

MID YEAR REPORT FY 2016

EAST AFRICA REGIONAL TECHNICAL ASSISTANCE CENTER (EAST AFRITAC)





East AFRITAC
INTERNATIONAL MONETARY FUND
REGIONAL TECHNICAL
ASSISTANCE CENTER

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East AFRITAC
INTERNATIONAL MONETARY FUND
REGIONAL TECHNICAL
ASSISTANCE CENTER



AFRICA REGIONAL TECHNICAL ASSISTANCE CENTER EAST

(EAST AFRITAC)

IMF EAST AFRITAC'S MID YEAR REPORT FY 2016

November 2015

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List of Abbreviations

AFE	IMF East AFRITAC
AFRITAC	Africa Regional Technical Assistance Centers
BOT	Bank of Tanzania
CABRI	Collaborative African Budget Reform Initiative
CBK	Central Bank of Kenya
CD	Capacity Development
CPI	Consumer Price Index
DfID	Department for International Development (United Kingdom)
EAC	East African Community
EAMU	East African Monetary Union
EU	European Union
FAD	Fiscal Affairs Department (IMF)
FPAS	Forecasting and Policy Analysis System
FPW	Field Person Weeks
GDP	Gross Domestic Product
GFS	Government Finance Statistics
ICD	Institute for Capacity Development (IMF)
IMF	International Monetary Fund
LEG	Legal Department (IMF)
LoU	Letter of Understanding
MAC	Monetary Affairs Committee (EAC)
MCM	Monetary and Capital Markets Department (IMF)
MEFMI	Macroeconomic and Financial Management Institute for Eastern and Southern Africa
NAS	National Account Statistics
PBB	Program-Based Budgeting
PPI	Producer Price Index
QGDPE	Quarterly National Accounts by Expenditure
RA	Resident Advisor
RBM	Reserve Bank of Malawi/ Results Based Management
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
TPA –TTF	Tax Policy and Administration Topical Trust Fund
TSA	Treasury Single Account
VAT	Value Added Tax

I. EXECUTIVE SUMMARY

This report covers the start of Phase IV of IMF East AFRITAC's operations – the first half of FY 2016 to be precise (May-October, 2015). While a sustained level of technical assistance and training services has continued to be delivered, activity has been moderated by uncertainty over financing as well as changes in demand from TA recipients. In particular, a prudent approach has been taken by delaying the initiation of some of the new areas of work planned in Phase IV, such as those on natural resources management, fiscal law and payments systems.

Despite these funding uncertainties, around 85-90 percent of the planned level of H1 activity or resources was delivered, with virtually all targeted results milestones being completed or in progress. Some notable achievements over recent months include the completion of tax administration diagnostics in Malawi, Rwanda and Uganda; a Fiscal Transparency Evaluation in Tanzania in collaboration with FAD; substantial progress in compiling new broader fiscal datasets and developing EAC GFS/public sector debt statistics guidelines to help improve fiscal analysis; and, a range of work on regional integration with the EAC, including with MCM on the architecture for financial system oversight under monetary union, on harmonized standing facilities, and on the Single Customs Territory.

Progress continues in implementing the recommendations from the mid-term evaluation of Phase III. In particular, the Fund has advanced in adopting a results based management (RBM) system for all IMF capacity development and on harmonizing operating procedures. On the former, a new RBM system is ready for operational use and all new TA projects are expected to use it over the coming months. On improving efficiency across the RTACs, a new RTAC handbook has been published which standardizes operating guidelines for RTACs.

The Center continues to work closely with donor partners. In some areas, such as tax administration, this has developed further with joint diagnostic missions undertaken. Emphasis continues to be placed on donor partner visibility as well as outreach. An innovation has been the Center's new Facebook page which is allowing IMF East AFRITAC's work to reach new audiences.

Securing financing for Phase IV remains a major challenge. Important progress was made over recent months with disbursements from the EU, UK, and Switzerland and a pledge from the Netherlands. Nevertheless, funding for around one half of the Phase IV budget remains to be secured. An important element of this is follow through on member countries' commitment to double their contributions as a share of Phase IV financing.

II. STRATEGIC ISSUES

A. Context for East AFRITAC Technical Assistance

1. **Sub-Saharan Africa is facing a weakening of growth driven by falling commodity prices and a tightening of the accommodative global financial conditions that had facilitated capital flows to the region over recent years.**¹

The external environment has also been weaker with slower growth than the past in emerging markets, most notably in China. Despite this, in most of East Africa growth is holding up, driven by ongoing public infrastructure investment and private consumption growth, and inflation remains contained. Nevertheless, some economies in the region exhibit significant macroeconomic imbalances, while it is of concern that most are facing this shock with much lower macroeconomic buffers than at the onset of the global financial crisis. Several countries have also experienced considerable depreciation of their exchange rates and volatility in their money markets. The policy implications across the region include the need to preserve fiscal soundness, rebuild buffers over the medium term, and strengthen financial system soundness. This challenging environment reinforces the importance of capacity development, including IMF East AFRITAC's assistance in areas such as improving domestic revenue mobilization, improving the efficiency of public spending, and developing more forward looking monetary policy frameworks. The shock also points to careful assessment of financial stability implications, and here again the Center's work on strengthening financial sector regulation and supervision is critical in preserving macroeconomic stability.

2. **Over recent months, the international development agenda has been given fresh impetus by UN conferences on the Sustainable Development Goals (SDGs) and their financing, with important implications for the IMF's capacity development work.** The international conference on Financing for Development in Addis Ababa resulted in a consensus on a broad range of commitments to promote financing for development. These included a particular focus on domestic revenue mobilization, infrastructure investment, equity and financial inclusion, as well emphasis on assisting fragile and conflict-affected states. The New York conference on the SDGs adopted the 2030 Agenda for Sustainable Development, including the SDGs that will guide the development community for the next 15 years. The ambitious agenda integrates the three dimensions of sustainable development: the economic, social, and environmental spheres. The IMF has a deep commitment to support these efforts, including through its capacity development work. These conferences validate and inform IMF East AFRITAC's work, including its assistance on tax administration, strengthening public financial management, developing financial systems and monetary operations,

¹ See IMF Regional Economic Outlook for Sub-Saharan Africa, Dealing with the Gathering Clouds, October 2015.

promoting regional integration and improving the statistical foundations for effective economic policy making.

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

3. IMF East AFRITAC reports bi-annually on progress with implementing its action plan responding to the November 2013 mid-term external evaluation. Table 1 summarizes actions taken since the 17th Steering Committee meeting in Kampala (March 30-31, 2015).

Table 1: Status of Implementation of the Recommendations of the Mid-Term Evaluation

Country Strategies, Sustainability, Costing

- Improved Regional Strategy Notes/Resource Allocation Plan (RSN/RAP) process to capture all IMF TA to the East AFRITAC region. Better alignment with the Fund's strategic planning cycle. AFR commencing annual country consultations with TA departments and AFRITACs on TA and training priorities and challenges.
- Financial sustainability strategy for Phase IV: (i) establishing long-term strategic partnerships with key donor partners; (ii) diversification of the donor partner base; and (iii) a gradual increase in member country contributions. On the latter, general agreement to double contributions with exact burden sharing to be worked out.

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

- The RTAC Handbook, which addresses a number of issues from the mid-term evaluation on standard operating guidelines for RTACs, was published in summer 2015 (see AFE secured website). It was discussed at RTAC Center Coordinator and RTAC Office Manager Retreats in September 2015, which sought to strengthen and harmonize practices across RTACs and IMF HQ departments, foster collaboration and peer learning. The Handbook is currently being revised to reflect the retreats' discussions and suggestions. The overall objective of the Handbook is to strengthen the operational efficiency of RTACs. It includes a communications strategy/outreach plan for RTACs and enhancing donor partner visibility. The Handbook is a living document and will be regularly updated to reflect evolving practices.
- ICD continues to work on a capital project on a Capacity Development Information Management System, which aims to strengthen and standardize the processes related to the recording of financial information for donor partner-financed TA. The IMF will introduce real-time system tools to monitor and analyze the cash flows, budgets and expenditure related to donor partner-

financed activities. This will help to standardize and automate financial reporting to donor partners.

- Executive summaries of the evaluations of other RTACs will be circulated to SC members. Evaluations of PFTAC and AFRITAC South are attached (Annex VI).

Efficiency of East AFRITAC Operations

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

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

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

- The RBM system is ready for operational use. In the coming months all new TA projects are expected to use the new system and its accompanying catalog. Training of TA providers and project managers is ongoing. Change management initiatives are under way to ensure that those working on TA internalize a more results-oriented focus and are ready to use the new system.
- Donor partners will benefit from having discussions anchored in a clearer results framework based on international best practices and aligned with IMF priorities.
- The new RBM system will considerably improve the quality and availability of information for monitoring TA and training. The RBM framework will serve as a management tool that addresses the planning, monitoring and implementation of the entire CD project cycle. TA departments have developed a catalog of harmonized outcomes and associated indicators for each TA product line based on the knowledge of top experts. The RBM system will help to aggregate results across topics, regions, and TA delivery modes, which will considerably improve the consistency and comparability of results reporting both internally and to donor partners. The new software will facilitate tracking of project deliverables.
- Implementation of the new system has begun. The new system and catalog continue to be rigorously tested. The catalog of outcomes is likely to evolve over time, as improvements are made. The framework will be progressively extended to all IMF CD, including training. East AFRITAC's existing results framework will remain in place for now and will continue to be refined,

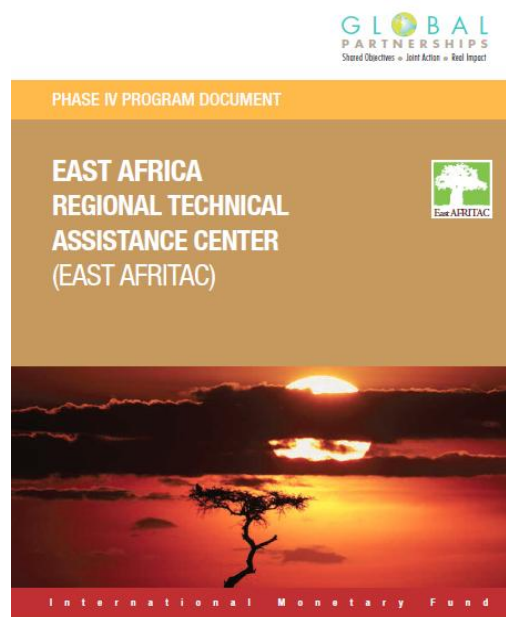
including by benefiting from developments at IMF HQ level (e.g. by drawing on the harmonized structure of outcomes and indicators in the catalog). Over time, the Center's existing strategic log frame will be phased out and will be fully integrated in the Fund-wide RBM framework.

Effectiveness of Workshops and Training

- Databases on training participants and evaluations have been constituted. Testing introduced in selective workshops.
- Work on post workshop tracking through participant and sponsor questionnaires underway, with a view to introducing some tracking in FY 2016.

C. Phase IV, Budget and Financing

4. **Phase IV activity has started cautiously given uncertainties over financing.** The Phase IV program document was finalized. Work over the first two months (May and June) was covered by the Phase III extension to end June. But uncertainty remained over the timing and scale of Phase IV financing following the pledging session held at the 17th Steering Committee. Operationally, the uncertainty led to a slower supply of services than desired including through a delay in training workshops and restraint in the launch of new activities e.g. in natural resources management, and in the recruitment of experts in new areas such as financial market infrastructure and fiscal law. Total spending over H1 (including the two month Phase III extension) was \$3.2 million, compared with a FY 16 budget of \$10.4 million.² While immediate needs through 2017 have been covered by the pledges and disbursements detailed below (see also Annex V), a significant funding gap remains for the whole phase budget (\$53.5 million) which has a bearing on the pace of delivery in the initial years.



² The \$10.4 million budget covers full FY 2016 (May 2015 – Apr 2016). Total spending over this period has been \$3.2 million, of which \$1.3 million has been charged to the Phase III extension (May and June 2015), and \$1.9 million to Phase IV. Some Phase III charges are still pending.

5. **Several donor partners have made important disbursements, but approximately one half of Phase IV financing remains to be secured.** The European Union (EU) provided EUR 6 million (US\$ 6.6 million) for East AFRITAC from its intra-African, Caribbean and Pacific (ACP) envelope for the RTACs, and has indicated that it will make a further contribution to Phase IV. In June 2015, the IMF signed a letter of understanding (LoU) with the United Kingdom for a contribution of GBP 4.5 million (US\$ 6.9 million). This contribution covers the first two years of Phase IV. An LoU has also been signed in July with Switzerland (US\$ 1 million) which covers the first two years of Phase IV, and Switzerland has indicated it may also make a further contribution to Phase IV. In November 2015, the IMF signed an LoU with the Netherlands for a contribution of EUR 7 million (US\$ 7.7 million) to all AFRITACs. The IMF will allocate the funding between the AFRITACs based on funding needs. The allocation for AFE Phase IV will be approximately EUR 3-4 million (US\$ 3.3 – 4.4 million). The IMF's own contribution will be approximately US\$ 3.7 million. The AFE member countries are expected to contribute 10 percent of the Phase IV program budget, US\$ 5.4 million, and discussions are ongoing to complete LoUs. As of November 2015, total firm commitments from donor partners and the IMF amount to US\$ 21.5 – 22.6 million, or less than one half of total phase financing. Taking into consideration expected member country contributions, the funding gap for Phase IV is approximately US\$ 25.5-26.6 million.

D. Development Partner Coordination and Outreach

6. **Development partner coordination, visibility and outreach have continued to be prioritized.** Monthly newsletters provide regular information on the Center's work, to supplement real ongoing collaboration taking place between advisors and donor partner colleagues. This has expanded to operational collaboration with donor partners in areas of common interest. Prominent examples are the tax administration diagnostic (TADAT) missions to Malawi, Rwanda and Uganda. Likewise the tripartite partnership with the AfDB and EAC on GFS and public sector debt statistics to monitor compliance with the EAMU protocol. Advisors have continued to provide mission debriefs and to work with donor partner groups, such as PFM advisors' participation in the annual joint mission to review PFM reform progress in Tanzania. The Center will also hold its customary mid-year debrief for the Steering Committee in late November. A total of 27 technical assistance reports have been disseminated over H1 on the secure extranet site available to Steering Committee members who have signed confidentiality agreements (see Annex IV for all reports produced over H1).

7. IMF East AFRITAC has developed a social media presence.

Supplementing its traditional outreach vehicles, the Center launched a Facebook page in June, serving as a pilot for the IMF's offices in sub-Saharan Africa (across and www.facebook.com/EastAFRITAC).

Initial experience has been positive with almost 1500 likes concentrated in countries across the region. Material has been shared both on the Center's activities as well as broader IMF work relevant to AFE members. The page is now prominent on Google searches

and it is hoped it will become an accessible source of information on the Center. Revamp of the new AFE website will also start within the next six months, as part of creating a standard environment for all AFRITAC websites.



Extract from the IMF East AFRITAC Facebook page

III. REPORT ON ACTIVITIES OVER THE FIRST HALF OF FY 2016

A. Overview

8. **Despite funding uncertainties weighing on activity, a high rate of support was delivered and some notable results achieved.** Phase III resources allowed activity to continue unaffected over the first two months. But financing uncertainties ahead of Phase IV led to some activities, training in particular, to be back loaded to H2. These supply factors combined with changes in demand, including recipient delays in confirming planned missions, resulted in the delivery of about 90 percent of the number of activities planned. However, composition deviated somewhat from plan (Table 2 and Figure 1). The Center delivered 85 percent (in field person weeks) of its original H1 work program (or about 40 percent of its annual program). Some notable achievements over recent months, as milestones towards longer term capacity building objectives, include:

- the completion of tax administration diagnostics in Malawi, Rwanda and Uganda which provide a clear understanding of the status of revenue administration assessed against international standards;
- completion of a Fiscal Transparency Evaluation in Tanzania in collaboration with FAD, which assesses the comprehensiveness, clarity, reliability, timeliness, and relevance of its reporting on public finances against the IMF's international standards;

- substantial progress in implementing national fiscal data development plans and developing EAC government finance/public sector debt statistics guidelines which provide a clearer picture of the fiscal position of general government, help improve fiscal analysis, and support monitoring of the macroeconomic convergence criteria for East African Monetary Union; and
- a range of work supporting regional integration in the EAC, including on the architecture for financial system oversight under monetary union, on harmonized standing facilities, and on the Single Customs Territory. Annex I presents a full list of all activities undertaken; Annex II presents the revised H2 work plan for FY 2016.

9. **The Center has responded flexibly to changes in demand.** Of the 105 technical assistance and training activities in the work plan for H1, 69 were completed, with the bulk of the remainder postponed to H2. A handful was cancelled after further discussions with the authorities.³ Overall activity remained robust as the Center responded flexibly to accommodate 13 new activities, notably demand from Tanzania. In addition, 10 activities were accelerated from H2 given recipient preferences. Five of the 20 planned regional workshops for the year were conducted (Annex III). Execution was generally high across all sectors, although back loaded in cases e.g. in monetary operations (Table 3). The exception was payment systems where recruitment of an advisor has been delayed to H2. In revenue administration, most activities were delivered despite the lower than planned resource usage. With compliance management work becoming concentrated in June, missions planned jointly with resident advisor and short term experts had to be separated. By country, uptake fell short in Rwanda as the authorities were re-assessing their needs in several sectors (Table 4). Activity in new TA areas was contained. For example, in natural resources management/fiscal law, support over H1 was restricted to one mission undertaken to Uganda to support the incorporation of extractive industries into the Income Tax and VAT Acts. Likewise, without a payments system expert, only one short term expert visit was fielded, again to Uganda on payments system oversight policy. In H1, EAC related statistics training was extended to officials from Burundi and, over H2, officials from South Sudan will attend some AFE courses.

³ Some cancellations resulted from the activities being handled by IMF topical trust funds or other AFRITACs (e.g. GFS work on Burundi transferred to AFRITAC Central). In cases, the authorities changed topics e.g. the shift to work on EAC Standing and Collateral Facilities.

Figure 1. IMF East AFRITAC, Summary Statistics of H1 FY 2016 Implementation

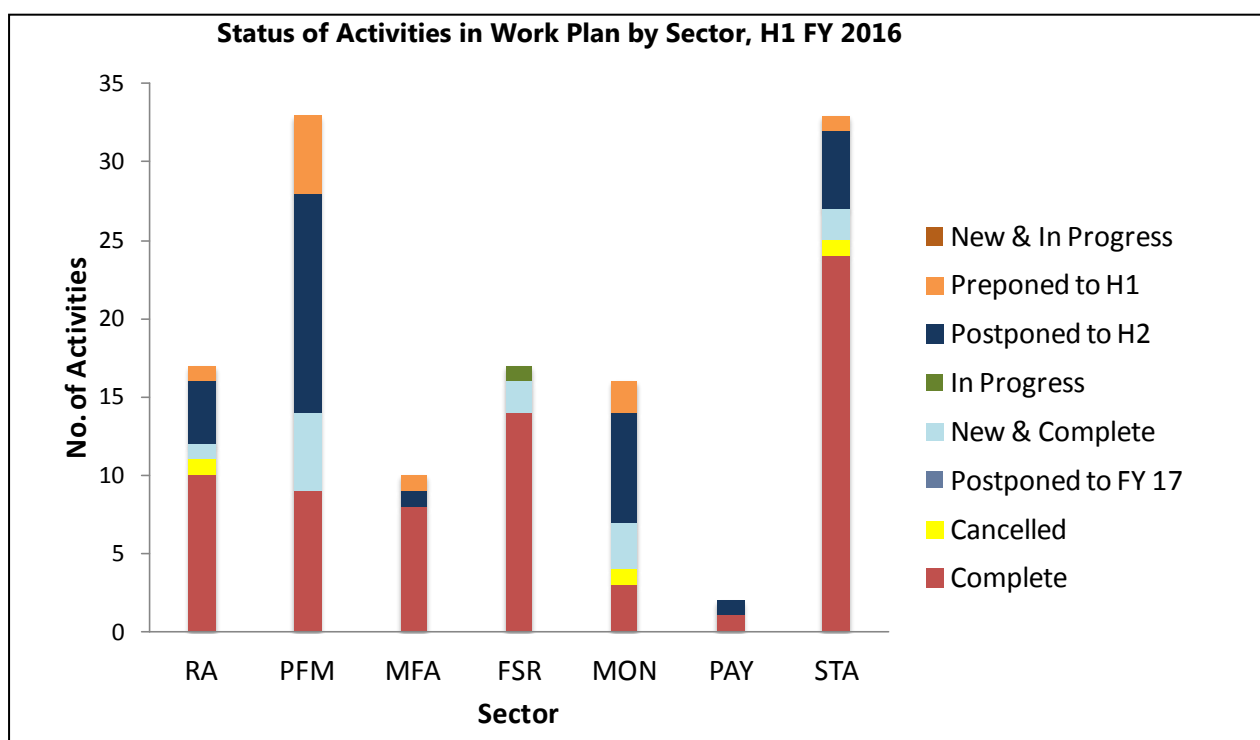
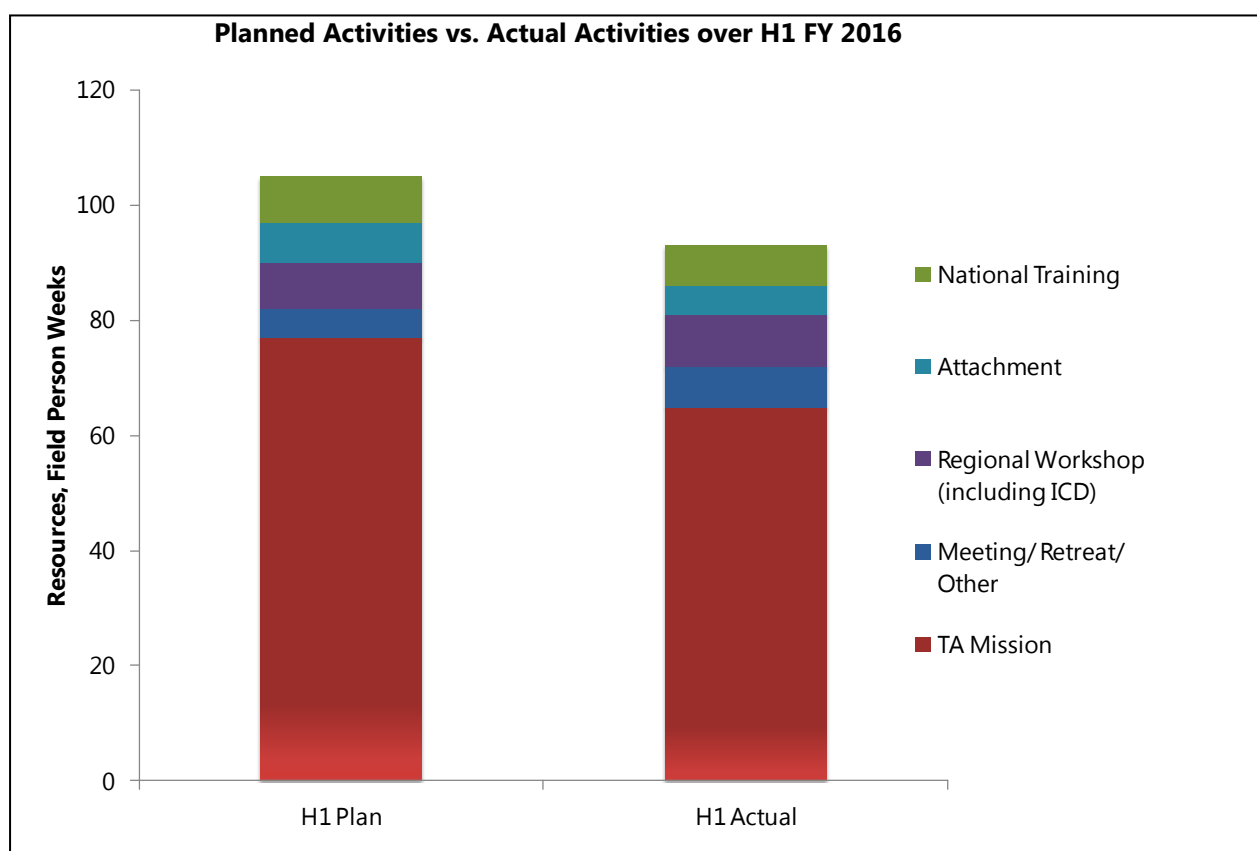


Table 2: IMF East AFRITAC, Activities and Resources over H1 FY 2016								
	FY 2015	FY 2016						
	Actual	Annual Plan	H1 Plan	H1 Actual	H1 Execution Rate (%)	H1 TA Share (%)	H2 Revised Plan	Annual Revised Plan
AFE Activities (number)								
TA Mission	134	136	77	65	84	70	77	142
Meeting/ Retreat/ Other	20	12	5	7	140	8	10	17
Regional Workshop (including ICD)	23	24	8	9	113	10	19	28
Attachment/ Mentoring	13	16	7	5	71	5	11	16
National Training	7	12	8	7	88	8	8	15
Total Number of Activities	197	200	105	93			125	218
Resources (Field Person Weeks)								
Resident Advisor	421	413	211	162	77	46	253	416
Short Term Expert	384	365	170	148	87	42	205	354
Attachments	33	48	24	20	84	6	25	45
IMF HQ Staff	83	55	16	22	140	6	31	54
Total Field Person Weeks	921	882	422	353	84		515	868

Table 3: IMF East AFRITAC, Allocation of Resources by TA Area, H1 FY 2016								
	FY 2015	FY 2016						
(In Field Person Weeks)		Annual Plan	H1 Plan	H1 Actual	H1 Execution Rate (%)	H1 TA Share (%)	H2 Revised Plan	Annual Revised Plan
Actual								
TA Area								
Revenue Administration	116	96	57	36	64	10	61	98
Public Financial Management	244	220	113	88	78	25	136	224
Macro-Fiscal Analysis	97	79	33	31	94	9	46	78
Financial Sector Regulation and Supervision	123	90	41	43	105	12	51	94
Monetary Policy and Operations	144	162	46	44	96	12	106	150
Payment Systems Modernization	15	35	7	3	46	1	26	29
Economic and Government Statistics	182	199	126	108	86	31	88	197
Total	921	882	422	353			515	868

TA Area	Planned	Completed*	In Progress	Cancelled	New & Complete	New & In Progress
Revenue Administration	15	10	5	1	1	0
Public Financial Management	23	6	22	0	5	0
Macro-Fiscal Analysis	9	6	3	0	0	0
Financial Sector Regulation and Supervision	15	7	8	0	2	2
Monetary Policy and Operations	11	5	7	1	2	2
Payment Systems Modernization	2	1	1	0	0	0
Economic and Government Statistics	30	17	13	1	2	2
Total	105	52	59	3	12	6

*Completed activities include activities brought forward from H2 which were completed in H1

11. **Deviation analysis shows how the executed work plan deviated from that circulated to the Steering Committee in May.** Results for H1 are reported in Table 6 (for the entire full year work plan, see Table 7 in Section IV). Deviations were calculated by assessing the share of original activities completed, and the proportion of new activities introduced to the work plan. Over H1, it confirms particularly high deviations in Monetary Policy and Operations and in Kenya, mostly due to changes in the authorities' preferences, including following change in management at key institutions.

Table 6. Deviation Analysis for H1 FY 2016 Work Program (percentage of original H1 planned activities completed in H1)								(new activities added in H1 as a percentage of original H1 workplan)						
TA Sector								TA Sector						
Member Country	RA	PFM	MFA	FSR	MON	PAY	STA	RA	PFM	MFA	FSR	MON	PAY	STA
Eritrea	100	100	100	100	N/A	N/A	N/A	0	0	0	0	N/A	N/A	N/A
Ethiopia	0	100	100	N/A	100	N/A	75	0	0	0	N/A	0	N/A	0
Kenya	50	25	N/A	100	50	N/A	100	0	25	N/A	0	50	N/A	0
Malawi	100	100	100	N/A	0	N/A	100	0	33	0	N/A	0	N/A	0
Rwanda	100	67	N/A	100	0	N/A	100	0	0	N/A	0	0	N/A	0
Tanzania	50	40	100	100	50	N/A	80	0	0	0	0	50	N/A	40
Uganda	100	100	50	100	100	50	100	33	50	0	0	0	0	0
AFE/Regional /Burundi	100	33	N/A	100	100	N/A	63	0	0	N/A	67	100	N/A	0

B. Revenue Administration

12. **East AFRITAC continued to support member countries improve the effectiveness and efficiency of tax and customs administration.** Particular emphasis was placed on carrying out diagnostic assessments – under the Tax Administration Diagnostic Assessment Tool - to evaluate the impact of previous and ongoing technical assistance, establish baselines and provide input into reform programs. Of 15 planned activities in H1, 10 were completed. On deviations, planned work in Ethiopia on taxpayer registration is



Workshop on Implementing the East African Community Single Customs Territory (SCT) Initiative in Kigali, Rwanda, (October 19-23)

delayed to December while the Ethiopian authorities prefer work on developing a compliance plan to be conducted under the TPA –TTF. Work in Kenya on developing compliance plans for FY2016/17 was delayed to allow the authorities to re prioritize their needs following findings of a FAD follow up mission. Tanzania postponed assistance on the VAT law because of other priorities. The Center funded a mission to Uganda to better accommodate the extractive industries in its VAT and Income Tax laws. The two missions planned for Eritrea in FY 2016 were interchanged to align with the availability of the short term expert. With 9 of the 15 milestones met, key achievements were the development of compliance plans for FY2016/17 in four member countries and carrying out diagnostic assessments of the tax administrations in three member countries: By strategic objective:

- **Revenue Diagnostics and Needs Assessments:** Malawi, Rwanda and Uganda received TADAT assessments, which assessed their tax administration practices against international good practice. They help clarify and identify country priorities for future technical assistance (including from AFE), establish baselines in core tax functions, and bring together donor partners providing assistance on revenue administration in the AFE member countries eg GIZ, DfID, Swedish Cooperation, Norwegian Tax Administration, US Treasury and USAID. Moreover, AFE's results based framework in Phase IV is anchored on TADAT indicators. AFE work is coordinated closely with the TADAT Secretariat at the IMF, with the Center's role being to participate in TADAT diagnostic missions, contribute to training in the TADAT methodology, and to follow up diagnostics with its TA/training program in key areas identified by the framework.
- **Improving Risk Assessment and Management Capacity:** Malawi, Rwanda, Tanzania and Uganda were assisted to develop structured compliance plans for the financial year 2016, with the latter three countries proceeding with their operationalization.
- **Improving Compliance Management in Tax and Customs:** Uganda was assisted with its analysis of poor data integrity and Eritrea on how to improve the effectiveness of core tax functions.
- **Supporting the EAC agenda:** Following the Center's work last fiscal year on the Single Customs Territory (SCT), a regional workshop in conjunction with EAC Secretariat sought to strengthen the implementation of the SCT directive and expose non-EAC AFE member countries to efficient SCT procedures that could assist their own trade facilitation.

C. Public Financial Management

13. East AFRITAC was active in all member countries in H1 and made tangible contributions towards strengthening PFM capacity and processes.

While about one half of the planned H1 activities were completed, there were deviations from plan as new activities were added and others accelerated from H2 to offset delays. In terms of the results, 11 milestones for the first half of the year have been met, 9 are in progress and 13 delayed to H2.



An AFE PFM Advisor Presenting to the House of Representatives in Zanzibar, May 2015

Overall, implementation was slower than planned due to delays in confirming the dates and scope of missions (Rwanda, Kenya and

Tanzania-Zanzibar) and the induction/settling-in period for one new PFM advisor who joined in July. Implementation is expected to accelerate in H2.

14. The activities in H1 covered the following strategic objectives:

- **Comprehensive, credible and policy based budget preparation:** Support was provided on the design of the program budgeting template (Uganda), improving the program design and structure (Malawi), the public investment management process (Rwanda), and the integration of multi-year planning and budgeting (Ethiopia). Advisors served as resource persons for in-country workshops (both AFE and country financed) in Kenya, Zanzibar, Uganda and Eritrea. These covered various aspects of the budget preparation process and improving the policy orientation of budgeting.
- **Improved budget execution and control:** FAD/AFE provided follow-on assistance to Malawi on restoring financial control and accountability. This focused on resolving outstanding issues relating to bank reconciliation, improving the coverage, reliability and timeliness of fiscal reports and addressing other key internal control weaknesses. Further AFE inputs are planned during H2 to support these priority activities. AFE supported the work to strengthen the PFM legal framework in Rwanda through a desk review of the draft Manual of Government Policies and Procedures: Financial Management and Accounting.
- **Improved coverage and quality of fiscal reporting:** helped Kenya in assessing the coverage and quality of the annual financial statements for FY

2013/14 and formulation of a prioritized action plan to guide the development of annual financial reports aligned with IPSAS and the East African Monetary Union (EAMU) fiscal reporting convergence criteria. Some recommendations have been incorporated into the templates for FY 2014/15 statements.

- **Improved integration of assets and liability management framework:** In Uganda, follow on advice was provided to the newly formed cash management division on strengthening institutional arrangements and extending the treasury single account (TSA) arrangements. In Malawi, again building on previous assistance, guidance was provided for improving cash forecasting, developing detailed guidelines on the cash management processes and extending the bank account rationalization exercise. AFE's peripatetic work on strengthening cash management will continue.
- **Strengthened identification, monitoring and management of fiscal risks:** the PFM team made significant contributions to the FAD-led Fiscal Transparency Evaluation (FTE) of Tanzania which is the IMF's fiscal transparency diagnostic. Tanzania was the second EAC country (after Kenya) to undergo the FTE. Each of the East African Community (EAC) member states is due to have an FTE by the end of 2017 to support the development of regional fiscal reporting practices ahead of the possible monetary union in 2024.

D. Macro-Fiscal Analysis

15. **The macro-fiscal work program is on track.** Technical assistance was provided to Eritrea, Ethiopia, Kenya, Malawi, Uganda and Tanzania, with all but one of the nine planned activities implemented. The postponed mission was to Uganda on forecasting due to work constraints at the host institution. This was interchanged with a mission to Kenya on the same subject. In terms of macro-fiscal strategic objectives:

- **Macroeconomic forecasting:** A mission to Ethiopia supported the development

of high frequency indicators, with a view to improving the monitoring of economic activity in the short run. Using resources from the Africa Training Institute,



Debt Sustainability Analysis and Fiscal Risk Reporting Workshop, Uganda, 16th – 24th, July, 2015

training on macroeconomic forecasting was provided in Kenya to various government entities.

- **Fiscal Forecasting and Budgeting:** AFE continued to support Malawi in developing its medium-term macroeconomic framework through training and the preparation of a consistent dataset and its projections. Customized training in fiscal forecasting has also been provided to Ethiopia. An in-country workshop in Eritrea introduced medium-term budgeting to line ministries, drawing from regional experiences.
- **Identification of Fiscal Risks:** The macro-fiscal advisor joined FAD's FTE team in Tanzania, contributing to assessment against the fiscal risk pillar of the IMF's Fiscal Transparency Code. A joint mission with the IMF's Strategy, Policy, and Review Department delivered a workshop in Uganda on the IMF-World Bank debt sustainability framework for low-income countries, in support of Uganda's own annual debt sustainability report. The mission also provided input to the statement of fiscal risks under preparation by the authorities.

16. **The main milestones reached during H1 include:** completion of the Fiscal Transparency Evaluation (FTE) in Tanzania, the development of early HFI estimates in Ethiopia and the improvement of the dataset in Malawi. Two milestones, namely completion of the debt sustainability report and consolidation of forecasting models in Uganda, are in progress and expected to be completed in H2. Key outcomes over H1 related to activities conducted last fiscal year include the draft Charter for Fiscal Responsibility in Uganda and the Oil and Gas Revenue Management Policy in Tanzania. While the regional training workshops for macro fiscal are slated for H2, several of the activities e.g. the revenue forecasting and debt sustainability work, had a large training element.

E. Financial Sector Regulation and Supervision

17. **Current multi-year projects relevant across the region relate to the implementation of consolidated supervision, the transition towards the Basel II-III frameworks, supporting regional harmonization, and the implementation of risk based supervision and solvency frameworks for the insurance sector.** Overall the program is well on track. Of the planned 15 activities for H1, 14 have been executed and one is in progress. Two additional activities relating to AFE's assistance to the Bank of Tanzania's Training Institute were added to the program in H1. While considerable training was embodied in TA missions,



MEFMI Regional Workshop on Risk-Based Supervision and Selected Components of Basel III (October 19-27), Maputo

the regional training workshops in this sector – on insurance supervision and crisis management/bank resolution - are planned for H2.

18. The main TA achievements/milestones by strategic objective over H1 were:

- **Bank Supervision Compliant with International Standards:** Considerable work was done on consolidated supervision including supporting on site examinations (Rwanda, Uganda and Tanzania). Support on different elements of the Basel II-III was extended to the Bank of Tanzania and the National Bank of Rwanda. Via the IMF's Legal Department, Rwanda and Uganda received TA in tools for AML/CFT supervision, while Uganda also received advice on drafting prudential regulations for mergers and acquisitions.
- **Insurance Supervision Complaint with International Standards:** In H1 AFE assisted the Bank of Eritrea in undertaking its first on-site inspection of the national insurance company.
- **Strengthening Macro Prudential and Financial Stability Capacity and Frameworks:** AFE assisted the Bank of Tanzania's Training Institute in conducting two courses for the EAC Central Banks on Financial Stability and on Macroprudential Analysis.
- **Overall Supervisory and Regulatory Framework Compliant with International Standards:** AFE's Bank Supervision Advisor participated in an IMF MCM led mission to the EAC discussing the possible architecture of financial sector supervision under EAMU. The mission's observations and recommendations are expected to be disseminated to key stakeholders in a workshop in January 2016.

F. Monetary Policy and Operations

19. **The Center has continued to work closely with member country central banks to improve monetary policy formulation and implementation.** Six missions and one regional workshop were delivered, plus three missions to continue support on the forecasting and policy analysis systems (FPAS) for monetary policy. Of the 11 milestones set for H1 (inclusive of FPAS), 7 were attained. Some notable outcomes over recent months have been money and foreign exchange market codes of conduct (Tanzania), a review of the



Regional Workshop on the Development of a True Repo Market and Understanding Foreign Exchange Swaps, October 12-16, 2015

liquidity forecasting framework (Ethiopia) after several years, and an important regional workshop to develop repo and foreign exchange swap operations across the membership. The work plan on monetary operations has deviated somewhat from plan, mainly due to changes in demand by topic and on the timing of support. Specifically, assistance planned for Kenya has been on hold pending a reassessment of needs following changes in management at the central bank, while Rwanda has not yet followed up on previous requests. Work in Malawi on foreign exchange intervention guidelines will now take place in H2. Some reorientation to regional work also took place, such as Uganda's request for AFE help in developing a harmonized EAC wide framework for collateral management and standing facilities. This pushed back work that had been slated on liquidity forecasting. Likewise, work on integrating Islamic banks into the monetary operations framework in Tanzania will be twinned with similar support requested by Kenya later in the fiscal year. The Center was also invited to present at the annual meeting of the African Association of Central Banks.

20. **The FPAS activity was also less intense than in the past for budgetary reasons, with three activities implemented.** Work began with a CBK funded study visit of its forecasting team to the Czech National Bank in May. This was timely as the CBK has recently established a new Modeling and Forecasting Division. This was followed by a two week workshop in Kenya to train its staff on operating the core forecasting model and update the inflation projection. Experts also visited Uganda in May to assist with updating the forecast, and help prepare the inflation projection and model-based policy analysis for the upcoming MPC.

21. **Payment's system work has been pending the recruitment of a resident advisor.** As a result, over H1 the Center was restricted to support for drafting the national payments system oversight guidelines in Uganda.

G. Economic and Financial Statistics

22. **East AFRITAC continues to support member countries improve the quality and coverage of national accounts, prices and GFS.** The IMF Statistics Department supports external and financial sector statistics development in the region. The Center has been focusing its advice on improving national accounts source data, preparation for the 2015 round of GDP rebasing, and developing higher frequency (quarterly) GDP data. In the area of price statistics, assistance focuses on rebasing CPIs, development of import-export price indices, and improvement and expansion of PPIs. The GFS work program is anchored in the overall regional integration process and guided by national fiscal and public sector debt statistics development plans to achieve the objectives of the East African Monetary Union protocol.

23. **First half execution of the statistics program was satisfactory.** All but six of the 30 planned activities were successfully conducted. Four TA missions—one on national accounts and three other on GFS—were rescheduled to H2 at the request of the authorities to enable consolidation of progress. A regional EAC national accounts harmonization workshop was also postponed by the EAC. Almost all milestones were met. The main achievements over the past six months included continued improvement in capacity of staff to produce price statistics as well as national accounts estimates; good progress made on the compilation of quarterly GDP by expenditure (QGDPE) in several countries; significant advances in developing new government fiscal datasets with a broader coverage of general government; and the development of new EAC GFS/debt statistics guidelines which will help harmonize the production of fiscal data, including that used for monitoring East African Monetary Union macroeconomic convergence criteria.



AFE's National Accounts Advisor and a Short Term Expert Presenting a Certificate to a National Accounts Workshop Participant

By strategic objective:

- **Annual GDP:** Malawi received support to compile improved annual GDP estimates using the benchmark-indicator approach. Malawi currently produces official GDP estimates with a lag of two years, and AFE is assisting with the compilation of more timely annual estimates based on the available annual and bi-annual administrative and survey data. More comprehensive surveys will be conducted intermittently as outlined in their strategic plan and used in the rebasing of GDP. AFE also held a regional national accounts training to enhance capacity of the new compilers to support implementation of the Center's initiatives in the region.
- **Quarterly GDP:** Estimates of quarterly GDP (QGDP) by expenditure were finalized in Rwanda and Zanzibar. Those estimates in Kenya, Uganda and Tanzania are still under preparation and have been delayed due to further development work and the need to give authorities more time to consolidate the required information. The Center reviewed quarterly GDP by activity estimates in Ethiopia and made recommendations for improvement.
- **Price Statistics:** There has been very active TA on price statistics with four missions conducted over the past six months. Malawi and Uganda received assistance on import-export price indices, while Tanzania and Ethiopia were

assisted with rebasing the CPI and improving PPI surveys respectively. The work in Uganda extended to developing price indices in other key areas of economic activity (construction and tourism).

- Government Finance Statistics:** Five TA missions, three regional workshops, and two national training courses were conducted in H1 with timing synchronized with the regional integration agenda. The country work focused on supporting implementation of the national fiscal data development plans by broadening coverage of fiscal reporting to all general government entities and ensuring that compilation is in line with regional standards. Strong government ownership in Kenya, Tanzania and Uganda has resulted in new general government fiscal datasets with vastly larger coverage that will be presented to the December 2015 EAC Sectoral Council on Finance and Economic Affairs meeting. The regional workshops focused on taking stock and developing a path forward on implementation of accrual accounting, enhancing capacity to produce sound and comprehensive debt statistics, and finalizing regional guidelines to help harmonize fiscal statistics in East Africa. Finally, joint AFE/EAC training courses in Rwanda and Tanzania completed the process to address specific GFS capacity issues at the Ministries of Finance, the central banks, and the national statistical agencies in EAC countries.



Participants at the Public Sector Debt Statistics Workshop in Zanzibar (June 8-19)

H. Work on Regional Issues

24. **Regional integration related work has been prominent consistent with the priority attached to such capacity building in the Phase IV program document.** In the financial sector, the Fund has been asked by the EAC to provide guidance on the overall architecture for financial oversight i.e. the regulatory and supervisory structure for financial markets in the region at the time of monetary union. IMF East AFRITAC has been involved in the scoping work with MCM on the banking sector, has input into the architecture options, and will be engaged in discussing the findings with the EAC going forward. Other regional work in this sector has included inputs to the EAC Monetary Affairs Committee's work on developing regional standards on consolidated supervision, and contributions on regional EAC training on financial stability. The Center's work to produce harmonized GFS and public sector debt statistics to international standards has

also been motivated by regional integration objectives. This year, this began with a mission to the EAC Secretariat in May to prepare the key elements of the work program for FY 2016. This has been followed by various country missions, national training, as well as regional workshops (joint with the EAC) on public sector debt statistics (Zanzibar, June 2015) and GFS (Tanzania, July 2015 and August 2015). And in October, the Center organized two regional workshops on EAC related issues: (i) one with AFE central banks which covered, among other issues, the development of the repo market across EAC countries and (ii) a second with the EAC Customs Directorate on implementation of the Single Customs Territory.

I. Attachments/Mentoring

25. **Limited attachments/mentoring arrangements have taken place over H1, but this will increase in H2.** Officials from Uganda and Tanzania have visited other countries to share their practices in automating GFS data production and dissemination and a group of statisticians from across the region visited Tanzania to learn from its implementation of accrual accounting. Staff from Kenya's statistics bureau were attached to their counterpart in Rwanda to learn about the latter's high quality agriculture survey. With financing secured from a donor partner, PFM advisors facilitated an attachment on cash management of MoF officials from Malawi to Mauritius. Another way of mentoring was for the Center to draw on regional expertise to deliver advice. Examples were the use of a supervisor from Malawi on Basel II work in Rwanda, a payments system expert from Tanzania to review guidelines in Uganda, an IFMIS expert from Rwanda working with the Finance Ministries in Kenya and Malawi, and an economist from Rwanda working with the macroeconomic team in Malawi.

J. IMF East AFRITAC Training

26. **The annual training program was somewhat backloaded given funding uncertainties.** Training over H1 largely focused on statistics where a set schedule needed to be maintained given regional integration targets. Two regional GFS workshops were held, one which finalized the EAC Government Finance and Debt Statistics Guidelines ahead of a finance minister's meeting in December. A second workshop was designed to build capacity for compiling and disseminating harmonized public sector debt statistics for the region. Additional training was provided at the national level. In the area of national accounts, a regional workshop in Tanzania on the SNA 2008 sought to build capacity of a new generation of national accounts statisticians. Other regional training covered money market development and the implementation of a Single Customs Territory. Various national level trainings were provided including on medium-term/program budgeting (Eritrea), debt sustainability analysis (Uganda), macro forecasting (Kenya), and revenue forecasting (Ethiopia). Training will be scaled up over H2 with regional courses planned in all sectors, plus further collaboration with the ATI on

27. **Annex II presents the revised work program for H2 FY 2016.** Overall the Center expects to deliver 515 FPWs in H2. This implies 868 FPWs for the full FY 2016 (or 98 percent of the original work plan's projected resource use). Of the total number of activities in the original work plan, 97 percent are projected to be delivered. Some deviations are envisaged, notably in Monetary Policy and Operations due to changes in demand from recipients.

(percentage of original activities still in full year program)								(new activities added in full year program as a percentage of original workplan)						
TA Sector								TA Sector						
Country	RA	PFM	MFA	FSR	MON	PAY	STA	RA	PFM	MFA	FSR	MON	PAY	STA
Eritrea	100	100	100	100	N/A	N/A	N/A	0	0	0	0	N/A	N/A	N/A
Ethiopia	67	100	100	100	100	100	100	33	0	0	0	0	0	0
Kenya	100	100	100	100	67	100	100	100	20	0	100	17	0	0
Malawi	100	100	100	100	100	100	100	0	25	0	0	100	0	0
Rwanda	100	100	100	100	100	100	100	50	0	0	0	0	0	0
Tanzania	100	100	100	100	100	100	100	20	29	0	0	25	0	38
Uganda	100	100	100	100	50	100	100	20	20	0	0	0	0	0
AFE/Regional														
/Burundi	100	100	100	100	100	100	93	0	0	0	33	75	0	7
Total	96	100	100	100	85	100	98	22	13	0	10	23	0	8
*N/A indicates that no activities were planned														

28. Some changes/highlights over H2 that merit emphasis:

- We anticipate further demand growth on TADAT, over and above existing technical assistance planned on compliance management. Rwanda and Uganda have requested follow up training in the TADAT methodology as they plan to embed the methodology in their performance reporting and monitoring frameworks. Tanzania and Ethiopia have requested TADAT assessments. This will require re-aligning some planned activities, notably converting some missions and advisor follow up activities into TADAT assessment missions.
- Regional training in PFM is concentrated in H2. Two workshops – on the prevention and management of expenditure arrears, and on strengthening budgetary institutions – are planned, covering important policy issues in the region. A new PFM advisor will join the Center in the coming months replacing a long serving advisor.
- In the macro-fiscal area we expect to see some increase in activity on natural resources management. In particular, training is to be provided in collaboration with the IMF's Research Department to Tanzania on IMF models on the macroeconomic management of natural resource revenues to support preparations for revenue from natural gas. Given the value of macro-fiscal participation in the FTEs for Kenya and Tanzania, the advisor has added work on the Uganda FTE to the work plan. These streams of TA across countries will be reinforced through three regional training workshops (on fiscal rules and fiscal councils, fiscal risks and fiscal forecasting) and an ICD course on Macroeconomic Diagnostics in December.
- In monetary operations, some rearrangement of the work plan is needed. Some issues not addressed in H1 will be covered in H2 and the Center will respond to new national and regional demands. Specifically, in line with requests from Kenya, missions on the money market, foreign exchange swaps and repo market development will be merged into one activity. Plans for bond market development work in Kenya and Uganda will be replaced by follow up regional work on EAC standing facilities and collateral management, and on money market development (particularly repos). In the FPAS area, support will be provided to the EAC FPAS initiative – a working group of Central Banks led by the BoU mandated by the MAC to develop and tailor the FPAS models for the region.

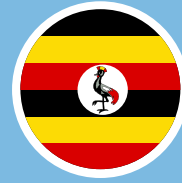
- A new resident advisor has now been recruited on financial market infrastructure. With the assignment expected to begin in January, activity will pick up in H2, including via a short term expert visit to Kenya in December.
- In the financial sector regulation and supervision work, the only substantive change is responding to a request from the authorities in Kenya to provide training to financial sector policymakers from across public financial sector agencies. The Center will deliver a module on Financial Sector Regulation and Supervision.
- In national accounts statistics, over H2 it is prudent to reorient activities from annual to quarterly national accounts to fast track the latter's finalization in select countries. Accordingly, H2 annual national accounts activities have been replaced with the QGDP in Ethiopia, Kenya and Uganda. Work on developing institutional sector accounts will be started in Tanzania and Rwanda but delayed to next fiscal year in Kenya and Uganda.
- The GFS work program going forward has been adjusted to take into account the substantial progress on implementing the national fiscal and public sector debt statistics development plans. Work in H2 will be guided by how to improve the quality of the datasets that have been developed, close remaining gaps, and integrate the new data into the overall macroeconomic monitoring process. During H2 work will also start on reconciling changes in debt stocks with fiscal deficits. A new training activity added to the work plan is a joint GFS/NAS and Financial Policy Programming workshop, which seeks to enhance compilers' capacity to use the new, much broader, general government finance datasets that have been developed by the Center with country teams and the EAC.
- A small amount of legal work is planned over H2. This will comprise an AML/CFT mission to Malawi, and two Income Tax Law reform missions to Kenya.
- Further regional work is planned over H2, ranging from national accounts/property prices workshops with the EAC to additional work on the EAC Collateral and Standing Facilities framework as requested by its Monetary Affairs Committee.



Eritrea



Malawi



Uganda



Ethiopia



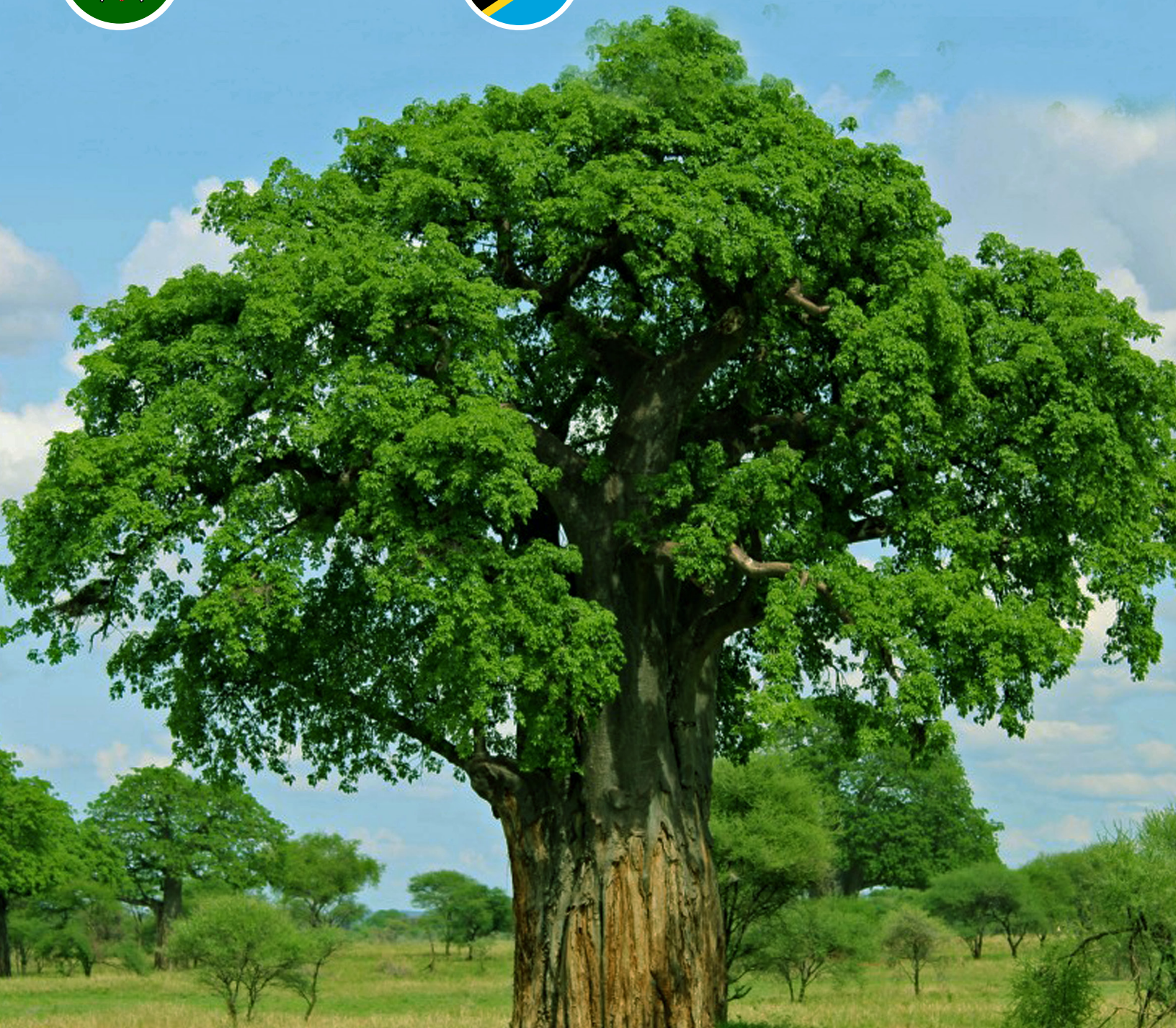
Rwanda



Kenya



Tanzania



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