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DRAFT PROGRAM DOCUMENT

April 2009

East AFRITAC

EAST AFRICA REGIONAL TECHNICAL ASSISTANCE CENTER (AFE)

International Monetary Fund

DRAFT FOR DISCUSSION

EAST AFRICA
REGIONAL TECHNICAL ASSISTANCE CENTER
(AFRITAC EAST)

"We welcome the increasing and positive role played in this regard by the Africa Technical Assistance Centers (AFRITACs). Therefore we call for the expansion of Technical Assistance (TA) delivery through AFRITACs—including the opening of new centers—which would ensure better traction in recipient countries and lower overall costs. We reaffirm that the willingness of countries within the region to contribute to the AFRITACs is testimony to their relevance and effectiveness, while at the same time supports country ownership and oversight."

African Governors in a Letter of October 2008 to the Managing Director of the IMF

PROGRAM DOCUMENT FOR THE THIRD FINANCING CYCLE
(DRAFT—March 2009)

Executive Summary

This draft document proposes to continue and expand the operations of the Regional Technical Assistance Center in East Africa (AFRITAC East (AFE)) for a period of five years to October 2014. It is intended to initiate a consultation process with donors and AFE beneficiary countries during April-June on how AFE together with other Technical Assistance (TA) providers would best assist AFE recipient countries in further developing their capacity in macroeconomic management. The estimated total cost of operating AFE for the next five years is about US$51 million to be born by donors, the recipient countries, and the IMF.

AFE has been serving Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, and Uganda since 2002, supporting implementation of their PRSPs in areas of the Fund's core expertise: macroeconomic policy, revenue policy and administration, public financial management, monetary policy and operations, financial sector supervision, macroeconomic and financial statistics, and macro-fiscal analysis. There are many concrete examples of AFE's contributions to achievements in all of its recipient countries, ranging from assistance in establishing large taxpayer offices, strengthening public financial management, setting up risk-based supervisory frameworks for the financial sector and modernizing payments systems, to designing a statistical masterplan for PRSP monitoring and supporting customs administration at the regional EAC level (Section I.B and Appendix I).

Independent external evaluations, including the 2008-09 evaluation (Section I.C), have consistently given the AFRITACs/AFE high marks for the quality of their expertise, their rapid and flexible service delivery as well as responsiveness to countries' needs. They found that the AFRITACs are well suited to support the design and implementation of countries' Poverty Reduction Strategies and Programs; that they are an excellent vehicle to support regional harmonization and integration; and that their TA in part contributed to improved transparency, accountability and control, and thus to reducing opportunities for corruption. The evaluations stressed the success of the governance model, with involvement of recipient countries, donors and IMF staff leading to 'ownership' of the recipient countries as well as effective donor coordination in the spirit of the Paris Declaration on Aid Effectiveness.

Existing as well as new challenges posed by the global financial crisis necessitate that AFE countries strengthen building their macroeconomic management capacities. AFE has experience and expertise to help countries in implementing their PRSP and other national reform programs focused on (Section II.C and Section III):

- **strengthening government institutions and central banks, which are critical to promoting sustainable economic growth.** Public financial management (PFM) reforms remain important in all AFE countries to to make the use of public resources more efficient and transparent. Strengthened macro-fiscal analysis and reporting, along with enhanced PFM and more effective revenue administration, would allow country authorities to better plan and transparently monitor resources available for pro-poor spending, which is critical for the credibility of the PRSP process. Boosting low tax revenue ratios and strengthening customs control will not only prepare for an eventual exit from donor dependence of some AFE countries, but also reduce the cost of doing business for the private sector.

- **deepening financial intermediation to support a strong private sector.** A well functioning interbank money and domestic debt markets are critical to facilitate monetary policy control. In the short term, countries also need to formulate responses to minimize the impact of the the global crisis. In the longer term, increasing credit to the private sector and developing capital markets are key to support countries' growth and poverty reduction objectives.

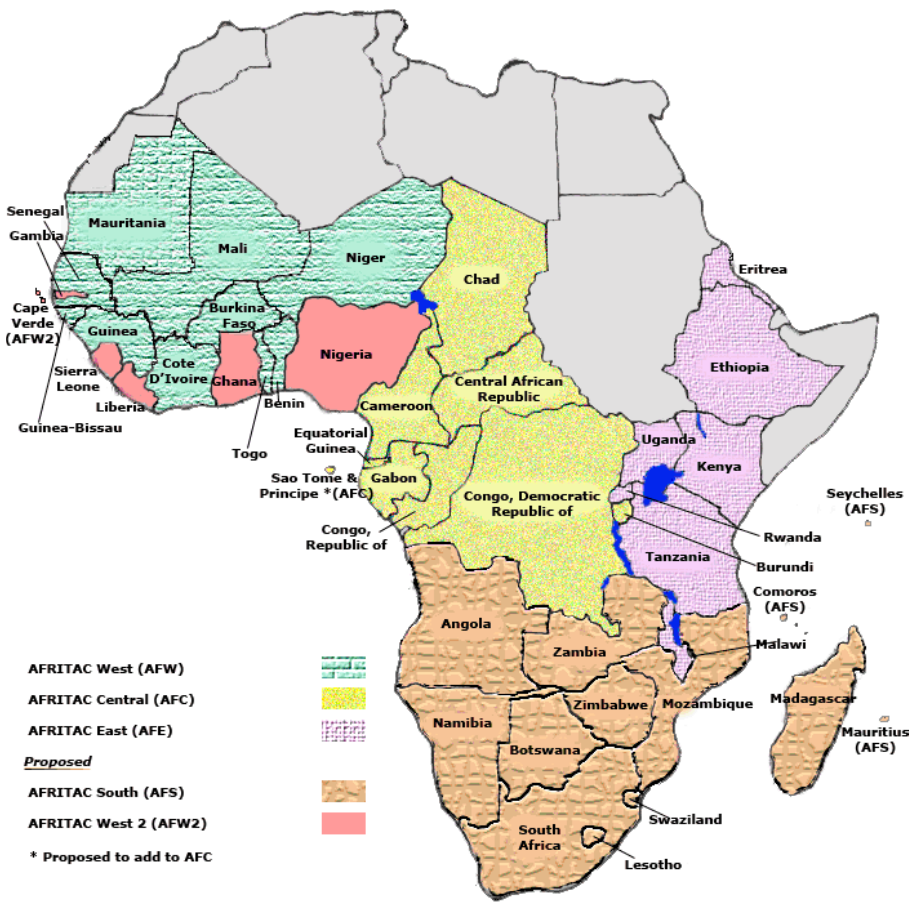
- **strengthening statistical capacity for sound macroeconomic analyses, policy making and better information to the public.** Good statistical data help understand macroeconomic developments and design appropriate policy responses.

- **making progress in regional integration and harmonization.** AFE countries belong to multiple regional organizations which seek to create customs and monetary unions among the members. AFE can assist customs agencies in facilitating cross border trade, and standardizing and harmonizing statistical data to allow comparability. AFE also fosters regional integration through creating an environment of peer review and exchange.

In response to the external evaluation and in the broader context of IMF TA reforms, there will be some changes to AFE. AFE will strengthen its coordination with donors and other TA providers (Section III. C), including by wider dissemination of its work. The IMF also aims to enhance the traction of its TA by further integrating it into the IMF's broader lending and surveillance activities and improving its results-focused management toward ensuring sustainability of IMF and AFE TA (Section III. A and B).

AFE is one of the three Regional Technical Assistance Centers (AFRITACs) under the IMF's Capacity Building Initiative for Africa. Responding to calls from African leaders, including under the New Partnership for Africa's Development (NEPAD), the Initiative launched in 2002 promotes capacity building in African countries to design and implement reforms that are supportive of their poverty reduction strategies. As part of the Initiative, the IMF has established three AFRITACs in Tanzania, Mali, and Gabon. In response to the positive experience to date with these centers, and increased demand from other African countries, the IMF is planning to open two additional AFRITACs in West and Southern Africa.

AFR Technical Assistance Centers (AFRITAC): Current and Proposed



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List of acronyms

ACBF	Africa Capacity Building Foundation
AfDB	African Development Bank
AFE	ARITAC East
AFRITAC	Africa Regional Technical Assistance Center
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BNR	Banque Nationale du Rwanda
BOE	Bank of Eritrea
BOT	Bank of Tanzania
BOU	Bank of Uganda
BTO	Back-to-office
CABRI	Collaborative African Budget Reform Initiative
CBK	Central Bank of Kenya
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
DANIDA	Danish National Development Agency
DFID	Department for International Development (The United Kingdom)
DGF	Development Grant Facility (World Bank)
DP	Development Partner
DQAF	Data Quality Assessment Framework
EAC	East African Community
ESAAG	Eastern and Southern Africa Association of Auditors and Accountant Generals
EU	European Commission
FIRST	Financial Sector Reform and Strengthening
FPP	Financial Programming and Policies
FSAP	Financial Sector Assessment Program
FSI	Financial Stability Institute
FY	Financial Year
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GFSM	Government Financial Statistics Manual
GNI	Gross National Income
GTZ	Gesellschaft für Technische Zusammenarbeit (German Cooperation Agency)
HIPC	Heavily Indebted Poor Countries
HQ	Headquarters
IDA	International Development Association
IBRD	International Bank of Reconstruction and Development
IFMIS	Integrated Financial Management Information System
IFS	International Financial Statistics

IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ITMS	Integrated Tax Management System (Kenya)
JAF	Joint Performance Assessment Framework
JAI	Joint Africa Institute
JBSO	Joint Budget Support Operations
KSMS	Kenya School of Monetary Studies
LTD	Large Taxpayer Department
LTO	Large Taxpayer Office
MEFMI	Macro-Economic and Financial Management Institute
MOU	Memorandum of Understanding
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MTEF	Medium-Term Expenditure Framework
NBE	National Bank of Ethiopia
NEPAD	New Partnership for Africa's Development
NISR	National Institute of Statistics of Rwanda
NPS	National Payments System
NSS	National Statistical System
OBL	Organic Budget Law
OECD	Organisation for Economic Co-operation and Development
OTM	Office of Technical Assistance Management (IMF)
PBB	Performance Based Budgeting
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPI	Producer Price Index
PRSP	Poverty Reduction Strategy Paper
PSCAP	Public Sector Capacity Program (Ethiopia)
PSI	Pre-Shipment Inspection
QNA	Quarterly National Accounts
RAP	Resource Allocation Plan
RBM	Reserve Bank of Malawi
RBS	Risk-Based Supervision
RMG	Risk-Management Guidelines
RSN	Regional Strategy Note
RTAC	Regional Technical Assistance Center
SADC	Southern African Development Community
SAM	Social Accounting Matrix
SARS	South African Revenue Service
SC	Steering Committee
SDDS	Special Data Dissemination Standard
SECO	Swiss Secretariat for Economic Affairs

SFA	Framework Administered Account of Selected Fund Activities
SIDA	Sweden Development Cooperation
SNA	System of National Accounts
SSA	Sub-Saharan Africa
STATCAP	Statistical Capacity
SUT	Supply and Use Table
TA	Technical Assistance
TMP	Tax Modernization Project (Tanzania)
TPC	Tax Procedures Code (Kenya)
TSA	Treasury Single Account
TSIMP	Tanzania Statistical Master Plan
USAID	United States Agency for International Development
VAT	Value-Added Tax
WB	World Bank
WCO	World Customs Organization
ZBDA	Zero-Balanced Drawing Account

I. East AFRITAC's Achievements So Far

A. What Does AFRITAC East Do?

1. **The International Monetary Fund (IMF)'s three Africa Regional Technical Assistance Centers (East, West, and Central AFRITACs) are a collaborative venture between the IMF, the recipient countries, and bilateral and multilateral donors.** They originate from the IMF's response to African leaders' call to the international community to increase technical assistance (TA) to Africa. The Centers' strategic goal is to strengthen the institutional capacity of African countries to design and implement their poverty-reducing strategies and make progress toward achieving the Millennium Development Goals, supported by sound macroeconomic and financial policies.

2. **The AFRITACs are regional technical assistance centers**, **a model of TA delivery launched by the IMF in 1992 in the Pacific Region**. Since then the model was expanded to four continents. The first Center in Africa, East AFRITAC (AFE), was established in 2002, and is based in Dar es Salaam, Tanzania. It was followed, about half a year later, by West AFRITAC, temporarily established in Bamako, Mali in 2003, which covers the countries of French-speaking West Africa. In 2007, Central AFRITAC was opened in Libreville, Gabon, to provide assistance to countries in Central Africa. Through its AFRITACs, the IMF has been able to substantially increase its TA to the beneficiary countries, and based on the success of this TA model, two more AFRITACs are planned in the near future.

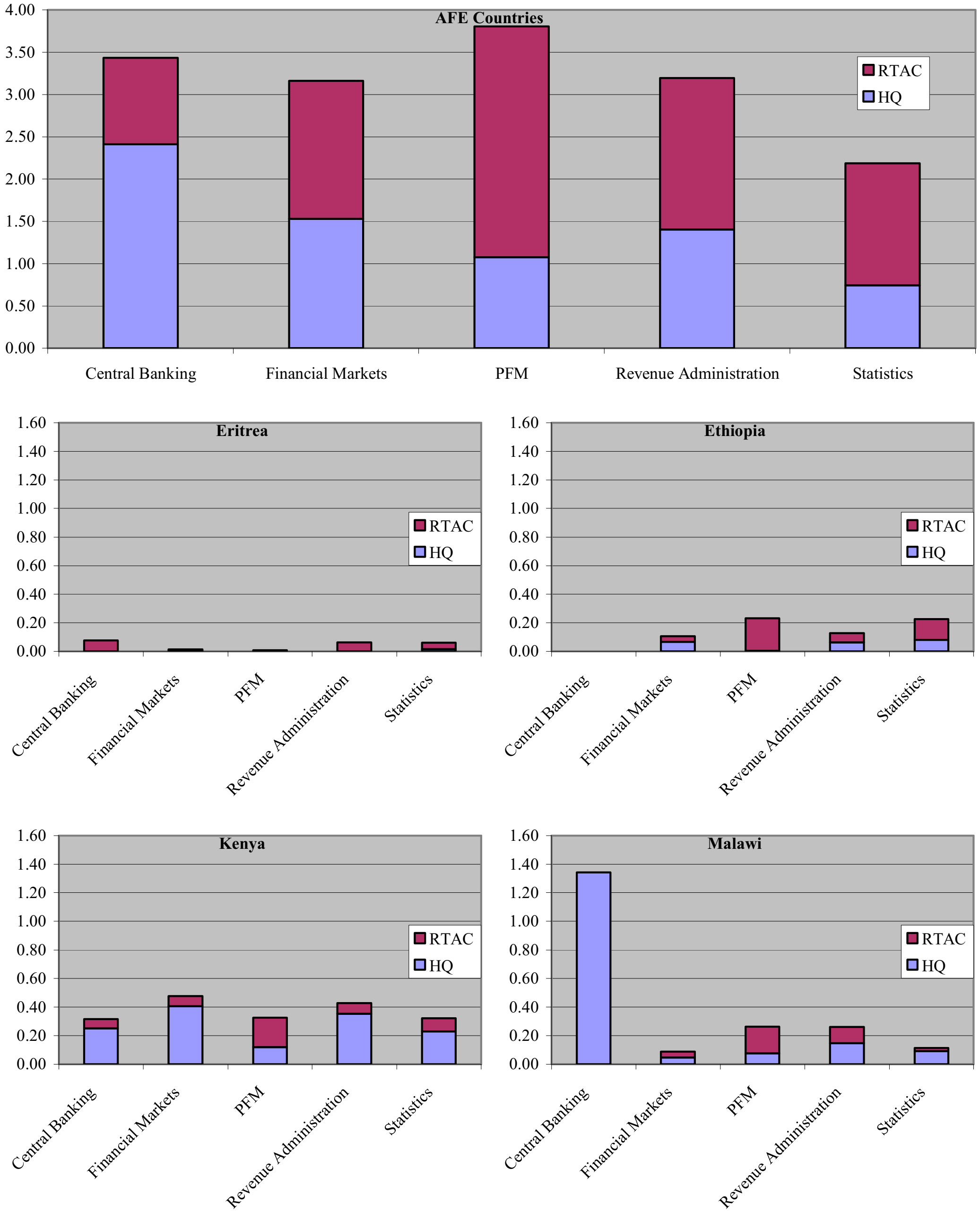
3. **With AFE, the IMF combines strategic TA advice from its Headquarters (HQ) with local expertise and on-the-ground capacity building.** AFE is governed by a Steering Committee (SC) that consists of representatives from recipient countries, donors and the IMF, facilitating a coordinated design, implementation, and monitoring of TA programs in AFE recipient countries. Broad TA needs and workplans are identified in conjunction with the SC, alongside the area and TA Departments at IMF HQ, complemented by a bottom up exercise, where the African departments and country authorities discuss the specifics of the Regional Technical Assistance Center (RTAC) workplan. All TA is integrated into the core lending and surveillance operations of the IMF, as well as coordinated with that of other providers. Backstopped and supported by the experts and services of IMF HQ, the RTACs are becoming an increasingly important way of delivering effective, efficient and responsive IMF TA.

4. **AFE delivers capacity-building TA in its areas of expertise to seven countries in Eastern Africa**: Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, and Uganda. The costs of running the Center is defrayed by grants from the African Development Bank (AfDB) and 15 bilateral donors (Canada, P.R. China, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, Norway, the Russian Federation, Sweden, Switzerland, the Netherlands, and the United Kingdom), and a contribution from the IMF. In complementing

the Center's resource pool, two member states (Kenya and Tanzania) provide in-kind contributions.

5. **AFE is managed by a Center Coordinator, and is staffed by eight resident Advisors with substantial expertise in his/her respective sector.** The resident Advisors are based in Dar es Salaam; they travel throughout the region, which allows them to develop rapport with country authorities and familiarity with national and regional contexts and needs. The skill mix of the advisors reflects the identified priority needs of the beneficiary countries. In addition, AFE deploys short-term experts brought in to deliver targeted TA in areas of specific expertise not covered by the resident Advisors or in the same area to complement the volume of TA needed. AFE also provides seminars and workshops, both at the national level and regionally; it sometimes invites selected African countries, not covered by AFE, to its workshops with a view to sharing experience and enhancing networking. In addition, AFE organizes professional attachments, which allow select staff from various agencies of East African countries to be seconded for several weeks to organizations which are regional leaders, in order to develop skills and learn best practices.

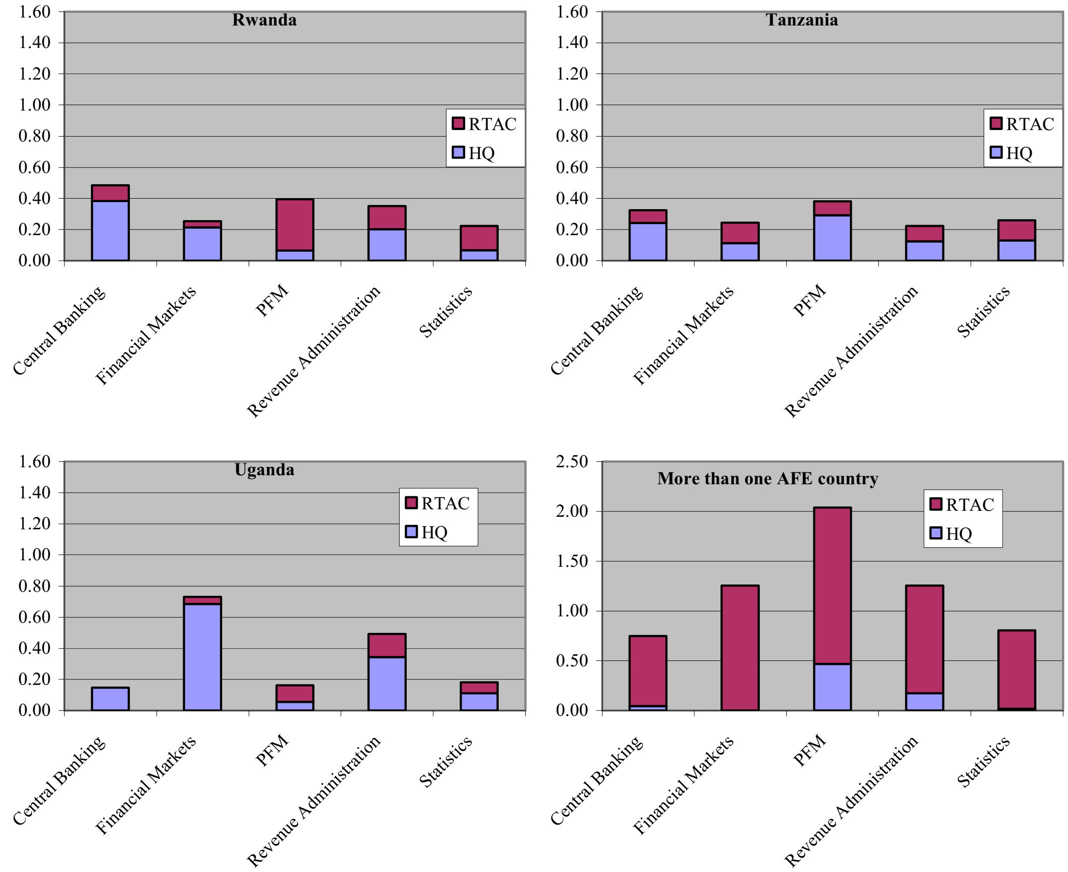
IMF TA delivery to AFE Countries, 2007-09*
(in person years (equal to about 260 working days); 3 year average)



Source: IMF

* HQ-managed TA includes donor financed TA, mainly from the Japanese authorities, DFID and Norway. Projection for FY2009.

IMF TA delivery to AFE Countries, 2007-09
(in person years (equal to about 260 working days); 3 year average)



Source: IMF

B. East AFRITAC's Results in Recipient Countries

6. **Results Focused Management for building human and institutional capacity is inherently difficult.** Achievements in these areas take time to materialize and are not easy to attribute and thus are difficult to measure. Change can often take decades and is correlated with many variables. This, together with the presence of many other TA providers in Africa, makes it difficult to measure the impact of AFE's capacity building on recipient countries.

7. **Notwithstanding these broad difficulties, the IMF and its regional TA centers are in the process of introducing a results-focused management framework.**[1] The framework is anchored in an annual planning, implementation, and monitoring cycle. It identifies the main objectives for each area of work, the expected (and achieved) inputs and activities, main outputs, results, as well as next steps. The framework also makes explicit the links of AFE support to member countries' reforms and poverty-reducing strategies, and the involvement of other donors.

8. **Though the absence of results-focused management over AFE's two financing cycles does not allow a comprehensive assessment, examples of AFE's results in recipient countries provided below are strong indicators of its positive impact**.[2]

9. **Risk-based management framework of customs administration in the EAC—**In 2006, AFE partnered with the East African Community (EAC) Secretariat, the World Customs Organization (WCO) East and Southern Africa Regional Capacity Building Center, and regional customs officials (Kenya, Rwanda, and Tanzania) to develop a structured risk-management program framework which is being applied in all EAC member countries. Using regional examples, the framework is a practical guide to implementing risk-management concepts designed to optimize the use of available scarce resources, while at the same time, achieving an effective revenue administration compliance strategy. As a result, compliance management in the EAC countries has improved and contributed to the rising revenue/GDP ratios.

10. **Large taxpayer office in Malawi—**Following IMF HQ strategic advice, Malawi established a large taxpayer office (LTO) in 2007 as an initial step in adopting a taxpayer segmentation approach. AFE supported implementation of the LTO, inter alia, by providing peripatetic expert assistance and facilitating the attachment of two LTO staff to the Tanzania Revenue Authority to expose them to improved approaches used in managing the large taxpayers operations. The LTO has adopted a number of best practice approaches and

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[1] Introducing results-focused management is an important element in the IMF's comprehensive TA reforms, which were kickstarted in 2008. See http://www.imf.org/external/np/pp/eng/2008/040308a.pdf.

[2] Please also see AFE's Annual Report for FY2008, http://www.imf.org/external/np/afr/2008/ar/eafritac.pdf, for additional detailed examples and a list of major outcomes in Appendix I.

reported good progress. The LTO currently administers the top 320 taxpayers, with an average contribution of 73 percent to domestic tax revenue by end-December 2008.

11. **Strengthening Public Financial Management (PFM) in Rwanda**

- AFE provided support to the Ministry of Finance and Economic Planning in the design and implementation of the Organic Budget Law (OBL) and financial regulations, within the broader context of the PFM reform agenda, where many other donors are active. In 2003, an IMF diagnostic study recommended options for PFM modernization, taking into account Rwanda's intention to join the East African Community (EAC). The study provided the policy options, principles, and best practices that guided a three-year consultative process, which culminated in the adoption of the Law on State Property and Finance (or OBL) in October 2006. Work on the related financial regulations started in August 2004, also with assistance from AFE. The regulations were issued by the Government in May 2007.

- AFE in 2007 also undertook an in-depth analysis of institutional and capacity implications of the new legislation and advised on required undertakings to spearhead a sustained enforcement of the new regulatory framework in Rwanda. Following the strategic advice, the authorities designed and implemented a comprehensive training program to address the specific skill needs among accounting officers and technocrats at all levels of government. In addition, the authorities have since undertaken a functional review of Ministry of Finance and Economic Planning and other budget agencies aimed at strengthening the institutional structures and systems to promote the execution of new mandates and responsibilities, especially those emanating from fiscal decentralization. AFE, working with the PFM Donor Working Group, supported the formulation of a strategy published as the "Government of Rwanda PFM Reform Strategy, 2008-12," which is designed to guide donor support to sequenced actions aimed at enhancing the enforcement of the new OBL.

12. **Results-focused budgeting in Ethiopia**— since 2006, AFE has supported the introduction of program budgeting, on a pilot basis, within the Federal Government of Ethiopia in an effort to shift the focus of resource allocation from "inputs" to "results and outcomes." Since 2007, AFE has offered annual training programs that have assisted the production of program budget submission during the preparation of budget estimates for the Fiscal Years (FY) 2007-08, 2008-09, and 2009-10. A program budget unit was established within the Ministry of Finance to spearhead the reform and the authorities recruited a long-term expert to provide strategic direction and capacity building during the implementation of the reform.

13. **Establishing a Risked-Based Supervisory Framework in Kenya**—With assistance from AFE, Kenya took initial steps to implement a system of risk-based supervision (RBS) in April 2004. The AFE Bank Supervision Advisor served as mentor and general resource-

person to the various teams involved in the process. A survey was conducted in September 2004 to determine the status of risk-management practices by banking institutions in Kenya. A draft policy paper was adopted in April, 2005. Risk-Management Guidelines (RMGs) were circulated to banks for comments and formally issued to financial institutions in August 2005 to provide guidance on the minimum requirements for sound risk-management practices. The "Bank Examination Manual" and the format of the "Examination Report" were revised. Since then, the Central Bank of Kenya (CBK) has undertaken several on-site examinations using the new framework and has developed supervisory programs for institutions upon completion of these examinations. CBK commented that RBS had contributed significantly to its better understanding of the risk profiles of institutions, a more methodical approach to monitoring institutions, greater efficiency in conducting examinations and the production of reports, which are now more concise and focused. The general strengthening of supervisory arrangements by CBK and the development of RBS provide critical support to Kenya's "Vision 2030," which sees the country becoming a regional financial center.

14. **Establishing a RBS Framework in Tanzania**—Using the model described above, AFE embarked on assisting the Bank of Tanzania to develop its own RBS model in August 2004 and led it thought the same stages, keeping in mind the evolving experience gained in Kenya. An important aspect of the implementation of RBS in Tanzania was the provision of training to bank management staff and examiners. Two events, both facilitated by AFE, were held in 2005 and 2006, respectively. In July 2007 RBS was formally adopted as a supervisory approach for all banks and financial institutions in Tanzania under BOT supervisory responsibility. In April 2008, having conducted RBS examinations for all banks and financial institutions, with the help of AFE, BOT organized outreach seminars for senior management and boards of directors for all banks and financial institutions. The objectives were to foster sound risk management in banks and to bring the bankers to compliance with the new supervisory framework.

15. **Modernization of the retail payment and settlement systems and the harmonization of cross-border systems in selected EAC countries (Kenya, Rwanda, and Tanzania)**—In Kenya, AFE assistance resulted in significant strengthening of CBK capacity for the modernization, management, and oversight of the national payment system (NPS) through the creation of suitable regulatory and oversight regime and enhancing CBK's capacity to develop standards, requirements, and regulatory measures for non-bank money transfers and mobile banking and remittance services. Similarly, AFE assistance is at the heart of the ambitious NPS modernization strategy adopted and being implemented by Banque Nationale du Rwanda (BNR). The assistance resulted in the drafting of the Framework and Strategy and helped BNR implementing several of its integral elements, including the introduction of new products and services, such as Real-Time Gross Settlement, electronic banking, and mobile payment and remittance services. AFE TA also resulted in creating a regulatory and oversight function at BNR. In Tanzania, AFE TA resulted in Bank of Tanzania (BOT) reformulating the existing on and off-site oversight framework, developing risk-management guidelines for retail payments systems, including

electronic banking and mobile payments; and considering the introduction of standards, requirements, and regulatory measures for money transfer and other retail payment systems and products.

16. **Design of statistical master plans of Poverty Reduction Strategies for Tanzania**—AFE supported Tanzania's National Statistical System (NSS) to review progress being made in the Statistical Capacity (STATCAP)/NSS project, which, in turn, helped coordination with the World Bank and other Development Partners. AFE also provided assistance in developing Tanzania's draft Statistical Master Plan (TSIMP FY 2008-13), which is a component of Tanzania's PRSP.

C. External Evaluation of the AFRITACs

17. **An external evaluation in early 2009 of the three existing AFRITACs found them to be highly effective and efficient** (Box 1).[3] The evaluation also highlighted the positive role of the AFRITACs' governance structure and the Centers' ability to provide cost-effective and flexible TA.

- The AFRITACs' governance structure provides an appropriate platform for implementing the March 2005 Paris Declaration on Aid Effectiveness,[4] which calls for efforts to harmonize, align, and manage aid for results.
- The geographical proximity of AFRITACs to beneficiary countries provides a quick and cost-effective way to deliver TA.
- Being integrated into the IMF's surveillance and lending operations, TA through AFRITACs reflects prioritized country needs.
- AFRITACs can strengthen regional collaboration by anchoring specific TA activities in regional economic initiatives, arranging training jointly with regional institutions, and helping to establish regional professional networks.
- AFRITACs' emphasis to use African professionals provides an avenue for building and sustaining local expertise.

[3] See AFE's second independent evaluation since 2002. The previous evaluation also positively assesse AFE's performance during the first financing cycle (http://www.imf.org/external/np/pp/eng/2005/040105d.htm).

[4] See http://www.oecd.org/document/18/0,2340,en_2649_3236398_35401554_1_1_1_1,00.html.

Box 1. External Evaluation of the AFRITACs: A Success Story

The FY 2008-09 external evaluation of the Central, East, and West AFRITACs is part of the AFRITACs' governance structure. With the objective of providing stakeholders an assessment of the Centers' achievements, challenges, and plans for improvement, the evaluation was based on an electronic survey to seek input from users and TA providers (more than 700 respondents), interviews at IMF HQ, visits of all three AFRITACs and eight recipient countries, and reviews of available documents and data.

The evaluation rated the performances of all three AFRITACs at least as *good* (see table below). This is despite about two-thirds of the AFRITAC membership having an institutional absorptive capacity that is rated as poor or modest, thus creating a challenging environment for TA implementation. The exercise evaluated TA projects in the following five functional areas: public finance management, revenue administration, monetary operations, banking supervision and statistics], along these four dimensions: relevance, effectiveness, efficiency and sustainability. The ratings were done on a scale of 1 (poor) to 4 (excellent).

	East AFRITAC	West AFRITAC	Central AFRITAC
Relevance	3.3	3.2	3.0
Effectiveness	3.1	2.8	2.7
Efficiency	3.0	2.8	2.9
Sustainability	2.9	2.7	2.7

Among other findings, the evaluation team noted that[1]

- AFRITACs provided rapid and flexible services with all TA delivery modes effective, particularly the regional seminars and mission work of AFRITAC resident Advisors;
- the quality of the expertise in AFRITACs was good and seemed to have enhanced IMF's reputation;
- AFRITAC TA was responsive to countries' needs ("close to the countries") and was "owned" by the countries: the involvement of recipient countries, donors and IMF staff in the AFRITAC governance structure has proven to be a successful model;
- AFRITACs are well suited to play a leading role in the IMF's support for regional harmonization and supported countries' Poverty Reduction Strategies and Programs; and
- some AFRITAC TA improved transparency, accountability and control, thus contributing to reducing opportunities for corruption.

[1] Respondents to the survey also rated the AFRITACs as better than other TA providers in terms of responsiveness, knowledge of the countries, flexibility, reaction times, cost effectiveness, and use of African expertise.

18. **The evaluation also found areas for improvement which are being addressed.**

- **Recommendation 1:** Office of Technical Assistance Management (OTM)'s presentations during the negotiations for the next financial replenishment should argue for additional resources to strengthen the human and financial resources of the AFRITACs and necessary support from HQ together with implementing the recommendations of the evaluation.

Response: The proposed budget for AFE incorporates a request for more resources (see Section III D for a detailed discussion). In addition to the expansion of AFE, the IMF is planning to step up TA to AFE countries through topical trust funds (see Section III C for more details).

- **Recommendation 2:** The three AFRITACs should, in coordination with the TA Departments, by the end of calendar year 2010 adopt a three year plan for each cluster of TA interventions in a country that sets out the strategic objectives and outcomes that the capacity building initiative expects to achieve and provides a framework with indicators against which progress can be monitored.

  Response: This program document for AFE is proposing medium-term plans for all AFE countries for each cluster of TA interventions, which are integrated with the relevant country reform program and which also set out the strategic objectives of AFE's initiatives. The proposals include verifiable indicators against which progress can be monitored. The annual report of AFE will report on the progress made toward these indicators.

- **Recommendation 3:** While recognizing that beneficiary countries should lead donor coordination, all three AFRITACs need to strengthen their donor coordination and information dissemination strategies.

  Response: Coordination with donors will be strengthened through a combination of measures, including by sharing information after AFE mission and enhanced communication through AFE's website. The IMF will also adopt by May 2009 streamlined and strengthened procedures for the wider dissemination of TA-related information, including its mission planning, regional TA strategies and specific TA reports (Section III C for more detail on coordination and dissemination).

- **Recommendation 4:** All AFRITACs, the SCs as well as the Center Coordinators, Resident Advisors, the TA Departments and OTM must do some strategic thinking about how strengthen TA sustainability. Among other things, this will involve providing more follow up and financing to support the implementation of recommendations resulting from TAs. During its fieldwork the Evaluation Team came across several cases where government official said that while they agreed with and wished to implement the TA recommendations, the necessary funds were not available.

  Response: This recommendation will be implemented through strengthened coordination with donors and other TA providers. Resident Advisors through their periodic missions to AFE countries would indicate whether there is a need for funds to implement the recommendations, such as for information technology, software and hardware or support for undertaking surveys. Such needs would also be highlighted at SC meetings.

- **Recommendation 5:** Each AFRITAC should prepare a plan to indicate how it will use a regional approach to facilitate the development of the macroeconomic tools in its areas of competence that are necessary to support regional integration and harmonization and present the plan to their SCs in 2010.

  Response: This program document sets out on how AFE would support regional integration and harmonization (see Section II for more details). AFE will report progress in these areas at the SC to facilitate coordination with other TA providers.

- **Recommendation 6:** By the end of Financial Year (FY2010)[5] OTM should prepare a manual that codifies the organization, management and administrative procedures for the RTACs.

  Response: This work has already started. OTM hosted a 2-day internal RTAC retreat with Center Coordinators and IMF HQ staff in December 2008, at which action items were identified and a timetable was developed. OTM is expected to prepare this manual in the course of FY 2010. While most of the manual would be on internal procedures, relevant parts would be shared with the SC.

- **Recommendation 7:** As part of the next RTAC Review, OTM should prepare a Ten Year Vision for RTACs that outlines the strategic implications for IMF.

  Response: OTM intends to prepare a RTAC Review for discussion at the IMF Executive Board in FY 2010, which will lay out the IMF's long-term vision on the RTACs.

- **Recommendation 8:** By the end of 2009 the AFRITACs and OTM should develop formal action plans, identifying the necessary resources and monitorable benchmarks to implement the accepted evaluation recommendations and report the implementation status to the SCs in FY2010 and FY2011.

  Response: Progress on the implementation of the recommendations of the evaluation will be reported at the SCs in FY2010 and FY2011.

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[5] The IMF's financial year runs from May 1 to April 30.

II. How East AFRITAC Would Help The Region to Address its Macroeconomic and Financial Challenges

A. Where Does the Region Stand Now?

19. **Over the last decade, macroeconomic policies supported strong economic growth and contained inflation to single digit levels in most AFE countries.** AFE economies grew at an average rate of 6-7 percent per year since 2003; a higher rate than the average for Sub-Saharan Africa (SSA; see figure). This rapid growth has reportedly contributed to declining poverty rates in almost all countries in the region though real GDP per capita in AFE countries is still lower than the average for SSA. Consumer price inflation remained within the single-digit range for most of the period since 1997, but accelerated lately following hikes in world energy and food prices.

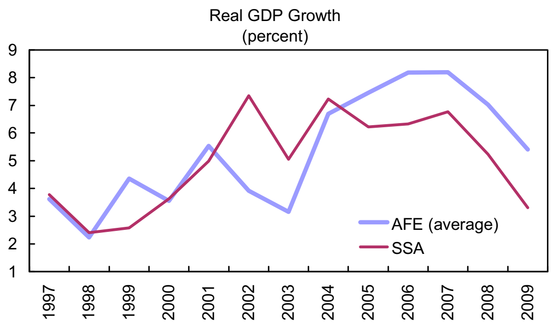
20. **Fiscal trends in the AFE countries pose a number of challenges.** There is consensus on the need to improve macro-fiscal analysis and planning and public financial management with a view to improving the budget process—formulation, execution and monitoring—and creating room for increased social spending. Domestic revenue-to-GDP ratios are significantly below the average for SSA (Box 2), while government expenditure ratios are higher. A relatively high share of fiscal expenditures is financed by foreign aid in some AFE countries. Overall fiscal deficits have remained at about 2 percent of GDP throughout the decade, financed largely by concessional foreign borrowing and domestic borrowing. AFE countries remain susceptible to shocks and should aim to further reduce dependency on donor support in the long term.

21. **Monetary policy has been geared to maintaining low inflation.** Most AFE countries rely on a money targeting framework to achieve their inflation objectives. In line with a move away from direct to indirect monetary control, most central banks in the region have been striving in recent years to develop market-based monetary management tools with the assistance of development partners and international financial institutions, including the IMF.

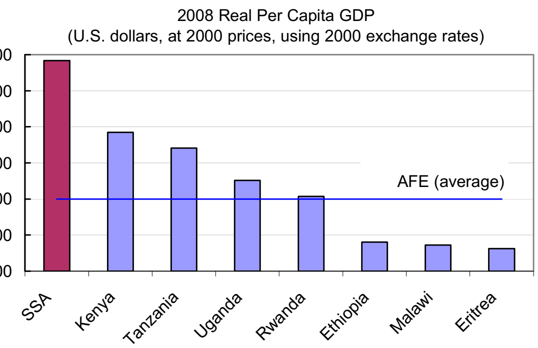
22. **Financial intermediation remains low in AFE countries.** Broad money-to-GDP ratios hover around 20-25 percent of GDP and the share of credit to the private sector in the banking sector's balance sheet remains rather small (see figure). Banks tend to hold large amounts of treasury bills and/or place deposits abroad rather than lend domestically.

Figure 1. East AFRITAC Recent Macroeconomic Developments

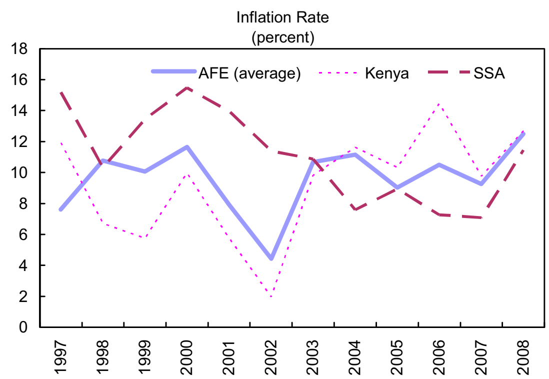
Real GDP growth was strong in recent years…



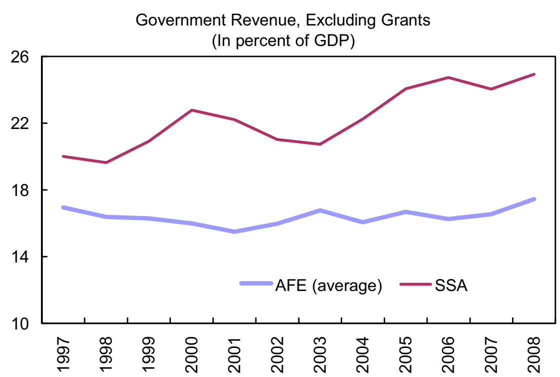
…but GDP per capita in AFE countries remains low.



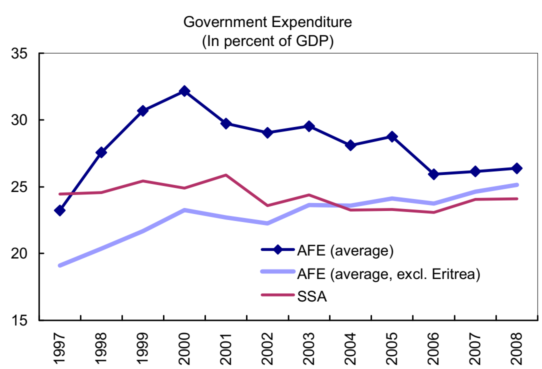
Inflation has stayed mostly within single-digit levels.



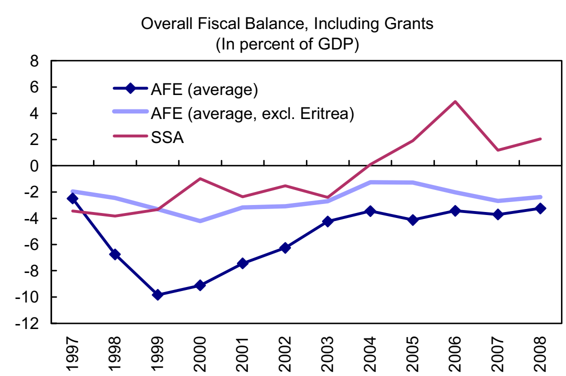
Tax ratios are relatively low when compared with the SSA average…



…while expenditure levels are relatively high, partly financed by external grants.



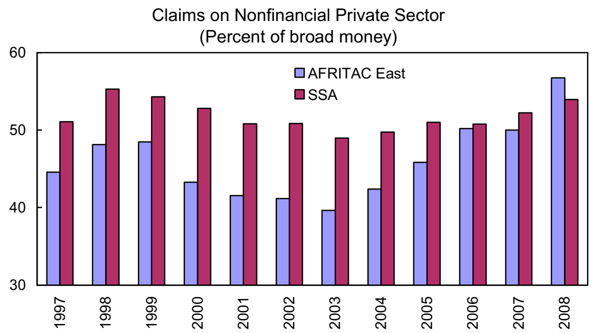
Overall fiscal balance remain flat in recent years.



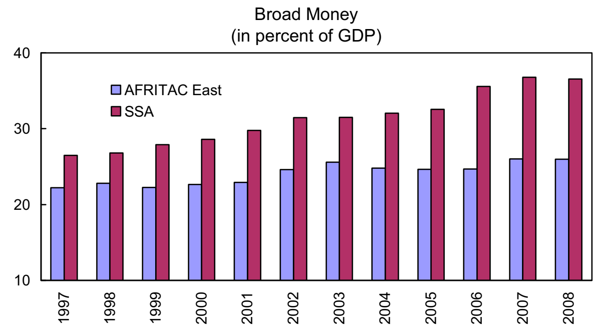
Source: IMF, African Department database and World Economic Outlook (WEO).

Figure 2. East Afritac Recent Macroeconomic Developments

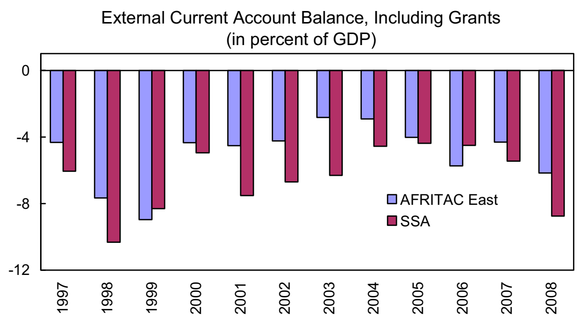
Though private sector credit has been increasing…



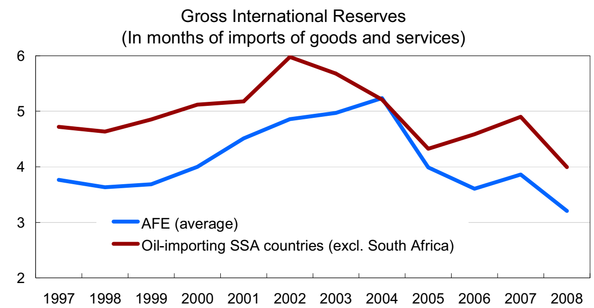
…financial intermediation remains rather low in AFE countries, compared with the SSA average.



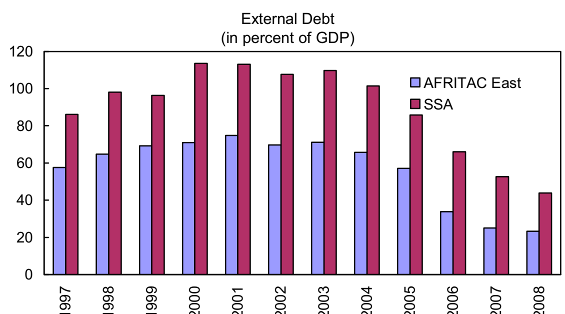
External current account deficits rose with rapid growth and high energy and food prices…



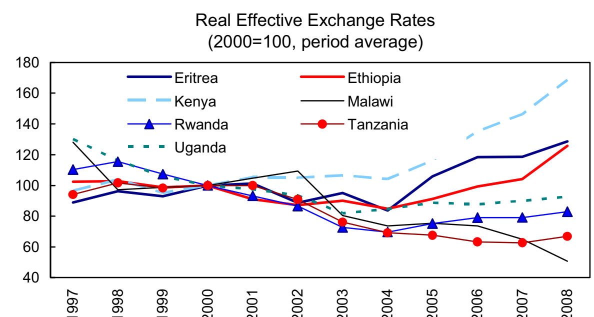
…while international reserve coverage remained prudent..



… benefiting from debt relief initiatives.



Recently exchange rates have appreciated in real terms.

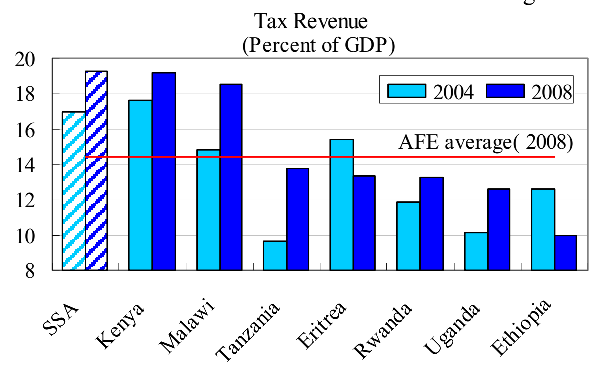


Source: IMF, African Department database and World Economic Outlook (WEO).

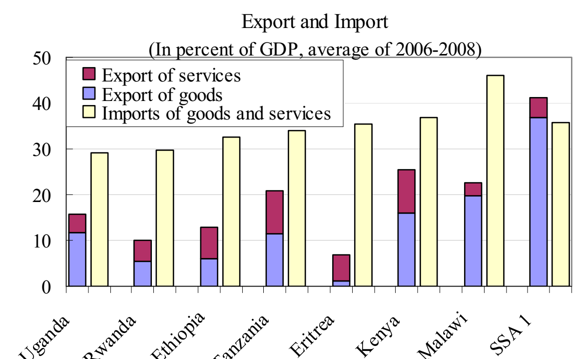
Box 2. Efforts and Difficulties in Collecting Taxes

For the last five years, AFE member countries have been gradually increasing their revenue-to-GDP ratios, including through improvements in tax administration. Efforts have included the establishment of integrated revenue administration agencies and the creation of large taxpayer units.

Still, the average revenue-to-GDP ratio for AFE member countries remains below that for SSA. There are also large differences across AFE countries. Low revenue collection in several AFE countries partly reflect weaknesses in administration, but also difficulties in taxing the agricultural sector.

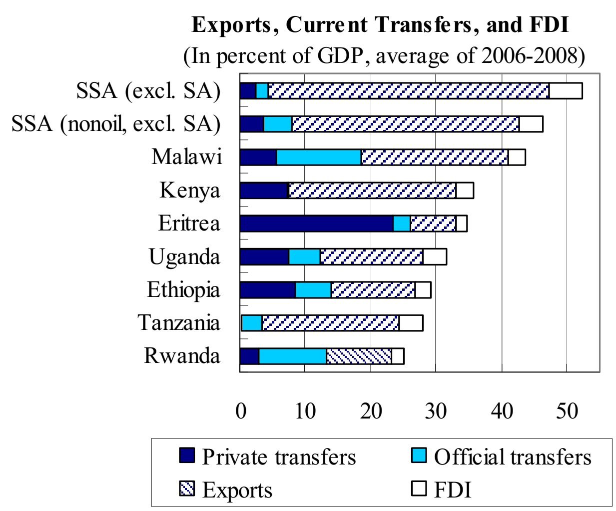


23. **External current account deficits in AFE countries declined during 1998-2004, but rose thereafter in the context of rapid economic growth and the hike in international energy and food prices.** The countries are net oil and food importers. Several have small and poorly diversified commodity export bases (equivalent to 16 percent of GDP, on average) and rely heavily on imports (equivalent to some 35 percent of GDP, on average). Increased capital inflows—mainly foreign direct investment and concessional loans—have financed the current account deficits. AFE countries' external positions have also benefited from debt reduction and reduced debt service payments in the context of the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI). International reserves remain prudent for most countries.

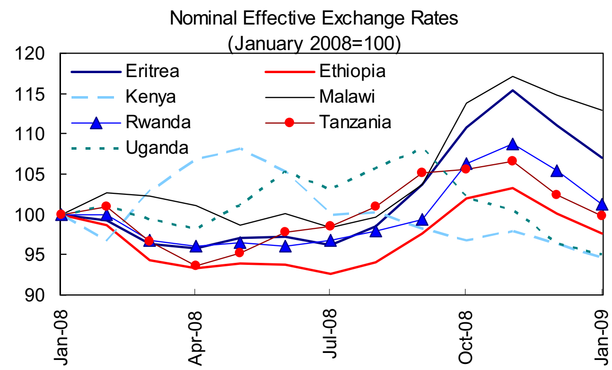


1 SSA (excluding South Africa)

24. **The global financial crisis is posing severe challenges for AFE countries' macro management**. AFE countries are affected at this point because the slowdown in global demand for exports and lowering export commodity prices. Remittance flows (which are particularly important for Eritrea, Ethiopia, Malawi, and Rwanda) also appear to be falling. At



the same time, the fiscal position is coming under stress with revenue declining in response to the slowdown in growth. This in tandem with lower financial inflows has put AFE countries' exchange rates under pressure. Though financial linkages with global markets are limited, the tightening of global credit markets is affecting AFE countries by causing the modest levels of portfolio inflows that have occurred to reverse, deterring/decelerating foreign direct investment, and increasing countries' credit risk.



B. What is the Agenda for the Next Decade?

25. **The global crisis underscores the importance of strengthening economic management capacity and reducing the AFE countries' vulnerability to exogenous shocks.** In particular, it represents an opportunity to consolidate ongoing reforms as outlined in AFE countries' PRSPs. All AFE countries, except Eritrea, have had at least one PRSP. These PRSPs are the countries' blueprint for economic and social development policies, aiming at reducing poverty and achieving the Millennium Development Goals (MDGs). In their PRSPs, governments lay out the constraints facing their countries and the policy measures needed to reduce poverty on a sustainable basis.

26. **AFE countries' PRSPs highlight four overarching challenges, that are in areas of AFE's core expertise:** (1) strengthening government institutions to be able to better formulate, implement and monitor development programs; (2) deepening financial intermediation; (3) strengthening statistical capacity; and (4) making progress in regional integration and harmonization. Addressing these challenges would help the countries to protect the hard-won improvements in macroeconomic stability and strengthen their capacity (Box 3).

Box 3. AFE Country PRSP Reforms in the IMF's Areas of Core Expertise

Supporting macroeconomic stability

PRSPs for AFE countries underscore the need to accelerate growth without rekindling inflation. Operationally, this involves the development of strong central banks with effective monetary instruments to address inflationary pressures. Inflation tends to hurt the poor disproportionately, since they often hold no non-monetary assets that provide a hedge against inflation or are dependent on income, which is unlikely to be fully indexed to inflation.

Fiscal management

- For *Kenya's* PRSP, **PFM** plays a key role, including by increasing the comprehensiveness of the budget, building capacity for a medium-term expenditure framework, and tracking expenditure of core programs for poverty reduction. In addition, the key to improving Kenya's **tax system**, according to the PRSP, is a more transparent tax structure and increased enforcement capacity. Harmonization of taxes within the East African Community is a key stated objective.
- The PRSP of *Tanzania* highlights the need to **mobilize domestic revenue** by improving tax administration.
- Civil service reform is an important pillar of *Ethiopia's* PRSP, aiming to promote an efficient, effective, and accountable public administration. Specific areas in which capacity building is emphasized include **expenditure management** and control (budgeting, audit, and regulatory reforms) and **tax administration** (improving tax collection and enforcement, audit, and VAT).
- *Malawi's* PRSP clearly states that the success of poverty-reducing strategies and the achievement of MDGs depend on the prevalence of good governance and **good fiscal management**, the main tenets of which include improving budget implementation.
- *Malawi's* and *Rwanda's* key strategies to develop the private sector, as outlined in their respective PRSPs, include reforming **tax policy** to reduce the tax burden on the private sector.
- *Uganda* has a comprehensive **public expenditure management framework** and a **revenue mobilization policy** (domestic and harmonization with the East African Community), both of which are embedded in the country's PRSP.

Financial sector reforms

- In *Kenya*, the PRSP mandates strengthening the **supervisory and enforcement capacity** of the central bank. To enhance the business environment in *Kenya*, the PRSP encompasses a comprehensive strategy to remove barriers to investment and lower the cost of doing business, including further liberalizing trade and deepening the financial market.
- Financial sector reforms pursued under *Ethiopia's* PRSP include improving financial services to support private sector development, introducing a credit registry, creating an efficient payments system, and strengthening the supervisory and regulatory capacity of the central bank, including its microfinance supervision department.
- *Rwanda's* PRSP also includes a financial sector strategy, focusing on improving the payment system and strengthening supervision and regulation of the banking sector, including microfinance institutions. The government also adopted a comprehensive Financial Sector Development Plan in 2007, which aims at enhancing access to and the affordability of banking and other financial

services, enhancing savings mobilization, developing appropriate legal, regulatory and policy frameworks for nonbank financial institutions and reorganizing and modernizing the national payments system.

- A major element in *Tanzania's* PRSP's economic management strategy is the implementation of the priority reform measures identified in the country's Financial Sector Assessment Program (FSAP), such as updating legislations, improving access to credit, and strengthening financial sector supervision.

Macroeconomic statistics

- *Ethiopia's* PRSP mandates the development of an efficient and sustainable national **statistical system** that draws on standardized internationally accepted classifications, to help improve the provision of timely and quality information and monitor the evaluation of MDGs.
- A key area of improving governance in *Kenya*, as laid out in its PRSP, is the development of an integrated system for monitoring and evaluating the country's economic recovery strategy, thus providing the government with reliable mechanisms to measure the efficiency and effectiveness of public policy and programs. The PRSP mandates linking such a system to the government's budget and the medium-term expenditure framework.
- *Tanzania's* poverty monitoring system requires the collection and dissemination of good quality and timely statistics, including for tracking progress toward meeting the MDGs.

AFE Country PRSP Reforms in the Fund's Areas of Core Expertise
March 2009

	Latest PRSP 1/	Revenue	PFM	Banking Supervision	Business environment 2/	Statistics
Eritrea	...	...	...	...	...	...
Ethiopia	Sept 2006	x	x	x	...	x
Kenya	March 2004	x	x	x	x	x
Malawi	2006	...	x	...	x	x
Rwanda	Sept 2007	...	x	x	x	x
Tanzania	June 2005	x	x	x	x	x
Uganda	2004	x	x	...	...	x

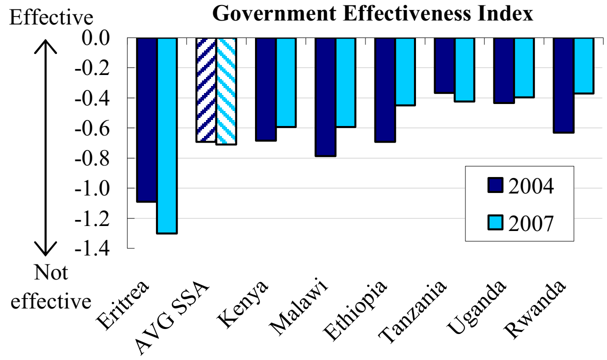
Source: IMF and country authorities.

1/ Ethiopia, Malawi, and Rwanda had their first PRSPs in 2002. Tanzania and Uganda had their first PRSP in 2000.

2/ Reforms in the business environment that are in the core area of the Fund's expertise include simplifying the domestic tax system and improving access to credit.

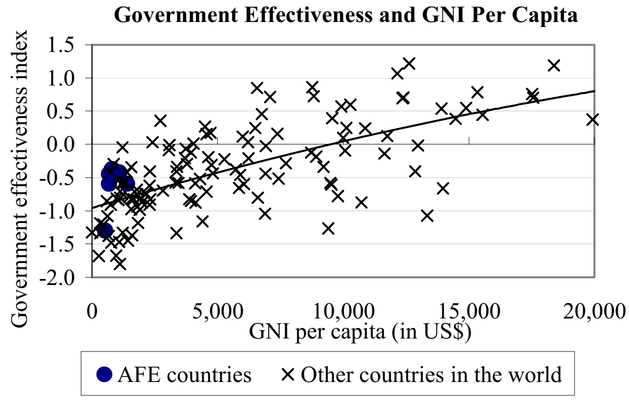
Strengthening Government Institutions

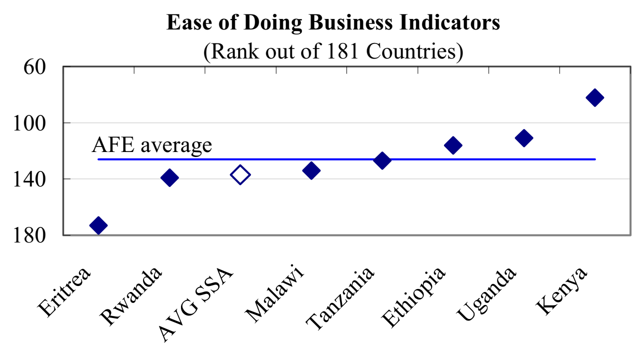
27. **The quality of government institutions is critical to promoting sound economic growth and reducing poverty.**[6] Those countries with better government institutions can be expected to have higher capacity to absorb technical assistance and achieve sustainable results from such assistance. Furthermore, the recent food and fuel price shock and the current global financial crisis highlight the need for high-quality institutions capable of designing and implementing appropriate policy responses.



Source: the World Bank

28. **Though government effectiveness in AFE countries has improved in recent years, there is scope for further strengthening them and easing the burden of doing business:**





- According to the Worldwide Governance Research Indicators, government effectiveness in AFE countries remains low (negative), although it is above the trend line for a list of countries ranked by their gross national income (GNI) per capita (see chart).

- According to the World Bank's Doing Business indicators, AFE countries generally rank low on a worldwide scale, suggesting that the investment climate is still poor. This said, except for Eritrea, AFE countries are ranked higher than or are close to the SSA average, though there are large deviations for specific indicators. Notable is that, for almost all AFE countries, the costs of trading across borders (documents,

[6] A number of studies have revealed the centrality of governance to economic development. The results are summarized in Gupta, S, Powell R and Yang Y (2005) "Macroeconomic Challenges of Scaling up Aid to Africa," IMF Working Paper, No WP/05/179.

time, and cost to export and import) tend to be high. This is an area where AFE assistance in customs administration may help to improve the situation.

Doing Business Indicators
(Rank out of 181 countries)

	Kenya	Uganda	Ethiopia	Tanzania	Malawi	Rwanda	Eritrea	AFE average	SSA average
Ease of Doing Business Rank	**82**	**111**	**116**	**127**	**134**	**139**	**173**	**126**	138
Starting a Business	109	129	118	109	122	60	178	**118**	128
Dealing with Construction Permits	9	81	59	172	156	90	181	**107**	114
Employing Workers	68	11	95	140	96	93	65	**81**	117
Registering Property	119	167	154	142	96	60	165	**129**	125
Getting Credit	5	109	123	84	84	145	172	**103**	118
Protecting Investors	88	126	113	88	70	170	104	**108**	112
Paying Taxes	158	70	37	109	58	56	105	**85**	111
Trading Across Borders	148	145	152	103	167	168	163	**149**	133
Enforcing Contracts	107	117	78	33	138	48	51	**82**	116
Closing a Business	76	51	74	111	135	181	181	**116**	124

Source. Doing Business 2009 (http://www.doingbusiness.org).
Note. Items in red indicate the three lowest rankings in each country.

29. **PFM reforms remain important in all AFE countries**. A well-functioning PFM system facilitates the efficient use of public resources and helps to assure taxpayers as well as donors that their money is used for its intended purpose. It can improve predictability of aid flows and enhance a results-focused monitoring of foreign aid. Strengthened macro-fiscal analysis and reporting, along with enhanced PFM and more effective revenue administration, would allow country authorities to better plan and transparently monitor resources available for pro-poor spending, which is critical for the credibility of the PRSP process. Recent Public Expenditure and Financial Accountability (PEFA) assessments point at a number of challenges facing AFE country authorities (Box 4).[7] [8] In particular, there is a need to improve macro-fiscal analysis, budget formulation and implementation, and auditing processes.

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[7] The PEFA program, started in December, 2001, and has been jointly financed by the World Bank's Development Grant Facility (DGF), the European Commission (EC), the UK's Department for International Development (DFID), the Swiss State Secretariat for Economic Affairs (SECO), the Royal Norwegian Ministry of Foreign Affairs, the French Ministry of Foreign Affairs and the IMF. As a part of the Program's activities, a performance measurement framework has been developed to provide consistent information for assessing and monitoring country PFM performance.

[8] See also the Fiscal Transparency website available at http://www.imf.org/external/np/fad/trans/index.htm.

Box 4. Public Expenditure and Financial Accountability in AFE Countries

The Public Expenditure and Financial Accountability (PEFA) indicators prepared for five AFE countries show low scores for control in budget execution, timeliness of budget reporting, external scrutiny, and donor coordination.

PEFA Indicators of the Performance of Public Financial Management

		Ethiopia (2007)	Kenya (2006)	Rwanda (2007)	Uganda (2008)	Tanzania (2006)
A. PFM OUT-TURNS: Credibility of the budget Scoring						
PI-1	Aggregate expenditure out-turn compared to original approved budget	A	C	B	B	A
PI-2	Composition of expenditure out-turn compared to original approved budget	D	A	D	C	D
PI-3	Aggregate revenue out-turn compared to original approved budget	B	D	A	A	A
PI-4	Stock and monitoring of expenditure payment arrears	A	B	D+	D+	A
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency Scoring						
PI-5	Classification of the budget	B	C	A	A	C
PI-6	Comprehensiveness of information included in budget documentation	B	B	D	A	A
PI-7	Extent of unreported government operations	D+	C	D+	B+	B
PI-8	Transparency of Inter-Governmental Fiscal Relations	B	B	B	D+	C
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C+	C+	D+	C	C
PI-10	Public Access to key fiscal information	D	B	C	C	B
C. BUDGET CYCLE Scoring						
(i) Policy-Based Budgeting						
PI-11	Orderliness and participation in the annual budget process	A	B	B+	B	B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	C	C+	B+	B
(ii) Predictability & Control in Budget Execution						
PI-13	Transparency of taxpayer obligations and liabilities	B	B	A	B	B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C	C+	B+	D+	C
PI-15	Effectiveness in collection of tax payments	n.a.	D+	D+	D+	D
PI-16	Predictability in the availability of funds for commitment of expenditures	D+	B+	B+	C+	B
PI-17	Recording and management of cash balances, debt and guarantees	B	B	B	D+	B+
PI-18	Effectiveness of payroll controls	B+	D+	D+	D+	C+
PI-19	Competition, value for money and controls in procurement	C+	B	B	C	C+
PI-20	Effectiveness of internal controls for non-salary expenditures	C+	C	D+	C	C+
PI-21	Effectiveness of internal audit	C+	C	C+	C	C
(iii) Accounting, Recording and Reporting						
PI-22	Timeliness and regularity of accounts reconciliation	B+	C	B+	D	B
PI-23	Availability of information on resources received by service delivery units	n.a.	B	D	B	C
PI-24	Quality and timeliness of in-year budget reports	C+	C+	D+	C+	B
PI-25	Quality and timeliness of annual financial statements	C+	D+	C+	B+	B
(iv) External Scrutiny and Audit						
PI-26	Scope, nature and follow-up of external audit	C+	D+	D+	C+	D+
PI-27	Legislative scrutiny of the annual budget law	D+	D+	C+	B+	C+
PI-28	Legislative scrutiny of external audit reports	C+	D+	D+	D+	C
D. DONOR PRACTICES						
D-1	Predictability of Direct Budget Support	n.a.	D	B+	D+	C
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	C	D	D	C	A
D-3	Proportion of aid that is managed by use of national procedures	n.a.	D	D	n.a.	C

Note 1: The highest performance scores an 'A'.

Note 2: Eritrea has not conducted a PEFA. The last PEFA for Malawi was finalized in June 2008, but the report is not yet publicly available.

Source: http://www.pefa.org

Deepening Financial Intermediation

30. **Reviews under the joint IMF-World Bank Financial Sector Assessment Program (FSAP) for five of the AFE countries (Kenya, Malawi, Rwanda, Tanzania and Uganda)**

conclude that the financial systems are not sufficiently geared to supporting the countries' growth and poverty reduction objectives.[9] Banks—the dominant financial institutions—are generally well capitalized, highly profitable and liquid. But, reflecting the high credit risk environment in which they operate, banks' portfolios tend to be dominated by investments abroad and government securities rather than loans to the private sector.

31. **The FSAPs point to the need to deepen financial intermediation**. Obstacles to developing financial sectors include outdated legal provisions for regulating and supervising financial institutions, insufficient protection of creditor rights in banking laws, inefficient payments and settlement systems that increase transaction costs, and limited information infrastructure for assessing risk. The FSAPs also highlight the need for developing capital markets to provide longer-term financing and for better regulation and supervision of microfinance institutions which are growing rapidly in many countries.

Strengthening Statistical Capacity

32. **There are important differences across AFE countries in terms of the quality of data collection and macroeconomic data compilation methodologies** (Appendix II, Table 1). According to the World Bank Country Statistical Information Databank, Eritrea is a weak performer, whereas Ethiopia is ranked high with respect to source data collection practices—which include inputs from main population, economic, and poverty censuses—and compilation statistical methodologies along the manuals produced by the United Nations, the IMF, and other International Financial Institutions. The remaining AFE countries produce macroeconomic data that are, on average, of about the same quality as those produced by low and middle income International Development Association (IDA)/International Bank of Reconstruction and Development (IBRD) countries.

33. **Accordingly, data compilation challenges remain significant for all AFE countries**. For one, the base year information used in the compilation of national accounts statistics in four out of seven member countries is more than ten years old. An update of such information would capture the appearance of new economic activities (and the termination of others) due to technological and institutional developments that affect production levels and relative prices of goods and services. A timely production of consolidated government accounts is also pending in most AFE countries, although, except for Eritrea, central government data appear to be produced and disseminated to the IMF and other data users through local dissemination venues on a monthly/quarterly basis (Appendix II, Table 2).[10]

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[9] FSAPs are designed to assess the stability of the financial system as a whole and to help countries identify and remedy weaknesses in the structure of their financial sector, thereby enhancing their resilience to macroeconomic shocks and cross-border contagion.

[10] There are major lags with the publication of national accounts, government finance statistics, and balance of payments data in the IMF's *International Financial Statistics* (*IFS*) while *IFS* publication of inflation and monetary statistics are timely for almost all AFE member countries.

Production of monetary data, largely produced by the central banks in the region, is timely (Appendix II, Table 3).

34. **Meeting the IMF Special Data Dissemination Standard (SDDS) is another major challenge.** SDDS was established by the IMF in 1996 for member countries that have or might seek access to international capital markets, to guide them in providing their economic and financial data to the public. SDDS, with its criteria for the development of a national summary data webpage, an advanced release calendar, and the dissemination of data for 18 major macroeconomic data categories, remains a challenge for some AFE countries at this stage. While none of the AFE countries currently subscribes to SDDS, Uganda and Tanzania are preparing to subscribe, having received TA under the DFID GDDS Phase II project on the preparation for subscription to the SDDS. All AFE countries, except Eritrea, participate in the less demanding framework of the General Data Dissemination System (GDDS), which, as a stepping stone for SDDS, emphasizes plans for improvement and reports on data coverage, periodicity, timeliness, and data dissemination, albeit without a commitment to disseminate those data along the requirements of the SDDS. This said, a reported weakness on the quality of GDDS participation is that most country pages are not updated on a regular basis to properly benchmark and monitor the implementation of existing statistical development plans.

Supporting Regional Integration and Harmonization Efforts

35. **AFE countries belong to multiple regional organizations which seek to create customs and monetary unions among their members.** All but Tanzania belong to the Common Market for Eastern and Southern Africa (COMESA), four (Kenya, Rwanda, Tanzania and Uganda) belong to the East African Community (EAC), and two (Malawi and Tanzania) are members of the Southern African Development Community. COMESA seeks to create a "fully integrated and internationally competitive and unified region in which goods, services, capital and persons move freely (among the 19 member countries)." It is behind schedule on the formation of a customs union (by 2004), and aims at creating a monetary union by 2025. The EAC countries established a Customs Union in 2005 and have set 2010 and 2012 as target dates for establishing a Common Market and Monetary Union, respectively. Twelve of the fourteen members of SADC are in the process of establishing a Free Trade Area.

36. **Leaders have called for establishing one customs union covering COMESA, EAC and SADC countries.** At a summit meeting of countries belonging to the three organizations held in October 2008, it was agreed to establish a Free Trade Area as the first step toward a merger of the various plans for establishing customs unions. A task force was set up to develop a road map for implementing the merger.

AFE Countries' Membership in Regional Organizations

	COMESA[1]	EAC[2]	SADC[3]
Eritrea	√		
Ethiopia	√		
Kenya	√	√	
Malawi	√		√
Rwanda	√	√	
Tanzania		√	√
Uganda	√	√	

[1] The Common Market for Eastern and Southern Africa; it has a total of 19 member countries.
[2] The East African Community. Burundi is the only other member of EAC not shown above. Burundi is covered by Central AFRITAC (AFC).
[3] The Southern African Development Community; it has a total of 14 member countries.

C. How Could East AFRITAC Assist?

37. **AFE is well-positioned to help its member countries to address the challenges highlighted above.** AFE has a well-established track record of delivering relevant, high-quality TA efficiently to its members. Three factors have combined to ensure AFE's effectiveness and responsiveness to the needs of its member countries: (1) proximity to the countries; (2) country authorities' ownership of AFE's work program, including efforts by all parties to ensure consistency of the work program with PRSPs; (3) backstopping by IMF HQ which ensures consistency in the quality of the assistance provided; and (4) integration with other IMF TA and IMF surveillance and program activities. Flexibility is built into AFE's work program through annual SC reviews or, if there is urgency, through reprioritization of short-term experts.

38. **AFE TA is unique in facilitating coordinated inputs involving different dimensions relevant for macroeconomic management.** For example, in order to enhance the efficacy of monetary operations and budget execution, experts in monetary operations and public financial management are working together to improve Treasury cash management through the adoption of a zero balanced account arrangement in Tanzania. Also, AFE statistical advisor can provide insights in data quality, which in turn inform the work of the macro fiscal resident Advisor.

39. **AFE capacity building will continue shoring up macroeconomic management in the region.** As stated by the African Governors, TA needs are large, ranging from basic improvements in countries with very low administrative capacity, to specific issues in countries that are further along in their reform programs. In all AFE countries, there are areas in which reforms are at early stages of implementation. AFE will provide support to enable

these reforms to take root in its member countries. Below are brief summaries of some of the activities envisaged for Phase III; more details are provided in Section III.

- *Revenue administration—boosting low revenue ratios and strengthening tax and customs administration.* AFE will continue to support efforts to integrate domestic tax administration and implement taxpayer-focused strategies in AFE member countries. To reduce the high cost of taxpayer compliance, tax procedure codes should be enacted or refined where they are in place (like Rwanda). Efforts will also center on risk-based compliance and enforcement strategies, which are required to support the implementation of taxpayer self-assessment. Also AFE will assist customs agencies in facilitating cross border trade.

- *Public financial management—enhancing transparency in the use of public resources.* AFE will continue to provide assistance to member countries to modernize their budget preparation frameworks, cash management practices, and accounting and reporting systems. Support to budget processes include introduction of program budgeting and strengthening the MTEF and budget process at the district level. In the area of accounting and reporting, continuing needs remain for the development and production of consolidated in-year fiscal reports and annual statutory reports.

- *Macrofiscal analysis and management—improving macroeconomic analysis.* AFE will extend its work to support members' efforts to improve macro-fiscal analysis, in support of sound annual and medium-term budget implementation. This involves improving forecasting and financial programming frameworks, tools for the assessment of new policies and fiscal outcomes and risks, and analysis and reporting in budget documents and monthly and quarterly reports.

- *Monetary policy and operations—facilitating a more effective monetary control.* AFE will extend its assistance in promoting well functioning interbank money and domestic debt markets (including secondary markets) to its member countries.

- *Banking supervision—setting the stage for financial deepening.* AFE has assisted five of its members to develop frameworks for the practice of consolidated supervision. The countries are at different stages of implementation and will require differing types of assistance in the future as they continue to implement these new supervisory arrangements.

- *Statistics—providing better information to policy makers and the public.* AFE has played a central role in helping member countries produce quarterly national accounts estimates. AFE member countries are at an initial stage of this process. Accordingly, AFE intends to provide continued assistance to support the timely production and dissemination of these statistics.

40. **AFE will also help members adapt their financial frameworks to a changing world environment.** The current global financial crisis has been a catalyst for calls for an in-depth review of the adequacy of international standards and best practices for financial sector regulation. As the discussion of these issues deepens, such as the scope of supervisory oversight, the adequacy of risk-assessment methodologies, the appropriateness standards for assessing the adequacy of capital and liquidity, and the effectiveness of existing arrangements for cross-border supervision gains momentum, it is likely that there will be a rethinking of some of the current standards of financial sector regulation. AFE will provide continued support to its members if they are required to modify their existing supervisory regimes in response to emerging consensus on ways in which the current international standards and best practices should be strengthened.

41. **Last but not least, AFE provides a platform to support regional integration efforts.** AFE has contributed to regional integration by assisting country authorities in their efforts to harmonize taxes, move toward greater trade liberalization, and harmonize the legal and regulatory frameworks for the financial sector. AFE will continue to support harmonization of regional efforts such as implementation of EAC-consistent cross-border payments and settlement architectures, and consolidated (i.e., cross-border) regulatory and oversight frameworks.

III. East AFRITAC's Next Five Years ("Phase III")

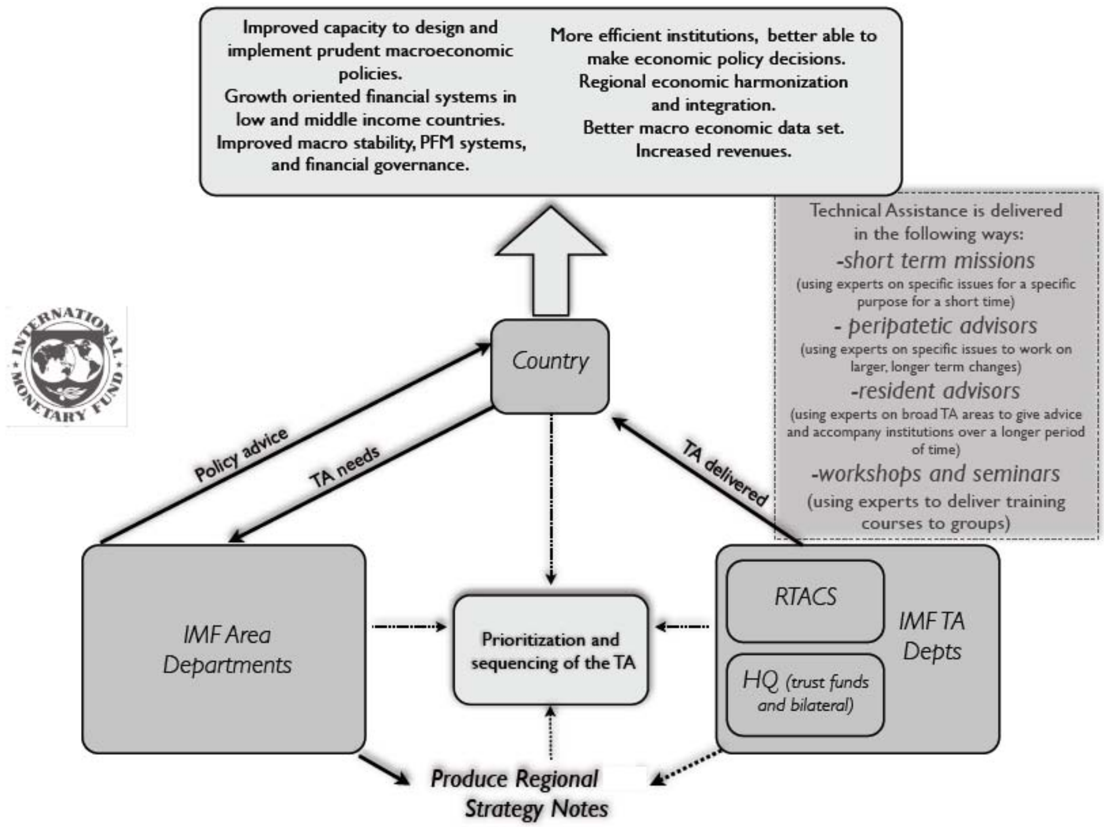
42. **AFE's objectives over the next five years are being developed jointly with recipient countries, donors and other TA providers.** The starting point for this draft program document were recipient countries' PRSPs complemented by, if available, sectoral-specific reform strategies. AFE's work has been integrated into IMF HQ TA and IMF policy and surveillance work in AFE countries through an internal prioritization process to ensure that AFE TA remains highly relevant and focuses on the IMF core expertise.[11]

A. East AFRITAC and Other IMF Technical Assistance

43. **All IMF TA, regardless of financing source and delivery mode, is integrated with each other and with the IMF's broader lending and surveillance activities.** In consultation with country authorities, the IMF's Africa Department integrates AFE countries' reform agendas with the IMF's own policy and surveillance perspectives, drawing on the technical expertise of TA departments. They identify needs for TA and set priorities across TA sectors and balance short- and medium-term considerations, while relying on the IMF's TA departments' expertise and country knowledge for prioritization, sequencing, and selecting the delivery modality. This internal prioritization process provides checks and

[11] The Regional Strategy Note (RSN) for Africa reflects the result of this prioritization and sets out a medium-term TA agenda for all African countries. The RSN includes the work of AFE.

balances, which ensure that IMF TA remains highly relevant and focuses on the IMF core expertise, while taking into account regional developments. The resulting African Regional Strategy Note (RSN), which is shared with recipient countries and donors, sets out a joint medium-term TA vision for the region, providing the basis for coordination of all IMF TA activities as well as their integration into the IMF's surveillance and lending operations.



44. **The IMF's ability to provide continued capacity building in the medium term increasingly depends on additional external finance**. IMF financed TA is prioritized to building the capacity needed to successfully implement macroeconomic policies, including under IMF programs, and—subject to resource availability—medium-term capacity building. In this respect, the IMF undertakes diagnostic assessments of weaknesses and formulates plans to address them. High and rising demand for IMF TA has recently been reinforced by the impact of the global financial crisis, increasing the need for external financing to supplement the IMF's own assistance resources. Such assistance leverages the IMF's expertise and experience for medium-term capacity building. Depending on donors' priorities, external financing is channeled into a topical or a regional trust fund. Complementing the proven model of the RTACs, topical trust funds provide global geographical coverage and specialized topical scope, drawing on a centralized pool of experts at IMF HQ or from the IMF's international expert roster. The topical trust funds

create synergies with the work of the IMF's regional centers, which focus on hands-on implementation of such advice. The RSN ensures that all TA activities are integrated and coordinated, providing a continuum of coverage throughout the process from diagnostics to day-to-day implementation on the ground. Open lines of communication, including via TA departments' backstopping of RTACs and external experts, ensure consistency, cross-fertilization, and operational relevance.

45. **To best meet countries' needs, specific delivery modes are chosen depending on the complexity of the task and countries' implementation capacity.** Diagnostic HQ-led missions often are the starting point for TA delivery; they generate blueprints for reform projects with implementation devolved to the modality (such as the RTACs) that best meets the needs of the country. HQ missions draw on expertise required for the specific subject and cross-country knowledge. RTACs activities have a deep knowledge of the region and countries, including cross-cutting and regional integration issues, and are closer to their clients. Frequent contact and missions of RTAC resident Advisors in the region provide step-by-step assistance in implementing reforms, including putting together the nuts and bolts. Missions from both HQ and RTACs draw on a vetted roster of external short-term experts to complement the skill set if and as needed. For follow-up on specialist issues or where RTACs are not available, peripatetic advisers provide regular follow-up missions over a longer period of time. In countries where capacity is particularly weak, long-term resident advisers—backstopped by HQ—are stationed to provide guidance on a day-to-day basis and—if needed and wanted—temporarily supplement the authorities' capacity.

B. Measuring How East AFRITAC Achieves Its Objectives

46. **Results-focused management is the main tool used to assess the achievements of AFE.** A robust framework of the AFE results, presented in a clear and logical manner at the beginning of the program period, improves the measurement of the objectives and results. The IMF and AFE's results-focused management is implemented through the Technical Assistance Information Management System (TAIMS). The results-focused framework is being coordinated with other TA providers, and indicators linked to the extent possible to those of other donors to facilitate coordination (for instance, PFM is linked to the PEFA framework). In light of the experience of other international organizations and governments that have adopted similar frameworks, AFE and the IMF recognize that identifying good indicators is a dynamic and iterative process, and that the objectives and indicators may be refined as the program is implemented. The SC of AFE will be one of the fora for these discussions.

47. **The annual report to the SC is an opportunity to measure and monitor progress toward the results.** AFE produces a detailed report on the work completed in the year, focus on how far the capacity development has gone toward achieving the overall objectives.

48. **To complement the results-focused framework, AFE will use short questionnaires to assess the success and relevance of the TA provided.** The questionnaire will be designed to gauge whether the TA has been effective in facilitating outcomes and to understand potential obstacles to the implementation of the TA advice. Responses will also provide information as to whether the TA directly responded to the needs of the authorities. This process will assist in ensuring that AFE remains demand driven, and assist in the decisions requiring the prioritizing the TA. The questionnaire will be kept short to avoid it becoming an administrative burden. Consolidated responses will be presented to the SC.

How Does AFE Deliver Results and How Does it Get Traction?

OBJECTIVE

Improved analyses and effectively implemented policies in macroeconomic, fiscal, monetary, financial sectors, and related statistical fields as well as legal and administrative framework to contribute effectively, including at a regional level, to reducing poverty and enhancing growth coordinated with countries, donors and other TA providers
Indicators: specific by TA areas to be selected in PRSP and other relevant sectoral national or regional programs (*)

↑

OUTCOMES

A+B. National Reform programs in the IMF core areas of expertise are tailored to countries specific needs and efficiently implemented Indicator: follow-ups of PRSP and other relevant national reform programs(*)	C. Regional Harmonization improves in IMF core areas of expertise Indicator: follow-ups of implementation of relevant regional policies(*)	A+B+C+D+E+F. Coordination, ownership, prioritization and efficiency improves in TA and training delivery to areas of IMF core expertise Indicator: follow-ups of the Paris Declaration for indicators relevant to the AFE's Activities in the region	F+G. IMF TA delivered cost-efficiently Indicator: actual cost of TA delivered through RTACs

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EXPECTED RESULTS

A.1. Advice is effectively delivered by the AFE Indicator: specific by TA area in TA report, and questionnaire(*) A.2. Needs for TA are periodically assessed and national reform programs are closely followed up by the AFE Indicator: TA diagnostic mission report issued, and questionnaire(*) A.3. Knowledge is improved & experience shared during the AFE national seminars Indicator: specific by TA area in TA/training report, and questionnaire(*) A.4. Results of TA and training activities are shared Indicator: in questionnaire(*)	B.1. Advice (specialized) is effectively & apropriately delivered by the AFE Indicator: specific by TA area in TA report, and questionnaire(*) B.2. Knowledge is improved & experience shared during the AFE national seminars Indicator: specific by TA area in training questionnaire(*) B.3. Results of TA and training activities are shared Indicator: in questionnaire(*)	C.1. Knowledge is improved & experience shared & networking improved among country officials Indicator: in questionnaire(*), shared list of participants to regional workshops C.2. Results of regional workshops are shared Indicator: in questionnaire(*)	D.1. Effective coordination with both country authorities and donors 1. Indicator: number of TA & training activities of the AFE coordinated with other donor within the relevant national sectoral reforms(*) D.2. Results and impact of the TA delivered by the AFE are assessed and shared Indicator: six-monthly reports inform the SC of results	E.1. TA & training delivered by the AFE in line with IMF's standards and consistent with HQ TA as well as surveillance and lending activities Indicator: questionnaire on quality and relevance of advice(*) E.2. Needs for TA are assessed and the TA delivered by the AFE adjusted accordingly Indicator: TA diagnostic mission report issued	F.1. TA & training delivered by RTAC fully integrated in the IMF strategy and efficiently coordinated with other IMF TA delivery modalities Indicator: The AFE activities/objectives described in the RSN F.2. Cost efficient use of IMF's administrative systems Indicator: all expenses processed through IMF's systems (accounting, HR, procurement) F.3. Control of the financials Indicator: use of funds in line with the scope of the the AFE program document over the funding cycle F.4. Donors are fully aware of the use of their contribution Indicator: periodic report issued on time	G.1. Efficient administrative support to TA activities Indicator: quality of accounting documents, satisfaction of short-term experts, and participants (questionnaire(*))

(*) *external source of indicator*

How Does AFE Deliver Results and How Does it Get Traction?

OUTPUTS	A.1. TA missions Indicator: number of TA missions A.2. Periodic TA diagnostic missions (some coordinated with E.2) Indicator: number of TA-diagnostic missions A.3. Training Indicator: number of workshops A.4. Coordination Indicator: participation in relevant sectoral multi-donors groups, donor meetings during missions, TA reports shared	B.1. TA missions (specialized) Indicator: number of TA missions B.2. Training (specialized) Indicator: number of national workshops B.3. Coordination Indicator: donor meetings during missions, TA reports shared, number of joint missions	C.1. Regional workshops / seminars Indicator: number of regional workshops / seminars C.2. Coordination Indicator: donor meetings, TA reports shared	D.1a. Secretariat of the Steering Committee (SC) of the AFE Indicator: annual work plan with prioritized activities, SC meetings Held on time with documentation provid advance, minutes of the SC meeting delivered on time, continued contact with SC members (electronic consultation) D.1b. Coordination Indicator: number of TA and training reports disseminated, participation in overall multi-donors coordination groups, number of questionnaires D.2. Result-based management Indicator: number of progress reports assessing the impact of TA and training activities D.3. Management of [RTAC] (with F.3): Indicator: expenses are timely reported to HQ to be registered in the accounting systems, internal annual feedback surveys by RTACs and HQ staff on coordinator's management D.4. Communication Indicator: hits on the website, number of press releases, public events, regular annual reports	E.1. Backstopping (assistance, reviewing, strategic advice) of activities implemented by 7 Indicator: SC participation by HQ departments, number of inspection visits by HQ, number of HQ visits of resident advisors. E.2. TA diagnostic missions (coord. with A.2) Indicator: number of TA-diagnostic missions	F.1. Internal coordination with other IMF TA activities, surveillance and lending activities Indicator: The AFE activities/objectives described in the RAP F.2. Administrative assistance to the RTAC Indicator: number of experts contracts F.3. Financial follow-up of [RTAC] Subaccount (with D.3) Indicator: clear and timely financial reporting F.4. Periodic reporting to Donors Indicator: periodic report issued in time, quality	G.1. Accounting and administrative tasks Indicator: number of missions and seminars
ACTIVITIES-INPUTS delivery modalities	A. Resident Advisors Indicator: number of months of resident advisors	B. Short-term Experts Indicator: number of days of short-term experts	C. Participant expenses to regional workshops Indicator: total amount of participant expenses	D. Center Coordinator Indicator: number of months of center coordinator, number of missions by the center coordinator to the beneficiary countries	E. HQ – Backstopper Indicator: total cost of hours spent on backstopping	F. HQ – Project Management (legal, budget, financial, supervision) Indicator: total cost of hours spent on project management	G. Center's administrative staff Indicator: number of months of Center's staff

C. Integration and Synergies with Other TA Providers

49. **AFE provides a robust platform for implementing the March 2005 Paris Declaration which calls for efforts to harmonize, align and manage aid for results.** Through the SC, and the relationships and expertise at regional level of AFE staff and advisors, TA activities are coordinated with those of other TA providers and are integrated with the member countries' poverty-reduction and development strategies. Such coordination is all the more important because IMF TA is mainly upstream, building the economic policy and legislative frameworks. Other TA providers often rely on this work to ensure the effectiveness of their TA work or donor assistance. For example, the success of drives to input development aid directly into country budgets will be determined by the presence of a functioning public financial management framework.

50. **AFE's continued coordination with the many other TA providers active in East Africa is key to its success and will be further strengthened.** AFE involves international and regional capacity building institutions in its works. The institutions concerned include the AfDB, the Africa Capacity Building Foundation (ACBF), Collaborative African Budget Reform Initiative (CABRI), the East African Community (EAC), the Financial Sector Reform and Strengthening (FIRST) Initiative, the Macro-Economic and Financial Management Institute (MEFMI), the South African Revenue Service (SARS) and the World Bank. AFE also collaborates with several bilateral institutions (see sections III C-I for coordination on a sectoral basis and Appendix IV).

51. **To help ensure complementarities and synergies with other TA providers, the AFE Coordinator is the focal point for this liaison with bilateral and multilateral agencies in the field.** In particular, the Coordinator will

- Disseminate the African RSNs, [12] including the IMF's Resource Allocation Plan (RAP), which details all TA missions and assignments planned in a IMF financial year, including those planned for AFE.

- Circulate HQ TA reports or reports prepared by RTAC experts to the SC and, upon request, other relevant stakeholders if the TA recipient consents (consent by the TA recipient would be given on a no-objection basis).[10] This will provide AFE recipient countries, donors, and other TA providers with the information they need to better coordinate with IMF and AFE TA.

- Strengthen donor briefings, including through the IMF's Resident Representative Offices. Information on AFE missions will be posted on AFE's website, which will

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[12] According to the IMF's new dissemination policy, which will be adopted in for FY2010. [add weblink when it becomes available]

include contacts with other donors. If possible, AFE missions will also provide donor briefings in the field.

- Launch AFE's redesigned and enhanced website, including contact information to foster donor coordination.

- Continue publishing AFE's annual reports.

D. Agenda—Revenue Administration

Coordination with other TA providers

52. AFE is working with other development partners, who are assisting the revenue agencies in the region with funding to implement their revenue administration reform and modernization plans. Tanzania, for instance, is receiving multi-development partner support from the World Bank, DFID, DANIDA, the European Commission, and GTZ. Rwanda and Uganda are being supported by DFID. Ethiopia is benefiting from a World Bank-led basket funding for public sector capacity building. In all missions conducted by the AFE Resident Advisor, a point is made to meet with development partner counterparts to discuss the status of the reform programs and especially to avoid duplication in areas of TA. In Tanzania and Rwanda, the Resident Advisor is a member of the multi-development partner mission that reviews performance of the tax modernization program. Efforts have also been made to jointly coordinate capacity-building activities with regional institutions, such as regional tax administration institutes (Kenya, Rwanda, and Tanzania), World Customs Organization East and Southern Region Capacity Building Center (Nairobi), and the South African Revenue Service.

Phase III—Country and Regional Objectives

53. With combined IMF HQ, AFE, and other development partner support, the majority of AFE members have made commendable efforts in implementing reforms designed to embed the fundamentals of a modern revenue administration–the initial results are encouraging. The objective of the programs is to establish efficient and modern revenue administrations, benchmarked against international best practice. Regional revenue agencies have consistently relied on the IMF HQ assistance in the reform design, and on AFE follow-up support in the implementation. This said, the reform programs are still in their early stages and the broader strategic objectives are yet to be realized. Therefore, the thrust of AFE capacity-building programs during Phase III (FY2010-14) will be to assist members to consolidate the gains made so far and deal with emerging issues. The following is a summary of the proposed focus of AFE TA and expected outcomes by country.

Regional Issues: East African Community (EAC)

54. The objective will be to support regional integration by assisting regional customs agencies implement EAC's strategic plan. The plan identifies a number of development objectives for customs agencies within the EAC, including: trade management; modernization and harmonization of systems and procedures; risk management, human resource development; and legislation. The respective countries have set up project management teams to coordinate work in these areas, and in-country support will be provided through workshops and targeted TA. Special focus will also be on assisting the EAC Directorate of Customs and member countries review and update the EAC Customs Management Act to incorporate best practice.

Eritrea

55. Limited progress has been made in implementing revenue administration reforms, primarily owing to the delay in enacting the necessary enabling laws (which have been in draft form for over six years). This has impeded implementation of the necessary administrative reforms, and results have been suboptimal where reforms have been implemented. During the current fiscal year, AFE has been assisting the authorities in designing a modernization and computerization strategy, and related implementation plan, as a basis for the next phase of tax administration reform. The greatest challenge will be securing the authorities' commitment and support for the reform.

56. The objective will be to modernize tax and customs operations. AFE will focus on catalytic areas that will include adopting enabling revenue administration legislation, implementing taxpayer self–assessment, promoting risk-based compliance and enforcement strategies, and automating tax operations.

Ethiopia

57. Revenue sector reforms are being supported under the Public Sector Capacity Program's (PSCAP) basket-funding arrangement whose main driver is the World Bank. Recent initiatives include the completion of a revenue sector-wide business process review, integration of tax and customs administration under a revenue authority structure, and automation of tax and customs operations. However, mixed results have been recorded so far, and some of the reforms that have been implemented are inconsistent with international best practice. Also, Ethiopia's revenue has declined from 11.6 percent of GDP in FY 2004-05 to about 9½ percent, making it one of the lowest tax-to-GDP ratios in the region. Other key challenges include the fragmentation of revenue administration and low administrative capacity.

58. Supporting the PRSP objective of improving revenue administration, efforts will be designed to increase the tax-to-GDP ratio to at least its FY 2004-05 position. For tax

administration, special focus will be placed on strengthening audit and collection enforcement, and administration of the value-added tax (VAT). Support for the implementation of effective compliance and enforcement strategies for tax and customs administration will also be provided. Assistance will be provided in coordination with the World Bank, and specifically by the World Bank-funded resident long-term advisor, to ensure maximum impact.

Kenya

59. Good progress has been made in implementing revenue administration reforms, and key results include: (i) integration of tax administration under a function-based structure, and implementation of segmentation approaches for the management of taxpayers' operations; (ii) review of tax administration processes, and the ongoing development of an integrated tax management system (ITMS); and (iii) improved focus in the management of the customs reform process. The tax-to-GDP ratio at 17½ percent (FY 2007-08) is one of the highest in the region. However, reform progress has been relatively slower in customs, and key issues are outstanding in tax administration, including the management of domestic taxes under one accountability structure.

60. The objective will be to improve transparency of tax administration and reduce the cost of taxpayer compliance. Assistance will be provided to improve the management of small and medium taxpayers, implement appropriate investigation and enforcement strategies, and enhance information technology systems to achieve a single-view of the taxpayer and the associated on-line information exchange and service. Other focal areas will include implementing effective taxpayer service programs, using suitable performance indicators in all operational areas, and completing a Tax Procedures Code (TPC).

Malawi

61. The reform program is moving at a relatively steady pace since 2007, and initial achievements include: (i) integration of domestic tax administration under a function-based structure, with a strengthened head office function; (ii) setting up of a LTO as an initial step to adopting a taxpayer segmentation approach; and (iii) successful phasing-out of pre-shipment inspection (PSI). Malawi's the revenue-to-GDP ratio is relatively high, compared with that of other AFE countries at 17.6 percent (FY 2007-08). However, tax administration reforms are still in their very early stages, while a long-term strategy for customs reforms has not yet been developed.

62. The overall objective will be to accelerate tax and customs administration reforms that in turn will reduce taxpayer compliance cost by deepening the tax integration process, strengthening the LTO, developing programs for the management of small and medium taxpayers, and implementing a long-term strategy for customs administration reform. Key deliverables will include business process improvement, enactment of a TPC,

implementation of a small taxpayers regime, and an effective compliance and enforcement strategy for customs administration.

Rwanda

63. The authorities have received substantial financial support, primarily from DFID, for revenue administration reform. These resources have been put to good use to implement IMF HQ and AFE strategic advice. The fundamentals of a good revenue administration are in place, including (i) an integrated function-based tax administration; (ii) a basic self-assessment system; (iii) automated tax and customs processes; and (iv) segmented large, and small and medium taxpayer offices. However, implementation of risk-based compliance and enforcement strategies are still at an early stage and the tax-to-GDP ratio at 13.3 percent (FY 2008) remains relatively low.

64. The objective will be to support plans to increase the tax-to-GDP ratio by at least ½ percentage point a year through higher levels of voluntary taxpayer compliance, improved efficiency of operations, and strengthened administrative capacity. AFE assistance will focus on: (i) strengthening of the project management office to take over from the current DFID project management arrangements, because DFID intends to scale down its support; (ii) implementing improved risk-based compliance strategies and investigation approaches; (iii) refining tax laws and regulations; and (iv) implementing the efficient transfer of social contribution collections to the revenue agency.

Tanzania

65. Revenue administration reforms have benefited from substantial multi-donor financial and technical assistance support through a basket-funding arrangement led by the World Bank. Good progress has been made, including the strengthening of the large taxpayer department (LTD), and its use as a model for integrating the domestic tax operations, business process improvement, information technology deployment, and local capacity building. As a result, Tanzania's tax-to-GDP ratio has increased from 11½ percent in FY 2005-06 to 14.8 percent in FY 2007-08, at a rate of 1.1 percentage points a year—indications are that the momentum is maintained. However, the implementation of customs reforms still lags, and cargo clearance times have not shown much improvement. In addition, a number of tax administration issues, including the management of domestic taxes under one accountability structure, have not been addressed—this is affecting the establishment of an effective head office function.

66. The objective will be to improve revenue administration operations and ensure that reform initiatives are consistent with international best practice. AFE support to domestic tax administration will focus on the implementation of an effective head office function. Strategic support will be provided for a customs administration compliance and enforcement strategy, and for a phase-out of destination inspection services. AFE will also continue

playing a lead role in all multi-development partner reviews of the tax modernization project (TMP).

Uganda

67. Financial support for revenue administration reforms has been provided by donors (mainly DFID and the World Bank). The authorities have made excellent use of these resources and good progress has been made, including: (i) overhauling the public image of the revenue agency; (ii) functionally integrating the domestic tax administration with increasingly effective headquarters; (iii) re-launching the LTO; and (vi) implementing risk-management concepts in customs administration. However, domestic revenue mobilization effort (a tax-to-GDP ratio of 13.0 percent in FY 2007-08) is comparatively low, and the management of the medium and small taxpayer population still ineffective. The administration of natural resources taxation has emerged as a new issue requiring attention as a result of impending oil production.

68. The objective will be to support measures designed to increase the tax-to-GDP ratio by at least ½ percentage points per annum. To achieve this, priority assistance areas will include: managing the medium and small taxpayers; improving business processes and implementing an integrated tax administration system (ITAS); improving post-clearance audit in customs administration; and building natural resources tax administration capacity in light of impending oil production. Collaboration with the World Bank and DFID will be continued to maximize results.

Box 4. Revenue Administration—Possible verifiable indicators of success

- Increasing the tax-to-GDP ratio by an average of ½ percentage points per annum (Ethiopia, Rwanda, Tanzania and Uganda).
- Enacting new tax laws (Eritrea) and a TPC (Kenya, Tanzania and Uganda).
- Implementing a full self-assessment system for tax administration (Eritrea and Malawi).
- Integrating the management of domestic taxes under one accountability structure (Kenya and Tanzania).
- Setting up of medium taxpayers offices (Kenya, Tanzania and Uganda).
- Refining and implementing a special taxation regime for small taxpayers (Kenya, Malawi, Tanzania and Uganda).
- Implementing automated systems for integrated tax administration (Eritrea, Kenya, Malawi and Uganda).
- Reducing the average cargo release time[13] from 11 days (Kenya 2007 and Tanzania 2005) to 5 days.
- Increasing the proportion of imported goods cleared through the green channel to 50 percent (Ethiopia, Malawi, and Uganda).
- Implementing a compliance and enforcement strategy for customs administration (Malawi and Tanzania).

E. Agenda—Public Financial Management

Coordination with other TA providers

69. AFE's effectiveness in providing capacity-building support and TA depends on close interaction with other development partners and institutions. AFE PFM Advisors participate in the work of several PFM donor groups. Efforts are also made to maintain professional relationships with regional capacity-building institutions in East and Southern Africa, such as Collaborative African Budget Reform Initiative (CABRI).[14] PFM Advisors also participate in a number of PFM reform strategy meetings (such as PEFA reviews) or provide their comments to Development Partner PFM Groups to assist in formulating and sequencing PFM

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[13] The mean time taken to complete all the clearance procedures from arrival of goods at the seaport to their removal from the customs control.

[14] CABRI is a pan Africa professional network of senior budget officials in ministries of finance and planning that aims to contribute toward the efficacy of public finance management in Africa. It currently comprises 28 member countries throughout Africa. Its constitution provides for a solid network with Pan –Africa and World wide institutions like NEPAD, the AfDB, the World Bank , OECD and others.

reforms. These meetings provide opportunities to coordinate AFE work plans with those of the development partners.

70. Some examples of capacity building collaboration between AFE and other Development Partners (DPs) include the following. For Kenya, AFE participated in the annual review by DPs of progress and plans for the PFM Reform program in 2008 in Nairobi. The joint- review made recommendations on how to further improve the pace of implementation and to ensure an efficient implementation of the different integrated financial systems, and the design of cross-cutting legislation and regulations. In Rwanda, AFE collaborated with DPs to develop a PFM reform strategy aimed at accelerating reforms toward an "Enhanced Public Financial Management System by 2012." Rwanda has been one of the special focus countries for WB-IMF collaboration in the PFM area, which has contributed to the successful adoption of this reform strategy. In Zanzibar,[15] AFE has been collaborating closely with the World Bank and other donors on the reform program. A recent example of this collaboration was AFE's participation in the launch of PFMRP III in Zanzibar. In Uganda, AFE participated in two joint DFID/WB/AFE missions to formulate performance indicators and measures to be put in place to anchor the Government's PFM reform strategy within the Joint Performance Assessment Framework (JAF) under the Joint Budget Support Operations (JBSO). The JBSO framework is designed be the main instrument through which future donor budget support will be channeled.

71. AFE also maintains close cooperation with regional capacity-building institutions, such as CABRI. The initiative, officially launched in May 2008, provides an important platform for both sharing the common objective of good financial governance and consultations on African capacity to deliver on the Millennium Development Goals. Collaboration with CABRI, started in 2004, aims at building synergies for deepening budget reforms designed to improve expenditure management and delivery of public services. AFE does not only provide strategic guidance and technical support to the budget reform agenda led by CABRI, but also utilizes members, as regional experts, in the execution of Center's programs. Efforts are under way to establish a partnership with Eastern and Southern Africa Association of Auditors and Accountant Generals (ESAAG).

Phase III—Country and Regional Objectives

72. AFE member countries have made satisfactory progress in the implementation of the PFM reform agenda designed to promote effective allocation and utilization of public resources. Many countries have initiated revisions of the existing legal and regulatory frameworks to legitimize the on-going reforms and best practices in the various aspects of PFM. In addition, they have formulated reform strategies and action plans that spell out a

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[15] For Zanzibar, AFE provides direct technical assistance in the areas of Revenue Administration, PFM, and Statistics, but not in Monetary Operations and Financial Sector Supervision.

clear prioritization and sequencing of the reforms for the medium term. Authorities have demonstrated commitment and increased attention accorded to reforms aimed at: (i) enhancing transparency and comprehensiveness of the budget; (ii) better alignment of resource allocations to national priorities; and (iii) promoting effective cash management and banking arrangements. Generally, the execution of the Phase II projects was on track in almost all member countries, with the exception of Eritrea, where all planned activities were postponed at the request of the authorities. The following is a summary of the progress, registered within each country, during Phase II.

73. For Phase III, AFE PFM TA will focus on consolidating and deepening the reform efforts of the past years, and assisting countries to further reform and strengthen their PFM systems by continuing to support

- the modernization of legal and regulatory frameworks in member countries by providing assistance in drafting modern PFM legislation, financial regulations, and financial management policy and procedures manuals. In this aspect, AFE will closely work with the IMF’s Legal Department to provide support in reviewing draft legislation. AFE also will continue to design and deliver sensitization workshops and training to officials in order to explain the changes in the legal and regulatory framework, and the consequential changes to financial management processes, duties, and responsibilities.

- upgrading budget preparation frameworks by assisting with the design and implementation of Program and Performance-Based Budgeting (PBB) systems, strengthening medium-term expenditure frameworks (MTEFs), increasing the institutional coverage of budgets, improving budgetary classification systems, including the migration toward GFSM2001, encouraging development of more comprehensive and transparent budget documents, and improving the efficiency and effectiveness of the budget preparation process.

- reforms to cash management and banking systems, including assistance with the design, implementation and strengthening of cash forecasting systems, introduction and further implementation of Treasury Single Account frameworks, modernization of government banking systems and greater usage of electronic payment systems, development and implementation of banking protocols, design and implementation of ZBDA arrangements and overnight sweeping of revenues and cash balances, rationalization and consolidation of bank accounts, improvement of cash management reporting and strengthening and automation of bank reconciliation systems.

- modernizing member countries’ accounting and reporting systems. In this area, AFE’s will assist with adoption of international accounting standards and systems, improving the quality and timeliness of in-year fiscal reporting, improving the quality of annual financial statements, strategic advise on integration of financial systems, and assistance with the implementation of an Integrated Financial Management System (IFMIS).

- reform of inter-governmental fiscal relations frameworks. AFE will assist member countries with the development of institutions and systems to manage complex inter-governmental fiscal arrangements, the strengthening of local government regulatory framework, and improvement of local government budgeting, accounting, and fiscal reporting.

Regional issues

AFE will strive to promote, across East Africa, the adoption and implementation of international standards and best practices in a number of key areas of PFM. AFE will continue to provide TA to member countries on the modernization of their legal frameworks with the objective of bringing financial laws and regulations in line with international best practice, and harmonizing the structure of financial frameworks, which govern fiscal transparency and accountability, across the region. AFE will assist member countries to adopt and implement best practice budgetary classification schemes across the region. In particular, AFE will promote and assist with the adoption and implementation of the international standard for economic classification of government (GFSM2001). Implementation of GFSM2001 across the region would facilitate the international and regional comparability of government budgetary information. AFE will also promote the adoption and implementation of international public sector accounting standards (IPSAS) across the region, which would enhance the transparency and comparability of governments' fiscal performance. Since regional workshops have proved to be successful vehicles for the sharing of ideas and experience, and the promotion and dissemination of international standards and best practice, AFE will continue to hold regional workshops with the objective of harmonizing and standardizing public financial management systems across the region.

Eritrea

74. During the period FY 2004-06 AFE TA focused on enhancing the legal and regulatory environment for public expenditure management and fiscal transparency of the budget. A draft budget law and financial regulations were formulated and submitted to the authorities. In January 2006, the government adopted the international budgeting and accounting classification as contained in the Government Finance Statistics Manual of 2001 (GFSM 2001). An improved cash management system was implemented, including the closure of idle bank accounts. Treasury strengthened the monitoring of bank account balances, and instituted a system of direct payments to suppliers, using a system of payment requests submitted by budget users. This was a first steps towards a Treasury Single Account. During Phase II, AFE had only a limited engagement in the PFM area.

75. The authorities are at an advanced stage of formulating a PFM reform strategy and medium-term action plan. The strategy will guide the identification and sequencing of TA needs, including areas of technical cooperation. AFE will continue to engage with the authorities in regional capacity-building initiatives.

Ethiopia

76. Significant progress has been made in the implementation of program-based budgeting and cash management and banking arrangements, that are supported by AFE.[16] The introduction of program budgeting within the Federal Government of Ethiopia has shifted the focus of resource allocation from "inputs" to "results and outcomes." Staff of 20 public bodies were trained and produced program budget submissions that have attempted to align agency budgets with national priorities for the fiscal years FY 2007-08, FY 2008-09, and FY 2009-10. A program budget unit was established and equipped with training materials to sustain the reform. Moving forward with the reform, the authorities requested the IMF to undertake a comprehensive assessment of the reform implications on several aspects of PFM, and to provide strategic guidance on a cabinet-level reform strategy paper.

77. An improved cash management system was adopted with the support of the recent establishment of a Cash and Fund Management Unit. New Guidelines and Procedures for cash management and banking arrangements were issued. *Zero-Balanced Drawing Account* (ZBDA) arrangements were put in place to facilitate the management of government cash resources. Cash flow forecasts from government agencies are now compiled in a timely manner every month, and cash projections are regularly monitored and compared against actual performance. However, more support is required to strengthen the commitment control reform and the banking arrangements.

78. Looking forward, the authorities wish to put in place a robust PFM legal and regulatory framework over the next five years. AFE will help the authorities to achieve this objective by assisting them with changes to the PFM legal framework, and drafting subordinate financial regulations and financial policy and procedures manuals. In the budget preparation area, AFE has provided support to the authorities toward the recent introduction of program-based budgeting. This process will need to be further strengthened over the next five years by way of deepening the implementation of PBB and strengthening the linkage between policy, planning, and budgeting processes. AFE will also assist with the implementation of reforms to the cash management and banking framework, including strengthened cash forecasting, implementation of a TSA system, improvement of government banking systems, and rationalization of bank account structures.

[16] PFM reforms are funded within the Expenditure Management and Control Program, under the Public Sector Capacity Program (PSCAP) basket-funding arrangement.

Kenya

79. A legislative framework for Public Finance and Accountability was drafted. The draft legislation is compatible with international best practice. Authorities were sensitized on the implications of the legislation. The Kenyan authorities have been able to build consensus on the policy objectives, principles, procedures, and institutional framework regarding fiscal decentralization reform. This platform will inform the planned debate on, and revision of, the Constitution, as well as the finalization of a draft bill for PFM. In an effort to improve fiscal transparency, the authorities have undertaken to improve the content and strategic direction of the budget documentation to better guide and inform the decision-making process, and enhance accountability.

80. Significant strides have been registered on the Cash Flow Planning System. An Exchequer Committee, established in 2006, is fully operational and responsible for approving monthly cash flow plans and monitoring spending. Adoption of ZBDA arrangements in 2006 has eliminated line ministry idle balances that were previously outside of Treasury control. However, progress has been relatively slow and there are outstanding issues regarding the application of cash management and commitment control modules in the IFMIS.

81. The authorities wish to reform the legal framework over the next five years. The country has enacted several PFM Acts, which will need to be integrated into a unified statute. The PFM law may also need to be modified to bring it in line with the new Constitution, which is expected to be passed in 2009. AFE will provide assistance in drafting the PFM legislation, drafting related rules and regulations, and in delivering training and workshops on the new legal and regulatory framework. AFE will provide assistance over the next five years in strengthening the MTEF/Budget process at the district level, reviewing the budget process and updating the Budget/MTEF Manual, updating the Chart of Accounts with program classification, and further strengthening of PBB implementation. In the area of accounting and reporting, AFE will provide assistance with the implementation of the budget module of the IFMIS, the establishment of a budget execution monitoring framework, and a review of the operational efficiency of various modules of the IFMIS. AFE's support in the coming years will also be required to strengthen intergovernmental fiscal relations, in particular, with establishing effective coordination and consultation mechanisms among central and local governments on fiscal policy issues, reviewing and prescribing common budgetary classifications and accounting standards for all levels of government.

Malawi

82. Satisfactory progress has been made in improving the budget preparation process and budget documentation. A revised budget calendar was established. The authorities initiated a review of the budget classification and Chart of Accounts. A manual to assist the move toward a uniform budget classification and Chart of Accounts aligned with GFSM 2001 was produced. Cash flow planning circular and guidelines for budget users were issued. Efforts

are underway to strengthen the alignment of budgets with national priorities by streamlining the concept of programs within the existing output-based budgeting framework, as required by the current legislation. An improved cash management system has been institutionalized with the establishment of the Cash Management Unit and Cash Management Committee. Training on cash management issues and systems was also provided.

83. Over the next five years, Malawi will need AFE assistance to revise the legal framework for PFM. AFE will also provide support for the review of subordinate financial regulations and the production of a revised PFM Manual and to strengthen the integration of national/sectoral planning with the resource allocation process. In addition, AFE will support efforts to improve the comprehensiveness of budget and accounting classification, and improve the quality of cash forecasting and government banking arrangements. Malawi will also need AFE's continued support for the integration of the government's accounting systems, improving bank reconciliation systems, and the development and production of consolidated in-year fiscal reports and annual statutory reports.

Rwanda

84. The enactment of the Organic Budget Law (OBL) in 2006, and the approval of Financial Regulations (FRs) in 2007 have guided principles and institutional roles and responsibilities for management of public funds. As a consequence, the authorities formulated a PFM Reform Strategy for FY 2008-12, designed to channel donor support to well-sequenced and priority actions aimed at enhancing the enforcement of the new law. Following AFE strategic guidance,[17] specifically on budget reforms, the authorities have adopted the recommendations to improve the quality and relevance of the budget preparation guidelines, the Budget Framework Paper, and other budget documentation. With a better understanding of transparency-related issues in budgeting and account classification, the authorities have decided to move toward a GFSM 2001-compliant budget classification system and Chart of Accounts and to gradually introduce program-based budgeting over the medium term. A related development was the approval of principles and processes for capturing external resources within the budget documentation, especially the Finance Law and other supporting documents that constitute the budget package submitted to Parliament. This is intended to enhance visibility and fiscal oversight over donor funding and support. A well-functioning cash management function is in existence, supported by a Cash Management Unit and a Liquidity Management Committee, charged with the management of the on-going operations of the new cash planning framework. Efforts are also underway to strengthen banking arrangements with a phased integration of bank accounts into a Single Treasury Account.

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[17] AFE support has focused on budget preparation and Treasury management reforms.

85. Rwanda plans to undertake a significant IFMIS implementation over the next five years and move to the GFSM 2001, where AFE will provide strategic advice. Malawi will also need AFE advice to revise its Financial Management and Accounting Manuals, to bring them in line with changes to financial regulations and practice, and also to bring them in line with major changes in government financial management procedures brought about by the planned roll-out of the new IFMIS over the next several years. A simple guide to the PFM Manuals is also required as are measures to further strengthen the cash management and banking framework and improve the relevance and quality of cash management reporting. The authorities have also requested AFE to assist them in extending the coverage of their zero-balancing and cash consolidation framework.

Tanzania

86. AFE's engagement with the authorities has consistently focused on enhancing fiscal transparency of the budget and better cash management and banking arrangements.[18] A Cash Management Unit, supported by a Cash Management Committee, was established within the Treasury to implement and manage cash management reforms. Cash management guidelines, templates and instructions were issued to line ministries. The Government has issued guidelines for greater use of electronic payments and transfers, which will improve the efficiency of bank reconciliation and reduce the use of checks. The Treasury and Central Bank have decided to move toward a ZBDA arrangement in order to address the problem of idle government cash balances with commercial banks. Looking forward, it is important to provide to qualitatively upgrade skills and knowledge in cash forecasting, including development of revised templates for use in line ministries, agencies, and districts.

87. In an effort to enhance transparency of the budget, the authorities, including in Zanzibar, have agreed to move toward a GFSM 2001-compliant budget classification system and Chart of Accounts. The requisite instruments and tools have been formulated, namely a template for the Chart of Accounts, draft bridge tables linking the present classification to the revised one, and a manual to facilitate the migration. Likewise, Zanzibar has initiated a revision of both the budget preparation guidelines and the structure of the budget documentation.

88. Tanzania indicated that it wished to revise the existing PFM Act, last revised in 2004, and make subsequent amendments to financial regulations and associated financial policy and procedures manuals. AFE assistance was sought toward finalizing the new legislation and associated regulations and PFM manuals. The authorities are also planning to improve the comprehensiveness of the budget, firstly by moving to GFSM 2001 classification, then introducing functional classification. AFE will assist in improving the quality of existing

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[18] The PFM reform agenda is supported by many donors under both a basket-funding arrangement and donor project aid. AFE's intervention has been designed in harmony with these arrangements.

cash flow planning and forecasting systems, strengthening commitment controls, moving toward a Treasury Single Account, further reforming to the government banking arrangements, and further rationalizing government bank accounts. AFE will support the review of the cash based implementation of IPSAS. Zanzibar is planning to deepen the integration of planning and budgeting processes, improve the transparency and comprehensiveness of budget documentation, and strengthen its cash management and banking framework.

Uganda

89. Cognizant of the slow pace of implementation of the PFM reform agenda, the authorities, supported by development partners, have been reviewing the progress of key reforms as stipulated in the existing PFM strategy and related medium-term action plan. The focus of the reviews have included the administration of nontax revenue, and the removal of bottlenecks to the efficient delivery of public services, including cash management and banking arrangements. The authorities plan to: (i) improve cash management and banking arrangements, (ii) formulate a strategy to address the problem of continuous build-up of payments arrears during the roll-out of IFMIS, and gradually move toward a Single Treasury Account; and (iii) formulate and implement a reform strategy that would put in place the requisite legal and regulatory framework aimed at increasing the efficiency of administering nontax revenue.

90. Uganda has requested AFE to assist with the formulation of the legislative and regulatory framework for nontax revenues. AFE will also support the strengthening of cash forecasting, the streamlining of the cash management and banking framework, the increase in the coverage of the budget, and the management of arrears, bank reconciliation, and fiscal reporting.

Box 5. PFM—Possible verifiable indicators of success

- Adoption and implementation of a modern legal and regulatory framework;
- Implementation of a medium-term expenditure framework (MTEF);
- Implementation of program and performance-based budgeting (PPB) framework;
- Implementation of a comprehensive budget and accounting classification system, including implementation of GFSM 2001;
- Implementation of a modern cash management and banking framework;
- Adoption of International Accounting Standards;
- Implementation of an Integrated Financial Management Information System (IFMIS);
- Production of timely and accurate fiscal reporting; and
- Implementation of a modern inter-governmental fiscal relations framework.

F. Agenda—Financial Sector Supervision

Coordination with other TA providers

91. AFE's collaboration with donors with respect to its work in the area of financial sector regulation has been related to common capacity-building objectives. AFE has coordinated with ACBF and MEFMI to conduct workshops aimed at strengthening core and advanced skills of financial sector supervisors across countries served by all three agencies. AFE also provided support to other development partners in the region for specific workshops, namely: the East African Central Banking Course in Uganda; the Joint FSI/SADC Regional Seminar on Basel II and its Implementation in Africa, the KPMG/SIDA workshop on Risk Management in Banking in Tanzania; and the Joint FSI/Committee of Supervisors of West and Central Africa (BSWCA) Regional Seminar on Fundamentals of Risk Management with Special Focus on RBS in Senegal. Beyond this, AFE's selected financial sector regulation work has been undertaken in conjunction with technical assistance provided by the World Bank, FIRST, the Financial Sector Deepening Trust (DFID), USAID, the Graeme Foundation, and the German Gesellschaft für Technische Zusammenarbeit (GTZ). In particular, AFE collaborated closely with the World Bank in delivering assistance to Ethiopia in the framework of the World Bank's Financial Sector Capacity Building Program.

Phase III—Country and Regional Objectives

92. AFE member countries have made significant strides in developing their financial sector regulatory frameworks. Many countries have not only strengthened their legal and regulatory frameworks, but have made fundamental changes at the operational level. These developments have impacted positively on their capacity to implement international standards and best practices. They include the migration to RBS, the expansion of capital adequacy frameworks, the strengthening of arrangements for cross-border supervision, and the development of regulatory arrangements for nonbank financial institutions.

93. AFE expects to see its member countries consolidating much of the developmental work they have undertaken in the past, and moving forward to develop and strengthen new areas of their supervisory regimes. Consolidation will take place in the context of previous work undertaken on risk-based supervisory frameworks, expanded capital adequacy frameworks, and the strengthening of cross border supervisory arrangements. New frontiers will be forged as countries develop regulatory frameworks for emerging areas of activity, such as Islamic banking. Emerging legal requirements in a number of AFE member countries for anti-money laundering and combating the financing of terrorism (AML/CFT) will also see regulators developing appropriate frameworks. Against this backdrop, AFE's assistance will focus on the following areas.

Regional issues

94. One of the primary objectives of the banking supervision assistance provided by AFE is to establish common regulatory practices across its member countries. Establishing such practices is an important defense against regulatory arbitrage in which financial institutions seek to domicile themselves in the country with the least stringent regulatory standards. Within this broad approach, AFE will continue to assist its members to attain compliance with the Basel Core Principles for Effective Banking Supervision and the Basel I Capital Adequacy Framework. One aspect of the development of capital adequacy frameworks has been the move to incorporate a capital charge for market risk. A number of AFE members countries are at advanced stages of this process, while others are just commencing or are expected to do so in the coming years. The migration from compliance-based supervision to RBS is another important component of AFE's assistance aiming at harmonizing supervisory frameworks within the region. AFE has assisted a number of its member countries to develop frameworks for the practice of consolidated supervision. An important cornerstone of these initiatives is the development of Memoranda of Understanding (MOUs) as important vehicles in facilitating cross-border cooperation. CBK has, for example, developed an MOU which was circulated to five regional central banks and has already been signed by itself, the Banque Nationale du Rwanda and the Banque de la République du Burundi. Going forward, a number of AFE countries will be required to develop a regulatory framework for Islamic banking. AFE has already seen indications from five of its members that this will be an important aspect of the development of their regulatory frameworks in the future. A number

of AFE members are also in the process of implementing AML/CFT legislation. Toward the end of FY 2008, AFE assisted a member country to develop AML/CFT inspection procedures and at least two other countries have indicated that this will also be an area in which they will require assistance in the future.

Eritrea

95. The Bank of Eritrea (BOE) has commenced the move toward RBS. It has taken a number of measures to develop the framework, including the circulation of Risk-Management Guidelines to financial institutions. There has not been significant progress since this last step however, and BOE therefore has some ground to cover before it can effectively shift to RBS. In general, BOE is at a relatively early stage of development of regulatory arrangements for financial sector activity.

96. During Phase III, AFE expects to see BOE make progress not only with banking supervision, but also with other aspects of its regulatory arrangements for financial institutions. AFE expects to support BOE when it continues its migration to RBS. Work in this area will cover both on-site and off-site supervisory methodologies and the production of the necessary supervisory documents, such as manuals and examination procedures to support the process. In other aspects of BOE's supervisory responsibility, AFE foresees BOE developing regulatory frameworks for insurance and microfinance activity and it will provide support for these initiatives.

Ethiopia

97. The National Bank of Ethiopia (NBE) has started the transition to a risk-based supervisory framework, but is yet to complete the process. NBE has focused some of its attention on developing staff capacity and, with assistance from AFE, has provided training to over 50 staff members over the last two years. AFE has coordinated its assistance with the World Bank to ensure complementarily.

98. NBE is expected to continue the development of its RBS framework. To complete the full transition, NBE needs to undertake more on-site examinations using the RBS methodology, strengthen its off-site surveillance system, ensure that the new approach is fully documented, and that necessary changes are made to supervisory documents, such as examination manuals, working paper, and reports. AFE will provide assistance to NBE throughout this process. Ethiopia is also interested in developing a framework for the regulation of Islamic banking.

Kenya

99. The Central Bank of Kenya (CBK) is at an advanced stage of development of a number of key aspects of its framework for financial sector regulation. In respect of RBS, it has reached a stage where all required pillars for the system are in place. CBK has

undertaken several on-site inspections using the new framework. Notwithstanding these achievements, CBK has been reviewing the outcomes produced by the new supervisory approach, and is taking steps to further strengthen the framework where needed. CBK is also at an advanced stage in developing a framework for consolidated supervision (i.e., supervising financial institutions operating in more than one country). Further work that remains outstanding in this regard includes finalizing the regulation that will give CBK the legal authority to require banks to file prudential returns on a consolidated basis. CBK has also undertaken considerable work to strengthen its capital adequacy arrangements by incorporating a capital charge for market risk, and plans to introduce the new requirement in the near future. AFE's work in Kenya has been complementary to work undertaken by a number of donors, including the World Bank, the Financial Sector Deepening Trust (DFID), USAID, and the Grameen Foundation.

100. CBK is expected to consolidate a number of initiatives which it has developed over the past few years. Work will be undertaken to further strengthen its RBS methodology, including efforts to better align its off-site surveillance system with the RBS framework. CBK will also continue its efforts to complete the roll-out of the framework for consolidated supervision. This will not only necessitate further experience with use of the framework, but the final development of the regulatory instruments necessary to give full legal effect to the new approach. CBK will also finalize the introduction of a capital charge for market risk. Before it rolls out the new capital adequacy requirements, CBK plans to enhance the capacity of its staff to process the new capital adequacy prudential returns. Over the next five years, Kenya is set to revise its AML/CFT regulatory framework to bring it in line with pending legislation and to take further steps to develop its road map for the eventual implementation of Basel II principles.

Malawi

101. In early 2009, the Reserve Bank of Malawi (RBM) formally announced its adoption of RBS. As other countries that have reached this stage, Malawi is expected to refine the framework based on its experience with implementing the methodology. Malawi has recently started the process of developing a framework for consolidated supervision with the drafting of a policy paper, a survey of ownership structures across the financial sector, and an action plan to chart the way forward for implementing the new supervisory approach. RBM has also initiated the process of reviewing its existing arrangements for the regulation of discount houses.

102. RBM is expected to continue its work to develop a framework for the practice of consolidated supervision. This will include the analysis of the results of a survey of banks to determine the precise nature of ownership and other relationships across the financial sector, the preparation of the necessary legal instruments, and the development of a Memorandum of Understanding to facilitate cross-border supervisory relationships. Malawi is also expected to strengthen its framework for the regulation of discount houses by producing revised

guidelines and regulations for oversight of these entities. RBM aims to strengthen existing arrangements for the regulation of foreign exchange bureaus. Over the next five years, Malawi will also seek to enhance its ability to deal with problem banks effectively.

Rwanda

103. The Banque Nationale du Rwanda (BNR) has made the shift to RBS and continues to enhance its framework on the basis of field experience. BNR has also undertaken considerable work to strengthen its off-site surveillance system. It has improved the overall quality of its analysis of the condition of financial institutions, and its off-site reports are now more focused. BNR has recently commenced the process of strengthening its capital adequacy framework by the adoption of a capital charge for market risk. It has developed a policy paper, a survey of banks, a draft regulation, draft prudential returns, and guidelines for use with the returns.

104. AFE will continue to support BNR as it develops and strengthens its regulatory and supervisory arrangements. BNR is expected to continue initiatives to expand its capital adequacy framework by the adoption of a capital charge for market risk. These initiatives will include the circulation of a survey to banks, and steps to finalize the necessary legal and regulatory instruments. BNR will continue its on-going strengthening of its RBS program, and is expected to undertake further work to establish more detailed criteria for risk-management assessments. BNR is expected to undertake work to commence the process of developing a framework for undertaking financial stability analysis. The initial work will focus on preparing a policy paper and providing basic training to the staff of the Bank Supervision Department. BNR is also expected to take measures to develop its capacity to deal with problem banks. Measures will include the development of a Supervisory Manual.

Tanzania

105. Tanzania adopted the " The Second Generation Financial Sector Reforms" program – a blueprint for the reform of the financial sector – as one of the mechanisms to implement the findings of the 2003 FSAP. The program seeks, among others, to strengthen the general lending environment through policy and operational interventions. The Bank of Tanzania (BOT) has also made the shift to RBS. It has undertaken a number of inspections using the framework and is seeking ways in which it can further strengthen the new methodology. One specific objective in this regard is to complete an integrated RBS manual. BOT has also taken steps to develop a framework for consolidated supervision. In this context, BOT will develop the necessary regulatory instruments for institutions to file prudential returns on a consolidated basis. BOT has also taken initial steps to enhance its capacity to undertake financial stability analysis. AFE's work in Tanzania has been complemented by work undertaken by the World Bank and MEFMI.

106. AFE will assist BOT to develop a new regulatory framework for pension funds that operate in the context of Tanzania' national social security system. BOT is also interested in

developing its regulatory capacity over finance and mortgage finance institutions. Growth in these types of lending institutions is consistent with the objectives of the Second Generation Financial Sector Reforms Program, developed in response to the recommendations of the 20003 FSAP, and it is therefore appropriate for BTO to develop the requisite regulatory and supervisory infrastructure. Tanzania is one of the AFE countries that has indicated an interest in developing a regulatory framework for Islamic banking and it is expected to make some progress in this regard in the coming years. BOT will also continue to develop its RBS framework, as well as its framework for consolidated supervision.

Uganda

107. Uganda is in the process of developing a framework for consolidated supervision. The Bank of Uganda (BOU) has taken a number of measures to implement the requisite arrangements, but still needs to develop appropriate legal instruments to facilitate this process. The BOU is also in the final stages of rolling out its expanded capital adequacy framework that includes the adoption of a capital charge for market risk. As a part of this move, the BOU has trained staff members of the Bank Supervision Department on issues related to the calculation of capital charges for market risk.

108. BOU will continue to develop its enhanced capital adequacy framework, which will incorporate a capital charge for market risk, as well as its framework for the practice of consolidated supervision. BOU has indicated an interest in developing regulatory frameworks for Islamic banking and anti-money laundering and AML/CFT. BOU has also indicated an interest in enhancing the capacity of its staff in a number of areas. It hopes that, through various initiatives, its staff will develop a better understanding of (i) Basel II capital adequacy requirements; (ii) supervisory issues related to more sophisticated financial products; (iii) supervisory issues related to specific areas of banking operations, such as treasury management and interest rate and foreign exchange operations; and (iv) International Financial Reporting Standards.

Box 6. Financial Sector Supervision—Possible verifiable indicators of success

- Higher levels of compliance with the Basel Core Principles for Effective Banking Supervision.
- Higher Levels of Compliance with the Basel I Capital Adequacy Framework, including the incorporation of a capital charge for market risk.
- Strengthened RBS frameworks including improvements in both on-site and off-site supervisory methodologies and the development of enhanced risk assessment criteria
- Appropriate regulatory frameworks for emerging areas of financial sector activity such as Islamic banking
- AML/CFT regulatory frameworks to bring supervision on par with the requirements of new and revised legal frameworks and international standards and best practices.

G. Agenda—Monetary Policy and Operations

Coordination with donors

109. In Kenya, DFID and the World Bank are involved in debt management. Before starting the work in this area, discussion with CBK facilitated clear demarcation of areas of involvement. This resulted in AFE TA making progress with the introduction of repos (vertical and horizontal), progress toward primary dealership and benchmark bond issuance, etc. In Tanzania, the World Bank is involved the Second Generation Financial Sector Development strategy. AFE TA, in consultation with the World Bank, assisted BOT to implement some of the Financial Sector Support Project (FSSP) recommendations. The assistance in support of payments system modernization in Rwanda involved working with the World Bank and the FIRST Initiative. Following clarification of the underlying issues and the broad strategy and framework, founding and technical support for the real-time gross systems implementation is to come from these agencies.

Phase III—Country and regional objectives

110. For a considerable part of FY 2006 and FY 2007, AFE member countries sourced their technical assistance needs from IMF HQ, as the position of Monetary Operations Advisor at AFE remained vacant. A modest program of assistance for institutional capacity building began with the FY 2008 Work Plan, which heralded AFE’s return as a source of significant TA to AFE members. At the writing of this report, AFE returned as an important source of capacity building to regional central banks, with the following areas in focus: (i) interbank money and domestic debt markets and management; (ii) systemic liquidity

forecasting and management and conduct of monetary operations; (iii) payments and settlement system modernization, and harmonization of regional efforts involving cross-border systems, focused on effective oversight framework to deal with potential systemic risks, and development of standards and requirements for mobile payments, including for mobile money transfers and e-banking; (iv) inflation forecasting and core inflation measurement; and (v) treasury cash management (in collaboration with PFM Advisors).

111. For Phase III, AFE intends to position itself as a relevant source for capacity-building assistance to regional central banks and to provide continued assistance to help them to achieve their medium-term goals. More specifically, AFE will provide support in the following areas:

- Integrating securities settlement systems with central bank systems, introduction of new payment products and services and designing regulatory and oversight frameworks in compliance with the Core Principles for Systemically Important Payments Systems (Kenya, Rwanda, Tanzania, and Uganda).

- Making financial services accessible to a wider segment of the population in the rural areas through the adoption of new payment instruments (Kenya, Rwanda, and Tanzania).

- Introducing safe and efficient non-cash, electronic, and credit-push payment instruments (Eritrea, Kenya, Rwanda, Tanzania, and Uganda).

- Establishing legal framework for the NPS, including the introduction of a broad array of enabling legislations (Kenya and Rwanda).

- Establishing an autonomous and commercially viable clearing house independent of BOU (Uganda).

- Improving systemic liquidity forecasting including enhanced Treasury cash management practices and monetary operations (Tanzania).

- Modernizing payments and settlement systems and harmonizing regional efforts involving cross-border systems (Eritrea, Kenya, Rwanda, and Tanzania).

- Computing and publishing of real effective exchange rates by BNR (Rwanda).

Regional issues

112. Working with members on similar issues, AFE is well positioned to groom a region-wide approach through the EAC to individual country strategies and underlying issues. Examples include:

- Harmonization of inflation measurement;
- Harmonization of cross-border payments system initiative;
- Harmonization of regulatory and oversight approaches relative to new payment products and services;
- National NPS strategies and cross-border initiatives; and
- Publication of inflation forecasts, including core inflation measures, implementation of inflation targeting, and harmonization of inflation measurement.

Eritrea

113. An IMF HQ mission visited with BOE in April 2006, and noted the erosion of institutional independence and the continuing human, resource, and delivery system constraints facing the Bank. BOE's monetary policy formulation, implementation, and broader operational capacity continue to remain curtailed. BOE is likely to face considerable challenges if it has, at a future date, to re-focus on its operational role. BOE's long-term goal is to sustain a critical core of institutional capacity for key central banking functions, such as monetary policy and operations, payments system, and foreign exchange management and operations. Against this backdrop, assistance from AFE focused on bolstering BOE's monetary policy formulation and implementation capacity; developing domestic money, debt, and foreign exchange markets and instruments; and initiating payment and settlement systems modernization.

114. Staff at the Economics and Statistics Department of BOE needs to acquire capacity for macroeconomic analysis, collection and publication of selected macro-statistics, and creating in-house capacity for undertaking key aspects of monetary policy implementation. AFE will assist to modernize the NPS with institutional ties, such as a well-functioning SWIFT User group, a clearing house with multilateral netting capacity, automated high-value and repetitive government payments, wider use of check facilities.

Kenya

115. CBK has a fully developed monetary policy framework and the conduct of its monetary operations effectively complements policy objectives. However, CBK is encountering some difficulty in terms of resultant interest rates. IMF HQ and AFE assistance

helped in clarifying the underlying issues, as well as defining the desirable features of the instruments to be used. AFE assistance to implement vertical repurchase agreements ("repos") and creating capacity to deal with related issues resulted in the successful implementation of horizontal repurchase transactions and primary dealership, achieving efficiency improvements in the primary auction process and other issues related to domestic debt management. In the payments system area, CBK has made good progress with reform and modernization and has now established the necessary foundation for the introduction of newer products and services. With these favorable developments, the Kenyan financial market has gained in sophistication. Hence, CBK's overarching aim is to ensure that its financial market interfaces (monetary operations, and debt and payments system management) are adequate to deal with the growing market complexity.

116. Over the medium-term, CBK plans to: (i) further develop money and debt markets and instruments, and enhance its domestic debt management capacity; (ii) encourage the development of interbank money and secondary market for government debt; (iii) further modernize the NPS and facilitate the introduction of new payment products and services (including e-money, mobile payments, and non-bank remittance services); and (iv) enhance its payment system regulatory and oversight capability with respect to NPS and explore cross-border system integration and related issues. Within this context, AFE assistance will aim to assist in issuing benchmark bonds, introducing primary dealership and promoting well-functioning interbank money and domestic debt markets (including secondary market) with an array of instruments and enhanced capacity for debt management. IMF HQ will assist Kenya in drafting the Central Bank Act and Financial Institutions Act, the NPS draft bill, repo agreements, and in advising on legal issues related to horizontal repos.

Rwanda

117. The Financial Sector Assessment Program (FSAP) conducted in 2005 noted that the financial system was shallow, especially outside the banking sector, and made several remedial recommendations. In order to improve access to finance and further enhance the stability of the financial system, BNR implemented various FSAP recommendations, resulting in the rapid development of key central bank functions. In undertaking an ambitious modernization of Rwanda's national payments system (NPS) and to foster further development of the Rwandan financial system, BNR has been working with various development partners to pursue its ambitious financial development plan.

118. Rwanda aims to achieve the following long-term objectives: (i) make financial services accessible to a wider segment of the population in the rural areas; (ii) develop strategies to widen the base of safe and efficient payment systems, payments services and instruments; (iii) create suitable regulatory and oversight mechanisms for the management of the NPS and the control of risks; (iv) work with the East Africa Payments Systems Harmonization Committee to achieve harmonization of the NPS initiatives with the regional cross-border arrangements under the East African Community (EAC); and (v) encourage the

introduction of safe and efficient non-cash, electronic, and credit-push payment instruments. IMF HQ will assist Rwanda in drafting the Central Bank Act, the NPS Act, and the Securities Holding Law.

Tanzania

119. The FSAP, completed in 2003, provided key inputs in terms of defining the direction of the reform effort in the Tanzanian financial sector. With a view to implementing the FSAP recommendations, Tanzania adopted "The Second Generation Financial Sector Reforms" program – a blueprint for the reform of the financial sector. In addition, BOT wishes to create in-house capacity for inflation forecasting, and core inflation measurement. AFE assistance to improve systemic liquidity forecasting and management resulted in better understanding of systemic liquidity flows, changes to data input interfaces, and expansion of the information bases used for decision making with respect to monetary operations. BOT's long-term challenges include strengthening financial markets, developing financial institutions, and broadening the access to financial services. Consistent with this objective, AFE and IMF HQ have been closely involved in providing capacity-building assistance to BOT. IMF HQ assistance took the form of several technical cooperation missions focusing on monetary and foreign exchange operations and monetary policy implementation. AFE assistance has focused on helping BOT implement the IMF HQ mission recommendations and also to move forward with issues, such as liquidity forecasting, treasury cash management, inflation and macroeconomic forecasting.

120. Tanzania aims at (i) implementing further modernization of the retail payments systems, including popularization of credit-push instruments and developing regulatory regimes in response to emerging mobile banking, money transfer, and other retail systems/products; and (ii) adopting inflation targeting and achieving harmonization of inflation measurement consistent with EAC approaches. AFE intends to provide specific assistance to effective and well-documented central bank policy communication strategy.

Uganda

121. Following the FSAP update in 2004, Uganda has focused on financial market development, liquidity management, and interest and exchange rate volatility. Benefiting from IMF HQ assistance, Uganda implemented wide-ranging policy and structural reforms in the financial sector, and strengthened the technical capacity of BOU. Consequently, there is improved management of the liquidity, increased reliance on indirect instruments for conducting monetary policy, and the inter bank foreign exchange market appears to be functioning relatively well. There is a generally observed improvement in the performance of Uganda's financial sector. In the meanwhile, the increased financial sophistication and the introduction of new payment products are posing a challenge to BOU's capacity to monitor and manage the modernization of the NPS.

122. BOU's long term objectives include: (i) adopting inflation targeting as an important monetary policy tool; (ii) creating regulatory and oversight regimes to deal with electronic banking and remittance; (iii) implementing "Smart Card," and electronic purse payments; and (iv) establishing an autonomous clearing house outside of BOU, which is financially self-sustaining, professionally managed, and commercially run.

Box 7. Monetary Policy and Operations—Possible verifiable indicators of success

- NPS modernization— Formation of the SWIFT User Group and minutes of discussion sent to the SWIFT Africa Board Member; Agreement between the central bank and commercial banks for the establishment of a Clearing House at the central bank; Adoption of instructions amongst Clearing House members to implement multilateral netting, Guidelines for implementation of CPSIPS compliant regulatory and oversight regime; guidelines for encouraging commercial banks to popularize credit-push instruments.
- Systemic liquidity forecasting— guidelines for developing an effective liquidity forecasting framework, developing methodology for forecast error analysis
- Inflation forecasting and real exchange rates— publication of inflation and exchange rate indicators
- Primary and secondary market development— issuance by the central bank of guidelines on vertical and horizontal repurchase transactions; central bank announcing the modification of auction bidding process and allowing for on-line bidding
- Central bank policy communication— central bank adopting and issuing a communication strategy document
- Increased accessibility to financial services— announcement by the authorities on the discussion with payment service providers to allow for the provision of financial services through mobile telecommunication.

H. Agenda—Economic and Financial Statistics

Coordination with other TA providers

123. AFE has been active in assisting DFID with coordinating, and providing statistics TA under the GDDS Phase II project. Kenya received TA on monetary and financial statistics, and balance of payments under the GDDS Phase II project. Moreover, both Tanzania and Uganda, with the assistance of AFE, received TA on the preparation for subscription to the SDDS. AFE also engages Statistics Norway to discuss and coordinate TA in both Eritrea and Malawi. Statistics Norway has been providing national accounts TA to both countries, and producer price index TA to Malawi. Along with the World Bank and other development partners, AFE has indicated willingness in support of the Tanzania National Statistics Strategy, and the Tanzania Statistical Master Plan (TSMP). The World Bank leads and oversees the work done on the Development of the National Statistical System for Tanzania

(STATCAP) project that was prepared by the National Bureau of Statistics in collaboration with a number of other statistical units in key line Ministries and parastatal agencies. The aim of the project is to put into effect the Tanzania Strategic Implementation Master Plan (TSIMP) for the National Statistical System. The project will be supported financially by the Government of Tanzania and a consortium of development partners. Similarly, the World Bank and development partners (AFE and DFID) have been supporting Kenya's STATCAP project, including through a recent joint supervision mission in December 2008 to review the progress in project implementation.

Phase III—Country and regional objectives

124. AFE's assistance in statistics focuses on the IMF's core competencies, including macroeconomic and financial statistics, within the GDDS framework.[19] The priority areas for assistance and training have been as follows: (i) implementing the *1993 System of National Accounts* (SNA 93); (ii) assisting Consumer Price Index (CPI) compilation and estimation procedures; (iii) introducing sampling, surveying, and data collection procedures for extending Producer Price Index (PPI) estimates to other non-manufacturing industries; (iv) developing quarterly national accounts estimates, benchmarks, and indicators; (v) improving balance of payments statistics; and (vi) assisting with the functional classification of government finance statistics, including compilation and move towards *Government Finance Statistics Manual 2001* (GFSM 2001) compliant budgets and Charts of Accounts.

125. AFE has put considerable effort into building capacity in the region to produce quality, sound, timely, and accessible national economic and financial statistics and metadata. Hence, AFE assisted with the drafting of new statistical acts; participation in the GDDS; improving the quality of macroeconomic statistics, primarily in national accounts and prices; and applying internationally accepted concepts and methodologies in data compilation, transformation, and dissemination. The aim is to achieve consistency among all the macroeconomic variables, which in turn promote the formulation of sound macroeconomic and financial policies. Past published data can reveal inconsistencies and methodological shortcomings that need to be addressed and provide an important basis for comparison, both nationally and internationally. Indeed, an important aspect of AFE's work has been standardizing national accounts data, by helping member countries move toward internationally recognized standards.

126. AFE's assistance in the area of national accounts has focused on three objectives: (i) helping member countries complete their revision of past annual GDP estimates; (ii) aiding them in beginning the compilation of quarterly national accounts (QNA), in addition to annual series; and (iii) identifying and revising source data to use as indicators

[19] The frameworks of the IMF Data Dissemination include the GDDS and the SDDS.

and benchmarks. By June 2008, all AFE members had adopted the internationally recognized SNA 93, except Eritrea. The compilation of GDP using the recommended best practices and the underlying principles of the SNA 93 provides a solid platform upon which further work can be undertaken. Additionally, AFE has helped member countries in the region to improve and develop price indices, particularly the CPI and PPI.

127. For Phase III, AFE will assist its member countries to compile and disseminate not only QNA estimates based on the production approach, but also to derive QNA estimates based on the expenditure approach. Members will be assisted in deriving these QNAs at both current and constant prices. In order to reach these objectives, and to improve annual national accounts estimates, AFE also intends to assist with the production of SUTs, an Input/Output Matrix, a SAM, and other matrices that will significantly facilitate the analysis of the national accounts.

128. With AFE's assistance, Uganda and Rwanda have already embarked on compiling national accounts estimates in current and constant prices, based on both the production and expenditure approaches. By end 2009, Tanzania, Uganda, and Rwanda may well be in a position to join Kenya in disseminating QNA data. AFE intends to provide significant assistance in price indices for the region. Specifically, Kenya and Uganda intend to expand their manufacturing PPIs to include hotels and restaurants, mining, utility, construction, and agriculture industries. AFE aims to continue providing assistance to compile and disseminate fiscal statistics in accordance with the GFSM 2001. The main tasks will be: (i) reviewing the institutional structure of the general government and the public sector; (ii) advising on the compilation and derivation procedures of the major GFSM 2001 categories and developing bridge tables between GFS categories and Ministry of Finance Chart of Accounts; (iii) assisting in the development of a migration path to fully implement the GFSM 2001; and (iv) providing on-the-job training in GFSM 2001 methodology and compilation procedures.[20]

129. AFE has been actively engaged in providing assistance on data accessibility, metadata accessibility, and assistance to users within the GDDS framework. AFE will assist Kenya, Tanzania, and Uganda to graduate from the GDDS and subscribe to SDDS. For subscription, the IMF considers all the Data Quality Assessment Framework (DQAF) dimensions, particularly the periodicity and timeliness of data dissemination[21] and AFE will provide assistance on all DQAF dimensions.

[20] AFE will work and coordinate with staff from IMF Headquarters to provide assistance in GFS.

[21] The dimensions of this framework cover country prerequisites of quality, assurances of integrity, methodological soundness, accuracy and reliability, serviceability, and accessibility. AFE's assistance will focus on methodological soundness, and the accuracy and reliability of data.

Regional issues

130. AFE will support the implementation of regional initiatives, introduce common standards, harmonize methods, disseminate best practices, and work with standard-setting organizations and support institutions. Specifically, AFE aims to work, discuss, and establish with member countries harmonized and regionalized statistical methodologies, classifications, data dissemination practices, and legal and institutional frameworks for producing sound macroeconomic and financial statistics. Forums to achieve these aims will be regional workshops where members can share experience, act as peer group reviewers, and promote networking.

Eritrea

131. Over the last few years, AFE the Eritrean authorities did not request any substantial statistical assistance. Statistics Norway has been providing assistance in national accounts.

132. Assuming that the Eritrean statistics authorities will be able to resume cooperation, AFE will first conduct an overall statistics assessment to determine areas where the greatest needs are. Once such needs are identified, AFE stands ready to provide further assistance.

Ethiopia

133. With AFE assistance, Ethiopia released a new CPI series (rebased to December 2005) in December 2007. AFE also assisted in the development of an agricultural PPI. In December 2008, the Ethiopian Central Statistics Agency took the responsibly from the Ethiopian Development Research Institute (a quasi-governmental organization) for compiling, estimating, and disseminating the agricultural PPI.

134. AFE's work will include assistance in producing and disseminating QNA estimates, and developing national accounts, SUTs, and Input/Output Tables.

Kenya

135. Kenya benefited significantly under the GDDS from TA, specifically with the rebasing of its GDP series. AFE also provided assistance for compiling the quarterly national accounts (QNAs). Kenya became the first in the region to disseminate QNA estimates in 2007. AFE has also been instrumental in assisting Kenya with revising and rebasing its CPI. The Kenyan authorities expect to release the new CPI series in 2009.

136. AFE will continue to provide assistance in national accounts with a focus on producing GDP at current prices and GDP based on the expenditure approach. Additionally, AFE will continue to be actively engaged in providing assistance on the rebasing and revision of the CPI, which is expected to be disseminated in 2009. With AFE's assistance,

Kenya hopes to disseminate its first PPI for the manufacturing sector in 2009, and embark on new PPI projects for the agriculture and construction industries.

Malawi

137. Since October 2003 Malawi has received assistance in balance of payments and government finance statistics (GFS), and prices. However, AFE provided no assistance in national accounts, since Statistics Norway have been actively providing assistance in this area. A workshop on GFS, organized by the Malawi Ministry of Finance, was the first event conducted jointly by two AFE Advisors, responsible for statistics and PFM, respectively. The workshop increased the awareness of participants of the importance of adopting the international classifications and concepts contained in the GFSM 2001. Given the success of this approach, similar joint statistics-PFM workshops are planned for Rwanda and Tanzania.

138. AFE will focus on the implementation of outstanding issues, including the compilation and dissemination of a PPI for the manufacturing industry. AFE will also continue to coordinate with Statistics Norway to right size its assistance in national accounts, and to determine whether plans include the production of QNAs based on similar AFE assistance provided to other members.

Rwanda

139. Since 2003 Rwanda has benefited from AFE's assistance in GFS, PPIs, national accounts, and balance of payments statistics. Progress has been slow. The independent National Institute of Statistics of Rwanda (NISR) replaced the former Department of Statistics in the Ministry of Finance and Economic Planning. After fours years of operation, the NISR has now filled most of its vacancies. AFE provided training to the NISR in 2007.

140. NISR may continue to face resource constraints for some time. Notwithstanding, at the end of 2008, with the newly recruited and AFE-trained national accounts staff, Rwanda embarked on an ambitious work plan to produce revised annual GDP data and possibly quarterly GDP estimates in 2009. AFE will support this work and continue to provide assistance in price statistics. Currently the NISR and BNR jointly produce the PPI. With AFE's assistance, the NISR aims to take over this responsibility.

Tanzania

141. In the earlier years assistance was mainly provided by DFID and the World Bank, but more recently AFE has become active providing assistance to Tanzania Mainland and Zanzibar in the production of annual and QNA estimates. AFE also assisted with CPI data strengthening. Tanzania published a revised series of GDP estimates (benchmarked and rebased on the year 2001) in September 2007.

142. With AFE's assistance Tanzania may be the second country in the region to disseminate QNA data in 2009. AFE will also continue to assist Tanzania with the rebasing of annual estimates. AFE will work with other development partners, in particular the World Bank and DFID, to develop a SUT and to rebase and revise the annual national accounts estimates. AFE will also continue to provide assistance on the rebasing of the CPI. In order to identify needs in this area, AFE has conducted an in-depth assessment, and will conduct follow up missions. AFE will provide not only assistance in the methodological compilation of the CPI, but also to assist in improving and modifying the CPI compilation software. Tanzania currently does not produce a PPI regularly, so AFE will work with Tanzania to disseminate quarterly PPI on a more consistent basis. AFE will also provide assistance in compiling a PPI for Zanzibar's restaurants and hotels.

Uganda

143. Uganda benefited from AFE assistance in annual and QNAs, PPI, and monetary and financial statistics. As a result, Uganda was able to develop a Supply and Use Table (SUT), and started work on its Social Accounting Matrix (SAM). Due to resource and other constraints, Uganda has not yet disseminated its QNAs. With AFE's assistance, Uganda was able to compile and disseminate a monthly PPI for the manufacturing industry. Uganda published a revised series of national accounts estimates in October 2008.

144. Uganda expects to be able to disseminate final QNA data by July 2009. AFE will continue to provide guidance on the PPI produced for the restaurants and hotels industry, which is expected to be disseminated in 2009. AFE stands ready to assist with the PPI expansion to include mining and utility, wholesale and retail trade, agriculture, and other service industries. In addition to the PPI, AFE will assist with the CPI rebasing and developing an Export/Import Price Index.

Box 8. Economic and Financial Statistics—Possible verifiable indicators of success

- Tanzania and Uganda to disseminate final QNA estimates; Kenya to produce and disseminate its first PPI, and its revised and rebased CPI;
- Tanzania, Uganda, and Kenya to adopt updated Standards and Methods Guides on QNAs and prices; and
- Rwanda to compile and develop a SUT and a SAM.

I. Agenda—Macro-Fiscal Analysis[22]

Coordination with other TA providers

145. AFE's collaboration with donors in the macro-fiscal area has to date focused on specific deliverables and work areas. This has included strengthening financial programming frameworks (in Rwanda, with advisors supported by Government of Belgium), revenue forecasting (in Tanzania, with the Government of Norway), debt sustainability analysis (in both Rwanda and Tanzania, with MEFMI[23]), support for macroeconomic model building (in Tanzania and Uganda, with the World Bank and in Malawi, with consultants funded by the Government of Norway), and training (Tanzania, with various donors).

Phase III—Country and Regional Objectives

146. The Macro-fiscal Advisor at AFE will help Finance Ministries design and implement strategies to build capacity, improve macro-fiscal analysis, and meet macro-fiscal objectives, including effective budget implementation. The work involves improving forecasting and financial programming frameworks, and strengthening the presentation of analytical materials in budget documents and monthly and quarterly reports. It also involves improving tools for the assessment of the fiscal and macroeconomic consequences of new policies, of fiscal outcomes and risks, and of debt sustainability, including contingent liabilities.

147. The Advisor will work with Ministry of finance staff and may also interact with staff in other ministries and central banks and with development partners. The Advisor will develop tailored seminars and training tools and may hire short-term experts for specific projects. The Advisor works cooperatively with IMF resident representatives and mission teams, as well as other AFE Advisors in PFM and revenue administration.

148. Key areas where AFE will aim to provide TA going forward include:

- Providing strategic guidance on the roles of macro-fiscal units and capacity building needs. In some AFE countries, units are overstretched, often because they perform a wide range of tasks (especially writing documents) that cannot be undertaken by the less technical units. AFE will advise ministries on better focusing the work of units.

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[22] The position is financed by the Swiss Secretariat for Economic Affairs (SECO) and currently covers *part* of the five-year funding cycle. The advisory position was initiated in December 2007, extending a SECO-IMF project that focused on strengthening macro-fiscal capacity at the Ministry of Finance of Tanzania. For the first year of the advisory position (December 2007-December 2008), the work was focused 60 percent on Tanzania and 40 percent on the other AFE member countries. This will be rebalanced on May 1, 2009.

[23] The Macroeconomic and Financial Management Institute of Eastern and Southern Africa, a regional institution based in Harare.

- Strengthening macroeconomic and fiscal frameworks, including their links to the budget process, and training staff to use them. AFE will also assist units to prepare alternative scenarios and analysis of shocks, with the aim of including risk assessments in budget documents and setting out the key short- and medium-term vulnerabilities.

- Assisting macro-fiscal units contribute to budget implementation by improving short-term forecasts of budget resources for the purpose of setting spending ceilings.

- Assisting macro-fiscal units assess long-term capacity for mobilizing domestic financing, consistent with macroeconomic and fiscal stability (public debt levels, contingent liabilities, quasi-fiscal deficits, and fiscal implications of public private partnerships).

- Providing advice on building practical macroeconomic models to add value to existing tools.

Eritrea

149. Macro-fiscal TA to Eritrea should proceed from a fresh diagnostic visit, including a review of the authorities' system for macroeconomic and fiscal analysis, projections, and reporting.

Ethiopia

150. Stepping up TA to Ethiopia is a near-term priority. The work should aim initially at strengthening the medium-term fiscal framework.

Kenya

151. Technical capacity in Kenya is relatively strong. The focus of recent TA has been the strengthening of the existing financial programming framework and training of staff to use it. A financial programming manual was drafted to assist the staff to understand the role of all the variables in the framework and the linkages between them. Advice was also provided on plans to develop a macroeconomic model with the help of a consultancy firm. This is an area of activity which could be pursued further. The World Bank is intending to provide some TA to Kenya in 2009 in the form of a Policy Note on estimating the structural fiscal deficit.

Malawi

152. Macro-fiscal assistance to Malawi needs to be closely coordinated with PFM advice, due to frequent discrepancies in fiscal reports and lack of comprehensive reporting systems. Recent TA focused on helping to produce more accurate monthly fiscal reports. Key objectives are to strengthen coordination among different divisions of the Finance Ministry

and to improve the clarity of respective roles and responsibilities, including with respect to reporting. This should help strengthen other functions, including expenditure control, and eventually, introduction of more advanced budget processes. Other efforts in the period immediately ahead should focus on strengthening short-term forecasts, including of the net domestic borrowing requirement. A key priority is to assist the Finance Ministry to build a medium-term fiscal framework to be used in the budget process and which could eventually be used as the foundation for developing a medium-term expenditure framework.

Rwanda

153. Technical capacity in Rwanda is limited, reflecting, in part, high staff turnover and past reliance on external advisors to perform key functions, such as preparing the fiscal framework for the budget. Rwanda will be given a high priority going forward, with the near-term aim of strengthening analysis in support of formulating fiscal targets, preparing a three-year macroeconomic and fiscal framework, and improving revenue forecasts. Training will be needed to help Rwanda strengthen its capacity to absorb TA.

Tanzania

154. Tanzania has relatively advanced macro-fiscal analytical capacity and institutions, reflecting extensive IMF TA during FY 2000-08. Recent work focused on strengthening the quarterly fiscal reports and contribution to the budget guidelines paper, which provides strategic guidance to the budget process. Other advice has concerned the preparation of three-month rolling cash ceilings, in cooperation with PFM TA. Priorities in the period ahead include strengthening scenario and sensitivity analysis (with presentation in the quarterly economic and debt reports), revenue forecasting, updating debt strategies, and extending the coverage and analysis of contingent liabilities (including public-private partnerships). The World Bank will provide TA to update a macroeconomic model.

Uganda

155. Technical capacities are relatively strong, with support from AFE resident Advisors. The authorities intend to build a macroeconomic model with external support and have requested AFE to provide independent advice on this. The World Bank is involved in funding TA, including to support a resident macroeconomic advisor and for the macroeconomic model building.

Box 8. Macro Fiscal Analysis—Possible verifiable indicators of success

- Strengthening financial programming and forecasting frameworks, as reflected in presentation of analytical materials in budget documents and monthly and quarterly reports (Ethiopia, Malawi, Rwanda);
- Enhancing assessment of fiscal and macroeconomic consequences of new policies, fiscal outcomes and risks, and debt sustainability, including contingent liabilities. Presenting these assessments in budget documents and quarterly reports (all countries);
- Preparing alternative scenarios and analysis of shocks, with the aim of including risk assessments in budget documents and setting out the key short- and medium-term vulnerabilities (Kenya, Tanzania, Uganda);
- Improving short term forecasts of budget resources for the purpose of setting spending ceilings (Malawi, Rwanda);
- Preparing debt strategies on the basis of assessments of capacity for mobilizing domestic financing and a review of public debt levels, contingent liabilities, quasi-fiscal deficits, and fiscal implications of public private partnerships (Ethiopia, Kenya, Tanzania, Uganda);
- Building (Ethiopia, Kenya, Uganda) or enhancing (Tanzania) macroeconomic models.

J. Agenda—Training courses in macroeconomics

156. With its emphasis on the broader macroeconomic framework, training by the IMF aims at complementing TA. The IMF builds capacity in the area of macroeconomic management and governance. IMF courses focus on the analysis of macroeconomic conditions, the diagnosis of problems, and the design and implementation of macroeconomic policies—all areas critical to facilitating growth and development. As such, the course program is complementary to the TA offered in various areas as it puts the insights acquired by member countries in these areas in the broader macroeconomic context.

157. Training through AFE will be integrated in its training through the JAI. The latter—for which negotiations for a new Memorandum of Understanding starting in 2010 are under way—would play a more prominent role in training for SSA than is currently the case. Through the JAI, the IMF would deliver more general macroeconomic courses, such as Financial Programming and Policies to address the region's need for intensive training in basic macroeconomic skills, as well as joint courses with its partners at the JAI (World Bank and the AfDB). AFE members would be invited to these courses, and conversely, JAI courses could be delivered in the AFE region, making them joint events between IMF HQ, JAI, and AFE. Likewise, IMF HQ will also involve other regional training institutes in their training through either the JAI or AFE.

158. Training of officials through AFE would become part of the IMF's integrated training strategy for East Africa. This strategy is two-pronged, with on the one hand a major role for the regional training center, the Joint Africa Institute, in the delivery of general capacity building at the level of the continent, and on the other hand, a role for AFE as conduit for more pointed and specialized training at the subregional level to address the needs for basic macroeconomic training.

159. AFE will tailor courses to specific requests from member countries. The IMF's curriculum spans a wide range of courses, starting from the basic Financial Programming and Policies course (FPP), over more specialized courses on fiscal, monetary, and financial sector policies, to very specialized courses on e.g., finance and the macroeconomics of natural resource management. Joint IMF Institute (INS)-AFE training will also allow the IMF to tailor the training more closely to regional needs and foster collaboration and mutual learning within the region. In addition, the logistics (distance of travel, avoidance of jetlag) are typically easier for the participants.

160. In the case of AFE, the IMF's approach to flexibly adapting course contents to sub-regional circumstances would allow it to interact closely with, and respond to the needs of regional stakeholders. As such, the training would be directly complementary with AFE TA provided in specific areas. Examples of challenges and developments that AFE countries are facing and where macroeconomic courses could assist in capacity building include:

- *Customs union* - Courses can be tailored that discuss the policies and implications of establishing a customs union.

- *Financial sector development* - Several countries have embarked on financial sector development programs, often in the wake of FSAPs, and TA in being provided in this area. AFE courses would focus on specific financial sector policies (including regulation and supervision and financial stability) and emphasize the interactions with the country's other macroeconomic management policies.

- *Finance* - Some countries in the region have already more advanced financial systems than others. As these countries' financial systems integrate in the world financial system, training could be offered on specialized financial products and their implications.

- *Monetary policy* – several countries are considering adopting an inflation targeting framework and TA is being provided in this area. AFE would offer a specialized course, with hands-on training and real-life data, in managing an inflation targeting framework. Courses could also be offered to deal with issues of monetary integration and ultimately, the management of a monetary union.

- *Natural resource management* – Natural resource management poses several challenges for macroeconomic management. AFE would offer a course that spans all aspects of this issue, including revenue management, governance, expenditure policies, sovereign wealth funds, as well as the implications from monetary and exchange rate policies.

In addition to such typically two-week courses for government officials from the region, AFE could also give two- or three-day High Level Seminars for high officials or conferences on specific topics.

Box 9. Training Courses in Macroeconomics—Possible verifiable indicators of success

- Participant evaluations at the end of every course through questionnaires.
- A triennial survey of national authorities of the IMF's full training program.

K. Resource Needs

161. **Reflecting the request by the African Governors to the IMF to expand AFRITAC activities and also following one of the recommendations of the external evaluation, the IMF seeks to strengthen AFE's activities.** There will be at least 8 resident Advisors and the composition of the advisory team will be periodically assessed against members' evolving capacity-building needs. The proposed budget envisages increases in the following areas:

- Short-term expert visits, which would primarily augment AFE's TA. If feasible, some of the additional short-term resources could be converted into additional Resident Advisor positions.[24] As is already practice, the Fund would seek hire regional experts as much as possible, which would not only foster an environment of peer review, but also would be cost effective, maintaining AFE's character as a regional center.

- Diagnostic interventions, reflecting that these missions are a critical complement to AFE in designing strategic advice, which goes hand-in-hand with AFE assistance in implementing this advice. The diagnostic missions would be led by Fund HQ and would include short-term experts.

[24] The proposed ratio of Resident advisors to short-term experts is on average 3 to 2. In TA areas where there is only one Resident advisor (which is for most of AFE's TA), the augmention through short-term experts would not be equivalent to an additional Resident advisor position.

- Backstopping and project management from IMF HQ to ensure quality control and that AFE advice is in line with best international practice.

- As a new component in AFE's activities, training on macroeconomic and financial issues.

Proposed AFRITAC East Budget

October FY2010-September 2015

	In U.S. Dollars
Office coordination and administration	**6,850,578**
Staff	3,613,913
Lease*	1,267,419
Travel	435,602
Miscellaneous, including security, translation, communication	1,533,643
TA and training (by activity)	**40,576,239**
8 Resident Advisors TA Delivery	15,706,550
Salaries	12,879,415
Travel Costs	2,827,135
Short-term Expert TA Delivery (63 months of delivery per year)	11,021,429
TA Seminars	2,708,161
Training on Macroeconomic and Financial Issues	1,863,215
Diagnostic Interventions	3,751,688
Backstopping and Project Management	5,525,195
TA and training (by TA area)	**40,576,239**
Revenue administration	5,804,508
Public financial management	17,413,524
Financial sector supervision	4,438,443
Monetary policy and operations	4,438,443
Macroeconomic and financial statistics	4,229,488
Macro analysis	4,251,832
Evaluation	**300,000**
Trust fund management	**2,885,413**
Total	**50,612,229**

* Estimate.

Source: Office of Technical Assistance Management.

162. **To provide assurance and stability for the Center's operations, financing would be secured in advance for the entire five-year period.** The costs of about US$51 million would be shared by the IMF, the host country (see next paragraph), recipient countries and

donors. They include eight resident Advisors, expenses associated with diagnostic missions and training, travel costs of the resident Advisors, additional short-term TA generated by the Center, costs associated with the IMF's backstopping, supervision, and management of the Center, costs for the mid-term evaluation and trust fund management.

163. **AFE's host country, Tanzania, will continue to provide office facilities and local support staff to support the Center's activities. Similarly, Kenya, will provide privileged access to the Kenya School of Monetary Studies (KSMS) in Nairobi for AFE training events.** Since its opening in 2002, the Tanzanian Government has provided office space and support staff as its in-kind contribution to the project. Until November 2007, the Center was located on commercial premises for which the BOT was paying rent. The Bank also seconded three of its support staff to the Center. In November 2007, AFE moved to BOT's new Headquarters where it is currently located. On that occasion, and to accommodate the expanding size of the Center, BOT provided significantly larger office space and two additional support staff. Similarly, since the beginning of the Center's operations, CBK has granted privileged access to AFE to the KSMS. Accordingly, every year AFE organizes about four training events at KSMS at a subsidized cost. Finally, AFE's annual SC meeting is hosted by a member country on a rotational basis—on that occasion, the host country traditionally bears the cost of meeting logistics, organization, and facilities.

L. AFE Sustainability

164. **Continued strong commitment of beneficiary countries will be critical for AFE's success.** Without this, no lasting results will be achieved. It is therefore expected that beneficiary countries continue to take full ownership of AFE's assistance and drive project implementation by, *inter alia*, appointing senior-level government officials as SC members, providing travel and *per diem* expenses for these officials to attend SC functions. Where necessary, AFE beneficiary countries may also be approached to assist with administrative and logistical support for in-country training activities and other AFE events.

165. **Given the long-term nature of building human and institution capacity, it is expected that AFE's funding will be expanded beyond the third cycle.** AFE will continue to place strong emphasis on "training the trainers" so as to build up regional expertise and prepare for an eventual exit strategy. The IMF will also continue to expand its roster of regional experts. The issue of sustainability of AFE's operations would form part of the terms of reference of a mid-cycle external evaluation.

IV. RTAC Governance, Operations, Visibility and Financial Management

A. Governance

SC—"Embodiment" of the Paris Declaration

166. AFE is guided by the SC that consists of representatives from recipient countries, donors and the IMF. The SC provides strategic guidance to the Center and assists in setting its priorities. It also provides input on the topics to be covered by the team of resident Advisors and short-term experts, and endorses the Center's work plans. The IMF informs the SC on the selection and hiring of resident Advisors.

167. The SC holds annual meetings. Additional meetings may be convened as necessary. The SC is chaired on a rotating basis by the principal representative of one of the beneficiary countries (e.g. the deputy governor of the central bank). Observers to the SC can be permitted, from neighboring countries, interested donors or other TA providers.

B. RTAC Operations

Work Plan

168. AFE's annual work plan is developed in consultation with member countries and within the context of the IMF's TA prioritization processes, managed through the Regional Strategy Note for Africa and the RAP. This process takes into account each beneficiary country's macroeconomic reform strategy. The IMF's continuous dialogue with AFE member countries provides a basis for the identification of key capacity-building needs in each country concerned. Drawing on this, TA priorities are determined and detailed country TA programs formulated jointly by the AFE and IMF HQ. This ensures that the activities of both are fully integrated with each other, as well as with country reform agendas. The development of the annual work plan is also coordinated with the IMF's budget cycle and resource allocation processes to ensure timely and predictable delivery of the planned TA.

169. Given the limited resources available to the Center, a main prioritization criterion in determining the work plan is each beneficiary country's record in making effective use of TA previously received. Peer review among the country representatives on the SC should, therefore, reinforce cooperation, accountability, and the effective use of resources.

170. AFE's work plan consists of the individual country TA programs, which may form part of broader regional projects. The AFE Coordinator seeks strategic guidance from SC members on the work plan, prior to seeking their formal endorsement. At each SC meeting, the AFE Coordinator delivers a monitoring report on the progress of the activities outlined in the workplan.

Center Coordinator

171. **AFE is headed and managed by a Coordinator.** The Coordinator is responsible for the day-to-day management of AFE and its operations, under the strategic guidance from the SC and general oversight from the IMF. In consultation with the SC, the African Department, TA Departments and OTM, the Coordinator formulates the AFE's work plan and monitors its implementation. The Coordinator also serves as secretary to the SC. The Coordinator is appointed and supervised by the IMF with OTM having an oversight role over the RTACs.

Staff

172. **AFE's staff comprises a number of resident Advisors in each of the relevant TA areas, office support personnel, and a pool of short-term experts for specific assignments.** The IMF is responsible for selecting and hiring AFE resident Advisors, and providing them with the technical support and backstopping required to ensure quality and consistency in their advice and activities. Short-term experts for peripatetic assignments are recruited through IMF HQ, based on the latter's roster of qualified experts, and are backstopped (see also section on quality Control) by the resident Advisors. In all recruitment of experts, due consideration is given to suitably-qualified candidates from Africa. Support staff positions will be filled regionally, unless such staff are seconded from the host country.

Accountability

173. AFE is designed and operated to ensure that IMF TA is delivered in a manner that is responsive and accountable to the recipient countries. AFE must also meet and maintain the high-quality standards that are expected of IMF TA. The IMF's recently revised dissemination policy[25] on TA reports will further improve accountability and facilitate coordination.

174. It is a core objective of AFE that the activities of the Center reflect the ownership and commitment of its members. This helps to ensure the continued effectiveness and sustainability of the TA delivered.

175. As outlined throughout this document, the inputs of beneficiary countries are sought at various stages of the work planning and operations of AFE: during surveillance ("Article IV Consultations") and diagnostic missions that inform the TA planning process by the African and TA Departments in their preparation of TA strategies, and through the input and oversight of AFE's SC.

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[25] Add external link with website showing the dissemination Board paper.

176. AFE utilizes a results-focused management system to track the implementation of its TA projects and activities in each country. This monitoring of TA project implementation against pre-determined objectives and indicators ensures the delivery of timely and effective TA. The results-focused management serves to provide consistency, coherence, and predictability in the planning and execution of AFE TA. Monitoring reports further increases the accountability of TA to country authorities, donors, and other TA providers.

177. The AFE's SC provides an additional forum for accountability. Member countries can provide immediate feedback and recommendations on TA delivery and value. All SC members receive the information that allows them to guide AFE's work.

Quality Control

178. Maintaining the quality of the TA advice and activities delivered by AFE is the responsibility of the staff at IMF HQ and at AFE itself. This process begins when the TA Departments screen and appoint AFE's resident advisors from a pool of vetted experts that they have worked with successfully in the past. IMF HQ support AFE by backstopping its staff and operations. Combining the recommendations of previous surveillance and TA missions with the needs of the country, the TA departments discuss with the resident advisors the objectives and outcomes of the mission. An important part of the backstopping at this early stage is the strategizing and sequencing of TA, to ensure that TA missions and outcomes build the capacity of the recipient country in a cumulative and logical manner. Throughout the mission of short-term experts and the stay of the resident Advisors, the TA departments provide supervision and support. This is a dynamic and fluid process that can take a number of forms.

179. TA departments review and authorize the TA reports produced by the resident advisors. Further, the Departments work with country authorities to ensure follow-up on the recommendations of TA missions. Country authorities also provide feedback on the value and efficacy of the TA received. At all stages of each TA mission, the backstopping ensures the consistency and quality *across* countries.

180. The RTAC Coordinator provides an additional layer of quality control of the TA in their management of the day-to-day operations of the RTAC, and given their close relationship with the country authorities. As Coordinators are also present in country for longer periods, they can monitor the progress of beneficiary countries in implementing reforms that are supported by the RTAC.

Evaluation

181. It is proposed that, after no fewer than three years of operation, an independent external evaluation of the work of AFE be carried out by a team of independent experts. The evaluation will assess AFE's effectiveness and sustainability and of its TA, bearing in mind the long-term nature of capacity building. The evaluation will formulate recommendations

for improvement. The findings of the evaluation will inform discussions on AFE's future operations.

C. Visibility for AFE

AFE Publications and website

182. AFE will continue to publish an annual report. The report will detail the work undertaken by the Center, and report on the progress toward the planned objectives and outcomes.

183. AFE will maintain its own website, providing regular updates on its operations. The website will serve as part of the public face of the Center. In particular, it will serve to foster coordination with other TA providers, including by providing contact information on specific issues and countries.

Visibility for donors

184. The names or logos of all of the donors supporting AFE are displayed on reports and information produced by the Center. This includes on the letter heads of official correspondence of the Center.

185. Where relevant and necessary, press releases may be issued to inform the public at large on AFE's work and accomplishments (e.g., at the end of selected seminars). Donors and beneficiary countries will be invited to participate.

D. Financial Management

186. Contributions from donors and recipient countries will be made into a multi-donor AFE Subaccount to be established under the IMF's Framework Administered Account for Selected Fund Activities (SFA).[26] This Subaccount will be used to receive and disburse financial contributions for the Center's activities; all resources contributed to the Subaccount will be for the sole use of AFE.

187. The basis for the financial arrangements between donors and the IMF will be a letter of understanding establishing the purposes of the contributions related to this program document and subject to the terms of and conditions of the subaccount, as well as the SFA framework instrument. The IMF undertakes the trust fund management for all contributions in accordance with its financial regulations and other applicable IMF practices and procedures.

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[26] Reference to external website when the Board paper is public.

188. The IMF will provide donors with reports on the Subaccount's expenditures and commitments through a secure external gateway. Separate reporting on the execution of AFE's budget will be provided at each SC meeting. Costs will be on an actual basis.[27] The operations and transactions conducted through the Subaccount during the financial year of the IMF will be audited as part of the IMF's Framework Administered Account and the report of the External Audit Firm is posted on the IMF's external website as part of the IMF's Annual Report. AFE is also subject to audits by the IMF's internal audit office.

189. AFE is an IMF office. It complies with IMF procurement practices.

[27] See http://www.imf.org/external/np/pp/eng/2008/040308a.pdf. Staff cost will be charged at the midpoint of the standard cost of the grade of staff members plus the relevant benefit factor, contractuals and long-term experts will be charged at the actual salary plus the relevant benefit factor; all other costs, including short-term experts, travel and seminars will be charged at actual cost.

Appendix I. Major Outcomes Supported by AFE[28]

Capacity building is a joint effort of the many donors and TA providers, which are active in the region. Below are examples for results achieved in AFE countries, where AFE was engaged and contributed to these achievements.

Revenue policy and administration

Eritrea

- AFE support in 2005 facilitated the development of an *international tax treaties program*.

- A *modernization and information technology strategy and implementation plan* was developed with AFE assistance in October and December 2008 as a blueprint for the next phase of tax administration reforms.

Ethiopia

- The development of a *five-year corporate plan* for the Federal Inland Revenue Authority (FIRA) benefited from several AFE actions in 2005.

- AFE provided assistance to set up a *risk-management unit*, and develop a *risk-management policy, strategy, and implementation plan* in October 2007. Implementation of the plan has resulted in the development of objective case selection criteria that is being used to assign importers to respective risk-level categories.

Kenya

- AFE assistance in 2006 facilitated *refinement of stratification of taxpayer population* into the respective segments, therefore enabling effective development of appropriate administrative strategies.

- AFE assistance in May 2007 helped design a *taxation regime for small and micro enterprises*. On January 1, 2008, a *presumptive tax regime* was implemented that simplified the tax regime for these businesses, and is expected to reduce the compliance cost for taxpayers.

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[28] Outcomes are highlighted in italics. Please note that if a country is not listed in a sector, AFE did not have substantive involvement in that country in that sector.

Malawi

- AFE peripatetic support facilitated the *integration of domestic tax administration* under a function-based structure, with a strengthened head office function in 2007.

- Through AFE support, a LTO was set up in 2007 as an initial step in adopting a taxpayer segmentation approach.

- AFE assistance was provided for the development of a *pre-shipment inspection (PSI) exit strategy*, including support for a "dry run" test of processing customs entry declarations without information from the PSI company, and development of desk instructions. The strategy was implemented and PSI services successfully phased-out on July 1, 2007.

Rwanda

- AFE assisted with the *integration of tax administration* by merging the Large Taxpayer and Inland Revenue Departments in May 2006, in line with best practice.

- A strong head office function responsible for operational policy development was established in June 2006 and AFE support facilitated *implementation of a number of performance indicators* for the head office and operational departments, and developed *operational manuals for the audit and collection functions*.

- AFE support was provided to develop an implementation road map in 2006 as part of preparations for *accession to the EAC Customs Union* (EACCU). An EAC desk was created within the Rwanda Revenue Authority as a result, to support the accession. Rwanda successfully *joined the EACCU in 2007* and is to implement the provisions of the EACCU in July 2009.

- With AFE assistance a *risk-management unit* (RMU) was established in 2008 and it finalized an institutional risk-management policy, strategy and implementation plan for customs administration. As part of this plan, the customs implemented a scheme that allows the immediate release of goods imported by low-risk importers with good compliance records, subject to risk-based post clearance audits. This has facilitated expeditious release of 60 percent of imports (by value) through the "blue and green channels," a vast improvement from the less than 2 percent level in 2007.

Tanzania

- AFE audit support *improved audit policy, delivery, and yield*, especially in the LTD, in 2005. Audit practices in the LTD are the most advanced in the AFE region. The LTD also posted positive impact in management of large taxpayers' operations with the department moving from managing 100 large taxpayers in 2004 to 370 in 2006, with the latter contributing about 70 percent of domestic tax revenue.

- Following AFE assistance, a LTO was inaugurated in Zanzibar on January 1, 2007, with dedicated management responsible for an initial 45 files, accounting for about 55 percent of tax revenue.

- AFE has assisted with plans for the *integration of a destination inspection company with customs operations*, which involves modifying current administrative processes and IT systems. Customs administration processes are being improved to ensure full integration and alignment of all customs procedures.

Uganda

- AFE assisted the development of *Procedure Guidelines* for large taxpayer management. The LTO currently has 442 taxpayers—up from 300 in September 2005—with a current domestic revenue contribution of about 65 percent.

- AFE provided *quality assurance support* during the open tender procurement process for an integrated tax administration system (ITAS) in 2006 and 2007. This process was successfully finalized and the tender awarded to a reputable international company. Implementation of ITAS commenced in 2008 and key outcomes (by January 2009) include the development and piloting of a *registration module*.

- Assistance was provided to develop and implement a credible *risk-management framework* in 2006 and 2007, including a risk-management policy, appointment of a corporate level risk-management champion, and implementation of risk-management units across the organization. This project has been highly successful in analyzing and disseminating risk information to program delivery units.

Public Financial Management

Ethiopia

- AFE assisted to design and operationalize a cash management system, including the establishment of a *Cash and Fund Management Unit*, and implementation of Zero-Balanced Drawing Accounts arrangements for the management of government cash resources.

- With AFE's assistance, the authorities implemented an improved *Cash Forecasting System*. Cash flow forecasts from government agencies are now compiled in a timely manner every month, and cash projections are being regularly monitored and compared against actual performance by MoFED.

- In line with AFE's recommendations, the authorities moved to establish *cash limits* for spending agencies at a more aggregate level which helps overall efficiency of government expenditures and program delivery.

- AFE has assisted the authorities to formulate new *Guidelines and Procedures* for cash management and banking arrangements.

- AFE assisted in the development of a *Concept Paper on Program Budgeting*, which guided the introduction of Program and Performance Budgeting (PPB) on a pilot basis, effective FY 2007-08. It has also provided a bench mark for assessing the progress achieved in 2009 and guided on the requirements to sustain the reform.

- AFE delivered sensitization seminars to enhance understanding of the merits and requirements for PBB among of policy makers within federal Government. *Training Material on PPB* were developed and used to facilitate delivery of PPB training targeting technocrats in line ministries, which was instrumental in the roll-out of PPB to cover 20 public bodies.

Kenya

- AFE's on-going assistance to the Treasury led to implement a *Cash Flow Planning System* with effect from 2005. Training in this regard was provided by AFE to the staff of the Accountant General's Department and key line ministries. An Exchequer Committee now meets regularly to approve monthly cash flow plans and monitor spending.

- AFE's assistance led to the introduction of *Zero Balance Account Arrangements* in 2006, whereby all funds are swept daily into a Treasury Funding Account, which records credit limits and actual spending of each budget user. This reform has eliminated line ministry idle balances that were previously outside of Treasury control.

- AFE assisted the authorities to prepare a draft *Legislation on Public Finance and Accountability*. The draft legislation is compatible with international best practice. The draft law was vetted by the Attorney General and reviewed by other stakeholders. Sensitization workshop were held by AFE to present the draft and sensitize stakeholders to the implications of the legislation.

Malawi

- AFE mission assisted the authorities to review the budget preparation process and improve budget documentation. In line with AFE's recommendations, the Government has established a *revised budget calendar*, and initiated a *review of the budget classification and chart of accounts*.

- AFE has assisted in the implementation of improved cash management systems, and in the establishment of the *Cash Management Unit* and *Cash Management Committee*. Training on cash management issues and systems was also provided.

- AFE assisted with the development of a cash flow *planning circular and guidelines* for Budget Users.

- AFE assistance was provided to move towards a *uniform budget classification* and *chart of accounts* aligned with GFSM 2001 to be used for budget formulation and execution, fiscal reporting, and compilation of government financial statistics.

Rwanda

- AFE helped initiate a program of reforms in the Treasury focusing on design and implementation of a cash flow planning system and *Zero Balanced Drawing Accounts* for line ministries.

- AFE assisted to establish a *Cash Management Unit* and a *Liquidity Management Committee* to manage the on-going operations of the new cash planning framework.

- AFE assisted to strengthen banking arrangements with a phased integration of bank accounts into a *Single Treasury Account Arrangement*.

- AFE assisted to establish an *Intergovernmental Fiscal Relations Unit* in the MINECOFIN. AFE and World Bank collaborated in building capacity of the newly established Unit. AFE was instrumental in the attachment of the staff of the Unit to the South African Treasury to provide hands-on training.

- AFE assisted the formulation of a prioritized and sequenced reform strategy for strengthening the policy content and adoption of the MTEF. Authorities have adopted the recommendations to improve the quality and relevance of the budget preparation guidelines, Budget Framework Paper and other Budget documentation.

Tanzania

- AFE's assistance has led to the establishment of a Cash Management Unit (CMU) within the Treasury, and the Cash Management Committee (CMC) to implement and manage cash management reforms in the government.

- AFE assisted with the development and production of *Cash Management Guidelines and Instructions*, which were issued to line ministries. AFE designed and delivered a series of training events to familiarize stakeholders with this new framework.

- AFE assisted the authorities in the Mainland and in Zanzibar move towards a GFSM 2001 compliant budget classification system and chart of accounts. AFE developed a template for the *Chart of Accounts*, as well as bridge tables linking the present classification to the revised classification, and a revised economic and functional classification system.

- AFE produced a draft *Manual on GFSM 2001 Implementation* for the authorities in the Mainland and in Zanzibar.

- With support from AFE, the Revolutionary Government of Zanzibar has revised both: (i) budget preparation guidelines and (ii) structure of the budget documentation to be submitted to Cabinet for the forthcoming fiscal year 2009/2010.

Uganda

- AFE assisted the authorities to *review the existing framework for non-tax revenue* and formulate a reform strategy aimed at increasing the efficiency of administering non-tax revenues. The authorities adopted AFE's recommendations.

- AFE assisted to *review the cash management process* and submitted recommendations on how to improve cash management and banking arrangements and to move progressively towards a Single Treasury Account. The authorities adopted AFE's recommendations.

- AFE assisted to address the *problem of continuous build-up of payments arrears*. AFE identified the systemic causes of the arrears problem and identified measures to contain and liquidate the arrears. The authorities will be addressing the recommendations during the roll-out of IFMIS.

Financial Sector Regulation and Supervision

Eritrea

- The Bank of Eritrea (BOE) commenced the *development of a risk based approach to supervision*. The BOE undertook a survey of risk management practices used by banks and issued its own Risk Management Guidelines to financial institutions.

- BOE took initial steps towards the *regulation of insurance activity*. As a result of the work undertaken by the AFE mission, BOE developed an action plan to move into this new area of regulation.

Ethiopia

- With assistance from AFE, the National Bank of Ethiopia commenced the migration from compliance based supervision to *RBS*. The National Bank developed Risk Management Guidelines for financial institutions and undertook a pilot onsite examination using the RBS framework.

- Two senior officers from the Bank Supervision Department of the National Bank of Ethiopia (NBE) benefited from a *professional attachment* to the Bank of Tanzania. The NBE staff members were able to learn from BOT, the processes involved in its transition to an RBS framework and observed day to day supervisory practices in action. The NBE staff members produced a report which is now a useful reference document for their colleagues at the National Bank of Ethiopia.

- Approximately 50 members of staff of the National Bank of Ethiopia have completed 2 training programs provided by AFE to *strengthen their basic bank supervision skills*. The training programs enhanced participants ability to undertake their day-to day supervisory functions, and provided a foundation for further training in more complex issues in banking supervision at a later date.

Kenya

- The Central Bank of Kenya (CBK) is at advanced phase of the development of its program of *risk based supervision* which was adopted through assistance provided by AFE. CBK has revised its examination procedures and supervisory manuals and has undertaken a number of inspections using the new framework. As a result of the new approach CBK has developed new supervisory programs for all institutions that have been examined.

- AFE assisted CBK to develop a *framework for the practice of consolidated supervision*. CBK undertook a survey of institutions to get a better understanding of ownership relationships across the financial sector and has developed a Memorandum of Understanding (MOU) to strengthen cross-border supervisory arrangements. The MOU has been circulated to a number of regional supervisors and to date, has been signed by the National Bank of Rwanda and the Banque de la Republique du Burundi.

- AFE assisted the CBK to enhance its capital adequacy framework by preparing for the adoption of a *capital charge for market risk*. CBK produced a policy paper, undertook a survey of financial institutions to get a better understanding of the nature of their exposures to market risk and developed an amendment to the existing capital adequacy regulation to create the required legal basis for the expanded capital adequacy requirement.

Malawi

- The Reserve Bank of Malawi (RBM), with assistance provided by AFE, has developed a *framework for the practice of risk based supervision*. The RBM has undertaken all of the steps necessary to put the new framework in place and has carried out a number of examinations using the new framework.

- The RBM commenced the process of *developing of framework for the practice of consolidated supervision*. With assistance from AFE, the RBM prepared a policy paper, and a survey to be circulated to banks to provide detailed information about ownership relationships across the financial sector. The RBM has also developed an action plan for implementation of the new supervisory arrangements.

- AFE assisted RBM to develop an action plan for strengthening the arrangements for the *regulation of discount houses*. The action plan addressed the relationship between NBR and other institutions with oversight responsibility for discount houses as well as the supervisory norms and benchmarks that should be employed by NBR.

Tanzania

- AFE assisted the Bank of Tanzania to strengthen its framework to deal with *problem banks*. With assistance from AFE BOT produced a draft policy paper and a draft problem bank manual. As a part of this initiative Tanzania has also prepared "Prompt Corrective Action Regulations".

- Following work undertaken by an AFE mission which undertook a pilot stress testing exercise on financial system vulnerabilities, BOT *enhanced its offsite surveillance activity* with the periodic use of stress testing to determine financial system vulnerabilities.

- AFE assisted BOT to adopt *anti-money laundering/combating the financing of terrorism (AML/CFT) inspection procedures*. The procedures were developed in a manner to be consistent with BOT's risk based supervisory framework.

Rwanda

- AFE assisted Rwanda to commence the process of *enhancing its capital adequacy framework by incorporating a capital charge for market risk*. Following the provision of assistance from AFE the National Bank of Rwanda (NBR) prepared a draft policy paper, a market risk questionnaire a draft regulation, draft prudential returns and guidelines to assist institutions in completing the returns. \

- With assistance provided by AFE Rwanda implemented a number of enhancements to its *off-site surveillance system*. The revised monitoring system facilitates more thorough and meaningful analysis and produces more concise and focused reports including more in-depth financial analysis within the CAMELS rating framework.

- AFE assisted NBR to produce a draft framework paper outlining the background, rationale and steps required to implement *consolidated supervision in Rwanda*. The NBR, with AFE's support, also produced a survey to determine existing group connections and a draft regulation which establishes the requirements for consolidated reporting, application of prudential standards on both a solo and consolidated basis, and the power of the NBR to require information directly from bank-related parties and affiliates of banks for the purposes of consolidated supervision.

Uganda

- Uganda has undertaken considerable work to expand its *capital adequacy framework to incorporate a capital charge for market risk*. The work undertaken included the preparation of a policy paper, the conduct of a survey of financial institution to ascertain the nature of their exposures to market risk and the preparation of the necessary regulatory instrument to provide the legal basis for the new framework. Through assistance provided by AFE, BOU has also benefited from technical training to prepare their staff to deal with the new prudential returns as they are submitted by financial institutions.

- AFE assisted BOU to establish a *framework for the practice of consolidated supervision*. As with some other AFE member countries that have also established similar frameworks, BOU prepared a policy paper and conducted a survey to make sure that it has a clear picture of the ownership relationships across Uganda's financial sector and also with institution based outside of the country. With assistance from AFE, Uganda drafted a *mortgage banking/mortgage lending regulation* to address the unique nature and risks of these activities. The draft regulation seeks to establish clear requirements and performance criteria for mortgage banks, as well as prudential requirements for mortgage lending activities.

Monetary Policy and Operations

Eritrea

- Sustaining institutional capacity at the Bank of Eritrea (BOE) for *monetary policy formulation and implementation*
- Initiating *payment system modernization* by BOE

Kenya

- Development of interbank money and domestic debt markets through key initiatives such as *vertical and horizontal repos* by CBK
- *Modernization of the national payment system* including creation of institutional capacity at the CBK for system oversight and management and regulation of new products, such as mobile banking and remittance services

Rwanda

- Drafting of the *Framework and Strategy Document* leading to BNR implementing a national payment system modernization
- Creation of *regulatory and system oversight capability* at BNR to handle existing and new products and services, such as non-bank remittance services

Tanzania

- Enhancing *liquidity forecasting capability* at BOT and better aligning monetary operations with changes in systemic liquidity flows
- Developing *Risk-Management Guidelines* for retail payment systems, including electronic banking and mobile payments, reformulating the existing on and off-site system oversight framework, and considering the introduction of standards, requirements and regulatory measures for money transfer and other retail payment systems and products

Economic and Financial Statistics

Eritrea

- In 2003, AFE assisted Eritrea with producing the *Statistics Acts* which focused on legal and institutional arrangements

Ethiopia

- AFE assisted with the development of an *agricultural PPI*—in December 2008, the Ethiopian Central Statistics Agency took the responsibility from the Ethiopian Development Research Institute (a quasi government organization) for compiling, estimating and disseminating the agricultural PPI. Additionally, with AFE's assistance, Ethiopia released a new *CPI series* in December 2007.

Kenya

- AFE assisted Kenya with the release of the first *quarterly GDP* in 2007; moreover, with AFE's assistance, Kenya will soon produce a rebased and revised *CPI series*. Kenya is in the advance stages of its PPI production for the manufacturing industry. This index will be disseminated by June 2009.

Malawi

- AFE provided TA on *balance of payments, government finance statistics, consumer price, and producer price indices* during 2003 to 2007. Assistance on national accounts has been provided by the Norwegian government.

Rwanda

- AFE assisted Rwanda with the production of its *Supply and Use Table* in February 2009.

Tanzania

- AFE assisted Tanzania with the publication of a revised series of *GDP estimates* (benchmarked and rebased on the year 2001) in September 2007. Tanzania hopes to join Kenya, and be the second in the region to disseminate its *quarterly national accounts estimates* by April 2009. Both DFID and the World Bank plan to provide assistance in improving the annual national accounts estimates.

Uganda

- AFE assisted Uganda to produce a revised series of *annual national accounts estimates*—published in October 2008. Uganda hopes to join Kenya and Tanzania in producing *quarterly national accounts* by May/June 2009. Uganda is in the advance stages of it *PPI production for the restaurants and hotels* industry. This index will be disseminated June 2009.

Table 1. East Afritac: Relative Strength of National Statistics Systems

			Real Sector Statistics				Other Macro data			
	Data Collection 1/ 2/	Statistical Practice Rank 2/3/	National Accounts Base Year less than 10 Years Old	CPI Basket less than 10 Years Old	Industrial Production Index Available	Export/ Import Price Indices Available	Consolidated Government Accounts Available	Use of BPM5	External Debt Reported	Subscribe to SDDS
Eritrea	10	20	No	No	No	No	No	No	Yes	No
Ethiopia	80	70	Yes	Yes	No	No	Yes	Yes	Yes	No
Kenya	50	50	Yes	No	No	No	No	Yes	Yes	No
Malawi	60	50	No	Yes	Yes	No	No	Yes	No	No
Rwanda	60	60	No	Yes	No	No	Yes	Yes	Yes	No
Tanzania	60	50	No	Yes	Yes	No	No	Yes	No	No
Uganda	60	50	Yes	Yes	No	No	No	Yes	Yes	No
Average or Number of Yes	54	50	3 of 7	5 of 7	2 of 7	0 of 7	2 of 7	6 of 7	5 of 7	0 of 7

Source: World Bank Country Statistical Information Database

1/ Refers to periodicity of source data collection (i.e., agriculture, population, and poverty censuses).

2/ Rank on an scale of 0 to 100. Average rating for all low and middle-income IDA/IBRD countries (with a population of over 1 million) is 62 for Data Collection and 56 for Statistical Practice.

3/ Refers to compilation methodologies for national accounts, consumer and producer price indices, government finance statistics, and external debt & balance of payments data, and countries' participation in the IMF Special Data Dissemination Standard (SDDS).

Table 2: Afritac East: Frequency of Data Production, Data Reporting to IMF Area Department, and Data Publication in Local Venue

	National Accounts Data			CPI Data			GFS Data (Central Gvt.)		
	Production	Reporting	Publication	Production	Reporting	Publication	Production	Reporting	Publication
Eritrea 1/	…	…	…	…	…	…	…	…	…
Ethiopia	A	A	A	M	M	M	Q	Q	Q
Kenya	A	A	A	M	M	M	M	I	Q
Malawi	A	A	A	M	M	M	M	M	I
Rwanda	A	A	A	M	M	M	M	M	M
Tanzania	A	A	A	M	M	M	M	M	Q
Uganda	A	A	A	M	M	M	M	M	M

	Central Bank Data			Banking Survey Data			Monetary Survey Data		
	Production	Reporting	Publication	Production	Reporting	Publication	Production	Reporting	Publication
Eritrea 1/	…	…	…	…	…	…	…	…	…
Ethiopia	M	M	M	M	M	M	M	M	M
Kenya	D	D	M	M	M	M	M	M	M
Malawi	W	W	Q	M	M	M	M	M	M
Rwanda	W	W	M	M	M	M	M	M	M
Tanzania	M	M	M	M	M	M	M	M	M
Uganda	M	M	M	M	M	M	M	M	M

	Balance of Payments Data			External Debt Data		
	Production	Reporting	Publication	Production	Reporting	Publication
Eritrea 1/	…	…	…	…	…	…
Ethiopia	Q	Q	Q	A	A	A
Kenya	M	A	A	M	Q	Q
Malawi	A	Q	A	M	NA	NA
Rwanda	A	A	A	NA	Semi-A	NA
Tanzania	A	A	A	M	M	A
Uganda	A	Q	Q	M	Q	NA

Source: IMF Statistics Department, Databank for 2007 Review of Data Provision to the Fund.
A= annual; Semi -A=semi-annual; Q=quarterly; M=monthly; D=daily; NA=not available.
1/ No data are reported for Eritrea in the IMF Statistics Department databank.

Table 3. Afritac East: Data Publication in IFS 1/
(As reported in February 2009 IFS Issue)

			Monetary Data				
	National Accounts	CPI	Central Bank	Banking Survey	Monetary Survey	GFS Data	Balance of Payments
Eritrea	NA	NA	Q1 2008	Q1 2008	Q1 2008	NA	NA
Ethiopia	2005	Q1 2008	Q3 2007	Q1 2008	Q3 2007	2002	Q1 2008
Kenya	2006	Nov. 2008	Q3 2008	Q3 2008	Q3 2008	Q1 2008 *	2007
Malawi	2005	Oct. 2008	Oct. 2008	Q1 2008	Q1 2008	NA	2002
Rwanda	2006	Oct. 2008	2006	2005	2005	Q3 2008	2007
Tanzania	2004	Nov. 2008	Nov. 2008	Nov. 2008	Nov. 2008	Nov. 2008 *	2007
Uganda	2006	Sept. 2008	Sept. 2008	Sept. 2008	Sept. 2008	2006 *	Q4 2007

Source: IFS
1/ Number is parenthesis refers to latest data observation.
*/ Data reported are incomplete, lack detail.

Appendix III. Selected Macroeconomic Indicators

Table 1. Real GDP Growth
(In percent)

	2004	2005	2006	2007	2008
Eritrea	1.5	2.6	-1.0	1.3	1.2
Ethiopia	9.8	12.6	11.5	11.5	11.6
Kenya	4.6	5.9	6.4	7.0	2.0
Malawi	4.9	1.4	7.7	7.8	8.0
Rwanda	5.3	7.2	7.3	7.9	8.5
Tanzania	7.8	7.4	6.7	7.1	7.0
Uganda	6.8	6.3	10.8	7.9	9.8
East AFRITAC (average)	5.8	6.2	7.1	7.2	6.9

Sources: IMF, African Department database; and World Economic Outlook (WEO) database.

Table 2. Consumer Prices
(Annual changes, in percent)

	2004	2005	2006	2007	2008
Eritrea	25.1	12.5	15.1	9.3	11.0
Ethiopia	8.6	6.8	12.3	15.8	25.3
Kenya	11.6	10.3	14.5	9.8	12.7
Malawi	11.6	12.3	9.0	7.0	6.0
Rwanda	12.0	9.0	8.9	9.1	15.0
Tanzania	4.1	4.4	7.3	7.0	10.1
Uganda	5.0	8.0	6.6	6.8	7.3
East AFRITAC (average)	11.1	9.0	10.5	9.3	12.5

Sources: IMF, African Department database; and World Economic Outlook (WEO) database.

Table 3. Overall Fiscal Balance, Including Grants
(Central government, in percent of GDP)

	2004	2005	2006	2007	2008
Eritrea	-16.6	-21.2	-12.0	-10.0	-8.5
Ethiopia	-3.0	-4.4	-3.9	-3.6	-3.0
Kenya	-0.1	-1.8	-2.5	-3.0	-4.3
Malawi	-5.6	-3.9	-0.7	-3.1	-5.1
Rwanda	-0.2	0.6	-0.4	-1.5	0.1
Tanzania	-2.7	-2.8	-4.7	-3.7	0.0
Uganda	-1.6	-0.5	0.1	-1.0	-1.9
East AFRITAC (average)	-4.3	-4.9	-3.4	-3.7	-3.3

Sources: IMF, African Department database; and World Economic Outlook (WEO) database.

Table 4. Government Revenue, Excluding Grants
(In percent of GDP)

	2004	2005	2006	2007	2008
Eritrea	23.4	25.9	23.0	22.8	23.3
Ethiopia	16.1	14.6	14.8	12.8	12.4
Kenya	21.4	21.2	21.1	22.2	22.3
Malawi	16.4	18.2	17.5	18.7	19.1
Rwanda	12.8	13.5	13.1	13.6	14.2
Tanzania	10.4	11.1	11.8	13.1	14.9
Uganda	11.9	12.2	12.5	12.7	15.8
East AFRITAC (average)	16.1	16.7	16.2	16.5	17.4

Sources: IMF, African Department database; and World Economic Outlook (WEO) database.

Table 5. Government Expenditure
(Central government, in percent of GDP)

	2004	2005	2006	2007	2008
Eritrea	55.1	56.5	39.1	35.3	33.8
Ethiopia	23.7	23.3	22.3	20.8	19.6
Kenya	22.7	24.2	24.8	26.3	28.1
Malawi	30.9	31.2	31.6	36.0	34.2
Rwanda	24.1	25.6	24.5	24.9	27.1
Tanzania	18.1	20.3	21.6	21.4	21.4
Uganda	22.0	20.2	17.8	18.3	20.5
East AFRITAC (average)	28.1	28.8	25.9	26.1	26.4

Sources: IMF, African Department database; and World Economic Outlook (WEO) database.

Table 6. Broad Money
(In percent of GDP)

	2004	2005	2006	2007	2008
Eritrea	128.9	130.4	123.9	123.8	118.7
Ethiopia	39.0	38.0	36.1	33.3	29.1
Kenya	40.1	39.3	40.3	42.9	45.1
Malawi	16.0	16.0	14.2	16.6	16.2
Rwanda	16.5	16.5	15.5	20.1	18.3
Tanzania	18.6	20.5	24.0	24.8	26.1
Uganda	18.5	17.5	18.0	18.3	20.9
East AFRITAC (average)	39.7	39.7	38.9	40.0	39.2

Sources: IMF, African Department database; and World Economic Outlook (WEO) database.

Table 7. External Current Account, Including Grants

(In percent of GDP)

	2004	2005	2006	2007	2008
Eritrea	-0.7	0.3	-3.6	-3.7	-2.7
Ethiopia	-4.0	-6.0	-9.1	-4.5	-5.8
Kenya	0.1	-0.8	-2.3	-3.0	-6.6
Malawi	-7.3	-11.9	-6.4	-2.2	-8.0
Rwanda	-1.9	-1.1	-7.4	-4.9	-6.9
Tanzania	-3.6	-4.1	-7.7	-9.0	-9.9
Uganda	-3.0	-4.5	-3.5	-2.8	-3.4
East AFRITAC (average)	-2.9	-4.0	-5.7	-4.3	-6.2

Sources: IMF, African Department database; and World Economic Outlook (WEO) database.

Table 8. External Debt to Official Creditors

(In percent of GDP)

	2004	2005	2006	2007	2008
Eritrea	54.0	65.7	60.9	64.6	59.2
Ethiopia	72.4	48.2	36.7	11.3	11.1
Kenya	29.7	25.4	20.9	18.8	17.9
Malawi	112.6	107.8	14.3	14.5	16.5
Rwanda	84.9	63.0	16.9	16.8	15.4
Tanzania	44.9	41.2	41.7	36.6	30.7
Uganda	61.8	47.9	44.8	12.4	11.7
East AFRITAC (average)	65.8	57.0	33.7	25.0	23.2

Sources: IMF, African Department database; and World Economic Outlook (WEO) database.

Donor Matrix for AFE Countries

List of donors and other TA providers
Mar-09

Country	Budget support	Revenue administration	PFM	Monetary and exchange rate policy	Banking supervision	Capital markets and debt	Statistics	Major donors (ranked by ODA disbursements excl. Debt 2006)
AFRITAC East								
Eritrea			**AfDB** (procurement, public accounting, audit)				**Norway** (reforms, census) **UN** (data collection) **World Bank**	**World Bank, Norway, EC, Japan, AfDB, USA, UK, Germany, the Netherlands, Sweden, Belgium, Canada, Denmark, Finland, France, Spain, Switzerland**
Ethiopia	"Protection of Basic Services Program (PBS)": **World Bank, UK, AfDB, EC, Germany, Canada, Ireland, Sweden**	**PBS group** (tax administration) **UK** (strengthening tax collections) **Canada** (audit) **USA**	**EC** (PEFA) **PBS group (budget allocations, public expenditure)** **DAG-PFM** (reforms) **Canada** (audit)				**IMF/UK** (GDDS) **UN** (agricultural PPI, poverty indicators), **Japan** (census) **Italy** (census) **The Netherlands** (census) **Ireland** (census)	"Development Assistance Group Ethiopia (DAG)": **World Bank, USA, EC, UK, Italy, Canada, Germany, Ireland, the Netherlands, AfDB, Japan, Norway, Sweden, France, Finland, Spain, Austria, Belgium, Denmark, Switzerland, Luxembourg, India, UN IDB, Koweit, Korea**
Kenya	**EC** **World Bank**	**PF-DPG: DCG group** (revenue administration) **UK** (revenue and taxation administration) **World Bank** (revenue administration)	**UK/Sweden** (PEFA) **PF-DPG: DCG group** (reforms, budget, audit) **UK** (budget, public expenditure) **World Bank** (budget, IT, audit, procurement)	**IMF/Belgium** (crisis preparedness) **USA** (Government security auctions) **IMF/FIRST** (payment systems)	**UK** (microfinance) **World Bank** (financial sector reform)	**IMF** (capital market development)	**World Bank** (reforms) **AfDB** **UN** **US**	"Donor Coordination Group (DCG)": **USA, UK, Japan, EC, Sweden, Germany, Denmark, Canada, the Netherlands, France, Ireland, Korea, Norway, AfDB, Finland, Spain, Belgium, Italy, Austria, Switzerland, Luxembourg, Australia, World Bank, UN, IDB, China, Japan**
Malawi	"Malawi PRSBG" group: **UK, EC, World Bank, Norway, AfDB**		**EC** (PEFA) **PRSBG group** (reforms, public expenditure, budget) **UK** (public expenditure, reform) **Sweden** (audit) **World Bank** (public expenditure, IT, training)	**IMF/Norway** (governance and accounting of CB, policies, secondary market, forex reserve management, payment systems)	**IMF/Norway** (macroeconomic and financial analysis)		**IMF/UK** (GDDS) **Norway**	**UK, EC, USA, Norway, World Bank, Germany, Japan, AfDB, Sweden, Canada, the Netherlands, Ireland, IDB, Denmark, Iceland, Belgium, Australia, Finland, France, Luxembourg, Spain**
Rwanda	"Budget Support Harmonization" group: **AfDB, Belgium, EU, Germany, the Netherlands, Norway, Sweden, UK, World Bank, UN, Japan**	**UK** (tax administration) **IMF/Belgium** (revenue administration)	**World Bank** (PEFA) **GBS group** (reforms, budget, public expenditure) **UK** (macroeconomic management) **EC** (Audit) **Netherlands** (Audit) **Sweden** (Audit)	**IMF/Belgium** (crisis preparedness)	**AfDB** (financial sector reform) **UK** (financial sector reform) **IMF/Japan** (nonbank finaincial supervision)	**UK** (debt administration) **IMF** (Insurance supervision and payment systems); **World Bank** (payment systems and pension reform)	**EC** (surveys, statistics for policy making) **UK** (reform, consumer price indices) **IMF/UK** (GDDS)	"Development Partners Coordination Group": **UK, USA, EC, World Bank, Belgium, AfDB, the Netherlands, Germany, Sweden, Japan, France, Canada, IDB, Switzerland, Norway, Ireland, Luxembourg, Denmark, Spain, Finland, China, Saudi Funds**
Tanzania	"PRBS": **World Bank, UK, EC, BaFD, Sweden, the Netherlands, Norway, Denmark, Japan, Ireland, Finland, Switzerland, Germany, Canada**	**UK** (tax administration) **Denmark** (tax administration) **Norway** (revenue forecasting, tax policy) **Switzerland** (revenue forecasting) **World Bank** (Tax policy and administration)	**World Bank** (PEFA, legal framework, audit) **PRBS group** (reforms, budget, public expenditure) **UK** (reform, public expenditure, budget) **Switzerland** (expenditure analysis)	**IMF/Belgium** (sterilizing domestic liquidity, interbank markets, crisis preparedness) **IMF/FIRST** (financial stability assessment)	**AfDB** (financial sector reform) **World Bank** (pension and insurance markets)	**Switzerland** (debt) **UK** (connecting pensions, mortages and loans markets) **World Bank** (primary and second market)	**IMF/Belgium** (data compilation for NFIs) **IMF/UK** (GDDS)	"Joint Assistance Strategy Tanzania (JAST)": **World Bank, UK, EC, USA, the Netherlands, Sweden, Denmark, Norway, AfDB, Germany, Ireland, Japan, Canada, Finland, Switzerland, Belgium, Spain, Italy, France, Australia, UN, IDB**
Uganda	"GBS group": **World Bank, EU, UK, Ireland, AfDB, the Netherlands, Norway, Denmark, Germany, Austria**	**UJAS: UK-Denmark** (tax administration) **Belgium** (revenue administration) **IMF/Japan** (revenue administration)	**EC** (PEFA) **GBS group** (reforms, budget, public expenditure) **UJAS:UK-Norway** (reforms) **WB** (procurement, reforms) **Ireland** (reforms) **the Netherlands-UK** (procurement)	**Germany** (payment system) **IMF/Belgium** (framework, inflation targeting, crisis preparedness) **IMF/FIRST** (financial stability assessment)	**Germany** (NFIs supervision, microfinance supervision)	**Germany** (development of capital markets) **USA** (domestic financial market development)	**UK-EC-AfDB-World Bank** (reforms) **IMF/UK** (GDDS) **Afristat** (poverty indicators and labor statistics)	"Uganda Joint Assistance Strategy (UJAS)": **World Bank, UK, EC, the Netherlands, Denmark, Sweden, Ireland, Germany, AfDB, Belgium, Austria** **USA, Japan, Canada, IDB, Italy, Finland, France, Switzerland, Australia, Spain, Iceland** **UN**