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The last quarter (February – April 2023) of fiscal year (FY) 2023 saw a further uptick in activity. Experts worked diligently to execute the work program for FY 2023 and, by the end, 135 activities, comprising 109 TA missions, 19 regional workshops and 7 professional attachments, were executed collaboratively with regional and international partners, virtually and in-person.

AFW2 Director, Ms. Eva Jenkner, completed her regional tour with a visit to Liberia in March 2023. She met with officials from the Ministry of Finance and Development Planning (MoFDP), Central Bank of Liberia (CBL), Liberia Revenue Authority (LRA), Liberia Institute of Statistics and Geo-Information Services (LISGIS) and the House of Representatives, as well as development partners in Monrovia, to discuss priorities and opportunities in Liberia. While there, she also attended the farewell for ceremony for World Bank Africa country manager, Dr. Khwima Nthara.
FEATURE: DIGITALIZATION IN THE AFW2 REGION – AN UNEXPECTED OUTCOME OF COVID-19

The opportunities: improving tax administration

Digital transformation in revenue administrations of AFW2 member countries is one of the bright spots emerging from COVID-19 pandemic responses. The revenue administrations in AFW2 member countries are gradually moving from just deploying information technology solutions to digital transformation. Revenue administrations are entering this phase by leveraging new tools and technology to improve workflows and processes, to serve taxpayers and other stakeholders better, and increase efficiency in their operations. Countries that have information technology and digital transformation strategic plans, digital transformation roadmaps and action plans complemented with change management strategies, are reaping more benefits, and sooner. AFW2 has been a partner on this journey.

The leap in deploying IT solutions that many of the AFW2 countries made points to great achievements beyond the short run. Prior to COVID-19 pandemic, reforms were taking place incrementally, with minor changes to modernize legacy systems at varying levels in each respective institution. The pandemic made revenue administrations in the AFW2 region digitize their services and the way they communicate with taxpayers and other stakeholders. Revenue administrations have augmented their business models to offer services and interact with taxpayers online 24/7. Cabo Verde, Nigeria, and Sierra Leone made considerable progress, and improvements in Ghana, the Gambia and Liberia are also noticeable. A broad shift in the culture and operating model of these revenue administrations is emerging. Gathering of third-party data and effective data analytics are becoming invaluable in planning and managing taxpayer compliance. For example, Nigeria has made significant steps in this area. The Nigeria Federal Inland Revenue Service (FIRS) system is fully interfaced with the banking sector, the registrar of companies and businesses (Corporate Affairs Commission), and the national identity management agent (National Identity Management Commission).

There are several benefits that come with digital transformation. Revenue administrations with deliberate digital transformation agendas are incorporating advanced technology to improve internal processes and productivity, lower operational costs, improve taxpayer services and reduce the cost of compliance. The use of automation, digital tools, and data collection allows revenue administrations to optimize staff productivity, manage a more sizable number of...
projects, and meet shorter deadlines. This results in the provision of better and a wider range of services to taxpayers. Arguably, the most important benefit of digital transformation in tax administrations is improved taxpayer experience as administrations support taxpayers to meet their legal obligations. Another important contribution is helping to reduce carbon footprint. The taxpayers access services 24/7, file tax returns and make payments and receive refunds online. Tax administration staff are also able to accomplish a lot either working from home or from offices with minimal visits to taxpayer premises. Furthermore, IT solutions are helping to enhance integrity and fight corruption. Liberia developed an in-house system that encourages interaction with the revenue administration management. Other countries have expressed interest in the solution.

**The risks: financial sector supervision and cybersecurity**

**Digitalization has significant implications for financial sector supervision and regulation and the assessment and management of financial sector risk.** The objectives of financial sector supervision and regulation support is to strengthen the effectiveness of risk-based supervision, through improved supervisory functions and enhanced knowledge of the intricacies of proactive risk identification and mitigation. With the proliferation of IT solutions in the financial sector, which further widen the scope of cross-border banking, the issue of cybersecurity in fintech poses a risk that supervisors need to remain vigilant to, as they transition from a compliance mindset to supervision by risk.

**Although the topic of cybersecurity has only recently come to the forefront in the AFW2 region, heightened demand has necessitated a strong CD response.** In cybersecurity regulation and supervision, CD will focus on strengthening the regulatory framework underpinning the implementation of regulation and supervision of cybersecurity risk in line with international standards. A mission each to Ghana and Nigeria have been planned for FY 2024, and, as resources permit, activities can be expanded to include fintech. Such support will help the authorities to gain a baseline understanding and articulate specific CD needs in developing/strengthening supervisory approaches to fintech. A regional professional attachment has also been planned to allow AFW2 countries to observe and learn from the Bank of Ghana’s processes for cyber risk supervision of financial market institutions.
CD HIGHLIGHTS BY WORK AREA (FEB – APR)

TAX ADMINISTRATION

AFW2 tax experts continued to advise and support AFW2 revenue administrations to mobilize domestic revenue, improve taxpayer compliance and reduce compliance cost incurred by taxpayers. This included deepening implementation of reform strategies to improve core tax functions and closing areas of revenue leakage. An FAD-led mission to Nigeria conducted a Tax Diagnostic Assessment (TADAT) at the Federal Inland Revenue Service (FIRS).

AFW2 member countries have significantly shifted to risk-based compliance management, data analytics and use of third-party data. Cabo Verde, Liberia, Nigeria, and Sierra Leone have taken significant milestones. Capacity in audit and compliance management of more specialized sectors, such as the financial and telecommunication sectors is beginning to yield results. AFW2 supported Cabo Verde to improve institutional risk management and governance arrangements. Further training was delivered to Liberia to consolidate capacity of staff in risk management and data analytics using a range of emerging IT solutions.

CUSTOMS ADMINISTRATION

Customs delivered training in The Gambia, Liberia, and Sierra Leone on customs risk management. In each of these countries, senior customs managers, front line customs staff, technical staff within the risk management function, staff in associated functions such as post clearance audit, and staff in training units were trained using materials developed specifically for each case.

Core customs procedures were reviewed in Cabo Verde and Nigeria. All existing instruments, including mandates, policies, and standard operating procedures, were reviewed, updated and their status confirmed for formal adoption.
CD to the Ministry of Finance (MoF) in Ghana supported improved asset and liability management. A joint FAD AFW2 mission supported authorities to take stock of the causes of expenditure arrears and develop proposals for their management.

Liberia received assistance in strengthening budget preparation, fiscal reporting and treasury single account (TSA) reporting. The Legislative Budget Office was assisted to prepare an action plan to address the challenges in implementing a medium-term budget framework (MTEF). Additionally, officials from both the Bureau of State Enterprises and individual SOEs were trained on selected International Finance Reporting Standards (IFRS) to enable them to improve on reporting and analysis of financial statements. Finally, a follow-up mission took stock of the implementation of TSA in Liberia and made recommendations for progress.

Sierra Leone received technical assistance in internal audit. Heads of Internal Audit across all MDAs updated their knowledge on current standards regarding the risk-based audit approach (RBA), risk management, and the internal control model. The workshop emphasized the importance of reviewing the control environment in which internal controls operate and model. A template for conducting a preliminary survey of an MDA’s Control environment was also tested during the workshop. The training was tailored to focus on better communication of risks, governance, and control issues.

AFW2 experts helped build capacity in risk-based internal auditing and SOE management in Sierra Leone. A mission assisted MoF officials to develop an integrated framework for monitoring fiscal risks from both financial and non-financial SOEs, while, during a professional attachment to Kenya, five officials from the MoF and the National Commission on Privatization benchmarked with officials from the MoF in Kenya on the analysis and reporting of fiscal risks from SOEs using the IMF SOE Health Check Tool.
The central banks in Cabo Verde, The Gambia, and Sierra Leone were supported to enhance their monetary policy forecasting and analytical capacity, including communication on monetary policy. The Macroeconomic Forecasting Unit (MFU) of the Central Bank of The Gambia (CBG) has made substantial progress in producing quarterly updates of the 3-year macroeconomic outlook. At the Bank of Sierra Leone (BSL), the compilation of the Composite Index of Economic Activity (CIEA), experimental Monetary Conditions Index (MCI), and Monetary Data Dashboards has been enhanced. The Monetary Policy Report has been reviewed and is being published on regular basis. Recently, the BSL has also formally established the near-term forecasting and QPM teams and assigned their coordinators.

The Banco de Cabo Verde (BCV) also received support in liquidity forecasting and management. Experts assisted the BCV to review the current conduct of monetary policy, monetary policy toolbox, liquidity management and risks, and proposed steps for monetary policy normalization. The mission also introduced the new liquidity forecasting tool, focusing on short-term forecast of the autonomous factors as well as the liquidity forecast up to 1 year.

Central banks in the Gambia and Liberia were assisted with advancing IFRS 9 implementation, focusing on expected credit loss (ECL), including creating awareness in the region regarding financial risk in climate change. At the Central Banks of Liberia and The Gambia, bank and insurance supervisory staff were trained on key aspects of IFRS 9, especially on the ECL provisioning. Additionally, Liberia received CD to improve the clarity in communicating risk-based examination findings to the stakeholders of supervised institutions.
The regional advisor on financial sector regulation and supervision, Mr. Vitus Ukwuoma, spoke at a meeting of the technical group of the 41 member-states of the Association of African Central Banks on lessons learned from the failure of Silicon Valley Bank (SVB). So far, the impact of SVB seems restricted to US and Europe, and such rapid asset growth has not been noted for large banks in the region. An important lesson is that the central banks should stay on course regarding ongoing implementation of international standards, such as Basel II/III and Risk-Based Supervision. Also, strong regulation and supervision of interest rate risk are essential, including remaining vigilant to financial risks more generally, especially among banks with high NPLs. Finally, enhancing crisis management frameworks within the region, including by broadening the coverage of deposit insurance, is crucial.

REAL SECTOR STATISTICS

Work in real sector statistics supported Cabo Verde, The Gambia, Ghana, Liberia, and Sierra Leone to strengthen the compilation and dissemination of the national accounts statistics. After the completion and publication of the rebased gross domestic product (GDP) estimates (base year 2015), series 2007-2016, in line with the System of National Accounts 2008 (2008 SNA), in March 2022, the National Institute of Statistics of Cabo Verde (INECV) finalized the compilations of Supply Use Tables (SUTs) for years 2017-2019. In addition, INECV completed rebasing of quarterly GDP (QGDP) estimates, series Q1/2007-Q4/2022 aligned with the new annual GDP (AGDP) series (base year 2015). The new QGDP series were published in March 2023. The Gambia Bureau of Statistics (GBoS) made good progress on the developments of the quarterly GDP estimates by the production approach. The QGDP-P estimates, non-seasonally adjusted series for Q1/2013-Q3/2022 at current and constant prices were completed and disseminated on May 4, 2023, along with the final estimates of annual GDP 2021. Satisfactory progress has been made by the Ghana Statistical Service in the compilation of quarterly GDP by the expenditures approach. The QGDP estimates, series Q1/2013-Q4/2022 is expected to be published in June 2023. The Liberia Institute of Statistics and Geo-Information Services (LISGIS) has progressed with the compilation of GDP in line with the 2008 SNA. The new GDP estimates (base year 2016) by the production and expenditures approaches, series 2016-2020 are compiled and are expected to be published in May 2023. Sierra Leone Statistics (Stats SL) was assisted with the rebasing of the annual national accounts ensuring international best practices are applied. Progress was made on the analysis and classifications of the source data for the annual GDP rebasing and populating the SUT. Stats SL also benefited from the IMF D4D project. The preliminary employment and
renumeration matrices were compiled as well as the contribution of the non-observed economy to GDP for 2018. These results will be used in the compilation of the new national accounts series of Sierra Leone.

Additionally, support is being provided to Stats SL with the update of the producer price index (PPI) and addressing consumer price index (CPI) compilation issues caused by the recent redenomination of the local currency.

REGIONAL WORKSHOPS AND PROFESSIONAL ATTACHMENTS

An interregional workshop was held on leveraging technology to improve taxpayer service and compliance in Tanzania (February 6 – 10). Presentations on best practice in various areas of Information and Communication Technology from various experts in the field of technology formed the basis for the discussion, facilitated peer learning among the 19 participants from revenue administrations in the region. The workshop focused on how technology can improve service and compliance in revenue administration. It included interactive discussions covering country experiences in the region and beyond.
In collaboration with the IMF’s Debt Management Division, and Macroprudential and Monetary Policy Division (MCMCO), AFW2 delivered a hybrid workshop on Monetary Policy Transmission in Ghana. The workshop helped AFW2 central banks to deepen their knowledge on monetary policy transmission and gave a practical demonstration of MCM’s new liquidity forecasting and foreign exchange intervention tools. The workshop brought together 14 participants from six AFW2 central banks, and three from the West African Monetary Institute (WAMI).

An interregional (AFS, AFE, AFW2) hybrid workshop on Repo market development was organized in collaboration with SARB, in Johannesburg (April 2023). Participants from AFW2 (seven in-person and 21 virtually) had the opportunity to hear from some of the most reputable experts on modernizing repo markets in all three regions. The BoG and CBN were key panelists in two sessions with presentations on ‘Creating an adequate supply of & demand for repos: the role of the central bank & non-banks; complementary financial instruments in Ghana,’ and on ‘Government Debt Market in Nigeria,’ respectively.

With the support of MCM and College of Supervisors of the West African Monetary Zone, a regional workshop on Climate-Related Financial Risks created awareness among supervisory agencies and served as a bridge to a harmonized supervisory process. Participating central banks were required to provide written feedback to their management on lessons learned by central banks.
The AFW2 staff retreat held in March 2023 was a welcome opportunity to exchange views and draw lessons for AFW2’s next phase. In particular, the team discussed strategies for most effectively widening the scope and enhancing efficiency of member country support in the next financing phase. These discussions set the foundation for further brainstorming with members, donor partners, IMF CD counterparts and regional stakeholders at the Steering Committee Meeting in June.

AFW2 hosted The Swiss State Secretariat for Economic Affairs (SECO) in Accra in April. AFW2 thanked SECO’s Ms. Chantal Bratschi-Kaye, Program Manager, Dr. Simone Haeberli, Head of Cooperation, and Mr. Hamza Bukari Zakaria, Economic Governance & PFM Specialist, for their continuous support and discussed technical assistance strategies for member countries.

The Bank of Ghana welcomed the new IMF Resident Advisor for financial sector supervision, Mr. Leonard Chumo. With generous support from Switzerland’s SECO, Mr. Chumo’s three-year assignment to assist in building capacity of the baking supervision function at the BoG began in February 2023.