance risk management strategy, and establishing a shared tax and customs data warehouse.

The center's support of customs administration also promotes regional integration and supports the agendas of the East African Community (EAC). In coordination with other development partners, the center supported the EAC to refine and implement procedures for the effective operation of a Single Customs Territory. The procedures have addressed nontariff barriers and operational inefficiencies to significantly reduce transit and dwell times and improve timeliness of revenue collections. Work in individual countries, including the example of Kenya noted above, support the implementation of the Single Customs Territory.

The center's work on customs administration has recently focused on capturing the benefit of digitalization to facilitate trade and strategies for managing compliance risk management. Member countries have shown great interest in building their capacity for data matching to help them to detect tax frauds and predict irregular taxpayer behavior. Such analyses use data from a variety of independent sources and facilitate effective data matching capability between tax and customs to eliminate information gaps. Ethiopia, Kenya, Rwanda, and Uganda are currently building their data-matching and data analytics capabilities.

Strengthening the revenue system continues to be a priority throughout the region. This is critical for meeting countries' large spending and investment needs to mitigate the scarring from the pandemic, enhance debt sustainability and resilience, and ultimately meet the Sustainable Development Goals.

BOX 1. REMARKS FROM YOHANNES ISAAC YEHDGO, DIRECTOR GENERAL, INLAND REVENUE DEPARTMENT OF ERITREA.

It is my pleasure to share our experience with AFRITAC East in its 20th anniversary celebration. In our efforts to modernize tax administration and mobilize domestic tax revenue, Inland Revenue Department (IRD) of Eritrea had gained tremendously from the center's activities.

Over the last 20 years, the technical assistance programs we obtained from AFRITAC East and regional workshops we participated were tailored to our needs. Through the center's capacity building and reform efforts in tax administration, IRD headquarters was properly established; a large taxpayers office was formed, and tax offices were reorganized functionally; computerization of the tax administration was initiated; and the operational process of the IRD was simplified. Some of the main areas of technical assistance we obtained from AFRITAC East include:

- Obtaining a resident tax administration advisor for modernization of tax administration
- Revising and redrafting Eritrean tax laws and developing explanatory notes
- Developing an effective registration process and establishing a reliable taxpayer register
- Reviewing IRD Information Technology System and process re-engineering
- Developing functional and technical requirements for Integrated Tax Administration System and system acquisition process
- Assessing tax administration, identifying gaps, and recommending measures for improving tax administration performance
- Improving tax audit capacities and developing standard operating procedures for better compliance management
- Creating a double tax avoidance agreement and process of tax treaty negotiation

The role of the AFRITAC East in strengthening domestic tax revenue mobilization in the region is very important. It has a unique opportunity for learning and sharing experiences from member countries (peer learning). Technical assistance programs and regional workshops were designed and organized to our countries' needs with the flexibility of using technical resources within the region.

Our experience with AFRITAC East is encouraging, efficient, and effective. We express our hopes for sustained efforts to improve the number and the quality of capacity-development activities.

BOX 2. REMARKS FROM GITHII MBURU, COMMISSIONER GENERAL, KENYA REVENUE AUTHORITY

AFRITAC East has supported Kenya Revenue Authority by offering timely and relevant technical assistance focusing on tax administration reforms and staff capacity building. The hands-on approach by the advisers has enabled KRA to make strides in various areas including improvement of the tax audit process and compliance management. The outcomes of the support were demonstrated in the recent TADAT evaluation in April 2021. The assessment noted that since the last TADAT assessment in November 2016, substantial progress has been made in various Performance Outcome Areas. Some of the notably improved areas include monitoring and evaluation of compliance risk mitigation activities, use of electronic filing facilities and existence of an independent, workable and graduated dispute resolution process, among others.

The center has also enabled the Authority to establish a risk management framework that embeds risk management in tax and customs operations through development of risk management structures, tools, standards, and procedures.

Looking into the future, the Authority will continue to welcome AFRITAC's support and encourage more peer-to-peer forums and roundtables for countries to exchange experiences.

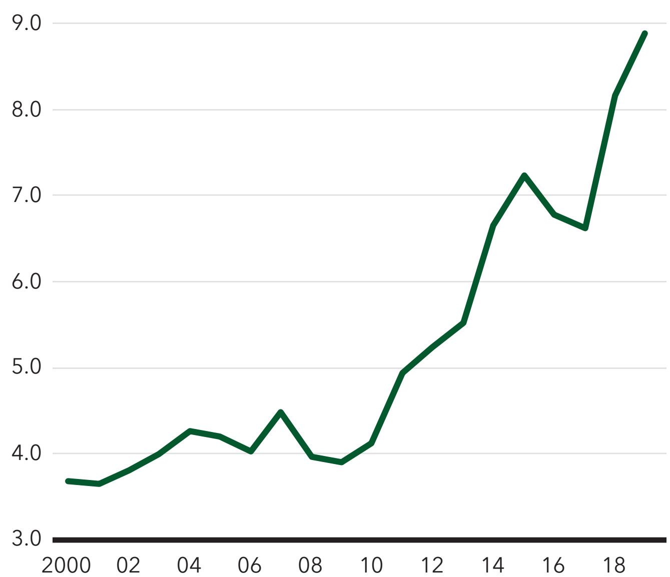
AFRITAC East is improving core tax and customs administration functions in the region

UGANDA PUBLIC INVESTMENT MANAGEMENT REFORMS

HANNINGTON ASHABA
Commissioner Project Analysis and Public Investment Management Department, Ministry of Finance Planning and Economic Development, Uganda

"AFRITAC East has been a close partner in our reform efforts, both through trainings and diagnostic missions, but also in responding to ad hoc and last-minute requests at short notice, as was the case with the onset of COVID-19. The center always coordinates with other stakeholders like the World Bank. We truly appreciate its continuos efforts to help implement our reforms."

FIGURE 2. PUBLIC INVESTMENT, 2002–19 (PERCENT OF GDP)



Source: IMF Fiscal Affairs Department

Uganda had long suffered from inadequate infrastructure and was also concerned about maintaining fiscal sustainability. Since 2010, however, public investment as a percentage of its GDP has more than doubled, from 4 to almost 9 percent of GDP (Figure 2). Projects included key national road corridors that connect regional trade routes and address energy shortages. To help finance its heightened activity, Uganda entered into public-private partnership (PPP) arrangements, which at first raised concerns about value for money, particularly as loan interest payments rose over time. To ensure that its investments in infrastructure generate benefits that outweigh the costs, in 2014 the Ministry of Finance, Planning, and Economic Development established a Project Analysis and Public Investment Management Department (PAP). The center worked with IMF HQ and the World Bank to help the government map a three-part process of planning, budgeting, and carrying out projects. The result has been progress that includes:

- More intensive reviews by the Development Committee of Ministry of Finance, which must approve or reject all budgeted projects. The center supported the drafting of laws and guidelines to rank projects to eliminate those of low quality.
- Establishment of a comprehensive database of projects that had passed the Development Committee review process to be considered for integration into budget, accounting, and external aid systems.
- Full-scale review of all public investments, some of which had crowded out fiscal space for projects that could be more effective.

Today, after almost eight years of the PAP, Uganda's reform of investment decisions is beginning to bear fruit. For example, a major PPP toll road, the Kampala/Entebbe Expressway, has recently collected its first tolls, which will be used mainly to clear debt, support roadway maintenance, and ultimately invest in more new roads. More intensive project monitoring is also helping to minimize bottlenecks that had been preventing the completion of major projects; one now-completed project, the Karuma Dam, has already vastly reduced load-shedding (or planned power shutdowns) across the country. With COVID-19 putting extreme pressure on expansion of the investment budget, a priority now is to ensure that available fiscal space is targeted to the projects most likely to support economic recovery. The center has been supporting PAP as it drafts project rationalization criteria to protect the most effective ongoing projects and encourages more accurate recording of multiyear contractual commitments to avoid penalties, legal fees, cost overruns, and delays.

KENYA: BUDGET REFORMS

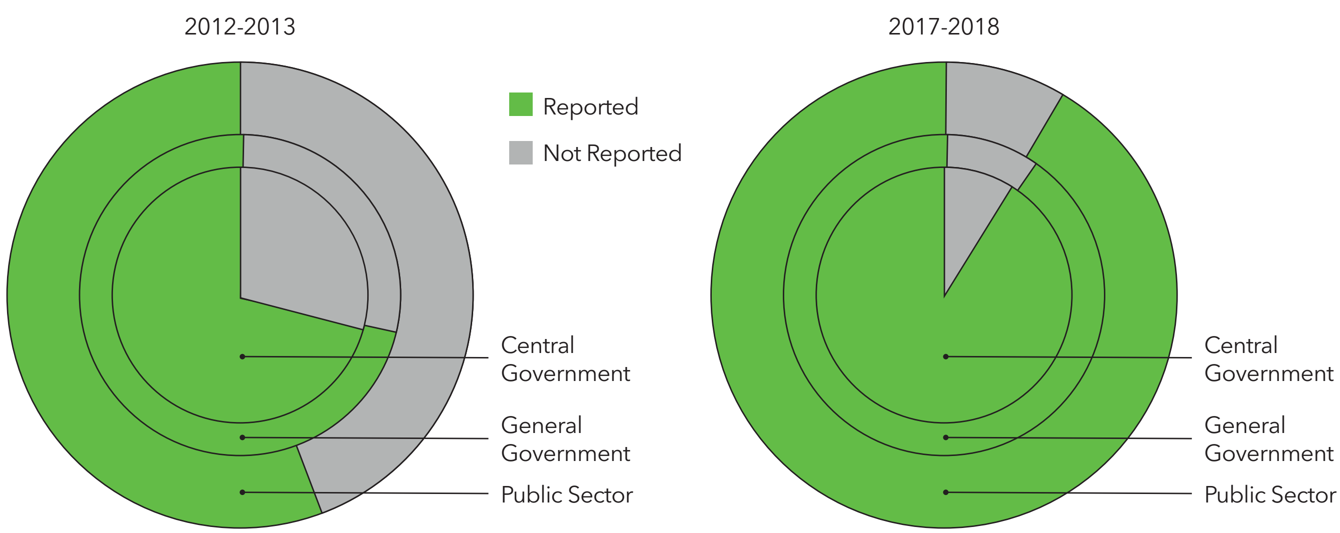
The center has accompanied the budget reform in Kenya since the early 2000s. A comprehensive Public Financial Management Act and supporting regulations were developed by mid-2000s. A core part of the legal framework ensured that the budget preparation calendar allowed sufficient time for expenditure prioritization within a constrained fiscal environment.

During 2010–15, the center supported the authorities in developing a Program Based Budget structure, which included the development of a new budget classification by program and subprogram. This classification became embedded into the chart of accounts structure to help prioritize policy choices within the budget.

From 2014 onward, supporting the authorities' devolution became a critical area. The key objective of the devolution is to promote social and economic development; provide easily accessible services throughout Kenya; and increase accountability. The center worked with the Treasury to improve budget planning and execution in counties. This work contributed to notable improvement in Fiscal Transparency Evaluation conducted in 2019 compared with the one in 2014 (Figure 3).

Reforms have continued. To address issues of budget credibility such as overspending and supplementary budgets, the President initiated a zero-based budgeting approach in 2016 to ensure budgets are prepared based on more stringent costing calculations. From 2017 onward, the center has been supporting the Budget Department in developing a costing framework and prototype costing tool, which is now embedded in the Budget Preparation Module of the Financial Management Information Systems. A budget preparation manual has been developed in consultation with more than 200 officials through a series of training and workshops. The manual has a series of structured training modules that will be introduced in the coming year as part of a course in the Kenya School of Government.

FIGURE 3. PUBLIC SECTOR EXPENDITURE AND COVERAGE IN FISCAL REPORTS
(Percent of expenditure of each level)



Source: IMF Fiscal Affairs Department.

BOX 3. COLLABORATION WITH OTHER PARTNERS IN PFM REFORM

Examples of collaborating with EU, World Bank, US Treasury, and Development Partners PFM Working Group in South Sudan

"Wisdom is like a baobab tree; no one individual can embrace it." This African proverb highlights the importance of coordinating with other development partners to achieve synergy and deepen capacity development in AFRITAC East member countries. A few typical examples:

Tanzania Public Investment Manual: To facilitate a large public investment program in Tanzania supported by the EU, the center helped the authorities to draft a three-year reform plan. The support included organizing a workshop in Dodoma to develop the draft and solicit stakeholder feedback in 2019. The resulting multiyear reform plan was structured around the main components of the project cycle, which the EU adopted as a basis for continuous support.

Kenya Budget Preparation Manual and Costing Tool: The large World Bank program in Kenya supports a PFM program managed by the Kenyan authorities. In 2019 a joint AFRITAC East–World Bank mission investigated how budget reforms could best be targeted to integrate costing and spending priorities early in the budget cycle. AFRITAC East helped Kenya to draw up procedures based on three years of stakeholder workshops, one of which was undertaken with the World Bank for more than 200 public officials at the Kenya School of Government. Since the costing tool prototype was customized, the World Bank has supported its integration into the web-based government IT system.

Rwanda Performance-Based Budgeting (PBB) Manual: The center supported the creation of a simplified methodology for PBB and piloted it in four key service delivery sectors. A manual and supporting sector workbooks were drafted to guide training for ministries, departments, and agencies. After the pilot proved successful, the World Bank funded training for all 16 sectors using the manual and sector workbooks and the new format is now fully integrated into budget documentation.

Collaboration with long-term resident advisors in Kenya and Uganda: The center has worked extensively with Kenya to support more effective oversight of its 250-plus state-owned enterprises (SOEs). The reform was launched in 2021 with thorough financial analysis of major high-risk energy and transport companies. The center has been closely collaborating with a resident SOE advisor funded by the US Treasury to ensure continuous support and training between missions. Similarly, in Uganda joint workshops were held with a new US Treasury-funded budget advisor to support more accurate recording in the budget process of multiyear capital project commitments.

Collaboration with the World Bank and Development Partners PFM Working Group in South Sudan: Since South Sudan officially joined the center in May 2020, AFRITAC East has been collaborating with the World Bank and other development partners in 11 PFM priority areas identified in the September 2018 Revitalized Agreement of the Resolution of the Conflict in South Sudan. The PFM Development Partners Working Group formalized previous informal interagency coordination to support selection of the highest-priority areas in the annual Immediate Action Plan and to eliminate duplication of support.

TANZANIA: ADOPTING INTERNATIONAL ACCOUNTING STANDARDS

Tanzania's adoption of International Public Sector Accounting Standards (IPSAS) is a good example of both the power of country ownership and the effectiveness of the center; its location in Tanzania has facilitated responsiveness and continuity of support. Its ability to draw on the IMF pool of international experts and its own local knowledge have helped it to tailor support to each member country. It also demonstrates how the capacity-development activities of the center and IMF HQ complement each other and the power of peer support among member countries.

As is the norm, the center was initially guided by a diagnostic visit from HQ, which occurred early in 2011. The diagnostic concluded that while the government was largely compliant with cash-basis reporting requirements, some gaps affected accountabilities and the quality of financial information for decision-making. These gaps needed to be taken into account to implement accrual-based IPSAS.

The authorities demonstrated their ownership convincingly: they engaged a local consultant to train staff; required ministries to begin gathering data on their assets and liabilities; trained a team of senior finance staff to begin using IPSAS; and developed additional functionality (including an asset module) for the integrated financial management system. These preparatory activities recognized that the transition to IPSAS accrual should enhance financial statements, with the timing of phases reflecting comparative priorities and benefits.

AFRITAC East accompanied the authorities in this transformation, drawing on international experts both in and beyond the center. In addition to the center's resident PFM advisors, for instance, the first mission on IPSAS in November 2011 also included an international expert who was a member of the IPSAS Board and had considerable experience working with public sector institutions. With the center's support, the authorities tailored a preliminary plan that defined manageable phases for the complex transition and communicated them to a broad range of stakeholders. An early goal was to extend coverage of the consolidated statements to comply with the cash IPSAS while gradually incorporating accrued financial data. Since 2011, Tanzania has invited the center to assess progress and revise the plan to address issues as they emerged.

In 2015 an IMF Fiscal Transparency Evaluation demonstrated that the reform clearly promoted improvement in the quality of consolidated financial data, as have EU Public Expenditure and Financial Accountability assessments that acknowledged significant progress in the construction of a public sector balance sheet. This reform has allowed the Tanzanian authorities to prepare consolidated financial statements covering the bulk of the public sector. Disclosures under full accrual-based IPSAS will further enhance reporting and transparency and support improved decision-making—based on clear, reliable, more timely, and comprehensive information.

Tanzania's achievement has had a ripple effect throughout the region. As members of the East African Community prepare to meet new EAC reporting standards, members of Tanzania's IPSAS task team have made valuable presentations of their experiences to regional workshops and conferences and have advised neighboring countries as they prepare for IPSAS accrual.

THE IMPORTANCE OF FINANCIAL MANAGEMENT INFORMATION SYSTEMS IN EAST AFRICA

The main purpose of a Financial Management Information System (FMIS) is to ensure that PFM processes are effective and transparent. When a member installs a new FMIS, AFRITAC East coordinates with other development partners such as the World Bank and African Development Bank (AfDB) to best leverage the synergies of each. Typically, other partners would support acquisition of the FMIS (ideally on a turnkey basis) and the center would advise on its management. An FMIS often has the following functional elements:

- Integration of planning and budgeting
- Medium-term budget planning and preparation
- Budget releases, e.g., quarterly warranting (or issuing payment orders)
- Control of commitments and expenditures and management of spending arrears
- Cash flow forecasting and cash management, including consolidation of banking arrangements through a treasury single account structure
- Strengthened management of assets and liabilities, including their enhanced recording and reporting
- Fiscal reporting: annual financial, in-year budget execution, and government finance statistics (GFS) reports.

These are all areas covered by IMF support. Since the FMIS does not typically cover all government entities and all transaction types, the center's support has emphasized expansion of coverage of entities and types of transactions.

In the 20 years since AFRITAC East was formed, all member countries have made significant progress, especially in financial reporting. This is evident in the gradual expansion in coverage of institutions beyond central government to state and local governments and progress in covering general government. Several member countries now include public corporations and thus cover the entire public sector.

MANAGING FISCAL RISKS

AFRITAC East has supported member countries in the analysis, disclosure, and management of fiscal risks; such risks put pressure on public finances, occur frequently, and are often costly. They may be caused by factors as varied as macroeconomic shocks, global financial crises, or bailouts of SOEs. Since 2002 this work has become increasingly important, particularly after the COVID-19 pandemic triggered the largest realization of fiscal risks since World War II.

Support for member countries focuses on advising policymakers on the following issues:

- **Identifying and assessing specific fiscal risks**. Work emphasizes improvement of macro-fiscal forecasting, dealing with fiscal risks arising from specific areas, such as SOEs (for example, their liabilities), PPPs, guarantees, public sector pensions, and local governments. In many countries where SOEs and PPPs are a significant source of risk, they are currently not well monitored. This work is supported by the IMF Fiscal Risk Toolkit of analytical tools so that countries can deal with different sources of fiscal risks. Support has also been provided on building up management structures and improving data quality and reporting, which are the basis for fiscal risk analysis.
- **Adopting internal fiscal risk management structures** to effectively coordinate different areas of government for a comprehensive assessment of fiscal risks, such as setting up central fiscal risk registries and appointing Fiscal Risk Committees to keep senior management informed about mitigation measures.
- **Integrating fiscal risk disclosure** *into their budget planning and documentation*, mainly through statements that summarize fiscal risks and mitigation measures, published either within or with the budget.

Three countries in particular have made significant progress:

Rwanda: Rwanda has established a Fiscal Risk Committee to coordinate analysis across the government and has published two increasingly comprehensive annual Fiscal Risk Statements that include assessments of the impact of COVID-19, alternative scenarios, and deeper coverage of SOEs and PPPs.

Kenya: The fiscal risks of SOEs in Kenya are complicated by their sheer scale: the country has more than 250 SOEs, some with noncommercial functions. With COVID-19 many of these risks escalated, making thorough assessment of them even more urgent. AFRITAC East has worked closely with Kenya's SOE Oversight Unit, Government Investments and Public Enterprises to assess SOE financial health and prioritize high-risk SOEs for further analysis. Detailed financial evaluations have been developed for 18 prominent SOEs, using the IMF-developed SOE-Stress Test Tool to develop detailed short- and medium-term assessments of the immediate impact of COVID-19 and identify longer-term structural issues. Building on this work, Kenya has also begun to expand the coverage of public financial statements to include fiscal risks associated with SOEs and PPPs.

Malawi: In 2018 the Malawi Ministry of Finance was a regional pioneer, supported by the center, in aggregating SOE financial data. The Malawian SOE database has proven very useful in allowing the Ministry of Finance to prepare the annual Consolidated SOE report. The database now supports oversight of the 28 commercial SOEs and preparation of case studies for those that are high-risk. Support continues as Malawi deepens assessment of SOE financial vulnerabilities and risks.

Effective Monetary Policy Implementation and Enhanced Financial Stability

ADITYA NARAIN
Deputy Director
IMF Monetary and Capital Markets Department

"The success of demand-driven capacity development is rooted in the ability to respond promptly with the right expertise. AFRITAC East has not only succeeded in this regard but has provided targeted capacity development aligned with countries' own workplans. MCM is proud to have partnered with AFRITAC East on this journey and looks forward to more years of success. Happy Anniversary AFRITAC East."

MODERNIZING MONETARY POLICY

ANDREW BERG
Deputy Director
IMF Institute for Capacity Development

"FPAS (Forecasting and Policy Analysis System) technical assistance is at the heart of the Fund's relationship with its partner central banks. It builds capacity for macroeconomic analysis, helps central banks make better-informed policy choices, supports modernization of the monetary policy frameworks, and strengthens the policy dialogue between the central banks and its key stakeholders, including the IMF. In essence, it strengthens the central banks' credibility and accountability and eventually helps bring them up to par with the central banks of advanced economies."

About a decade ago, member country central banks commenced the implementation of FPAS to support the transition to a more coherent, transparent, and forward-looking monetary policy framework. For most banks this journey began as a joint project with the IMF HQ that was funded by AFRITAC East. Today the center has a staff advisor working with countries on these projects.

With the support of the center, the central banks of Kenya, Malawi, Tanzania, Rwanda, and Uganda now have models and tools to help them analyze current economic developments and how monetary policy will affect economic performance over the next two years or so. These banks have adopted new processes and have reorganized to integrate this analysis so that policymakers are able not only to make good decisions but also to communicate them to other government authorities, the financial market, the business community, and the general public—a challenging task. While Malawi, Rwanda, and Uganda have launched into inflation-targeting lite frameworks, which are forward-looking and more transparent, other countries are still in a transition phase.

Some countries have started publishing monetary policy reports. In addition to improving their analytical capacities, these banks have simultaneously reinforced how they implement and communicate monetary policy. Operational frameworks have been strengthened and redesigned to meet the needs of inflation-targeting frameworks and monetary policy reports, and press statements are becoming standard. Although they have met and will continue to encounter obstacles, the center has been there to support the transition. Not only have these central banks shown the determination and courage to transform, but they are also doing so at an impressive pace.

The center hopes that their example will inspire other member countries to adopt forward-looking, model-based frameworks for monetary policy and align their operational frameworks accordingly.

BUILDING MONETARY POLICY INSTRUMENTS AND FINANCIAL MARKET INFRASTRUCTURE

As economies and financial markets have evolved, so has monetary policy implementation. Over the past decade, AFRITAC East has proactively supported central banks in the region to improve both the formulation and the operations of monetary policy. Support covers a broad range: monetary policy formulation and policy communication, liquidity forecasting and market operations, and payments and settlement systems; management of foreign exchange reserves, accounting and other central bank governance issues, and more recently, forecasting and policy analysis systems.

With AFRITAC East's assistance, Malawi, Rwanda, and Uganda have already transitioned to interest rate-based policy (inflation-targeting lite), which is more forward-looking. Kenya's monetary policy framework has evolved from monetary aggregate targeting to a forward-looking price-based approach. Tanzania has made vast progress in transitioning to an inflation-targeting monetary policy framework, and Ethiopia has drawn up a plan to modernize its monetary policy. In support of these efforts, the center has also advised members on liquidity forecasting and management, which will enable central banks to align the policy rate with short-term market interest rates (Kenya, Malawi, Rwanda, Tanzania, Uganda). Progress has also been made in foreign exchange operations and management (Eritrea, Ethiopia, Malawi, Rwanda, and Tanzania), and the development and operation of lender-of-last-resort programs (Rwanda, Tanzania, and Uganda). Furthermore, the center has supported the establishment of repurchase agreement markets both in Kenya, Malawi, Rwanda, Tanzania, and Uganda and at the regional level, as part of the foundation for a sound financial market that helps transmit monetary policy effectively. The center also assisted in developing domestic securities markets, working with Ethiopia, Kenya, and Tanzania on bond-pricing techniques, yield-curve analysis and management, domestic debt management practices, and issuance of government securities.

AFRITAC East continues to help countries address remaining challenges such as deviations between policy and actual market rates and lack of a clear operating target for monetary policy, which sometime occurs because money markets are not liquid. Issues such as these impede the effectiveness of interest rate-based policy.

The center also assists countries to operate smooth payment, clearing, and settlement systems, which are central for financial and economic stability and development. Its work has focused on helping member countries improve compliance with international standards. A dedicated expert in this topic has been on staff since February 2016. The center has also organized regional workshops to improve understanding of core concepts of the CPSS-IOSCO Principles for Financial Market Infrastructures and to foster peer learning.

BOX 4. HIGHLIGHTS OF RECENT PAYMENT SYSTEM AND INFRASTRUCTURE CAPACITY-BUILDING EFFORTS

Eritrea: AFRITAC East re-engaged with Eritrea for the first time in a decade and identified practical steps to enhance the safety and efficiency of the payments system in the short term.

Ethiopia: Ethiopia reorganized and committed more resources to the oversight function, after the center's training initiated the assessment of the real-time gross settlement (RTGS) system against international standards and finalized National Payments System (NPS) regulations.

Kenya: The central bank has improved its management of operational risk, and now has a business continuity plan to ensure the timely recovery of any disrupted financial market infrastructure (FMI) operations. It has now begun a full assessment of the RTGS system against the standards.

Malawi: The central bank's oversight capacity was strengthened with training on assessing FMI and modernizing oversight. The center facilitated a comprehensive review of the oversight policy framework (OPF).

Rwanda: An enhanced OPF document was drafted to better reflect the central bank's policy related to new technological developments in the payments sphere.

Tanzania: The Bank of Tanzania has adopted the risk-based approach promulgated in its OPF document, which it revised with the center's support. Staff were trained on the use of monitoring tools and application of a risk-based approach to oversight of both FMIs and electronic retail payments. The Bank of Tanzania has since aligned its oversight procedures with the OPF and the new NPS legal and regulatory framework. It has also begun to assess the RTGS system against the PFMI.

Uganda: The Bank of Uganda has made significant headway in enhancing the legal framework for payments. The Check Truncation law now enables safe and efficient operation of the new check-imaging infrastructure, and NPS regulations have been drafted. Supported by the center, the Bank of Uganda also strengthened its management and has completed an assessment of the RTGS system against the international standards, the first among the center's members.

ENHANCING FINANCIAL SECTOR STABILITY

AFRITAC East's work on financial sector regulation and supervision has centered on promoting the financial stability of member countries through sound micro- and macroprudential regulations and supervision. The key priorities have been to promote risk-based supervision and compliance with Basel core and International Financial Reporting Standards, consolidated supervision, and macroprudential supervision. Given the speed of developments in technology, supervision of fintech and managing cybersecurity capacity have become a significant growth area. The center continuously fine tunes its support as further needs emerge.

International Standards and Financial Sector Reforms

The central banks of the center's member countries are applying risk-based supervision (RBS) and moving to an appropriate country-specific Basel II/III framework for banks. Similarly, insurance regulators in the region are applying RBS to insurers and adopting the Simplified Solvency II approach to insurance supervision. Capital market regulators are upgrading capital and liquidity standards and applying RBS to securities firms.

With the support of the center's advisors, Malawi has fully implemented Basel II and is working on the Basel III reform agenda. In Ethiopia, Tanzania, and Uganda, Basel II/III capital standards have been prepared for Pillar I credit, market, and operational risks; Pillar II supervisory review; and Pillar III market discipline. Several countries have also drafted stress-testing guidelines and prudential return forms for supervised entities that are consistent with Basel II/III. Kenya, Rwanda, Uganda, and Tanzania have worked with the center to reinforce the Pillar II Internal Capital Adequacy Assessment Process treatment of supervisory review.

Six countries (Ethiopia, Kenya, Malawi, Rwanda, Tanzania, Uganda) have strengthened insurance supervision by adopting the Simplified Solvency II approach. They are currently working on directives on Pillar I risk-based capital computation for insurance, credit, market, and operational risks and on Pillar II Own Risk and Solvency Assessment and the supervisory review process, including stress testing.

TRANSITION TO RISK-BASED SUPERVISION

AFRITAC East has supported member countries as they move from compliance-based to risk-based supervision (RBS). RBS gives priority to supervised entities where higher inherent risk or a less effective risk management system has been identified in a supervised entity. This has enabled countries to (1) ensure more efficient use of resources in bank supervision; (2) improve financial stability by early detection of, and effective and timely responses to, insurance sector vulnerabilities; and (3) put in place procedures for supervising market intermediaries and collective investment operators that address the main risks in the securities sector.

By 2012, supervisory authorities had already reported several benefits accruing from RBS. For example, the authorities have a better appreciation of the relative importance of various risks faced by banks and were able to allocate more supervisory resources where inherent risks were deemed to be higher. RBS also enhances the stability of the financial market and heightens public confidence in the financial sector. Several countries indicated that the migration to RBS had also forced banks to reinforce their own risk management strategies, supervisory planning, and practices.

Use of a preliminary risk assessment has helped make on-site examinations more focused and has reduced the time they take. A higher level of understanding of the differences in inherent risk and the quality of risk management has led some supervisory authorities to establish on-site examination cycles that allow them to allocate their resources to institutions more effectively.

A principal challenge encountered by supervisory authorities has been maintaining the integrity of RBS tools by ensuring that they contain relevant, good-quality, up-to-date information—a continuing reminder of the importance of comprehensive and robust documentation.

THE GREENING OF THE FINANCIAL SYSTEM

Greening the financial system is necessary to meet the large investments needed to mitigate the impact of climate change and reach net-zero emissions and other climate-related and environmental goals. In coordination with IMF HQ, AFRITAC East is working with member countries to identify climate-related systemic risk from the higher incidence of natural disasters; sudden changes in the energy mix that can impact the economy; a sudden repricing of carbon-intensive assets; rising insurance liabilities and premiums and less insurance available; physical and transition risks; and the high negative impact of an abrupt shock.

Financial sector policy and regulations could be adapted to help direct financial flows toward climate action. One such example is green-weighting factors. Related financial instruments including green bonds and insurance-linked securities for financing natural disaster risk.

BOX 5. COLLABORATIVE CAPACITY-BUILDING TO SUPPORT FINANCIAL STABILITY

AFRITAC East regularly organizes regional workshops on a wide range of financial sector topics. These workshops allow participants to share country experiences and connect with peers from other countries. Recently, in exploring the opportunities made possible by virtual conference technologies, it has cooperated with AFRITAC's South and West and African Training Institute to widen the perspectives and experiences shared. Besides cooperation within the IMF, the center also works with other partners, e.g., the Toronto Centre on insurance regulation and supervision, the Alliance for Financial Inclusion on mobile money, and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI). This cooperative approach allows partners to leverage each other's expertise, identify the best resource persons, widen the participation to other interested countries (e.g., MEFMI has a wider membership than the center), which makes it possible to provide the best training experience for the participants.

AFRITAC East also contributes to the initiatives of the authorities, including EAC's training program, the Bank of Tanzania Training Institute, and the Kenya School of Monetary Studies.

BOX 6. CENTRAL BANK OF KENYA ENGAGEMENT WITH AFRITAC EAST OVER THE LAST TWO DECADES

Over the years, the IMF AFRITAC East has supported the Central Bank of Kenya (CBK) to build capacity in banking and payment systems, bank supervision, monetary policy, and financial markets. The support primarily took the form of training and technical assistance (TA).

In the area of banking and payment services, AFRITAC East has helped to build capacity in risk management, anti-money laundering, and the adoption and application of Principles of Financial Market Infrastructures (PFMIs). The capacity-building programs have enhanced the knowledge and skills of the CBK staff and enabled the CBK to adopt modern risk-based regulatory approaches to the dynamic digital financial services space. Additionally, AFRITAC East has provided TA in the review of regulatory and oversight policies and tools, with a view to benchmarking them to best practice. These services have enabled the CBK to update its regulatory and oversight tools, including the oversight policy framework, on-site inspection manuals, and off-site surveillance returns for payment service providers.

In the area of bank supervision, AFRITAC East has offered TA services and capacity-building events, resulting in the following achievement, that are aligned to the CBK's strategic focus:

- Development and adoption of a risk-based supervisory (RBS) approach: CBK adopted the RBS approach in 2004 recognizing the limitations inherent in the traditional approach, which prescribed a common supervisory approach to all institutions no matter the differences in business activities and risk appetites. CBK, through TA to AFRITAC East in August 2005, developed and issued risk management guidelines to assist institutions in formulating and implementing their internal risk management policies and procedures to develop better risk identification, measurement, monitoring, and reporting.
- Entrenching the Internal Capital Adequacy Assessment Process (ICAAP): The regulatory capital framework increasingly emphasizes risk management wherein a bank's management bears responsibility for ensuring that the bank has adequate capital to support its various risks. Banks are required to employ suitable procedures and systems to ensure adequate capital. These procedures are referred to collectively as ICAAP. ICAAP is the formal process through which a bank identifies, measures, aggregates, and monitors material risk, to ultimately build a risk profile that forms the basis for allocating capital.

To align with this framework, AFRITAC East TA to CBK produced a Guidance Note (GN) on ICAAP, which was issued to commercial banks and mortgage finance companies in 2016. The GN aimed at assisting the commercial banks to implement their ICAAP in accordance with the requirements of Clause 4.4 of the CBK Prudential Guideline on Capital Adequacy (CBK/PG/03).

In addition, AFRITAC East assisted CBK in reviewing the initial ICAAP bank submissions in 2017 to inculcate BSD supervisors' review of ICAAP documents.

- Integration of Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity (CAMEL) and risk-based frameworks: CBK staff received training to integrate these into the Supervisory Review and Evaluation Process.
- Cross-border banking supervision: With the increasing number of Kenyan banks establishing cross-border operations, AFRITAC East assisted CBK in adopting consolidated supervision of all Kenyan banks with cross-border operations. Through TA from AFRITAC East, CBK issued a Prudential Guideline on Consolidated Supervision (CBK/PG/19), which took effect January 1, 2013, to provide guidance in reporting requirements for institutions within banking groups. The prudential

guideline outlines the prudential requirements for capital adequacy, liquidity, single-borrower limits, and restrictions on facilities to insiders on both a consolidated and a solo basis.

Through this TA, CBK developed inspection procedures on consolidated supervision to assist the supervisors during the examination of a financial institution on a consolidated basis.

- Establishment of Supervisory Colleges: In 2012, AFRITAC East assisted CBK in developing a framework for establishing supervisory colleges for institutions with significant cross-border operations. The inaugural Supervisory College meeting was convened in October 2012. Supervisory colleges have been established for all Kenyan banks with significant cross-border operations. Host Country Assessments: CBK, as the home regulator for banks with cross-border operations, is responsible for ascertaining the effectiveness of the regulatory and supervisory frameworks for the host supervisors for the countries in which the banks establish a presence. To effectively and consistently assess the quality of the regulatory and supervisory frameworks of host supervisors, CBK, with the assistance of AFRITAC East, developed a structured approach to assess the quality of host country supervision in November 2014. The framework was developed as part of the implementation of CBK's Risk-Based Supervision Framework on Consolidated Supervision. Assessment of the quality of host country supervision is required by the Basel Core Principle 12 on consolidated supervision.

Host country assessment involves evaluating the effectiveness of the regulatory regimes of jurisdictions hosting cross-border operations of Kenyan banks as well as developing procedures for undertaking such evaluation.

- Implementation of International Financial Reporting Standard (IFRS) 9 by banks: AFRITAC East assisted CBK in building staff capacity for assessing the banks' quality of IFRS 9 implementation. IFRS 9 on Financial Instruments introduced an expected credit loss model to replace the incurred credit loss model.

AFRITAC East played a key role in assisting CBK in developing a GN on implementation of IFRS 9, which was issued to commercial banks, mortgage finance companies, and microfinance banks in 2018. IFRS 9 introduces a new method of determining provisions for expected losses on loans extended by lending institutions and computation of regulatory capital.

AFRITAC East has also played a critical role in building capacity in financial markets development, which includes monetary policy implementation, understanding and improving the link between monetary policy and fiscal policy, and repo market development. AFRITAC East has also scheduled, in the next two months, several TA missions/workshops in global custodial relationships, monetary policy operations, operational risk, and collateral management.

In the area of monetary policy formulation, and in the CBK's transition to a more forward-looking, price-based monetary policy framework, support by AFRITAC East has included trainings and TA services on the forecasting and policy analysis system.

Central Bank of Kenya
March 14, 2022

Timely and Reliable Macroeconomic Statistics

LOUIS MARC DUCHARME
Director
IMF Statistics Department

"Over the last 20 years, AFRITAC East member countries have made remarkable progress in strengthening capacity to produce government finance statistics, national accounts, and price statistics. Moreover, thanks to its strong partnership with the East African Community (EAC) Secretariat, most of the other EAC member states have also improved the timeliness, frequency, and coverage of government finance statistics and are close to meeting the fiscal convergence criteria set for the EAC monetary union. AFRITAC East–congratulations on the milestones achieved over the last 20 years! Keep writing new success stories!"

High-quality, comparable, and timely data are a prerequisite for formulating appropriate and prudent macroeconomic and structural policies, monitoring their implementation, identifying any economic risks, and creating the necessary conditions for strong and equitable growth. In addition to working with member countries to increase the quality, range, timeliness, and relevance of the macroeconomic statistics disseminated, the center has assisted in the harmonization of macroeconomic statistics among members of the EAC.

HARMONIZATION OF FISCAL DATA IN THE EAC

HON. PETER MATHUKI
Secretary General
EAC

"EAC Partner States are steadfast in producing consolidated GFS at the general government level in line with the GFSM 2014, as a result of well-coordinated two-year capacity-development support by AFRITAC East."

ALBERT MUSISI
Commissioner
Macroeconomic Policy Department,
Uganda's Ministry of Finance,
Planning and Economic Development

"Of particular importance are reliable and timely statistics that are internationally comparable and can be used for surveillance, compliance, and enforcement to ensure that EAC Partner States attain and maintain the prerequisites for a successful monetary union."

AFRITAC East and IMF HQ have been closely collaborating with the EAC's work to harmonize fiscal statistics—a key priority for the EAC since the Protocol for the establishment of East African Monetary Union was signed in 2013. The harmonized GFS data sets will form the basis for monitoring each Partner State's readiness for monetary

FIGURE 4. AFRITAC EAST AND HQ SUPPORT FOR EAC ACHIEVEMENTS

NOV **2013**	The East African Community (EAC) Partner States signed a protocol to establish a monetary union by 2024. At the time no EAC country was producing timely government financial statistics (GFS) according to IMF e-GDDS criteria. GFS tend to cover just budgetary central government (BCG); public sector debt statistics are published only sporadically.
APR **2017**	There was major progress in harmonizing GFS data sets when Ethiopia, Kenya, Malawi, Rwanda, Tanzania, and Uganda began to compile annual BCG data complying with GFSM 2014 methodology. The EAC Secretariat drafted initial EAC GFS guidelines for use by Parter States, which comprised initially of four chapters.
MAY **2020**	Data harmonization again moved forward as Rwanda fully migrated their fiscal presentation to be consistent with GFSM 2014 standards. Uganda also completed this exercise soon afterward.
SEPT **2021**	Harmonization of data in the region improved yet again as Kenya and Uganda began to compile quarterly BCG GFS; Rwanda now compiles quarterly general government (GG) data, excluding annual public corporation data (not consolidated) and GG statistics (excluding social security funds). Some Partner States have gone further in reporting GG statistics. For example, Rwanda and Uganda have for the first time published annual data on public corporation.

union, and for the effective application of fiscal and monetary policies once the union is established. Specific supports include the following:

- Definition of the convergence criteria.
- Assisting the EAC Secretariat in drafting GFS guidelines (currently comprising of 11 chapters), which as of December 2021 are aligned with the current Government Finance Statistics Manual (*GFSM 2014*) but have also been customized to the regional context.
- Strengthening the capacity of GFS staff to compile and disseminate GFS data sets, including identifying source data and drafting data improvement plans in EAC Partner States.
- Broadening the coverage of GFS (both for sectoral and instrument coverage). This includes building the capability of the authorities to produce public sector debt statistics for various sectors of government, ranging, e.g., from budgetary central government to general government and the wider public sector.
- Partnership with other international financial institutions (e.g., AfDB) to develop a common reporting framework to facilitate the uploading of GFS data that the AfDB could use, widening the use of the new data sets produced by EAC members.

IMPROVED GDP STATISTICS IN EASTERN AFRICA

Initially, there were significant staff capacity and other resource constraints as well as limited sources of data for the compilation of real sector statistics. However, there was also significant scope to improve the statistical techniques used to compile annual national accounts and to develop quarterly estimates.

Beginning in FY 2010, AFRITAC East members set out to improve their source data and techniques and rebase[1] their GDP estimates. They began by identifying gaps and quality weaknesses in the source data, ensuring that benchmark surveys and other source data for the

[1] Changing a reference/base year for calculating constant price estimates.

supply and use tables[2] (SUTs) were of good quality, and building capacity to implement the more complex aspects of the 1993 System of National Accounts and the changes in methodology covered by the 2008 System of National Accounts. To support these efforts, the center reviewed and improved the SUTs, which ensure that when economic flows of domestic production, expenditures, imports, and exports are put together at a detailed commodity level, they are consistent and can be reconciled. This guarantees that good-quality benchmark estimates are available for the GDP rebasing exercise. In more recent years, members—such as Kenya, Tanzania, Rwanda, and Uganda—have used SUTs to benchmark their GDP estimates.

The center also supported the rebasing of GDP estimates. Rebased estimates for Ethiopia, Kenya, Malawi, Rwanda, Tanzania (Zanzibar and Mainland), and Uganda were published between 2014 and 2021. These led to relatively large upward revisions of GDP, mainly due to improved source data and compilation techniques, as well as the long interval from the previous rebasing.

The experiences suggested that the base year should be changed at least every five years. In addition, administrative data are a key data source and have been used in Kenya, Rwanda, and Uganda to improve greatly the quality and timelines of national accounts statistics. In particular, the use of value-added tax data has improved the timeliness of quarterly GDP estimates. It is also important that resources for the national accounts units, including staff, are adequately provided.

The improved national accounts statistics available in member countries will contribute to improved economic analysis and policy development by country authorities as well as helping the IMF improve its analysis and advice to the authorities. The detailed SUTs estimates are also being used to assess and inform fiscal revenue policies and in forecasting and policy analysis systems that support monetary policy decision-making.

[2] SUTs are useful tools for compiling and reconciling GDP but also help in identifying data quality issues present in the source data. They are presented in the form of matrices that record how the supply of goods and services are used in the economy.

BOX 7. COLLABORATION WITH REGIONAL ORGANIZATIONS TO BUILD CAPACITY ON ECONOMIC AND FINANCIAL STATISTICS CAPACITY

AFRITAC East and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa have been collaborating in providing training to member countries of both organizations. The jointly organized regional training workshops on national accounts and prices statistics allow participants to share country experiences and connect with peers from other countries.

The center also collaborates with the EAC to support regional integration, including assisting member countries to rebase to a common base year for both national accounts and prices as recommended by the EAC Secretariat.

BOX 8. MASHAVU KHAMIS OMAR, ACTING CHIEF GOVERNMENT STATISTICIAN, OCGS–ZANZIBAR

The IMF AFRITAC East has for several years collaborated with Office of the Chief Government Statistician (OCGS), primarily in the area of economic statistics. Other areas of support include national accounts, consumer price index and government financial statistics.

System of National Accounts (SNA)

(1) Reshaped National Accounts systems

- Data sources and methods of GDP compilation were reviewed and updated, including incorporating new indicators to represent the output of an activity; adopting some techniques of SNA 2008; and reducing the use of fixed ratios, especially in estimating cost of production.

(2) Compiled of quarterly GDP, previously OCGS compiled biannual GDP data

(3) Rebased GDP

- Set new base year prices of 2007 from 2001 and 2015 from 2007, used until the present

(4) Developed first-ever supply and use tables for Zanzibar with 2015 base prices

(5) Developed statistical capacity building

- Regional training, with an emphasis on the national accounts' perspective
- In-house missions and workshops

Consumer Price Index (CPI)

(1) Set new basket base weights and price by using HBS 2009/10

(2) Provide TA on CPI data through in-house trainings on CPI compilation

(3) Build statistical capacity—regional trainings on CPI perspective

(4) Provide online training through Zoom on how to construct new weights and weights adjustment.

(5) Develop training to transfer from 10 divisions of Classification of Individual Consumption According to Purpose (COICOP) groups to 12 divisions of COICOP groups.

Government Finance Statistics

(1) Compile information for the Annual GFS for Budgetary Central Government (BCG) that is aligned with the GFSM 2014 from 2016/17 to 2019/20

(2) Provide TA and enhance skills for compilers in production of GFS annual report for BCG

(3) Provide basic training on compilation of Annual GFS for BCG and Extra Budgetary Units

(4) Promote experience sharing through the facilitation of several regional workshops

Tourism, Agriculture, Manufacturing, and Trade

Compilation of Producer Price Indexes for Tourism Statistics, Agriculture Statistics, Manufacturing Statistics, and Trade Statistics.

The Greatest Value that the AFRITAC East Brings to the Regions

The greatest value lies in producing local experts in the region through capacity building, which is being achieved both through trainings and hands-on activities. Currently, staff can do most of the work, with a focus on rebasing the GDP with minimal supervision from the IMF AFRITAC East experts.

We appreciate the efforts of the institution to enhance the capacity of the local staff.

ANNEXES

Annexes

AFRITAC EAST CENTER COORDINATORS, RESIDENT ADVISORS AND LOCAL STAFF

2020–CURRENT

Xiangming Li

2016–2020

Hervé Joly

2013–2016

Sukhwinder Singh

2010–2013

Xievier Maret

2007–2010

Mario de Zamaroczy

2004–2007

Bassirou Sarr

2002–2004

John Crotty

PUBLIC FINANCIAL MANAGEMENT

Duncan Last, 2002–2006
Vijay Ramachandran, 2006–2007
Florence Kuteesa, 2006–2009
Mohan Joseph, 2008–2010
Stephen Mayes, 2008–2010
Michael Schaeffer, 2009–2012
Guy Anderson, 2010–2015
Onesmus Ayaya, 2011–2014
Tawfik Ramtoolah, 2012–2015
Amitabh Tripath, 2015–2019
Kubai Khasiani, 2015–2019
Paul Seeds, 2015–2020
Amra Srdanovic, 2019–Current
Imran Aziz, 2019–Current

REVENUE POLICY AND ADMINISTRATION

Pierre St. Laurent, 2002–2004
Justin Zake, 2004–2007
Andrew Okello, 2007–2010
Henry Gaperi, 2010–2013
Muyangwa Muyangwa, 2013–2016
Berlin Msiska, 2017–2021
Kenneth Ochola, 2020–Current
Rameck Masaire, 2022–Current
Dumisani Masilela, 2022–Current

MACRO FISCAL ANALYSIS

Martin Brownbridge, 2007–2008
Reza Kibria, 2009–2011
Mario Gutierrez, 2011–2012
Fazeer Sheik Rahim, 2013–2017
Bryn Battersby, 2017–2019
Matthew Quillinan, 2020–Current

FINANCIAL SECTOR REGULATION AND SUPERVISION

Robert Fish, 2003–2004
Carmencita Santos, 2004–2008
Ian Carrington, 2008–2012
Dirk Jan Grolleman, 2012–2016
Courtney Christie- Veitch, 2016–2021
Georgios Genimakis, 2021–Current

MONETARY POLICY AND OPERATIONS AND FINANCIAL MARKET INFRASTRUCTURE AND PAYMENT SYSTEM

Darryl King, 2002–2005
Wilson Varghese, 2007–2011
Elias Kasozi, 2011–2014
Alain Vandepeute, 2014–2016
Marin Molosag, 2016–2019
Faith Stewart, 2016–2020
Callie Hugo, 2020–Current
Carina Selander, 2020–Current

REAL SECTOR STATISTICS

Devi Manraj, 2002–2007
Shelley Winston, 2008–2010
Zia Abbasi, 2011–2015
Pamela Audi, 2015–2020
Jarko Pasanen, 2020–2020
Anthony Silungwe, 2020–2021
Timmi Role Graversen, 2021–Current

GOVERNMENT FINANCIAL STATISTICS

Johan Mathisen, 2014–2016
Brooks Robinson, 2016–2017
Robert Maate, 2017–2021
Roderick O'Mahony, 2022–Current

OFFICE MANAGER

Alice Masimba, 2002–2008
Bhavika Jani, 2008–2010
Edina Moshi, 2002–Current

LOCAL ECONOMIST

Angela Abayo, 2013–2015
Rose Chilton, 2014–2015
Eric Lautier, 2014–2018
William Wakuganda, 2017–Current

IT OFFICER

Evonne Massawe, 2008–Current

ADMINISTRATIVE ASSISTANTS

Blassia Mkapa, 2002–2008
Sabah Abdulrahman, 2007–2019
Diana Makiko, 2008–2017
Amina Karuma, 2014–Current
Warda Kassim, 2017–Current
Neema Kaduma, 2018–Current
Emmy Shayo, 2022–Current
Sylvanus Kashinje, 2022–Current

DRIVERS

Yusuph Pindi, 2002–2003
Edson Mdakilwa, 2003–2011
Blassius Lemijius, 2011–2012
Wilhelm Kinabo, 2012–Current

OFFICE ATTENDANTS

Stamili Togwa, 2007–Current

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