

## ANNUAL REPORT

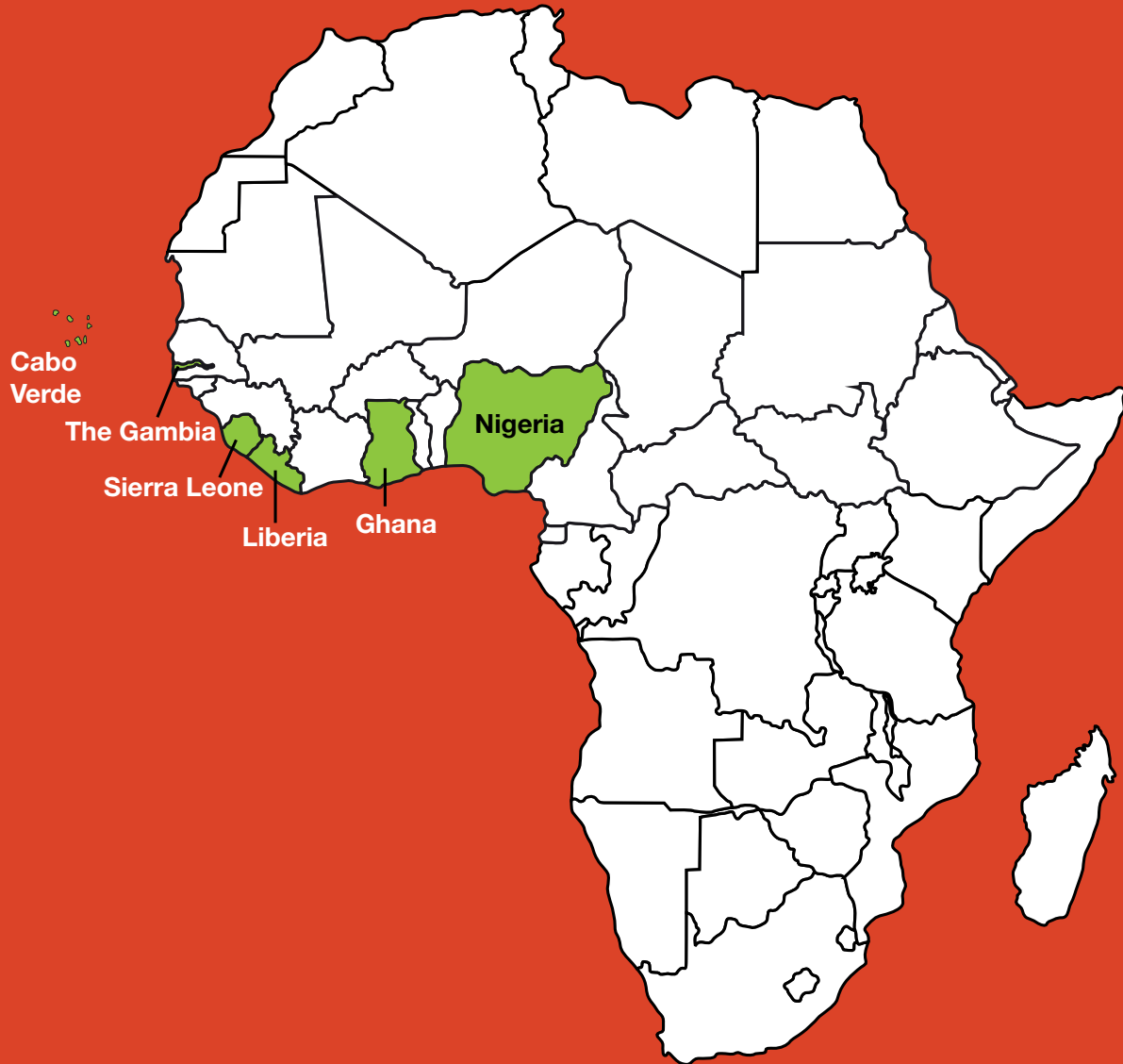
August 2017



# AFRICA REGIONAL TECHNICAL ASSISTANCE CENTER WEST 2 (AFW 2)



# AFRITAC WEST 2 MEMBER COUNTRIES



Ghana



Cabo Verde



Liberia



Nigeria



Sierra Leone



The Gambia

## LIST OF ACRONYMS

AFE	AFRITAC East
AFRITAC	African Technical Assistance Center
AFR	Africa Department of the IMF
AFW2	AFRITAC West 2
AFS	AFRITAC South
ANA	Annual National Accounts
ATAF	African Tax Administrators Forum
BCP	Basel Core Principles
BOG	Bank of Ghana
BOP	Balance of Payments
CAAT	Computer Assisted Audit Techniques
CB	Central Bank
CBL	Central Bank of Liberia
CBN	Central Bank of Nigeria
CD	Capacity Development
CPI	Consumer Price Index
CPSS	Committee on Payment and Settlement Systems
CSWAMZ	College of Supervisors of West African Monetary Zone
CG	Commissioner-General
DFID	Department for International Development of the United Kingdom
DNRE	National Directorate of State Revenue of Cabo Verde
DPs	Development Partners
ECOWAS	Economic Community of West African States
EDDI	Enhanced Data Dissemination Initiative
EVD	Ebola Virus Disease
FAD	Fiscal Affairs Department of IMF
FIRS	Federal Inland Revenue Service of Nigeria
FGN	Federal Government of Nigeria
FPAS	Forecasting and Policy Analysis System
FS	Financial Supervision
FSD	Fiscal Strategy Document
FY	Fiscal Year
IFMIS	Integrated Financial Management Information System
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
GBoS	Gambian Bureau of Statistics
GIZ	German Agency for International Cooperation
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
GIFMIS	Ghana Integrated Financial Management Information Systems
GFS	Government Finance Statistics
GRA	Ghana Revenue Authority
GSS	Ghana Statistical Service
HQ-RES	Research Department of the IMF
H1	First half of the Fiscal Year
H2	Second half of the Fiscal Year
KSG	Kaduna State Government



KPIs	Key Performance Indicators
LRA	Liberian Revenue Authority
LTX	Long Term Experts
MCM	Monetary and Capital Markets Department of IMF
MONOPS	Monetary Operations and Payment System
MPC	Monetary Policy Committee
MTEF	Medium Term Expenditure Framework
M&E	Monitoring and Evaluation
NCS	Nigeria Customs Service
NRA	The National Revenue Authority of Sierra Leone
OTA	Office for Technical Assistance - US Treasury
PBB	Program-Based Budgeting
PCA	Post Clearance Audit
PFM	Public Financial Management
PFMI	Principles for Financial Market Infrastructure
PPI	Producer Price Index
QNA	Quarterly National Accounts
QPM	Quarterly Projection Model
RA	Regional Advisor
RA-FIT	Revenue Administration-Fiscal Information Tool
RBM	Results Based Management
RTAC	Regional Technical Assistance Center
SC	Steering Committee
SDGs	Sustainable Development Goals
STA	Statistics Department of IMF
STX	Short-Term Expert
TA	Technical Assistance
TGRA	The Gambia Revenue Authority
TPA-TTF	Tax Policy and Administration-Topical Trust Fund
TSA	Treasury Single Account
VAT	Value Added Tax
WAIFEM	West Africa Institute for Financial and Economic Management
WAMI	West African Monetary Institute
WAMZ	West African Monetary Zone
WATAF	West African Tax Administrators' Forum
WCO-ROCB	World Customs Organization Regional Office for Capacity Building



**Opening remarks by the Chair of AFRITAC West 2 Steering Committee**  
**Honorable Olavo Correia, Minister of Finance, Cabo Verde**  
**5<sup>th</sup> Steering Committee Meeting, Praia, Cabo Verde**

Ladies and gentlemen of the AFRITAC West 2 Steering Committee, the Government of Cabo Verde is honored to host the Steering Committee's fifth meeting. Welcome to the meeting and to our beautiful country, Cape Verde, which we often call "*Terra da Morabeza*" (land of hospitality).

AFRITAC West 2 is now in the middle of its program cycle, and has clearly made substantial progress in fulfilling its mandate. As our region is still facing macroeconomic vulnerabilities, it is especially praiseworthy that the Center has matured as a viable institution, capable of helping our countries strengthen their economic resilience through capacity-building activities for the various macroeconomic institutions.



The Center continues to grow year after year, as evidenced by the increase in technical assistance activities in member countries, the use of innovative methods of assistance, and success stories that have been well documented in the annual report. In the financial year that has just ended, the Center undertook over 100 technical assistance activities, including 14 regional workshops targeting various sectors in various member countries. I am very pleased to say that two of the Center's workshops were held here in Cabo Verde, and I had the pleasure of participating in the opening session for one of these events, which brought together high-level personnel not only from AFW2 countries but also from other Portuguese-speaking African countries, to discuss coordination between planning and budgeting.

The Center continues to facilitate peer learning in the region, stepping up the use of professional secondment programs which have benefited member countries in the past year. Apart from knowledge transfer, the platforms created by the Center, such as the regional workshops and the professional attachment programs, provide valuable opportunities for forging professional and institutional links in the region, which can be utilized by member countries to ensure the development of their medium and long-term capabilities.

As regards the impact of the Center's work, the feedback of the institutions that have benefited from AFW2 technical assistance have generally been very positive. In tax administration, recent training events targeting various AFW2 countries in the areas of risk-based auditing and correspondence between tax and customs data, have been very successful in enabling revenue authorities to identify elements that could be improved. In addition, after receiving a considerable volume of AFW2 technical assistance in statistics over the last two years, Liberia has managed to compile its national accounts for the first time which has yet to be released. In the case of my country, Cabo Verde, I would like to register our appreciation of the invaluable assistance provided by AFW2, in work to improve the Bank of Cape Verde's monetary analysis function; recent support for the rebasing of the annual national accounts; and assistance in producing planning regulations as well as a Program-Based Budgeting (PBB) manual.

All of our countries need strong, capable, qualified institutions, and a robust institutional framework that can



**serve strategic short-, medium- and long-term interests.** These aspects lay the foundation for firm policies capable of promoting sustained and lasting growth and development in our economies. Travelling this road alone could become a much more arduous task for lower-income countries like ours. AFRITAC West 2's capacity building assistance thus is fundamental for African countries to construct solid institutions that can help deal with problems and prepare countries to keep pace with the global development process. To meet the current challenges facing Afritac member countries, these assistance activities are all crucial. We recognize the importance of this assistance, and we ask everyone to engage in this project which adds value throughout the process of improving the coordination of technical assistance for our economies, particularly in relation to the formulation and implementation of poverty reduction strategies.

**Ladies and gentlemen, at the Steering Committee's last meeting, held in Banjul, a number of very useful recommendations were made, and I am pleased to note that the Center has worked very hard to implement them over the last year.** Since that meeting, the Center has adopted the results-based management system, which is being implemented throughout the IMF; and it launched the interim evaluation of the Center's activities. In addition, the Center's partnership with regional institutions has been strengthened as closer relations have been developed with various organizations such as the Economic Community of West African States (ECOWAS), the West African Economic and Monetary Union (WAEMU), and the West African Institute for Financial and Economic Management (WAIFEM). I am also very pleased to announce that Nigeria recently nominated a representative to the AFW2 Steering Committee.

**For the coming fiscal year, a work program has been prepared for consideration by the Committee, which is results-based, in line with the ongoing implementation of results-driven management.** Apart from discussions on the work program at today's meeting, I urge national authorities, in particular, to work diligently with the Center, not only to fulfill the work program, but also to achieve the results expected in our various countries. On behalf of the member countries of AFW2 and the Center, I would like to express our deep gratitude to all of our development partners for making it possible to carry out the Center's work. As reiterated in the fiscal 2017 annual report, a number of challenges remain in several aspects of the Center's action; but I am convinced that our concerted efforts will enable us to overcome the obstacles that have been identified.

**In conclusion, I would like to thank all Steering Committee members and observers who have come to Praia to attend this meeting, as well as the entire Center team.** So let's have a productive debate during the course of today and at the dinner tonight. I hope this meeting can successfully inspire us and generate the guidance and support needed for the AFW2 to fulfill its mandate effectively.

I wish all of you an enjoyable stay in Cabo Verde and I encourage you to take advantage of your time here to explore the charms of our beautiful country.



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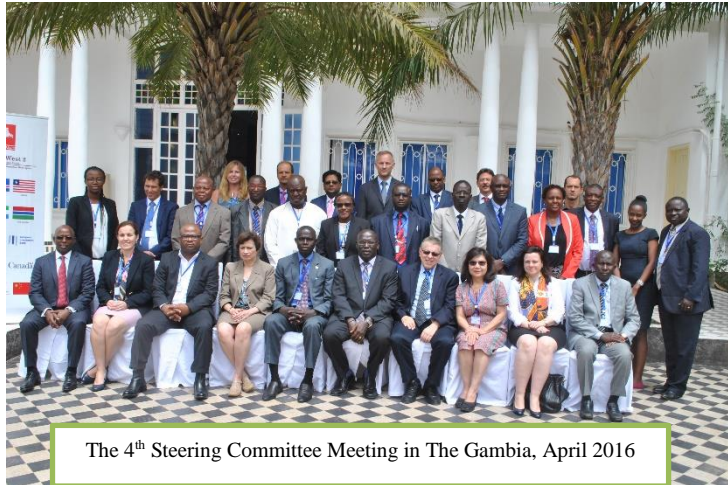


## I. EXECUTIVE SUMMARY

AFRITAC West 2 (AFW2) at half way through its program cycle: AFW2 has gained significant ground in delivering on its mandate. This is evidenced by the positive outcomes in the Center's capacity development (CD) work in its member countries, including on a number of ongoing projects that hold considerable promise.

**The macroeconomic outlook for AFW2 countries and broad strategic CD goals:** Consistent with the IMF's African Department's (AFR) CD Strategy, macroeconomic surveillance and program work in AFW2 countries

continue to define the Center's CD work program as informed by member countries' priorities. While overall growth prospects have improved in 2017 relative to 2015-16, macroeconomic vulnerabilities continue to persist in the sub-region with continued large fiscal gaps and high debt burden. This reinforces the need for further policy upgrade to improve domestic resource mobilization (an important aspect of the Sustainable Development Goals—SDGs) and strengthened public financial management (PFM) and more robust toolkits for monetary policy operations and financial sector supervision and regulation.



**The Implementation of the FY 2017 Work Program:** The implementation of AFW2's work program for FY 2017 proceeded broadly as expected with planned activities and milestones for the year largely achieved. The execution rate at the end of the fiscal year was at 80 percent—higher than the corresponding period last year, reflecting the scaling up of CD operations notwithstanding the political transitions in member countries (Cabo Verde, Ghana and The Gambia) culminating in a change in government (Box I). The execution of the Center's work program continues to rely heavily on financial contributions from development partners who have disbursed approximately 90 percent of their pledges as of end-March 2017. The Center also intensified its outreach efforts to secure contributions from the member countries and Liberia is currently working on signing its letter of understanding (LOU) — Table I.

### Key Achievements for the Year on the Center's CD work:

- **In the fiscal sector,** the Center made notable progress on its CD work for the two fragile states in line with AFR's CD strategy and the IMF's pilot work on the fragile states. Both Liberia and Sierra Leone successfully conducted the Tax Administration Diagnostic and Assessment Tool (TADAT) assessment which should provide a good baseline for their tax reforms and Development Partner (DP) support for strengthening revenue administration. A team from





Ghana was also trained in anticipation of an upcoming TADAT assessment in FY 2018. Key achievements in PFM include the completion and launch of a Treasury Single Account (TSA) Operations Manual by Kaduna State. This project offers an important opportunity for reflection on the potential role that RTACs can judiciously play in providing support at the sub-national level, especially in countries with a strong federal system such as Nigeria.

- **On monetary operations and the financial sector**, Liberia is bringing its reserve requirement in line with international best practices, while Sierra Leone is undertaking a full revamp of its reserve requirement system. AFW2 also collaborated with the authorities and other development partners to further assist the Bank of Ghana (BOG) on revamping its monetary policy framework. Similarly, in the area of financial sector supervision, the BOG made some progress in strengthening its supervisory practices as well as knowledge enhancement among its supervisors.
- **On statistics**, following considerable TA from AFW2 over the past two years, Liberia finalized its annual accounts compilation (2008-2013). The release date is to be determined. Cabo Verde also developed a plan for rebasing its annual accounts which is scheduled for 2018.



Governor of Kaduna State, Nigeria displays the TSA Manual developed with assistance from AFW2

#### **Communication and Outreach:**

- **On outreach to AFW2 member countries**, the Center Coordinator launched an outreach campaign in Cabo Verde culminating in a re-engagement on its CD work across almost all sectors. This was against the backdrop of a lull in AFW2's activities in the country during FY 2016. An outreach mission was also conducted in February 2017 to meet with the new authorities in The Gambia.
- **On the use of social media**, as part of enhancing communication and outreach on AFW2's CD work, AFW2's Facebook page was launched on August 19, 2016. Social media is now a core part of the Fund's outreach activities as it is increasingly recognized as a tool for reaching new audiences interested in IMF CD achievements. The Center's Facebook page performance is comparable to other Fund capacity development pages despite having only been around for a few months.

**Collaboration with other RTACs and Regional Bodies:** The Center made major inroads in deepening collaboration with other RTACs and West Africa's regional bodies. AFW2 partnered with AFRITAC East to organize workshops on Forex (FX) Market Dealing (June 2016) and Public Investment Management (November 2016). In March 2017, the Center brought together three RTACs (including AFRITAC South and West I) in a workshop that focused on how to enhance effective coordination between budgeting and planning especially in countries where such responsibilities reside in two different ministries. In April 2017, a regional High-Level TADAT Leadership Seminar was held for heads of

revenue administrations and co-sponsored by the ECOWAS Commission and GIZ. In August 2016, AFW2 and WAMI conducted a joint regional workshop in The Gambia on Risk-Based Supervision.



Minister of Finance for Cabo Verde with participants and facilitators of workshop on Strengthening Coordination between Planning and Budgeting.

**The mid-term evaluation of the Center's activities:** The mid-term evaluation process started in late 2016 and an inception note will be presented to the SC on April 28, 2017. The evaluation recommendations, lessons learnt, and the IMF's response will be presented to the Steering Committee in April 2018 along with an action plan for the implementation of the recommendations. Findings of the external evaluation will also help inform the formulation of the Program Document for the Center's subsequent phase.

**Staffing:** During the year, in line with the IMF's deepening engagement in fragile states, two new Regional Advisors were recruited by the Center; one for Revenue Administration specializing in Customs and one for PFM. An additional Advisor was recruited to spearhead the Center's transition to the Fund's Results-Based Management (RBM) approach which is currently being rolled out in all the RTACs (Box 3).

**The Center's work program for FY 2018 and strategic priorities:** Building on the solid achievements made in FY 2017, the work program for FY 2018 envisages a scaling up of activity level relative to FY 2017. In that context, the key goals are as follows:

- **Implementing a work program for FY 2018** that reflects the strategic priorities agreed with member countries and focuses on results in line with the RBM approach (Box 3).
- **Increased level of engagement in the Center's two fragile states** (Liberia and Sierra Leone)
- **Continuing the strategy on deepening engagement with Nigeria** including at the sub-national level in Kaduna State (Box 2).
- **Expanding the mode of CD delivery** by continuing to explore ways for more flexible modes of CD delivery to enhance effectiveness, including through the professional attachment program.

**The rest of the FY 2017 Annual Report:** Section II summarizes the key issues for discussion at the Steering Committee meeting on April 28, 2017. Section III provides the macroeconomic context in AFW2's member countries which helps to frame the issues in terms of the CD activities in the Center. Section IV summarizes the key CD achievements in FY 2017 and the sectoral implementation of the FY 2017 work program, while Section V outlines the strategic CD priorities for FY 2018 and the key elements of the Center's work program for FY 2018 (Annex V).

**Table I: Implementation of the recommendations of the 4<sup>th</sup> Steering Committee Meeting**

Recommendation	Action Taken
AFW2 to follow up with member countries on the Chair and Location of next meeting and report to the SC in the next 4-6 weeks.	Cabo Verde accepted to chair and host the April 2017 SC meeting. This was communicated to the SC by email on June 8 2016.
AFW2 to boost its execution rate in the remainder of the program cycle	Execution rate is expected to reach around 70 per cent in FY 2017 notwithstanding the impact of the political transition in Ghana and The Gambia.
AFW2 to pursue formal arrangements with ECOWAS and other regional institutions to facilitate effective collaboration.	There has been an exchange of letters between ECOWAS and the African Department of the IMF on the subject that outlines the broad parameters of future collaboration.
AFW2 to improve its reporting to be more outcome-oriented and leverage on the value-for-money indicators used by AFRITAC South (AFS).	Reporting on the Center's work has been improved in FY 2017 in the annual report has been streamlined to focus more on results than on activities. Further, the Fund has commenced the implementation and roll-out of the RBM framework. The FY 2018 work program will be prepared using the RBM log frame. On this basis, reporting going forward can be expected to be more results-based. To facilitate its implementation in AFW2, the Center has recruited an RBM Advisor.
Member countries to honor their funding commitments	Follow up is on going. Liberia is working on signing the letter of understanding (LOU) to enable the payment of its pledges to the Center. A detailed report on the status of individual member country contributions will be presented at the upcoming Steering Committee meeting.
Further engagements with Nigeria on the country's participation in the SC by the Fund and AFW2 member countries	Nigeria has confirmed its participation in the AFW2 Steering Committee and has indicated that its representatives to the SC are: <ol style="list-style-type: none"> <li>1) Mr. Mahmoud Isa Dutse – Permanent Secretary, Ministry of Finance</li> <li>2) Mr. Aliyu Ahmed - Director of International Economic Relations Department, Ministry of Finance</li> </ol>
AFW2 to write formally to the SC and invite nominations to the Evaluation Sub Committee	The Evaluation Sub-Committee has been constituted comprising Ghana, The Gambia, Sierra Leone, EU, Canada, EIB as well as IMF HQ.

Table II: IMF Capacity Building Initiative – AFRITAC West 2 Financial Table

(As of April 30, 2017)

Expenditure	Total			FY2017			FY2018
	Program Budget	Working Budget	Outturn	Budget	Outturn	Budget	Budget
	US\$	US\$	US\$	US\$	US\$	Execution	US\$
<b>Long-term Experts</b>	<b>8,097,402</b>	<b>9,091,357</b>	<b>3,115,661</b>	<b>2,223,556</b>	<b>1,942,243</b>	<b>87</b>	<b>2,291,347</b>
Fiscal	3,141,467	3,904,817	1,372,891	897,554	753,166		945,226
Revenue administration and tax policy	1,570,734	1,314,191	611,692	263,405	276,249		269,465
Public financial management	1,570,734	2,590,625	761,200	634,149	476,917		675,761
Monetary	3,412,283	2,850,997	1,187,510	636,381	676,608		658,600
Banking supervision	1,706,142	1,716,337	761,042	328,239	367,487		322,803
Monetary policy and operations	1,706,142	1,134,660	426,468	308,142	309,121		335,797
Statistics	1,543,652	1,258,930	555,260	265,430	278,105		271,535
Fragile States	-	802,427	-	334,191	138,189		231,800
Results-based management	-	274,186		90,000	96,176		184,186
<b>Short-term Experts</b>	<b>8,879,001</b>	<b>9,713,897</b>	<b>2,774,239</b>	<b>2,532,597</b>	<b>2,367,982</b>	<b>94</b>	<b>3,503,411</b>
Fiscal	4,970,768	6,074,951	1,739,241	1,499,778	1,393,812		2,299,120
Monetary	2,414,228	2,699,624	674,448	770,251	635,833		994,203
Statistics	982,613	696,573	236,822	143,547	250,451		210,088
Legal	350,923	80,454	50,454	30,000	3,140		-
ICD	81,029	89,021	-	89,021	84,747		-
Research	79,440	73,275	73,275	-	-		-
<b>Travel</b>	<b>4,410,312</b>	<b>3,058,113</b>	<b>759,969</b>	<b>844,612</b>	<b>516,820</b>	<b>61</b>	<b>800,079</b>
Long-term Expert	2,298,255	1,478,209	369,653	456,329	330,090		404,031
Center Coordinator	321,231	164,922	65,844	31,875	32,153		32,513
HQ Staff	1,790,826	1,414,981	324,473	356,408	154,576		363,536
<b>Seminars/Training</b>	<b>4,431,059</b>	<b>2,871,965</b>	<b>475,332</b>	<b>1,050,000</b>	<b>936,755</b>	<b>89</b>	<b>1,071,000</b>
TA seminars	2,567,844	2,141,338	455,824	697,961	936,755		711,921
ICD training	1,583,733	623,959	19,509	299,233	-		305,217
HQ Direct Training	279,482	106,668	-	52,806	-		53,862
<b>Diagnostic Missions</b>	<b>2,461,588</b>	<b>1,562,500</b>	<b>246,373</b>	<b>536,075</b>	<b>185,929</b>	<b>35</b>	<b>536,074</b>
Fiscal	1,738,073	1,193,176	216,655	401,310	140,306		401,310
Monetary	648,903	353,144	13,538	134,764	45,623		134,764
Statistics	74,613	16,180	16,180	-	-		-
<b>Backstopping/Project Management</b>	<b>2,584,687</b>	<b>1,907,128</b>	<b>632,711</b>	<b>529,872</b>	<b>309,261</b>	<b>58</b>	<b>472,329</b>
Backstopping	1,587,525	1,196,806	417,312	314,574	176,582		287,060
Project Management	997,162	710,321	215,399	215,298	132,679		185,269
<b>Other</b>	<b>888,080</b>	<b>674,976</b>	<b>-</b>	<b>128,659</b>	<b>-</b>	<b>-</b>	<b>414,179</b>
Evaluation	280,374	280,374	-	-	-		280,374
Contingency	607,706	394,602	-	128,659	-		133,805
<b>Center management</b>	<b>5,027,615</b>	<b>3,817,838</b>	<b>1,226,533</b>	<b>950,770</b>	<b>776,240</b>	<b>82</b>	<b>1,086,588</b>
Staff salary	1,054,784	659,754	201,585	120,819	137,092		223,439
Staff training	25,000	21,029	7,942	5,092	(2,766)		5,296
Other-office support/communication	1,402,438	1,132,999	345,499	306,397	189,691		318,653
Facilities	2,545,392	2,004,056	671,507	518,462	452,223		539,201
<b>Subtotal Donor Expenses</b>	<b>36,779,744</b>	<b>32,697,773</b>	<b>9,230,819</b>	<b>8,796,140</b>	<b>7,035,229</b>	<b>80</b>	<b>10,175,008</b>
<b>Trust Fund Management</b>	<b>2,574,582</b>	<b>2,288,844</b>	<b>646,157</b>	<b>615,730</b>	<b>492,466</b>	<b>80</b>	<b>712,251</b>
<b>Total Donor Expenses</b>	<b>39,354,327</b>	<b>34,986,617</b>	<b>9,876,976</b>	<b>9,411,870</b>	<b>7,527,695</b>	<b>80</b>	<b>10,887,259</b>
IMF Contribution	3,847,712	3,373,002	2,068,842	412,005	343,338	<b>83</b>	590,908
<b>Total West AFRITAC 2</b>	<b>43,202,039</b>	<b>38,359,620</b>	<b>11,945,819</b>	<b>9,823,875</b>	<b>7,871,033</b>	<b>80</b>	<b>11,478,167</b>

Source: Institute for Capacity Development, IMF



## II. ISSUES FOR DISCUSSION AT THE 5<sup>TH</sup> STEERING COMMITTEE MEETING

Issues	Background and Context
1. Proposed Work Program for FY 2018	The Center seeks endorsement of the FY 2018 work program by the Steering Committee (SC) ( <b>Annex V</b> ).
2. Mid-Term Evaluation and Inception Note	Consistent with the RTAC policy, a mid-term external evaluation for the Center was initiated in late 2016. An evaluator has been selected and actual field work is expected to commence in May 2017. The Evaluators will make a presentation of their inception note for the evaluation at the April 28, 2017 SC meeting. The Center seeks the views and input of SC members on the key elements of the inception note for the mid-term evaluation for the Center.
3. The New Fund-wide RBM and SC Reporting Needs	In recent years, a number of initiatives have been launched at the IMF to strengthen the effectiveness of its CD work most notably the African Department's (AFR) CD Strategy. Against that background, following extensive consultations with its development partners, the Fund has introduced a new Results-Based Management (RBM) framework that will further improve the planning, monitoring, and reporting of its CD efforts (Box 3). As part of efforts to sensitize the member countries and other SC members, a presentation will be made on the main elements of the new RBM framework at the April 28, 2017 SC meeting. The Center will appreciate the views and inputs of the SC members on the RBM framework.
4. Chair and Location for the next Steering Committee Meeting in April 2018	The SC will discuss the nomination of the Chair and the location of the next SC meeting.



### III. MACROECONOMIC DEVELOPMENTS IN AFW2 COUNTRIES

Following an anemic economic recovery in most AFW2 countries in recent years, the sub region is expected to register some pick up in growth in 2017 . Over the past year, growth in the region has been mainly affected by domestic shocks and the continuing challenging external environment, notably falling commodity prices. In 2017, simple average growth rate is projected to pick up from 2.1 in 2016 to 3.6 supported by a more favorable external environment. Among AFW2 countries, the expected rebound will be relatively more pronounced in Ghana and Liberia.

**A slight uptick in inflation is expected in most AFW2 countries in 2017.** The region recorded an average inflation of 9.8 percent in 2016 which is expected to increase further to about 10.7 percent in 2017. It is projected that almost all AFW2 countries, with the exception of Ghana, will see a pickup in inflation in 2017.

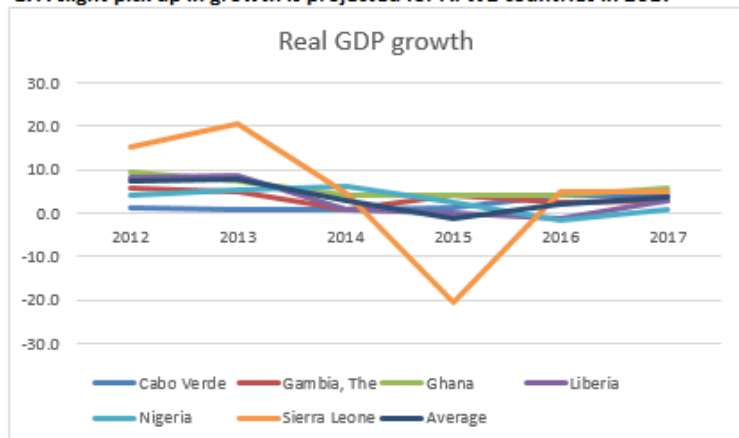
**With a more favorable growth outlook, most AFW2 countries are projected to narrow their fiscal deficits in 2017.** In 2016, countries like Cabo Verde and Liberia made progress towards fiscal consolidation by reducing their fiscal deficits. On the other hand, the fiscal deficits for Ghana, Nigeria, Sierra Leone and The Gambia have widened due to a number of factors including the impact of lower-than-expected commodity prices as well as domestic policy-induced developments. The latter include pre-election fiscal slippages in Ghana and The Gambia and the related political transition (Box 1). For 2017, it is projected that the average fiscal deficit of the AFW2 region will reduce from 6.1 to 5.6 percent of GDP reflecting both a pickup in growth as well as tighter policies in some AFW2 countries. Nevertheless, public debt in the region remain high with an average of about 73 percent of GDP in 2016 and a projected further increase to 75 percent of GDP in 2017. Cabo Verde, Ghana and The Gambia have a debt-to-GDP ratio exceeding 60 percent of GDP; with The Gambia estimated at about 110 percent of GDP and Cabo Verde at about 130 percent of GDP.

**Continued fiscal and external vulnerabilities in AFW2 countries reaffirm the urgency of structural reforms and effective implementation of CD initiatives.** Pressing structural reforms include rationalization of public expenditure, broadening the tax bases, enhancing efficiency in revenue collection, and promoting economic diversification. The current macroeconomic context demands significant capacity building efforts and after three years of operations, AFW2 is in a good position to continue support, notably in PFM, revenue administration, monetary operations, financial sector supervision and regulation and macroeconomic statistics.

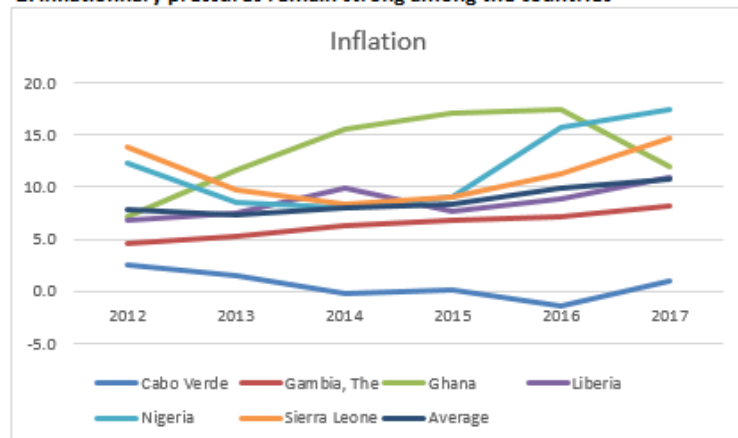


Figure I: Macroeconomic Developments in AFRITAC West 2 Countries

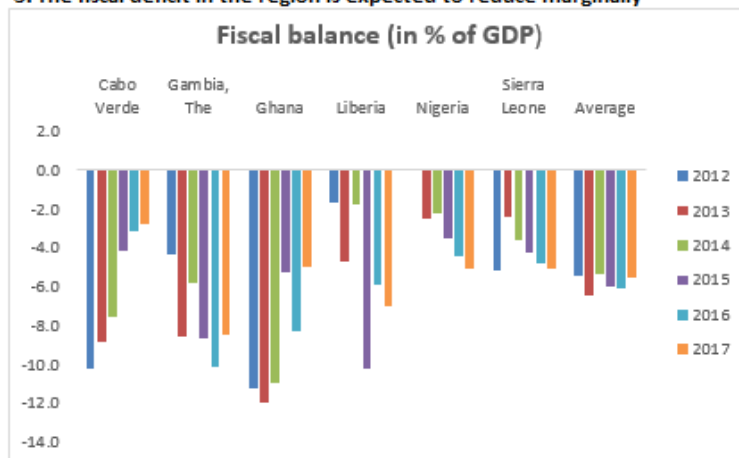
1. A slight pick up in growth is projected for AFW2 countries in 2017



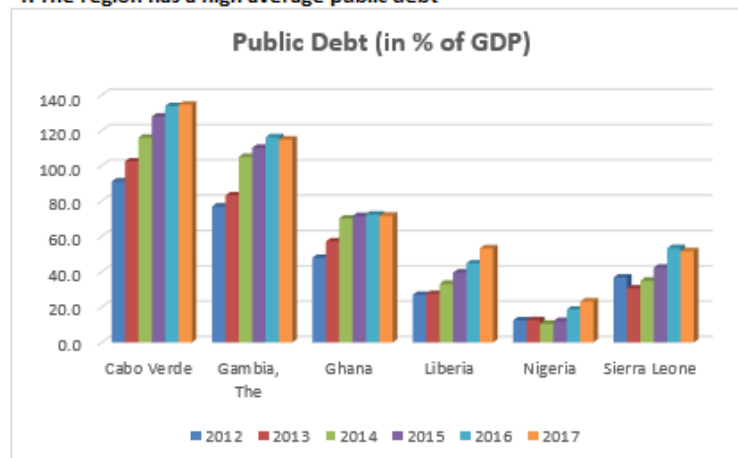
2. Inflationary pressures remain strong among the countries



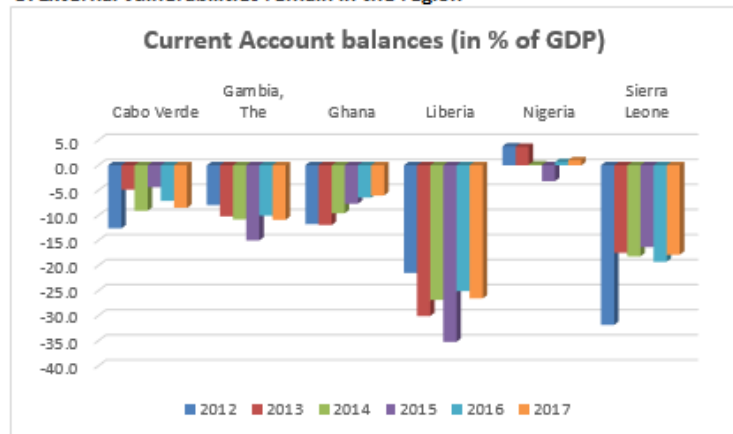
3. The fiscal deficit in the region is expected to reduce marginally



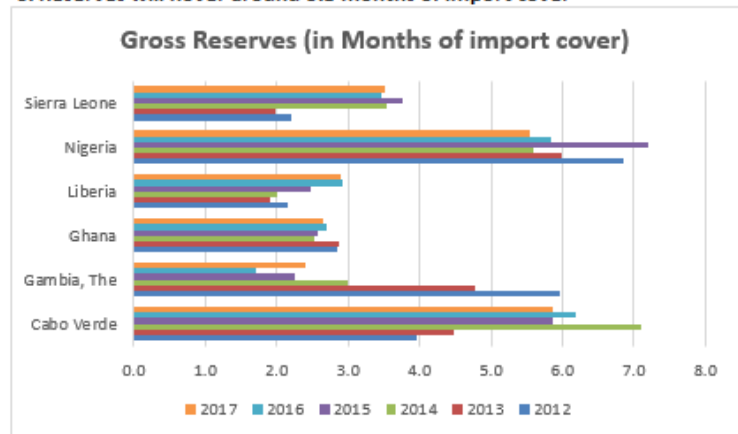
4. The region has a high average public debt



5. External vulnerabilities remain in the region



6. Reserves will hover around 3.8 months of import cover



Source: Regional Economic Outlook, Sub-Saharan Africa (April 2017).



#### IV. KEY CAPACITY DEVELOPMENT OUTCOMES AND A SECTORAL REPORT ON THE IMPLEMENTATION OF THE FY 2017 WORK PROGRAM

##### Summary of CD Outcomes in FY 2017

During FY 2017, there was a significant increase in CD activity dovetailing with the overall evidence that the Center is maturing in its capacity building work in the region. A total of 152 CD activities were conducted including 14 regional workshops. . Close to three-quarters of the milestones were either met or are in progress (Figures 2-5). In particular, significant progress was achieved in the areas of revenue administration, PFM, and monetary operations and payment systems as well as the financial sector. On the financial side, total budgetary outlays for the Center was at about \$7.9 million or approximately 80 percent of the total budget for FY2017 (about \$10 million) —Table I.

The Center made notable progress in its CD interventions in FY 2017 which bodes well for AFW2's ongoing transition to the Fund's results-based management (RBM) approach.

- Both Liberia and Sierra Leone successfully conducted the Tax Administration Diagnostic and Assessment Tool (TADAT) assessment which should provide a sound baseline for their tax reform agenda. AFW2's involvement at the sub-national level in Kaduna state in Nigeria was a notable success, where support was given in assisting the Nigerian authorities with the design and implementation of a Treasury Single Account (TSA), as well as on the cash management framework at the federal level. The Center's support for strengthening Ghana's inflation target regime continued to deliver good outcomes which bodes well for continued synergies between the IMF program, surveillance and CD work as laid out in the IMF's African Department's (AFR) CD Strategy. Other projects that appear to hold considerable promise include other sectoral interventions in the two fragile states (Liberia and Sierra Leone) and the financial sector work in both countries. In the real sector, Liberia finalised its annual accounts compilation (2008-2013) which is scheduled to be released shortly. Cabo Verde also developed a plan for rebasing its annual accounts which is scheduled for 2018.
- Closer collaboration with other regional TA providers in West Africa, and strong ownership shown by the member countries, as well as good coordination of its CD activities with TA departments at the IMF HQ, played a critical role in delivering meaningful results for CD work in the sub-region.



## REPORT ON THE IMPLEMENTATION OF THE FY 2017 WORK PROGRAM

### Revenue Administration

#### A. Domestic Tax

##### Overall Progress in FY 2017

The main objective of the year's CD work has been on improving compliance management in the revenue agencies through the use of risk management and improved audit planning and data analysis methodologies. This has been delivered through country specific and regional audit training programs. A pool of regional trainers on computer assisted audit techniques (CAAT) has been developed and these are now ready to deliver local training via exchange programs for both audit training and data matching projects in AFW2 member countries. CD also focused on improving the implementation and monitoring of reform strategies of tax administrations in the sub-region.

Against that background, the implementation of the revenue administration work plan for FY 2017 progressed as scheduled with almost 82 percent of the planned country missions, 100 percent of regional workshops and 50 percent of the exchange program activities confirmed to be delivered by end of the year. Four missions for Nigeria and one for Cabo Verde could not be confirmed with the authorities on time for assigned experts.

##### Key Achievements during FY 2017

- Following the Regional TADAT awareness training in May 2016, two countries (Liberia and Sierra Leone) have had TADAT assessments and Ghana requested TADAT training and an assessment mission is scheduled for May 2017. AFRITAC West 2 is participating in and funding the TADAT training and assessment missions. Two TADAT training sessions, scheduled in preparation for the assessment mission, were delivered for Ghana in collaboration with GIZ and Dfid. The TADAT results will provide the respective member countries with a good baseline for their strategic and business planning and monitoring, as well as guide the Development Partners (DPs) on priority reform areas to support.
- AFW2 has been assisting member countries in building risk-based compliance audit capacity. A team of twenty-five auditors from five member countries (except Cabo Verde) were identified and trained as audit trainers, covering intelligence gathering and investigation techniques, use of third-party data and data analysis techniques using computer audit techniques and audit of specialized sectors. Eleven trainers were identified as regional trainers and are now delivering training with support from short-term experts in different countries through a regional audit





training exchange program. This will provide local audit training capacity and a good platform for member countries to share experiences.

- Data matching projects implemented in Ghana, Liberia and Sierra Leone have revealed massive non-compliance in both tax and customs and identified a number of compliance risks which the revenue administrations have planned to follow up to recover the lost revenues.
- In order to build capacity and enable more effective development and delivery of strategy and reforms, AFW2 assisted member countries in developing business and operational plans, and monitoring and evaluation frameworks (Nigeria and The Gambia) and strengthening reform implementation through project management and governance (Ghana).
- AFW2 is finalizing the development of an excise manual for the Ghana Revenue Authority and is also developing standard operating procedures (SOPs) for the Liberia Revenue Authority. CD delivery is also covering the building of local capacity to promote more effective operations management and governance.
- There has been increased CD delivery through regional workshops, and participation has improved as member countries see the value in sharing experiences. A regional High-level TADAT Leadership Seminar for heads of revenue administrations and their tax commissioners, co-sponsored by the ECOWAS Commission and GIZ, received a very positive response from all member countries and was also attended by the AFRITAC West I Advisor, and representatives from ATAF and WATAF. Collaboration with other development partners continues to improve in most AFW2 member countries.

### Implementation Challenges experienced in CD Work during FY 2017

- Some CD activity, including a regional workshop, had to be postponed to the final quarter because of the impact of political transition in both Ghana and The Gambia (Box I).
- CD delivery in Cabo Verde was delayed due to the change of government and the leadership of the National Directorate for State Revenues (DNRE) (Box I).
- Insufficient senior management support and ownership of CD programs continue to negatively impact the implementation of CD recommendations. Low levels of management and supervisory capacity also affect CD delivery and traction in some countries.

Despite the challenges in the year, the Advisor has managed to accomplish most of the FY 2017 work program maintaining contacts with the authorities and key managers in the respective revenue administrations, which helped in securing commitments at the different levels of the organization. Follow up CD missions are designed to ensure implementation of previous mission recommendations.



## B. Customs

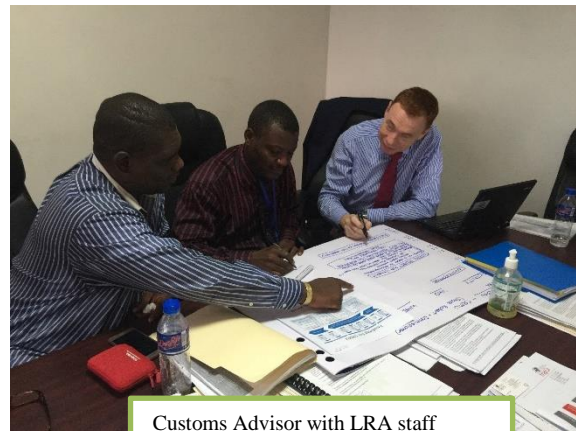
### Overall Progress in FY 2017

The main focus was to assist custom administrations of member countries to implement reforms that will enhance domestic revenue mobilization. Against that backdrop, the FY 2017 Work Program for the Customs component has been delivered. All planned missions have been delivered although traction so far has been limited in Nigeria and Ghana. The Center recruited a Customs Administration Advisor in September 2016 and has scaled up its support to member countries in this area.

### Key Achievements

#### Liberia

- Capacity in Post Clearance Audit (PCA) and Risk management (RM) was increased through the delivery of specialist technical training.
- A draft Post Clearance Audit manual was prepared.
- TA and training in Project, Change and Strategic Management was provided to support the establishment of a Customs Reform and Modernization Unit. This unit is now operational.
- A draft Reform & Modernization Plan was prepared and a formal governance framework was drafted and agreed to support the implementation of the Reform and Modernization Program.
- Standard operating procedures for Customs were approved for implementation.



Customs Advisor with LRA staff

#### Cabo Verde

- An integrity strategy and supporting action plan was developed.
- An evaluation of the implementation of Asycuda was completed and the findings used to inform a program for the development of revised import/export procedures.
- A PCA manual has been developed and a Diagnostic study completed that will be used as the basis for a prioritized implementation plan.
- Training was provided on the use of the Asycuda selectivity module. DNRE is now making use of the Selectivity module in Asycuda and has identified a group of low risk businesses that will benefit from a “light touch” approach. The group selected represents approximately 30 percent of all imports. The resources saved will be deployed to the control of high-risk businesses.

## Sierra Leone and The Gambia

- Diagnostic studies were completed and work plans agreed.

### Regional workshop

- A Regional Post-Clearance Audit Workshop was held in Ghana in April and 18 auditors were trained from six countries.
- Best practice in PCA was shared between participating countries
- The workshop included technical inputs from the South African Revenue Service and the World Customs Organization.
- Work plans were agreed and partnership arrangements for the exchange of information between administrations were confirmed.

### Implementation Challenges during FY 2017

No significant challenges or setbacks were encountered in the implementation of the Customs Component Work Program other than the ongoing issues with traction in Nigeria and Ghana.

## Public Financial Management

### Overall Progress in FY 2017

The main objective of the Center's PFM work was to (i) strengthen the legal framework for PFM; (ii) strengthen macro-fiscal planning and budget preparation; (iii) strengthen expenditure controls; (iv) establish good cash management practices; (v) implement a Treasury Single Account; (vi) strengthen fiscal reporting; and (vii) strengthen the identification and management of fiscal risks. Against that background, significant progress was made in implementing the FY17 work program, with several activities on course to achieve anticipated milestones. In some countries, priorities changed during the course of the year, and TA delivery was adjusted accordingly to accommodate these developments. In isolated cases, progress was slower than anticipated.



PFM Advisor with the Minister of Finance for Cabo Verde

### Key Achievements during FY 2017

Key achievements included: (i) delivery of the Center's first workshop in Nigeria, hosted in collaboration with the West African Institute for Financial and Economic Management (WAIFEM), addressing Treasury Single Account (TSA) design and implementation; (ii) a collaborative workshop hosted with





East AFRITAC (AFE) in Rwanda on public investment management; (iii) a multi-RTAC workshop bringing together AFW2 countries and Lusophone African countries in Cabo Verde, on strengthening coordination between the planning and budgeting functions; (iv) advancing the preparation of draft planning regulations and a program-based budgeting manual for Cabo Verde; (v) supporting Ghana in identifying potential sources of discrepancies in fiscal data; (vi) providing support in strengthening commitment control and arrears management in Liberia; (vii) reviewing arrangements for oversight of federal government owned enterprises in Nigeria; (viii) completion of a TSA Operations Manual for Kaduna State in Nigeria; (ix) finalization and publication of a Fiscal Strategy Statement by Sierra Leone, the first template for which was developed by AFW2 TA; (x) and in The Gambia, launching of guidelines for performance monitoring and reporting by state-owned enterprises, also produced with AFW2 support.

### Implementation Challenges experienced in CD Work during FY 2017

Key challenges included in-year revisions to priorities previously identified by the authorities, as well as difficulties in concluding with the authorities' dates for delivery of some of the activities agreed. In addition, the electoral cycle in some countries also impacted delivery somewhat (Box I). In Cabo Verde, the transition following elections in March 2016 resulted in delays in engaging the new administration on TA priorities in the first half of FY2017. Similarly, elections in Ghana and The Gambia in December 2016 slowed delivery somewhat, especially in the second half of FY2017. It is hoped that continued close engagement with the authorities should help to alleviate some of these challenges.

### Other Developments

The Center's delivery capacity in PFM has been increased with the assumption of duty of a second PFM Advisor in November 2016.

## Monetary Operations and Payment Systems

### Overall Progress in FY 2017

The main objective of the work on monetary policy operations and payment systems was to continue to support central banks on enhancing their monetary policy formulation and moving ahead with payments system modernization. Within that remit, CD delivery on monetary operations and payment systems (MONOPS) picked up considerably during FY 2017. Overall progress on the implementation of the work program in fact exceeded expectations for all AFW2 countries except for Nigeria where progress continues to be limited. In particular, both Liberia and Sierra Leone have implemented several key CD recommendations. It is also noteworthy that the MONOPS sector was trailblazer in the Center in terms of exploring innovative modalities of delivering TA most notably the professional attachment program.



### Key Achievements during FY 2017

- **Cabo Verde:** One area of the work program that registered notable success was efforts to improve the monetary analyses function at the Banco de Cabo Verde (BCV). Staff conducted a stocktaking of: available market and macroeconomic data, the methods used for analyzing macroeconomic developments, policy analyses to senior management and the Monetary Policy Committee, (MPC); existing methods for forecasting, supportive organizational structures, and the resources (including human resources) dedicated to this effort. Together with BCV, the staff developed a long term strategic plan for strengthening the macroeconomic analysis and forecasting framework which can serve as a good basis for further CD. Staff also reviewed the whole monetary policy toolkit and the balance sheet structure of the central bank and provided concrete recommendations on how to manage the prevailing excess liquidity situation more efficiently.
- **Ghana:** The program to revamp the inflation targeting framework for Ghana continued with unabated momentum. AFW2 contributed to the build-up of BOG's new Research Department by financing a 2-week modelling and forecasting capacity building workshop. In the area of monetary operations, AFW2 assisted the BOG to carry out an inaugural detailed analysis of currency in circulation an important component of reserve money. Furthermore, the foundations of a fully renewed liquidity monitoring and forecasting framework has been completed. Staff recommended refinements in liquidity management operations which were accepted by the BOG. A new comprehensive regulation on cash reserve requirement has been worked out and handed over to the authorities.

On payment system, AFW2 helped to review the legal framework and build capacity in the BOG's newly established Payment System Department. At the BOG's request, and with the contribution of IMF's Legal Department (LEG), AFW2 also provided a legal opinion for BOG's draft Payment Services Regulation. Staff reviewed the oversight function of BOG's new Payment Systems Department and worked out the methodology for internal analysis of compliance with CPMI-IOSCO principles on systematically important financial market infrastructures, the local RTGS and retail payment system.

- **Liberia:** A major achievement here was that Liberia launched all of the key elements of a modern payment system infrastructure in the first half of 2016. These are the real time gross settlement system (RTGS), the securities settlement system (SSS) the automated check processing and automated clearing house (ACP/ACH), the CBL's core banking application (Temenos 24) and an the banks' electronic reporting system (V.Reg-Coss). AFW2 provided support to the Central Bank of Liberia to cope with the challenges of the operations and oversight of the new infrastructure. Building on this, there is now a mutual agreement with the authorities for a follow-up CD that will focus on building a robust oversight framework inside the CBL. In the area of monetary operations, a key milestone was that Liberia brought its reserve requirement system in line with international best practices. Building on the agreed work program, staff support sensitized the authorities on new economic indicators, like the composite index of



- economic activity (CIEA), real effective exchange rate (REER) and new methodology to compile measures of core inflation. The first results are encouraging and the next step is to make these a regular part of monetary policy analysis including those to the senior management at the bank.
- **Sierra Leone:** Supported by an internal implementation committee, a key achievement here relates to BSL's introduction of an interest rate corridor that was announced around the policy interest rate, the reserve requirement system being under full renewal and having work started on the construction of a composite index of economic activity, among others. Staff worked on the development of the monetary policy analysis and as a new area of focus it reviewed the full foreign reserve management framework of the BSL. Investment management guidelines were redrafted and BSL started organizational changes such as concentrating all financial market operations in a new dealing room.
  - **Regional Workshops:** As an innovation that was put in place during FY 2017, a foreign exchange market simulation workshop was held in Johannesburg South Africa in collaboration with AFRITAC East (AFE) to help central bankers better understand market dynamics. Thirty-two Central bankers from nine West and East African countries participated in the workshop. The focus of the program was to mimic close-to-real life foreign exchange market simulation exercise which was carried out via electronic trading platforms and voice brokers. The participants also learned about interbank market conventions, market psychology, central banks' role, main characteristics of spot and forward markets, fundamental and technical analysis of price developments and risk management. About 12 High Level central banks officials from the region had the opportunity to participate in a 2-day conference and a follow-up 5-day workshop at the ATI in Mauritius on improving their monetary policy implementation frameworks, organized by ATI, AFS and IMF ICD and financed by AFW2. The event was organized as a roll-out of a key IMF policy paper on "Evolving Monetary Policy Frameworks in Low-Income and Other Developing Countries" (2015 October). The workshop provided an opportunity to have a rich discussion with experts in the area and well respected practitioners from Sub-Saharan Africa.
  - In collaboration with WAIFEM, AFW2 conducted a workshop on the CPSS-IOSCO principals on financial market infrastructures in Lagos. The principles were assessed on a hypothetical country's payment systems in the framework of a case study. Feedback on the workshop were positive with many of the participants noting that the workshop, and in particular the case study, had enhanced their understanding of the PFMI. In general, participants felt they were now better equipped to conduct assessments of the PFMIs as well as the fulfilment of the regulatory and oversight responsibilities.
  - **Professional Attachment Programs** – As a new initiative this year, AFW2 organized professional attachments to promote peer-to-peer learning. A BOG payment system expert had the opportunity to study the South African payment systems, especially the structuring of the risk assessment framework of key financial market infrastructure. This program was organized by AFW2 in collaboration with AFS. In the second half of FY2017, six payments systems experts from Sierra Leone, Liberia and The Gambia visited Ghana to study all the main elements of Ghana's financial market infrastructure, the payment systems supervision, as well as the oversight

activity of the BOG. Upon returning home the participants had to share with the AFW2 their takeaway from the program and planned changes in their daily work based on the experiences.



MONOPS Advisor with participants of the payment systems professional attachment program at the Bank of Ghana

### Implementation Challenges experienced during FY 2017

Overall, there were no major implementation challenges on the MONOPs work program during FY 2017. The traction was very good for all AFW2 member countries, except for Nigeria. Therefore, efforts need to continue on generating traction on MONOPs but bearing in mind that TA should ultimately be demand driven. Possible lines of action could be AFW2 leveraging on its good working relationship with WAIFEM a key capacity building body in West Africa that works closely with the CBN, and also exploring the potential of applying more flexible modes of CD delivery in MONOPs for the CBN. The political impasse in The Gambia had some impact on the implementation of the work program for FY 2017, although this was limited.

### Financial Sector Supervision

#### Overall Progress in FY 2017

The main focus continues to be to help member countries deepen the implementation of past CD recommendations and help supervisory authorities further embed sound policies and practices. With that in mind, delivery of CD was scaled up during FY 2017, and while minor hiccups affected CD intervention including the political impasse in The Gambia, implementation remained largely on track during the fiscal year. The authorities continued to work closely with AFW2 and CD recommendations were largely accepted, and in some cases, immediately implemented. Moreover, there is evidence that authorities value the CD being provided as they turn more and more to AFW2 for key guidance and support. In many instances, recommendations are being accepted and becoming embedded in supervisory practices, and supervisors are gaining enhanced knowledge in areas for which they requested guidance.



Cabo Verde remains the only member country where there is still no engagement.

Participation in the regional workshops has also gained strength. Such meetings continue to provide a forum for exchanging experiences and for building expertise in areas of common interest; in particular, where there is a regional commitment. As such, discussions have been robust and insightful and member countries are gaining deeper insights into how to enhance or progress supervisory practices. CD assistance was also provided on issues related to regional integration such as a review of regional legislation governing the oversight of banks.

### Key Achievements during FY 2017


During FY 2017, AFW2 hosted a regional workshop on the Basel Core Principles to guide member countries on the conduct of a self-assessment. Around 35 participants from five member countries and the West African Monetary Authority (WAMI) attended the workshop which was hosted in The Gambia. The workshop was very interactive and generated much discussion and there was ample opportunity to address ambiguities and queries relating to key principles. It also provided a guiding post for countries that were in the process of assessing themselves against the principles and for those wanting to update past assessments. Given that the principles form the basis of effective banking supervision, such deepening of understanding augurs well for enhancing supervision capabilities within the region.



A WAMI official receives a certificate at the AFW2 regional workshop on Basel Core Principles

The Bank of Ghana received a two-part training in IFRS which was very successful and attracted around 30 supervisors, with recognized qualifications in accounting, who took part in the training-of-trainers retreat over a one-week period. These newly trained trainers were then responsible for the conduct of a two-week onward training to fellow examiners, under the guidance of the short-term expert. The strong efforts and methods used for the onward delivery, coupled with the use of local examples were strongly hailed by both the expert and participants, who remained highly engaged with their peers. It is hoped that these trainers will continue to assist with further IFRS training. The Bank of Ghana also facilitated AFW2's first attachment in Financial Sector Supervision by hosting four examiners from the Central Bank of the Gambia. The BOG took them through the process for reviewing the implementation of IFRS principles with participants reviewing annual reports and taking part in relevant meetings. On the whole, the visiting examiners found that the attachment strengthened their understanding of processes to be followed.

The Central Bank of Nigeria (CBN) assembled a team comprising senior staff within the Bank Supervision Division, Research, Policy and a few other units, to work on the development of an Early Warning System. The AFW2 Advisor took part in the first of the three missions which were led and funded by HQ. So committed was this team to the project, aided by the considerable guidance and support by the previous resident-based LTX and funded by the DfID-supported TA project at the CBN, that the model was well advanced and running within the first two-weeks of the CD. The follow-up IMF missions saw the validation of the model and presentation to senior officials who were pleased with



the simplicity and effectiveness of the design of the model and the promising outlook for the use of the results on hand.

### Implementation Challenges experienced in CD Work during FY 2017

The key challenges in the implementation of the program during FY2017 were working around member countries internal timetables and ensuring a focused incremental approach to CD delivery. In some cases, AFW2 had to allow some member countries the space to attend to their own priorities, even where this spanned a couple of months. Moreover, there were instances where member countries wanted to re-prioritize their focus and it was important to work with them to ensure that the fundamentals were in place to accommodate the newer preferences. The impasse created by The Gambia elections also had some impact on TA delivery in the country. To address these challenges going forward, AFW2 will seek to enhance dialogue on planned programs with Directors and senior staff to ensure that delivery remains on track and is not sidelined for more popular issues that countries may not be well placed to implement at that time. AFW2 plans to re-iterate the need for a stepped approach in the delivery of CD in FY 2018.

## Real Sector Statistics

### Overall Progress in FY 2017

AFW2's objective in the area of real sector statistics is to strengthen the compilation and dissemination of data on macroeconomic and financial statistics according to the relevant internationally accepted statistical standards. Against that background, the overall progress has been good for all countries although some delays have been experienced in some (elaborated below). There were eighteen actual in-country activities undertaken, fifteen on national accounts, two on prices and one outreach mission. However, there was one national accounts mission cancelled by Sierra Leone at the request of the authorities.

### Key Achievements during FY 2017

- **Cabo Verde** has commenced the rebasing of the annual national accounts. They are aiming to release the rebased estimates in late 2018. The majority of the source data has been collected. The Ministry of Finance fully supports the project.
- **Liberia** has finalized its annual national accounts compilation from 2008-2013 and it will be released shortly. This is a culmination of considerable technical assistance over the past two years. They have also secured funding to undertake an economic census to rebase the national accounts in respect of 2016. The first phase (i.e. the business listing exercise) has commenced. Liberia, with the support of EDDI2 and AFW2, has finalized the introduction of updated expenditure weights for the CPI with a first publication due shortly.

- **Nigeria** has backcasted the annual national accounts time series as a result of the rebasing of its GDP in reference to 2010. This will be released in mid-2017. Nigeria has also commenced the development of its producer price index.
- **Sierra Leone** has completed the first phase of the economic census (i.e. the business listing exercise). They are awaiting funding to commence the second phase, i.e. the economic survey, in order to rebase its annual national accounts (ANA). With the support of EDDI2, Sierra Leone released a recompiled national CPI replacing the two previous CPI releases as the single national index.
- A **regional national accounts workshop** was held in November, 2016 and a **regional price statistics workshop** was conducted in March, 2017. There was considerable discussion throughout the workshops, demonstrating that there is a good understanding of the main statistical concepts by some of the more experienced participants. For other less experienced participants, the workshops were an opportunity to acquire a better understanding of these concepts.



The Head of GBoS at the Regional National Accounts Workshop in Banjul

### Implementation Challenges Experienced During FY 2017

The **Gambia** has had to delay the finalization of its rebasing of the ANA due to the political impasse that arose following the election dispute related to the Presidential Election. **Ghana** also experienced a delay of about 6 months in order to finalize a review of the annual GDP by expenditure estimates due to the delay in receiving the required data. This has also resulted in a delay in developing the quarterly GDP by expenditure. Efforts have been made however to ensure that these projects were completed during FY2017.

### Box I: Impact of Political Transition and Capacity Development in AFW2

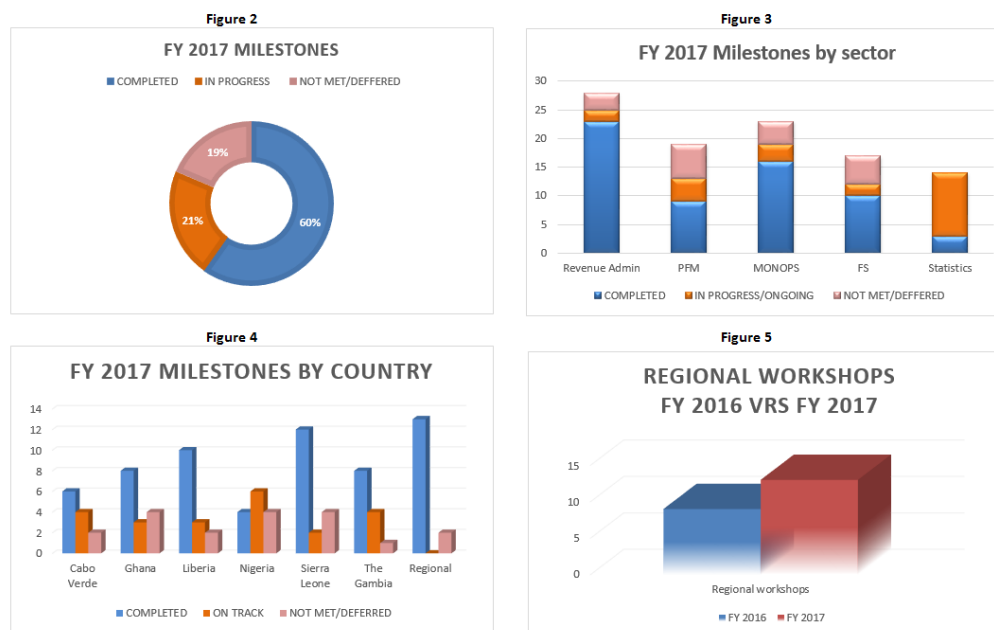
**Context:** Among the six AFRITAC West 2 member countries, three countries namely Cabo Verde, Ghana and The Gambia conducted general elections over the past 12 months with opposition wins in all 3 cases resulting in a change of government. Liberia is also due to conduct elections in 2017 and Sierra Leone in 2018.

**Impact:** Electoral cycles and its related political transitions could have implications for ongoing capacity development (CD) work in any country. There could be both challenges and opportunities associated with the period of elections and transitions that need to be well-managed to maximize CD results in a given country. In the run up to elections, and as the Center's experience has shown, there tend to be a slowdown in reform activities which in turn could affect not only the uptake of planned CD, but also traction on ongoing CD work. Notwithstanding, it is noteworthy that in the case of Ghana, the Public Financial Management Act which had received significant support from AFW2 in

collaboration with the FAD and LEG at IMF HQ, was passed by Parliament about 4 months to the election. The immediate post-election and transition period could be more challenging, especially for sensitive sectors where there is also a transition in leadership. The appointment of a new cabinet (as well as Agency heads) typically takes time, which may cause delays in implementing TA interventions. Further, new administrations may have new priorities that need to be accommodated into CD work plans. As the Center's fiscal calendar (May to April) differs from the political cycles of most member countries, such dynamics do impact on the implementation of the Center's work program for the relevant countries.

**Center Response:** In two cases (Cabo Verde and The Gambia) an approach that has been employed by the Center which has worked well is to do outreach missions to the new authorities/government and engage the new administration as soon as it is feasible to discuss reform priorities. Such outreach missions have been undertaken in Cabo Verde and The Gambia. Ultimately, member countries and the Center need to collaborate effectively to not only minimize disruptions in the provision of CD, but also to maximize the effectiveness of capacity development during periods of elections and political transition. The Center takes cognizance of these experiences, factors and as much of these dynamics as possible in the preparation of its CD work program. During political transitions, the provision of AFW2 CD has generally continued in sectors where there are less sensitivities. That said, political transition periods also presents an opportunity to engage the new players on key reform objectives and priorities.

**Figures 2-5: AFW2 milestones<sup>1</sup> and workshops in FY 2017**



<sup>1</sup> For milestones in progress, work commenced in FY 2017 but may not be completed in the fiscal year.



## FY 2017 Workshops/Seminars in Pictures



ISORA & TADAT Regional Training, May 2016, Ghana



Regional workshop on Basel Core Principles, June 2016, The Gambia



AFW2/AFE FX Market Simulation Workshop, June 2016, South Africa



Regional Workshop TSA, September 2016, Nigeria



Regional Audit Training of Trainers Workshop, October 2016, Liberia

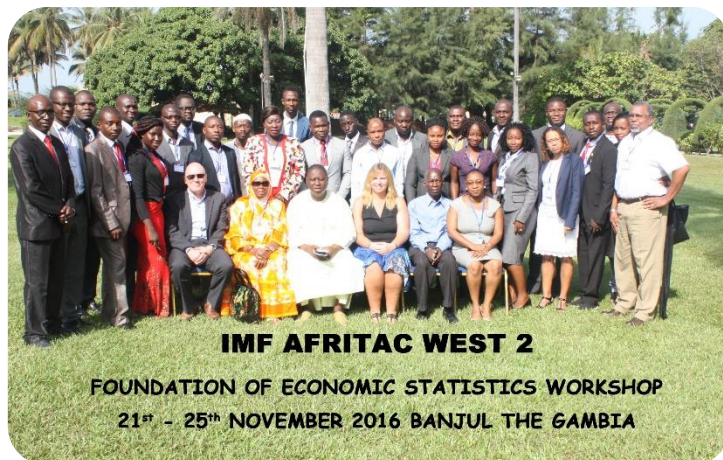


AFW2/AFS Workshop on Monetary Policy Frameworks, Nov 2016, Mauritius





AFW2/AFE Workshop on Public Investment Management, Nov. 2016, Rwanda



**IMF AFRITAC WEST 2**  
FOUNDATION OF ECONOMIC STATISTICS WORKSHOP  
21<sup>st</sup> - 25<sup>th</sup> NOVEMBER 2016 BANJUL THE GAMBIA

Regional Workshop on National Accounts, November 2016, The Gambia



Regional Workshop on Compliance with CPMI – IOSCO, December 2016



Regional Workshop on Data Matching and Analysis, January 2017, Sierra Leone



Regional Workshop on Price Statistics, March 2017, Cabo Verde





## V. STRATEGIC PRIORITIES FOR CAPACITY DEVELOPMENT AND SECTORAL WORK PROGRAM FOR FY 2018

### **The Center's Strategic Priorities for CD in FY 2018**

Building on the CD achievements registered in FY 2017, and taking into account the challenges faced by various sectors in CD work over the past year as described in the previous section, the Center's strategic priorities during FY2018 are as follows:

- **A results-focused work program consistent with the emphasis on the RBM framework:** The key goal of the Center is to implement a work program in FY 2018 that focuses on results and is consistent with the strategic priorities of member countries.
- **Continued scaling up of CD interventions in the Center's two fragile states (Liberia and Sierra Leone).** AFW2 will continue to be on the front lines of the implementation of the IMF's pilot on Capacity Building Framework for Fragile States. This will entail the expansion of support to these countries in line with the plan agreed with the authorities.
- **Deepening engagement with Nigeria at both the federal level as well as at the sub-national level in Kaduna State.** The Center holds the view that continued support at both the federal level and in Kaduna state can serve as a benchmark for capacity building in other states and bodes well for AFW2's traction in Nigeria. This latter intervention is also macro critical at the aggregate level in Nigeria and bodes well with the IMF's work on fiscal federalism and decentralization in other member countries (Box 2).
- **Enhancing the Center's communication and outreach tools including through its newly launched Facebook page and redesigned website.** The Center holds the view that social media is a legitimate part of the Fund's outreach activities as it is recognized as a tool for reaching new audiences in today's dynamic communications landscape.
- **Exploring ways for more flexible modes of CD delivery to enhance effectiveness, including partnering with other CD providers in the sub-region to enhance complementarities and avoid duplication of effort.** The Center will continue to work with other regional bodies such as ECOWAS and WAMI and WAIFEM to facilitate peer learning/peer support for AFW2 members.

AFW2's ongoing capacity building work at the country/national level will also continue to help foster regional integration and the Center's ongoing collaboration with regional bodies would help facilitate this joint work. Regional integration (RI) is often credited with aiding economic progress and bringing wider social benefits and AFW2 CD activities in member countries continue to also aim at that objective. Thus, in addition to its current CD sectoral work at the national level, AFW2's CD work also aim to (i) to do joint seminars with other RTACs with a RI dimension included in those seminars; (2) continue to invite WAMZ, WAMI, WAIFEM and ECOWAS to the Center's regional workshops (for example

ECOWAS participated in the Center's recent leadership seminar on TADAT that was held in early April 2017—see page 34-35); (3) and going forward, explore facilitating professional attachments and peer-to-peer learning experiences on regional integration issues. There is no standardized model for fostering regional integration through CD work that can be readily applied across the board. In any event, a case can be made that one needs to significantly strengthen institutions—both regional and national in order to bring about regional integration. Thus, the Center would like to follow the lead of AFW2 member countries in trying to identify capacity building priorities that are needed to facilitate the regional integration process within ECOWAS, including through leveraging from the experiences of other regional bodies such as the East African Community (EAC).

The Center's work program for FY2018 (Annex IV) costed in US\$ terms envisages an increase in budgetary allocation in the coming fiscal year relative to the FY 2017 budget. This partly reflects the increased staff strength in the fiscal area, implying some scaling up of CD resources in the fiscal sectors (revenue administration and public financial management). It also underpins the associated costs of hiring short-term experts and resources allocated for the Center's work on Results-Based Management (RBM).

AFW2 Costing for Missions 1/		
Sector	FY2018 (Budget)	FY2017 (Budget)
(In U.S. Dollars)		
Public Financial Management	1,010,972	570,924
Real Sector Statistics	323,189	370,911
Revenue Administration	1,260,106	926,550
Banking Supervision	566,887	509,427
Monetary Operations	590,108	560,221
Regional Integration	115,000	115,000
<b>Total</b>	<b>3,866,261</b>	<b>3,053,033</b>

1/. The table only captures the estimated costs of AFW2 missions and is not fully reflective of the entire CD budgetary allocation for the fiscal year reported in Table I.

Based on current information and member countries' demand as well as its absorptive capacity, a substantial number of projects planned for FY 2018 have been identified. The allocation of resources across countries show a continued shift of resources toward the two fragile states (Liberia and Sierra Leone) and Cabo Verde, as well as to Nigeria, with the former reflecting the normalization of CD activity in those three countries and the latter (Nigeria) driven by the expected deepening of engagement with that country across most sectors, including at the sub-national level in Kaduna State.





## DETAILED SECTORAL WORK PROGRAM FOR FY 2018

### Revenue Administration

#### A. Domestic Taxes

##### Main Objectives

AFW2 aims to assist revenue administrations of member countries to implement reforms that strengthen institutional capacity to enhance domestic revenue mobilization and thus fiscal sustainability. The Center will continue to focus on systematic strategic planning and performance management, and incorporate process and system development, building staff capacity to effectively monitor and enforce compliance in the core tax functions of registration, filing, payment and reporting of taxes due. CD work will be delivered through hands-on capacity building to ensure both the transfer of skills and sustained implementation and monitoring of reforms.

##### Medium-Term Objectives

In the medium-term, AFW2 will aim to enhance revenue collections from improved and cost effective administration procedures and strengthened tax compliance strategies, while promoting the exchange of information and skills across member countries in the region. This will be supported by efficient organizational structures and effective governance programs and CD delivery that will pay attention to improving management capacity in these areas. Revenue administrations will also be assisted to develop fair and transparent tax systems and staff competencies that promote voluntary compliance and provide the information, tools, and mechanisms for taxpayers that help reduce the cost and burden of compliance.

##### Short-Term Objectives

The FY 2018 work program aims to achieve the following key objectives in the short term:

1. Support the regional trainers (trained by AFW2) in developing competencies among staff in key technical functions and to deliver sustainable compliance management capacity and develop operational systems and tools, while sharing experiences among member countries through professional attachments.
2. Entrenching a culture of business planning and performance monitoring and reporting to improve operational efficiency and deliver on the medium term strategic reforms.
3. Developing operational manuals and tools to support modern business processes and procedures.
4. Building project management capabilities to support ongoing revenue reforms and inculcating a culture of continuous improvement in management and business process re-engineering.

In FY 2018, AFW2 will continue delivering the CD programs designed to build institutional capacity




for effective domestic revenue mobilization through systematic planning, implementation and monitoring of revenue reforms, building risk-based compliance improvement and enforcement strategies and promoting voluntary compliance through improved service delivery. Member countries will be assisted to use the trained trainers under the regional audit training exchange program and data matching initiatives. Results from both the TADAT assessments and data matching projects will be used to plan follow up compliance improvement activities. Member countries will also be assisted to improve the use of organizational and third-party data for compliance management and performance monitoring, using the available tools like the RA-FIT/ISORA. AFW2's interventions on revenue administration will also aim to work with the other development partners (DPs) and CD providers on reforms that would boost the much needed revenues of member countries to address the development needs.

### **Country Work: Inputs and Milestones for FY2018**

**Cabo Verde:** AFW2 will continue to support and supplement the assistance being provided to the integration process of the Cabo Verde's DNRE Tax and Customs operations under the TPA-TTF program to strengthen management capacity. CD will aim to support the new National Director and her management team to drive the reform program and sharpen its communication skills to key stakeholders, while delivering the needed revenue through effective tax compliance management programs. This will be achieved through training and professional attachment programs. Focus will be given to identifying tax compliance risks and training auditors on effective audit and enforcement methods.

**Ghana:** The Ghana Revenue Authority requested a Tax Administration Diagnostic Assessment Tool (TADAT) mission to assess the current status and maturity of the organization. AFW2 has provided management training on the TADAT to help with preparations for the assessment. CD will be provided to develop and implement a response plan after the TADAT assessment. The results of the TADAT will feed into the strategic planning process for the period after the current plan. Follow up CD will be provided to review level of implementation of the Total Revenue Integrated Processing System (TRIPS) in domestic taxes, and implementing business process reengineering (BPR). The group of computer audit trainers who attended the regional training of trainers (ToT) program will be assisted to improve computer audit skills in specialized sectors and process audits for the medium taxpayer offices (MTO). Following the data matching project conducted in March 2017, auditors will require hands-on guidance and support with implementing the action plan to address the identified risks and recover revenues. This will be done through joint audits between tax and customs.

**Liberia:** AFW2 will continue the work that started in FY2017 in supporting the development of standard operating procedures, and ensuring the building of local capacity for continuous process improvement and designing a process improvement strategy. While the Revenue Mobilization Trust Fund (RM-TF) program will support Large Taxpayer Office (LTO) compliance, AFW2 will work with the MTO to build computer audit capacity using the trained audit trainers, with special focus on process audits. As part of the wider compliance improvement program, assistance will be given to develop a



taxpayer service and engagement program.


**Nigeria:** AFW2 gave assistance in developing the FIRS strategic plan for 2016 to 2020 and later developed a performance monitoring and evaluation framework to ensure successful implementation of the strategy. Follow up assistance will be provided to finalize the planning program and monitoring and evaluation framework. After the telecommunications audit training in September 2016 and training of five audit trainers on computer audits, the team will be assisted to roll out the computer audit training to more staff, with special focus on specialized sectors such as telecommunication and financial services sectors and developing a comprehensive compliance improvement program. Specific assistance will also be given to strengthen the compliance improvement programs including the States Inland Revenue Services of Kaduna in response to the revenue pressures and the need to improve non-oil revenue collections.

**Sierra Leone:** After the TADAT assessment in August 2016, the National Revenue Authority has started preparing a plan to address the identified weaknesses. This was followed by CD missions on Taxpayer Service and Data Matching, and a full diagnostic mission was delivered by FAD in April, 2017. AFW2 will provide CD to develop a comprehensive compliance improvement program that will incorporate the findings of the data matching and diagnostic mission and assist in implementing the post-TADAT improvement plan. This will include streamlining intelligence and investigation, improving debt management and implementing project management to ensure effective implementation of the revenue administration reforms. The Center will also support the building of sustainable audit and compliance enforcement capacity in tax by supporting the audit trainers in building more audit capacity in member countries.

**The Gambia:** The Center will continue to assist The Gambia Revenue Authority on implementing their strategic plan for the period 2015-2019 by developing project management capacity for effective implementation of their revenue reforms. CD in FY 2018 will also look at developing a comprehensive risk-based tax compliance management program. This will be preceded by a data matching project to identify main compliance risks. Assistance will be given in developing a tax audit manual and training of more auditors through support of local computer audit trainers. To prepare the groundwork for all this work, a diagnostic mission will be conducted with assistance from FAD at the IMF Headquarters.

### **Regional Work**

**AFW2 will continue promoting cooperation with other regional bodies and development partners to facilitate peer learning and peer support among its member countries.** Cooperation was initiated with the ECOWAS Commission, the African Tax Administration Forum (ATAF), the West African Tax Administration Forum (WATAF) and other development partners in the region working with member countries on tax reforms to avoid duplication and the unnecessary overlaps of CD programs. These efforts will continue in FY 2018 to build capacity in areas of compliance management and taxpayer



service. AFW2's revenue administration work will build on the training done on computer assisted audit techniques, data matching and analysis to identify and train more auditors using regional trainers through country exchange programs. This type of exchange programs will benefit from collaboration with other RTACs in the region, in particular, Francophone AFRITAC West I to nurture peer learning and peer support among member countries. With the need to strengthen performance monitoring in revenue operations, member countries will need to put more focus on the use of their performance data and reporting through the International Survey on Revenue Administration (ISORA) hosted on the Revenue Administration Fiscal Information Tool (RA-FIT) data collection platform. A regional workshop will be conducted to highlight the importance of data in measuring performance across a breadth of revenue administration rather than the usual focus on “quick wins” in revenue collection that is often adopted by many tax administrations in the member countries. A workshop will also be held to emphasize the importance of effective planning and ensuring the implementation of tax administration reforms through regular monitoring and evaluation. These platforms will assist member countries in implementing reforms, especially for those that have had TADAT assessments. It is anticipated that more members will request TADAT assessment missions after the Regional High-level TADAT Workshop held in Ghana in early April 2017 and AFW2 stands ready to support these reform efforts of its member countries.

## **B. Customs**

### **Objectives**


**AFW2 aims to deliver sustainable capacity building that will enable revenue administrations of member countries to implement reforms that will enhance domestic revenue mobilization and support fiscal sustainability in member countries while facilitating trade and regional integration. The FY 2018 work program aims to achieve the following key objectives in the short term:**

### **Country Work: Inputs and Milestones for FY 2018**

**Cabo Verde:** The program for the Customs Division of the Nacional de Receitas do Estado (DNRE) will focus on the development and implementation of a risk management strategy. This will include the establishment of a risk management committee that will direct the deployment of resources to support the delivery of the compliance management strategy. Building on the work completed in FY2017, CD will be provided to support the implementation of the DNRE integrity strategy and the provision of continued mentoring support to the post clearance audit Unit. To support the customs division to maximize revenue collection, CD will be provided with the establishment of a specialist valuation team to collect and analyze price data.

**Ghana:** A diagnostic study will be undertaken in collaboration with other development partners. The study will focus on a review of the existing organizational structure of the customs division. The aim of





the study will be to make proposals to improve capacity to deliver the organization's strategic objectives. The focus will be on implementing best practice and supporting greater levels of integration within the Ghana Revenue Authority.

**Liberia:** CD provided to the Liberia Revenue Authority will focus on the documentation and publication of import and export procedures and the development of pre-shipment inspection exit strategy. To support the reform and modernization of the customs division, project management training will be provided. CD will also be provided to support the development and implementation of operational procedures for the control of exemptions from customs duties and taxes.

**Nigeria:** CD will focus on the implementation of a risk management strategy. Additional support will be provided to the Post Clearance Audit unit to enhance procedures for the selection, planning and execution of audits.

**Sierra Leone:** A stakeholder engagement strategy is to be developed that will assist the National Revenue Authority to work with other government agencies to implement coordinated border management and revised transit procedures. Training on the latest inspection procedures will be provided to customs officers operating at the major port in Freetown. CD will be provided to the post clearance audit unit to enhance procedures for the selection, planning and execution of audits.

**The Gambia:** CD will be provided to support the reform and modernization of customs with a specific focus on the enforcement division of The Gambia Revenue Authority.


### Regional Work

Regional workshops have highlighted the need for improved cooperation between member countries in the sub-region. Greater levels of integration and cooperation will enhance the quality of compliance management programs and improve trade facilitation. AFW2's revenue administration work in support of customs will therefore focus on engagement with external stakeholders and improving transparency through the implementation of effective integrity strategies. In recognition of the importance of revenue collection within the region, a workshop will be delivered in partnership with WCO and ECOWAS on the implementation of revenue enhancing measures.

## Public Financial Management (PFM)

### Objectives

AFW2 has set itself **medium term** objectives modeled along the lines of the FAD draft RBM catalog for PFM, namely: (i) improved laws and effective PFM institutions; (ii) comprehensive, credible and policy-based budget preparation; (iii) improved budget execution and control; (iv) improved coverage and



quality of fiscal reporting; (v) improved integration of the assets and liability management framework; and (vi) strengthened identification, monitoring and management of fiscal risks. The work undertaken by the Center throughout FY2018 will be guided by these objectives.

In the **short term**, AFW2 will be seeking to provide support to its member countries in such areas as: (i) strengthening the legal framework for PFM; (ii) strengthening macro-fiscal planning and budget preparation; (iii) strengthening expenditure controls; (iv) establishing good cash management practices; (v) implementing a Treasury Single Account; (vi) strengthening fiscal reporting; and (vii) strengthening the identification and management of fiscal risks, particularly those arising from the operations of state-owned enterprises.

### **Country work: Inputs and Milestones for FY 2018**

**Cabo Verde:** Support will be provided to Cabo Verde in strengthening policy-based budgeting, including the finalization of planning regulations and the preparation of a program-based budgeting manual. In addition, improving cash management and TSA implementation, fiscal reporting, and strengthening the identification and management of fiscal risks arising from SOEs will feature significantly amongst priority areas of work.

**Ghana:** The work agenda in Ghana will focus principally on the preparation of new regulations under the recently enacted PFM Act, with the completed regulations being a key deliverable during FY 2018. In addition, accelerating progress with the implementation of the TSA, improving budget preparation and the medium-term expenditure framework, and assessment of expenditure arrears along with developing and implementing a strategy for addressing these will also be significant areas of focus.

**Liberia:** In Liberia, AFW2 support will focus on strengthening public investment management including by assisting with implementing recommendations made by the Public Investment Management Assessment, improving data quality, financial reporting and audit, further advancing TSA implementation and cash management, and continuing to strengthen SOE oversight.

**Nigeria:** AFW2's work in Nigeria will focus on fiscal data integrity, financial reporting, TSA implementation, cash management, and further strengthening SOE oversight, building on previous work done by both FAD and AFW2 in these areas. In Kaduna, at the sub-national level, support will continue to be provided to advance TSA implementation and further strengthen cash management.

**Sierra Leone:** FY 2018 activity in Sierra Leone will advance ongoing work in a number of areas, including TSA implementation and cash management. Support will also be provided in strengthening expenditure controls (internal and external), implementation of cash basis IPSAS, public investment management, and SOE oversight.

**The Gambia:** It is expected that FY 2018 will witness an elevated level of activity in The Gambia. Among



the areas likely to be addressed are strengthening macro-fiscal forecasting, advancing implementation of program-based budgeting, public investment management with a focus on capital budgeting, strengthening expenditure controls, advancing cash management, IPSAS implementation, and SOE oversight and fiscal risk analysis and management.

### Regional Work

A number of regional workshops are planned for FY 2018. These include areas such as budget comprehensiveness and budget reliability, risk-based internal auditing, fiscal reporting, cash management, debt sustainability, and fiscal risk management.

### Box 2: AFRITAC West 2 (AFW2'S) CD Support to Sub-National Government: The Case of PFM and Revenue Administration Capacity Development Work in Kaduna State, Nigeria


#### Background:

In July 2015, the Federal Ministry of Finance (FMF) of Nigeria endorsed and forwarded to the IMF a request from the Governor of Kaduna State, for support in public financial management (PFM) reforms. The identified reform priorities included the implementation of a Treasury Single Account (TSA). In its request, the FMF indicated that it regarded technical assistance to Kaduna as a potential pilot for scaling up to the most indebted States and, ultimately, all States in the Federation. At the time, the Fund was also providing support through FAD to the Federal Government of Nigeria (FGN) in similar reforms including, specifically, implementation of a TSA.

Against the background of a strong demonstration of demand, and after considerable debate within the various interested departments of the Fund, AFW2 was mandated to undertake the assignment. In September 2015, Kaduna State Government (KDSG) announced the implementation of a TSA, and AFW2 immediately fielded an LTX/STX mission in October 2015, followed by subsequent missions in November 2015, June 2016, and October 2016. These missions provided hands-on support to KDSG's Ministry of Finance and Office of the Accountant General in addressing implementation issues, as well as support in drafting a TSA Operations Manual.

With the benefit of strong leadership and commitment by the authorities of KDSG, rapid progress was achieved. Demonstrable milestones included the closure of 470 bank accounts, and the transfer of 24.7 billion Naira into the TSA. A new chart of accounts was developed to allow for revenues and other funds deposited in the TSA to be accounted for and enable the smooth functioning of a centralized payments system, and an inventory of bank accounts to be used in the TSA operations was also developed. In addition, training was provided to over 100 KDSG finance officers, to sensitize them on the TSA and the importance of cash flow forecasting.

A major milestone was the completion by AFW2 of the KDSG TSA Operations Manual, and its public launching by the Governor of Kaduna at an AFW2 regional workshop on TSA design and implementation, held in collaboration with the West African Institute for Financial and Economic Management (WAIFEM) at the Central Bank of Nigeria Learning Center in Lagos in September 2016. At that workshop, officials of KDSG were invited as special guests to share the Kaduna



experience, with counterparts from the national governments of other AFW2 member countries. The feature address delivered by the Governor received wide coverage in the Nigerian press.

#### **A New TA Request from Nigeria at the Sub-National Level in Kaduna State:**

Since then, with FMF's endorsement, the Kaduna Internal Revenue Service (KDIRS) has also sought support from AFW2 to help assist the state in strengthening its tax administration and making its tax system more efficient, establishing an opportunity for the PFM work at the sub-national level to be replicated in the revenue administration sector. They see AFW2's continuation of support on the tax side as the next pillar to strengthen the state's overall public finances. Meanwhile, on PFM, support will continue to be provided to advance TSA implementation and further strengthen cash management.


**Thus, AFW2 proposes that the Center moves ahead and support Kaduna on tax administration reform under IMF HQ-FAD supervision as was done in the PFM work in Kaduna.** FAD leadership here is critical to help design an over-arching framework, standards and procedures for institutional and capacity building at the sub-national level.

The AFW2 experience with Kaduna State offers an important opportunity for reflection on the potential role that RTACs can play in providing support at the level of sub-national governments, especially in countries with a strong federal system such as Nigeria. That said, given resource constraints (both financial and human) the Fund has been very selective in expanding work at subnational levels. Thus, while pursuing the judicious provision of CD to a federal state in Nigeria--Kaduna, AFW2 remains mindful of the need **not to crowd out critical CD** to the other sovereign governments in the AFW2 membership.

The case for further assisting Kaduna State can be justified on a number of considerations:

1. **Traction with Nigeria:** Work in Kaduna would help to deepen traction with AFW2's largest member as the Center welcomes Nigeria in its first participation in AFW2's SC meeting on April 28, 2017.
2. **Macro-criticality/macro-relevance of CD intervention at the sub-national level:** The ongoing economic difficulties in Nigeria have hit hard several states. Clearly due to resource constraints AFW2 can only assist in Kaduna state in its CD work—a view shared by its SC members. That said, AFW2's work on CD to strengthen the public finances in Kaduna State is already having demonstration effects in other states in Nigeria, and can serve as a benchmark to be replicated in the other 35 states in Nigeria which has the potential to ultimately improve the overall macroeconomic situation at the aggregate level in Nigeria. Other IFIs (The World Bank, EU, AfDB) are already assisting the rest of the states in various CD work and these other IFIs can leverage on the Fund's work in Kaduna State.
3. **The Fund's work on fiscal federalism in other member countries:** The Fund/FAD has done work on fiscal decentralization in a number of member countries. A previous FAD-AFW2 mission addressed the need to strengthen states internally generated revenues; it also reviewed operations of the Lagos State Inland Revenue. That mission recommended, among others, the need to develop good practices for tax administration at the state level and work with willing states to implement them. Work in Kaduna is a progression of this approach. Another





case in point is that given that India indicated that its needs are more at the sub-national than federal in PFM, we understand that SARTTAC (The Fund's newest RTAC) will be focusing almost entirely on sub-national governments in its PFM engagement with India while with its other member countries the work will more be at the federal level. It should however be noted that SAARTAC is a special case because it was designed differently to enable delivering CD to sub-national governments in India, which is also its biggest contributor to the SARTAC budget and other RTACs are not designed in that way.

## Monetary Operations and Payment Systems (MONOPS)

### Objectives

#### Medium-Term

The overall objective of the Center's work in the area of monetary policy and operations and payment system is to continue supporting effective monetary policy formulation and implementation in AFW2 member countries and assist them in payments system modernization.

#### Short-Term

Based on the groundwork carried out in FY 2017, the main objective for FY 2018 is to further improve the economic analysis and forecasting capabilities of the central banks which would better support monetary policy decision-making process tailored to the specific monetary and exchange rate policy regime. While more sophisticated forecasting techniques would be premature in some of the AFW2 member countries (mostly the low-income countries in AFW2), efforts in FY 2018 will be directed more toward building the basics, including data management (setting up a well-organized central database, seasonal adjustments, breaking down inflation data into different core inflation measures and composing composite index of economic activity that underpins the monetary toolkit). This overlapping work would also involve continued close coordination between the Center's MONOPs and the Real Sector Advisors. As all countries in the region face challenges with substantive excess liquidity in their financial systems, it is important to strengthen liquidity management by reviewing monetary operations toolkit to ensure its robustness and further developing internal liquidity forecasting functions. A further objective relates to foreign exchange operations, whereby countries with floating and managed float regimes need to develop the capacity to implement FX operations efficiently and in a manner consistent with their chosen monetary policy and FX regime. As several of the countries in the AFW2 have established main elements of payment systems during recent years, it is of paramount importance to assist the central banks and other relevant authorities in further developing the national payment systems and improving oversight functions. This should aim to ensure their safety and efficiency, and compliance with international standards. In some cases, missions on monetary operations and payment system are combined to generate economies of scale since this also improves efficiency of cost and time management on the part of the MONOPS Advisor.



## Country Work: Inputs and Milestones for FY 2018

**Cabo Verde:** The main focus on CD work in the coming fiscal year would be to improve the monetary policy analysis function of the BCV. The achievable milestones are the robust internal reporting, improved data management, short term forecasting techniques and better technical skills in using EViews application in different monetary policy analysis. In the area of monetary operations, the goals are to establish the main liquidity absorbing and injecting instruments, work out the instruments and policies on the management of structural liquidity and fine-tune monetary operations and review and update the reserve requirement regulation.

**Ghana:** AFW2 will continue to support the ongoing project of revamping the Bank of Ghana's inflation targeting framework in collaboration with MCM and ICD. Envisaged enhancements in FY 2018 include a more systematic evaluation of the forecast changes and a thorough analysis of different policymakers' preferences; both of which serve as an important input for external communication. In term of techniques, customized training could support further development of near-term forecasting (NTF) techniques and satellite models. The core projection model would also deserve a more elaborate fiscal block which would allow to study more complex monetary-fiscal policy interactions. Further support will be needed to strengthen the processes and functions of the Statistics Department to source, check and disseminate statistics internally and externally. AFW2 will also support the BOG's efforts to strengthen the liquidity forecasting framework by operationalizing the new monitoring and forecasting tables, minimizing manual data input and implementing a short-term forecasting model for currency in circulation. Issuance of a new comprehensive regulation about cash reserve requirement is also planned in the coming year. A TA mission in FY 2018 will be devoted to assisting the BOG to further deepen the FX market. Lastly, on payment system modernization, the goal is to help the BOG in developing the payment system oversight function and carrying out an internal analysis of compliance with CPMI-IOSCO principles on the RTGS system.

**Liberia:** The main focus will be to further improve the monetary policy analysis function of the CBL. Based on the work that began in FY 2017, follow-up CD will ensure that the new economic indicators such as composite index of economic activity, real effective exchange rate index and refined core inflation measures are further developed to form an integral part of macroeconomic and monetary policy analysis, including for senior management. On payment systems, the focus will be to develop an intraday credit policy for the RTGS based on best practices. Work will commence on the pricing policy covering all CBL-operated payment systems and provided payment services based on costs and policy considerations. As in FY 2017, AFW2 will support the CBL in the implementation process by organizing professional attachments to countries within the region which have already established this infrastructure.

**Nigeria:** During the needs assessment exercise which provides the authorities' input into the work program, Nigeria showed interest in moving toward a forward looking monetary policy analysis and also to increase the efficiency of its liquidity management operations. Based on this, AFW2 intends to send scoping missions for stock taking that can form a firmer basis for a more concrete work program. Depending on the findings of this mission and cooperation of the authorities, additional milestones will be developed later in the year. On payments systems, based on the needs analysis of CBN, AFW2 plans to organize a customized training for CBN staff and experts of other financial market infrastructures on



CPMI-IOSCO principles and their application, as part of the training provided in the regional workshops on the PFMI.

**Sierra Leone:** The main priority is to further improve macroeconomic and monetary analysis, based on the work carried out in FY2017. The milestones include a well-structured central databank developed with an internal data release calendar; seasonally adjusted data and an automated reporting system linked to the central databank. The CD work will assist with high frequency economic indicators, and exchange rate pass-through calculations and ensure that the appropriate core inflation measures are in place. In the area of liquidity management, liquidity forecasting will be further developed by refining the forecasting table, improving government cash flow forecast and by minimizing manual input to the system. Seasonality analysis and short term forecasting model will be developed based on daily currency in circulation data. Regarding payment systems, AFW2 will carry out an analysis of the current payment system oversight function of the CBSL and make suggestions on how to further strengthen this area. As was done in FY 2017, AFW2 will support CBSL by organizing professional attachments with the aim of improving the oversight function of the central bank.

**The Gambia:** The main focus of CD work in FY 2018 will be to improve the analytical capabilities of the CBG's research department to better support monetary policy decision making process. Customized training missions will aim to increase the CBG's understanding of the monetary policy transmission mechanism. Special attention will be given to analyzing exchange rate pass-through on inflation and other transmission channels. The FY 2018 work program will also aim to deepen the knowledge of CBG staff in using EViews for macroeconomic and monetary policy analysis. Regarding monetary operations, in order to better manage the prevailing excess liquidity situation, the main task will be to work on the currently missing liquidity management tools such as standing open market operations facilities. To ease fiscal dominance, efforts need to be taken to better separate monetary and fiscal operations by increasing transparency and introducing CBG's own instruments. The regulation on renewed net open currency position (NOP) management system is to be updated as the current one is outdated. Regarding payment systems, AFW2 will initiate a stock-taking mission about the current state of payment system development in The Gambia and how to develop the central bank's organizational, human and technical resources to perform an efficient payment system oversight.

### **Regional Work**

**Based on the feedback on a very successful event held in FY 2017, AFW2 will organize an FX market simulation exercise in FY 2018 as well.** The workshop is to be held jointly with AFS. The course aims to mimic a close-to-real life foreign exchange market simulation exercises and covers interbank market conventions, central bank intervention strategies, main characteristics of spot and forward markets, fundamental and technical analysis of price developments. It will help AFW2 central banks to deepen their understanding of market behavior and instruments, and also lead to improved efficiency of the central bank operations.

**A conference on central bank communication will be held in cooperation with AFS.** The conference, specifically designed for developing countries with evolving monetary policy framework, will facilitate a



peer-to-peer exchange of views on monetary policy communication and analysis among central banks. The topics will include (i) the objective of communication for the central bank; (ii) internal communication and work processes; (iii) target groups and communication channels; and (iv) evaluation of communication.

**As a new initiative, AFW2 will provide in the FX area the use of internationally recognized experts in its regional workshop.** The program consists of two parts, a remote training where the participants will study the materials themselves with online support of an expert and regular tests measuring progress. The other part will focus on a one-week practical oriented workshop which covers money and FX market products, the model code, risk management and settlement issues. The Center holds the view that regional workshops on FX promotes peer learning and peer support for member countries and is thus an effective and flexible mode of CD delivery beyond the traditional TA missions.

**Recognizing the demand for understanding risks in the fast evolving financial market infrastructure landscape, AFW2 will organize a payment systems workshop in FY 2018 as well.** The participants will have the opportunity to get acquainted with and apply the CPSS-IOSCO principles on a hypothetical country's payment system within the framework of a well-designed case study. The participants will be able to discuss recent trends in payment system development, including cyber security aspects, Fintech and developments of mobile payments in the region.

**To further promote peer-to-peer learning, AFW2 plans to expand its professional attachment programs in FY 2018.** Thus, the plan is to do more professional attachments in the area of monetary policy analysis and payment systems oversight during the coming fiscal year.

## **Financial Supervision and Regulation**

### **Main Objectives**

The overall medium-term objective focuses on strengthening supervisory practices across AFW2 central banks, bringing them closer to international best practices and enhancing the capabilities of bank supervisors.

In the short-term (i.e. FY 2018), AFW2 aims to help member countries deepen implementation of past recommendations and help supervisory authorities further embed sound policies and practices. Work will continue to focus on plugging identified gaps and ensuring a prompt response to risks identified. The Centre will continue to achieve these objectives using a range of techniques, including through peer to peer-learning such as the use of professional attachments. Experts will be guided to include practical hands-on learning and to tailor delivery to the varying stages of development and challenges. Regional meetings and an exchange of experiences will also support the work of individual STXs in bringing about changed processes and practices.





## Country Work: Inputs and Milestones for FY 2018


**Cabo Verde:** AFW2 is waiting for the Bank of Cabo Verde to engage on CD needs. During a recent outreach visit by the Center Coordinator, a Bank of Cabo Verde official signaled some interest in working with AFW2 in the area of macro prudential indicators. The Center will collaborate with MCM/HQ before proceeding on any work on macro prudential indicators for Cabo Verde.

**Ghana:** During FY2018, AFW2 plans to deepen engagement on enhancing offsite supervision within an RBS framework. There are already signs of visible progress with the implementation of recommendations and the CD in FY 2018 will aim at deepening the understanding and continued application of the key principles relating to identifying, monitoring and controlling risk. The BOG will also be guided to incorporate risks from parents and subsidiaries within the consolidated review process. Within the regular monitoring framework, the BOG also requires guidance with assessing liquidity and market risks and incorporating relevant procedures related to these in the review and examination processes.

A clearer understanding of the IFRS principles to aid the analysis of data and learning and training on the key principles will continue with the non-banking supervisors who are yet to be trained. It is hoped that staff who took part in last year's training of trainers workshop will aid dissemination. Recent legislation for the establishment of a Deposit Insurance Scheme has prompted a request for training. AFW2 will collaborate with MCM/HQ and others that have provided TA to Ghana on deposit insurance to address this request. The BOG's work program on Basel II and Risk-Based Supervision (RBS) is jointly supported by AFW2 and an IMF's bilateral Long-Term Expert (LTX) stationed at the BOG. Regular discussions take place between both LTXs and CD work aims to avoid overlaps, deliver and strengthen implementation, and ensure value added. Discussions have already taken place to agree and delineate CD delivery options.

**Liberia:** Economic conditions continue to place pressures on the banking system and loans in particular, and therefore AFW2's CD will focus strongly on credit assessment and non-performing loans (NPLs). The TA will assess the main drivers of NPLs and make recommendations on measures which aid oversight and enhance supervisory actions with the aim of reducing high levels of NPLs. The risks posed by cyber-crime is also a growing area of concern and AFW2 will guide the CBL in developing policy guidelines to address these threats and implementing a sound monitoring system; including the conduct of (information technology) IT examinations. In FY 2017, CD also focused on a more thorough understanding of the Basel II/III conceptual framework and in FY 2018 AFW2 plans to build on that work and help the CBL deepen implementation of the applicable capital adequacy measures.

**Nigeria:** AFW2 will continue to provide CD on enhancing capital adequacy measures with a particular focus on the ICAAP and SREP framework and bringing capital adequacy definitions in line with applicable Basel II/III recommendations. The CD will aim to help the CBN deepen its understanding of the Basel II requirements and help guide the framing of national discretions. The CBN would like to review some of the more advanced frameworks and the CD will assess and make recommendations on the likelihood and impact of implementing the same. The CBN would also like to strengthen the



implementation of IFRS and in particular, conduct a quantitative assessment of the impact of adoption of IFRS 9. The CD will also explore banks loan impairment and expected loss models in relation to the principles. AFW2 also plans to work closely with the newly placed Resident Advisor in Financial Sector Supervision under the new DFID-funded project and there is a need to flesh out the lines of responsibility between the Advisor at CBN and AFW2.

**Sierra Leone:** The BSL recently received a resident LTX on financial sector supervision. As with the Bank of Ghana and Nigeria, AFW2 will host regular talks to define and support each other's work, particularly in relation to risk focused supervision. AFW2 will have the lead responsibility for providing CD in areas such as IT oversight and examinations, IFRS and impairment of loans, and credit and loan analysis and monitoring. At the request of BSL, AFW2 will fund the IMF's legal department's CD for updating the Bank of Sierra Leone Act of 2011 (the BSL Act) with a view to bolstering the BSL's autonomy and adapting the BSL Act to the BSL's financial stability mandate.

**The Gambia:** The CBG will continue to look at techniques for enhancing onsite RBS and AFW2 will include two more of these missions in its FY 2018 work program to help fine-tune implementation. Also, given that most supervisors have completed the AFW2 intensive training in IFRS, the CBG will receive further assistance to help guide implementation and analysis of information presented in accordance with the standards. Moving to Basel II/III, sometimes in the near future, the Center's goal will be to continue enhancing the CBG's supervisory toolkit and AFW2 will provide practical guidance on the adoption of the relevant measures and aspects of the standardized approach.

## Regional Work

**Two regional workshops are planned for FY 2018.** One relates to providing guidance on the assessment of the Basel Core Principles and the other on macro-prudential indicators in collaboration with MCM/HQ.

## Real Sector Statistics

### Main Objectives

AFW2's objective in the area of real sector statistics is to strengthen the compilation and dissemination of data on macroeconomic and financial statistics according to the relevant internationally accepted statistical standard, including developing or improving statistical infrastructure, source data, serviceability and/or metadata. It also aims to improve member countries' statistical capacity for producing real sector statistics in the framework of the Enhanced General Data Dissemination System (e-GDDS).



## Medium-Term Objectives

AFW2's medium-term objective in the area of statistics is to bring member countries closer to compliance with international standards for the compilation of better quality national accounts (annual and quarterly) and price statistics. That is, continue to assist member countries to improve the coverage, accuracy, reliability, frequency and timeliness of real sector statistics as well as support them with the implementation of the latest international statistical standards and classifications.

The Center continues to work with DFID in its second EDDI program (EDDI2) in the provision of TA on national accounts and price statistics. The program runs from April 2015 to March 2020. The program is funded by DFID but managed by IMF HQ. EDDI2 will strongly support AFW2 countries on improvements to and development of CPI and PPI statistics. In particular, it will fund the price statistics TA for Ghana, Liberia, Sierra Leone and The Gambia, whilst AFW2 will fund TA for Nigeria. EDDI2 also has a national accounts source data component and coordination of activities continues across Sierra Leone, Nigeria, The Gambia and Liberia.

## Short-Term Objectives

The short-term objectives for AFW2 member countries are:

- Cabo Verde – the rebasing of the annual national accounts (ANA); and the rebasing of its consumer price index (CPI).
- Ghana – the rebasing of the ANA.
- Liberia – the rebasing of the ANA.
- Nigeria – continue the development of the QNA; commence planning for the rebasing of the ANA and develop the producer price index (PPI) in line with international best practices.
- Sierra Leone – the rebasing of the ANA.
- The Gambia – continue its rebasing of the ANA; and developing the QNA.

## Country Work: Inputs and Milestones for FY2018

**Cabo Verde:** Cabo Verde will receive assistance in the implementation of the 2008 SNA as part of the rebasing of its ANA. They will commence the process of re-weighting its CPI with assistance from the Center. Statistics Portugal also continue to support Cabo Verde with its price statistics work. Assistance in the production and dissemination of metadata (sources and methods documentation) will be provided.

**Ghana:** The country will continue to receive technical assistance and training on the rebasing of the annual GDP during FY2018. In addition, they will receive technical assistance in the development of an ongoing strategy for the production of an independent ANA. Assistance in the production and dissemination of metadata (i.e. sources and methods documentation) will also be provided.



**Liberia:** The development of the methods and identification of data sources for the production of ANA on an ongoing basis will continue to be the focus in Liberia. It is expected that funding will be secured in order for an economic census to be undertaken resulting in a rebased GDP being published in 2018 or 2019. Assistance in the production and dissemination of metadata (i.e. sources and methods documentation) will also be provided.

**Nigeria:** The main focus will be to commence planning for the rebasing of the ANA. They will also continue to be assisted in the development of a PPI. Assistance in the production and dissemination of metadata (i.e. sources and methods documentation) will also be provided.

**Sierra Leone:** The main focus will be the rebasing of its ANA but this is dependent on funding being secured to undertake an economic survey. This activity will also identify data sources and develop methodology for the ongoing compilation of the ANA. Assistance in the production and dissemination of metadata (i.e. sources and methods documentation) will also be provided.

**The Gambia:** In FY 2018, The Gambia will be finalizing and publishing its rebased annual GDP. The country will continue with the development of its QNA with data sources and methods to be identified and assessed. Assistance in the production and dissemination of metadata (namely sources and methods documentation) will also be provided.

### Regional Work

**One regional national accounts workshop is planned for FY 2018.** EDDI2 will fund a regional workshop on price statistics. AFW2 will also collaborate with WAIFEM in the delivery of a regional national accounts workshop for staff in the central banks and ministries of finance.

### Box 3: Implementation of the new Fund-Wide Results-Based Management (RBM) Framework

#### Background:

In recent years, a number of initiatives have been launched at the IMF to strengthen the effectiveness of the Fund's work on capacity development (CD)—now the largest item in the institution's overall budget envelope. Thus, following extensive discussions in the Fund as well as consultations with its development partners, the Fund has recently introduced a new Results-Based Management (RBM) framework that will further improve the planning, monitoring, and reporting of its capacity development (CD) efforts. The RBM framework places an emphasis on a systematic approach to achieving results, and directs all stakeholders' thinking to how activities should incrementally lead towards achieving realistic and measurable objectives. It also allows flexibility to adjust Technical Assistance (TA) programs to better align CD efforts with changes to member countries' TA priorities, and guides resource allocation accordingly.

In the new RBM framework, CD will follow a catalog, developed by the Fund, which defines the





structure of TA along topic areas and how the success of the CD efforts can be measured, thereby enhancing the quality of the CD work the Fund offers to its member countries. This catalog is based on consultations with member countries (e.g. annual needs assessment surveys, discussions at Spring/Annual meetings, etc), consideration of TA in progress, as well as discussions with the Fund's TA departments. It is also aligned with the IMF's area department's country strategy for CD.

**Ongoing:** RBM roll out at AFRITAC West 2 (AFW2) is progressing well. Advisors have developed multi-year draft country log frames (preliminary drafts of logframes are available which in some ways mimic previous AFW2 log frames but with a focus on results instead of CD activities or inputs) - based on the Fund's catalog. The TA activities for FY 2018 (Annex V) has also been developed in line with the log frames and further demonstrates the results-based approach to TA.

To implement the RBM, the Fund has also developed a tool; a new IT system--*Capacity Development's Projects, Outputs, and Results Tracking system (CD-PORT)*--that will support the RBM work. Implementation of CD-PORT is being done in phases to allow the Fund to assess, and if necessary, enhance the system during this transitional period.

**Next steps:** AFW2 has recently begun efforts to sensitize member country authorities on the RBM framework and its benefits to the member countries, and the Fund. It has received positive feedback on the efforts made thus far and will continue to integrate a results-focused approach in consultations, at all levels, with member countries. The upcoming SC meeting will present a useful opportunity to continue and deepen the sensitization of key stakeholders, including country authorities on the RBM framework and the ongoing rollout at the Center. AFW2 Advisors will discuss the draft log frames with member countries, and revise the CD programs as needed in the coming months, to ensure common understanding and agreement on the delivery of CD, implementation of recommendations and ongoing monitoring of progress on CD delivery.

**Success in enhancing the effectiveness of CD work** is a shared responsibility between the Fund (on the supply side of CD) and member countries (on the demand side). It is therefore very important for member countries to be engaged at the design stage of the CD program and also have a commitment to implementing CD recommendations within the agreed timeline to the extent possible in order to achieve the intended results.



## A Multi-Donor Initiative supported by Member Countries and the following Development Partners



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