Public Financial Management: AFS TA supported countries to further improve budget and fiscal frameworks, strengthen inter-agency coordination, and make progress towards improving fiscal transparency, reporting, and risk management (Botswana, Lesotho, Mauritius, Madagascar, Mozambique, and Zambia).

Tax administration: AFS funded TA on further strengthening the large taxpayer office (Botswana), developing the risk management framework (Lesotho and Swaziland), drafting tax legislation for the mining industry (Lesotho), and reviewing ongoing tax reforms (Seychelles). Under the peer learning initiative, AFS, with funding from the GIZ, organized a 4-week attachment of officials from Botswana and Namibia to the Zambian Revenue Authority (ZRA).

Customs administration: TA focused on risk management and enforcement functions (Botswana, Zambia and Zimbabwe), Post Clearance Audit (Madagascar and Swaziland), and identification of reform priorities and strategy-funded by AFS and led by FAD (Seychelles), helped achieve further milestones set for FY16 under customs administration.

Financial Sector Supervision: AFS funded TA on risk-based supervision with main focus on the robustness of internal control and risk management framework in banks (Comoros), on enhancing on-site supervisors’ skills (Lesotho), and on a comprehensive review of the self-assessment of Basel Core Principles with the objective of migrating to Basel II (Swaziland).

Monetary Policy Framework Operations: AFS follow-up TA helped targeted countries to make further progress on the ongoing inflation forecasting and modeling project (Seychelles and Madagascar) and on improving macroeconomic analysis and forecasting (Angola). AFS also delivered TA for strengthening the communications capacity, both externally and internally (Zambia) and on updating the operational guidelines, including guidance on interventions in the foreign exchange market (Madagascar).

Real Sector Statistics: AFS TA helped compile revised and rebased estimates of GDP by activity (Lesotho). Participation in the multi-sector mission led by HQ/STA helped provide further insights on TA needs going forward (Madagascar).

Peer-to-Peer Learning, Macroeconomic Training, and Seminars: AFS activities included professional attachments and are closely aligned to TA priorities, strongly supporting the implementation of TA recommendations across all areas.

WORK PROGRAM IMPLEMENTATION

Public Financial Management
By Peter Francis Murphy, Sybi Hida, and Imran Aziz

MEDIUM-TERM MACRO-FISCAL AND BUDGET FRAMEWORKS IMPLEMENTED

Botswana: In December an AFS mission assisted the authorities with strengthening the medium-term expenditure framework (MTEF) process, assessing the fiscal planning and fiscal reporting, and mutually interacted with the IMF Article IV mission. The mission provided hands-on support to the staff of ministry of finance on the methods of analyzing budget credibility, tools to track past budget estimates, and the methodologies to derive expenditure ceilings. The mission also collaborated with the Article IV mission on the issues related with the Pula fund, setting up a sovereign Fund, and adopting a fiscal rule.

Lesotho: A mission in December assisted the Ministry of Finance to strengthen the medium-term fiscal framework (MTFF) and its links with the budget process. The mission worked with the members of the Macroeconomic Working Group and the research
department in Lesotho Revenue Authority (LRA). The mission also worked with the LRA to strengthen the revenue forecasting capacity of the newly-formed Research and Development Department, which included a three-day workshop.

**Mauritius:** In November AFS peer reviewed the draft Public Expenditure and Financial Accountability (PEFA) report, prepared by independent consultants. At a subsequent workshop AFS participated in the discussion of actions necessary to address the challenges identified in the PEFA.

**Mozambique:** A joint FAD/AFS mission in November focused on addressing five main topics: (i) the PFM reform strategy, (ii) public investment institutions, (iii) the budget execution process (including the VAT refund issues), (iv) accounting and financial reporting, and (v) fiscal transparency and risk management. For each topic, the mission proposed adjustment to the PFM reform strategy to take into account recent developments, new priorities and new challenges, and included the first pilot of the Public Investment Management Assessment (PIMA) tool, undertaken with the participation of the World Bank. The mission provided hands-on support and presentations for finance ministry staff and organized three workshops with donors to disseminate preliminary findings and ensure effective coordination of technical assistance activities. The mission also assisted the authorities with finalization of a fiscal risk statement, covering macroeconomic risks and specific risks relating to the sustainability of public debt, public-private partnerships, and the financial oversight of SOEs and state-controlled companies.

**Zambia:** A mission in January assisted the Ministry of Finance with strengthening macro-fiscal forecasting and analysis, including fiscal risks management, and improving the budget formulation process. The mission worked with the staff of planning, macroeconomic, and budget departments on (i) the existing institutional setup for policy, planning, and budget formulation; (ii) the tools for macro-fiscal forecasting; (iii) fiscal risks management; and (iv) the process and use of budget documentation to guide strategic decision making. It also made proposals on ways to free up budget analysts’ time for more strategic analysis in the budget process.

**IMPROVED INTERNAL CONTROL PROCEDURES**

**Madagascar:** In January AFS funded a follow up mission to a joint FAD-AFS mission conducted in September 2015, which had detected a stock of arrears of almost 5 percent of GDP. The mission assisted the authorities in identifying financial control procedures and reviewing the measures taken thus far to control payment arrears and prevent their resurgence. A series of recommendations were proposed, working closely with the General Directorate of Financial Control.

**REGIONAL HARMONIZATION AND COOPERATION**

**Seminar:** In November/December AFS held a seminar on improving fiscal and statistical reporting. This seminar provided participants with the opportunity to gain an understanding of the conceptual framework, compilation methodologies and uses of IPSAS based Financial Statements and GFSM2014 based Fiscal Statistics. The event brought together government officials from Comoros, Lesotho, Madagascar, Mauritius, Namibia, Seychelles, South Africa, Zambia and Zimbabwe; and the East and Southern Association of Accountants General (ESSAG). Participants discussed the importance of individual country contexts in determining the pace of adoption of standards and highlighted a range of legislative, institutional, and technical challenges they face with implementation in the region. Specific attention was given to key capacity development requirements, sequencing, and resolution of the type of challenges identified by participants.

**Seminar on Public Sector Accounting, Financial and Statistical Reporting (November 30 –December 4). Ebene, Mauritius**

**Seminar:** In January an AFS advisor helped facilitate a joint workshop organized by AFRITAC East. The workshop was designed to help East African Community (EAC) countries quantify fiscal risks and include these as part of their fiscal risks statement, which are now a mandatory requirement as part of the EAC convergence criteria. Experience was shared from similar efforts in AFS countries (Mozambique) and a data entry worksheet was developed based on quantifying a standard set of macroeconomic and specific fiscal risks,
which could be used to support similar processes in AFS countries.

Tax Administration  
*By Thabo Michael Letjama*

**ENHANCED TAX AND CUSTOMS COLLECTIONS FROM IMPROVED AND COST EFFECTIVE ADMINISTRATIONS AND STRENGTHENED COMPLIANCE**

**Seychelles:** AFS participated in an FAD mission that conducted a diagnostic assessment of the Seychelles Revenue Commission (SRC). The input focused on a high-level assessment of the status of tax and customs administrations, including core functions, management and governance arrangements, support functions, and reviewed the ongoing revenue administration reforms.

**Swaziland:** Follow-up TA assisted in implementing an intelligence and investigation function. Focus was on evaluating the status of implementation of recommendations from the previous visit regarding quarterly output reporting, case monitoring, intelligence gathering, a practical utilization of skills provided for information profiling, and the application of computer aided audit tools (CAAT).

**Lesotho:** Follow-up TA assessed progress made since the last assignment on developing a compliance risk management framework. The TA also advanced this work. In addition, advice was provided on how to structure change leadership efforts in order to institutionalize risk based compliance management within the organization. Another follow-up mission helped finalize draft laws for income tax and VAT on the mining industry. A formal response to the specific issues raised by the mining sector was also prepared in consultation with the authorities.

**MORE EFFICIENT AND EFFECTIVE ORGANIZATIONAL STRUCTURES**

**Botswana:** A review of the Large Taxpayer Unit (LTU) was carried out. The TA focused on evaluation of the LTU functions and processes for effectiveness and enabling improving revenue collection. The expert worked with the authorities to evaluate LTU performance and effectiveness; review existing procedures for self-assessment, taxpayer profiling, case selection and audit; assess capacity for specialized audits of taxpayers; and evaluate the effectiveness of the collection enforcement and payment systems.

**PEER TO PEER LEARNING**

**Zambia:** AFS organized the attachment of officials from Botswana and Namibia to the Zambia Revenue Authority (ZRA). The officials walked through all key processes within the large taxpayer directorate, the program management directorate, and information technology department to learn about the integrated tax administration system.

Feedback received from the participants was positive with the attachment achieving its objective of enabling participants to benchmark their own practices against those of ZRA, identify where performance gaps are, and learn how to bridge the gaps in order to improve effectiveness and efficiency of their respective LTOs.

**Customs Administration**  
*By Kenneth Head*

**ENHANCED TAX AND CUSTOMS COLLECTIONS FROM IMPROVED AND COST EFFECTIVE ADMINISTRATIONS AND STRENGTHENED COMPLIANCE**

**Botswana:** In November, an AFS TA mission helped to develop the risk management and enforcement functions in the customs administration of Botswana Unified Revenue Service (BURS). The mission designed, in conjunction with the authorities, a time lined action plan to further develop the risk management and intelligence program over the next 12 months to improve trade facilitation and compliance. This activity contributed to the topic outcome of ‘Enhanced tax and customs collections from improved and cost effective administrations and strengthened compliance’ and Pending Milestone: ‘The Risk Profiling and Intelligence (RPI) Team is able to produce information products to inform management and operational units and that enforcement units work effectively to use those products’.

**Madagascar:** In December, Malagasy Customs worked with an AFS mission to assess the state of development of the Post Clearance Audit (PCA) function against the action plan agreed with the authorities following the September 2015 AFS mission; and strengthen the links between Risk Management and PCA and the effective delivery of audits. This activity was in support of the Topic Outcome of ‘Enhanced tax and customs collections from improved and cost effective administrations and strengthened compliance’ and
Pending Milestone #52: Customs officers assigned to the post clearance audit unit are able to plan and execute audits successfully.

**Seychelles:** In January, the AFS resident advisor participated in an FAD mission which conducted a diagnostic study of the Seychelles Revenue Commission (SRC). The mission was financed by AFS. The input focused on a high-level assessment of the status of tax administration and customs administrations, including core functions, management and governance arrangements, and support functions; and strategic and practical recommendations for the revenue administration reform program.

**Zambia:** In November, the AFS carried out an assignment to support the Risk Management and Enforcement programs. The input helped to ensure that customs administration had a clear understanding of the roles and responsibilities of the Risk Management and Enforcement Units, developmental needs were identified and an action plan is now in place to enhance the capacity of these units to improve trade facilitation and compliance.

This input was in support of the topic outcome of ‘Enhanced tax and customs collections from improved and cost effective administrations and strengthened compliance’ and pending milestone: ‘The Intelligence Team is able to set, monitor, evaluate, and refine selectivity criteria in ASYCUDA to effectively target high risk consignments’.

**Zimbabwe:** In December, AFS carried out an assignment to support the Risk Management and Enforcement programs. The mission provided advice and guidance to improve customs risk analysis, and better monitor and evaluate control selectivity criteria set in the customs IT system (ASYCUDA-World). The TA helped develop a monthly reporting to the Customs Commissioner about performance of the risk profiles. This input was in support of the Topic Outcome of ‘Enhanced tax and customs collections from improved and cost effective administrations and strengthened compliance’ and Pending Milestone ‘The Management and Customs Intelligence Team is able to set, monitor, evaluate, and refine selectivity criteria in ASYCUDA to effectively target high risk consignments and produce reports to inform management on risk’.

**MORE EFFICIENT AND EFFECTIVE ORGANIZATIONAL STRUCTURES IN PLACE**

**Swaziland:** In November, AFS delivered a TA mission to support sustainability of the Post Clearance Audit (PCA) program. The input helped to ensure that the PCA team had a clear mandate, work plan, systems and procedures and that there is a clear way forward for strengthening the function. This activity contributed to the topic outcome of ‘More efficient and effective organizational structures’ and pending milestone #29: ‘Customs officers assigned to the post release audit unit are able to plan and execute audits successfully and are able to identify revenue leakage and take recovery/corrective action’.

**PEER-TO-PEER LEARNING**

A four week professional attachment of senior officials from the Comoros and Madagascar customs administrations to the Mauritius Revenue Authority (MRA) took place in January. The objective of this attachment is to expose Comoros and Madagascar officials to regional best practice in customs administration. This, it is intended, will inspire them to take a strong role in reform and modernization initiatives within their administration. Additionally, it is expected that the chosen officials will submit a detailed proposal as to how they intend to implement two or three reforms in their home administrations based on what they have observed and learned in Mauritius. The attachment involves supervised daily interaction with different departments and functional areas of the MRA to show the techniques and systems of customs administration– importantly, by interaction with senior management in the organization. The two visiting officials learned about both technical matters and policy choices and how change was implemented. Work areas included: post clearance audit (PCA) including valuation, classification and origin; enforcement and investigation; risk management; airport operations; entry processing and assessments; suspended regimes; cargo examination; and use of technology.
**Financial Sector Supervision**  
*By Ravi Mohan R.R.*

**IMPLEMENTATION OF/IMPROVEMENT IN RISK BASED SUPERVISION**

**Comoros:** In January an AFS TA mission extended support to Central Bank of Comoros (CBC) on Risk Based Supervision (RBS). The mission focused on assessing the robustness of internal control and risk management framework in the banks, creating risk profiles and developing suitable guidelines on risk management by banks. It also provided hands-on training on RBS. The mission was conducted simultaneously with an MCM HQ TA mission on reviewing the documents for the implementation of new prudential regulation by CBC and the manual for on and off site banking supervision as well as analysis of data availability for the elaboration of a methodology to calculate capital add-ons for credit risk concentration. A major achievement was enhancing the skill level of supervisors in implementing RBS, thereby meeting the relevant milestone.

**Lesotho:** In response to a request from The Central Bank of Lesotho (CBL), a TA mission in January assisted the authorities on RBS with specific focus on enhancing the skills of the supervisors in the on-site supervisory process. The purpose of the mission was to assess and help the CBL implement RBS by aligning the regulatory and supervisory processes more closely with RBS requirements. The mission focused on developing the skills and capacity of the supervisory staff so as to enable them to implement RBS effectively. The relative milestone was met. The mission accompanied the on-site supervisors during the examination of one of the largest banks in the country and provided on the job training for examining different categories of risks.

**COMPLIANCE WITH BASEL CORE PRINCIPLES FOR EFFECTIVE BANKING SUPERVISION**

**Swaziland:** An AFS mission on assessment of Basel Core Principles for Effective Banking Supervision (BCP) assisted the CBS in completing its BCP self assessment, identifying areas for improvement, and strengthening supervisory practices and risk management, which will facilitate a smooth migration to Basel II in 2016. The mission assisted the authorities in undertaking a comprehensive review of the self assessment of BCP. It suggested an action plan that will be realistic and capable of enhancing the regulatory/supervisory processes of the CBS.

**REGIONAL HARMONIZATION AND COOPERATION**

The AFS resident advisor participated in the MCM-delivered course at the Africa Training Institute (ATI) on Core Elements of Banking Supervision. The course included a large number of case studies/exercises and workshops in the area of banking supervision. The seminar was highly rated by participants, who strongly requested that similar courses be offered at ATI in the future.

**Monetary Policy Framework Operations**  
*By Carina Selander*

**A FIRM GRASP OF THE MONETARY TRANSMISSION MECHANISM**

**Seychelles:** An AFS follow up mission on inflation forecasting and modeling visited the Central Bank of Seychelles (CBS) in November to continue with developing the elements of a future forecasting system. The mission provided some basic macroeconomic and econometric training. The aim of the project as a whole is to develop a framework for inflation forecasting that is suited for the CBS. This will eventually enable the CBS to have a tool that incorporates the reserve money target and improves their ability to assess the macroeconomic implications of the current policy stance. By incorporating forward looking techniques it will also be helpful in advising the future policy stance. The development of such a framework will take time and planned TA to the CBS for FY17 will be reflective of this. This particular mission worked on developing time series models to use for short term forecasting and for backcasting. Backcasting is necessary when there are long lags in published data, as is usually the case with national accounts data. The mission also started to develop a core model, expanded the model with more equations as well as started to evaluate its properties.

**Angola:** The Banco Nacional de Angola (BNA) aims to strengthen its capacity in macroeconomic analysis and forecasting to support the monetary policy formulation and implementation. To assist the NBA in achieving this aim, a TA mission in February 2015 developed a strategic plan for strengthening the macroeconomic analysis and forecasting framework of the BNA. The plan describes the main actions involved in developing a forecasting and policy analysis system (FPAS) within a two-year period. It envisages developing a small semi-structural model for medium-term forecasting and short-term forecasting techniques, as well as improving the handling of data and economic indicators on a systematic basis. The plan also involves establishing an integrated process for macroeconomic monitoring,
forecasting, policy formulation, and communication. An AFS funded mission visited Angola in November to provide training in modeling, forecasting and software programming and analysis to the staff of the Department of Economic Studies (DEE) as a part of this long-term project.

**Madagascar:** Consistent with the findings of the June 2015 diagnostic mission, an AFS mission visited the BCM in December focusing on inflation forecasting and modeling. This visit was the first of a series of missions on this topic, to enhance policy implementation capacity at the BCM. The specific purpose of this visit was to evaluate current capacity and assist the BCM to start producing its own inflation forecast as an input to its forecast of monetary aggregates and the balance of payments as well as guide the monetary policy decision-making process. The mission provided daily lectures and workshops and trained staff in the use of Eviews, assisted in structuring datasets, performing forecast evaluation.

**COHERENT APPROACH TO MONETARY POLICY FORMULATION**

**Zambia:** The Bank of Zambia (BoZ), the IMF, and Norges Bank (NB) have cooperated at helping the BoZ build capacity, including moving to a full-fledged Inflation Targeting (IT) framework. The project has focused on developing capacity to improve the function of the domestic financial market, which will support the effective implementation of monetary policy, and to develop a forward-looking approach to policy making. In this context and as requested by the BoZ, an AFS mission in November focused on strengthening the BoZ’s communications capacity, both externally and internally, including to help improve its monetary policy report.

**DEEPER AND MORE EFFICIENT PRIMARY AND SECONDARY MONEY MARKETS**

**Madagascar:** An AFS funded mission in December assessed the state of the interbank foreign exchange market and to follow up on recommendations from previous TA reports. The mission provided suggestions on how to update the operational guidelines including some guidance on interventions (where possible and applicable), and suggested an improved method to be used for calculating the daily reference rates. The mission also reviewed the transparency of the market and identified areas where there is a need for capacity building and further improvement.

**Real Sector Statistics**

*By Gregory Legoff*

**COMPILATION AND DISSEMINATION OF ANNUAL AND QUARTERLY NATIONAL ACCOUNTS FOLLOWING INTERNATIONAL STANDARDS**

**Lesotho:** An AFS funded mission dealt with the revised estimates of GDP by activity. It now remains for the Bureau of Statistics (BOS) to collect outstanding data to fine tune the revised production accounts. Furthermore, the BOS will proceed with the revised estimates of GDP by expenditure. The revised and rebased national accounts are planned to be released in February 2016.

**Madagascar:** The AFS resident advisor joined an HQ-led multi-sector mission which assessed the national accounts statistics, government finance statistics (GFS), and external sector statistics and identified strengths and weaknesses of data quality for the targeted macroeconomic statistics. The mission provided TA for improving the data collection and compilation system. At the authorities’ request, the mission conducted two half-day training in GFS attended by about 20 representatives of the MFB, the CBM, and INSTAT, which also included a session on linkages between GFS and national accounts. It also assisted the CBM in conducting one half-day training in reporting data for balance of payments purposes, which was attended by representatives of all commercial banks.

**Seminar:** AFS conducted a course on high frequency indicators (HFI) in December which benefited 38 participants from AFS countries. The course was aimed at both compilers and users of HFIs of economic activity, and provided participants the opportunity to deepen their understanding of the core methods to compile activity measures on a monthly basis.

**Seminar on HFIs (December 7-11), Ebene, Mauritius**

**Seminar:** AFS conducted a seminar on quarterly national accounts (QNA) in December, with participation from
Angola, Botswana, Madagascar, Mauritius, Mozambique, Namibia, Seychelles, South Africa, and Zambia. The seminar built on the previous AFS training course on HFI and QNA conducted in November 2014. It deepened understanding of specific issues related to the compilation and dissemination of quarterly estimates. Compilers of statistics had the opportunity to share their views particularly during six country presentations and group discussions.

Macroeconomic Training
During this quarter, AFS conducted two courses: (i) Financial Market Analysis, and (ii) Macroeconomic Diagnostics. The courses were highly relevant and closely linked to TA priorities in the region. The financial market analysis course was aimed at supporting TA on the development of money and secondary markets, as well as debt and fiscal sustainability issues. The macroeconomic diagnostics course continues to support TA on the MTFF and monetary policy framework operations.

Staff News
Mr. Thabo Letjama joined AFS as a Resident Tax Administration Advisor in December. Prior to this role, he has been working for the Lesotho Revenue Authority (LRA) where he served for thirteen years. His experience spans heading and managing Finance, Administration, Procurement, Customs Operations and being the Commissioner General of the LRA. Before joining the LRA, he worked as a Financial Manager in a telecommunication company and as auditor with KPMG Lesotho. His tax administration experience is largely premised on leading the LRA tax operations and the LRA transformation effort. He is a Chartered Accountant and holds a Masters in Business Administration.

AFS WORKSHOPS AND COURSES – recently held and upcoming
The venue is AFS, Ebene, Mauritius, unless otherwise noted.

Promoting Financial Stability through Stronger Legal and Institutional Frameworks
June 29–July 3, 2015

Stress Testing in Banks as a Risk Management Tool
Venue: SARB Academy, Pretoria. South Africa
August 3-7, 2015

Strategic Issues in PFM
August 10-14, 2015

Public Expenditure Analysis and Management, MEFMI, with participation of AFS Resident Advisors as resource persons
Venue: MEFMI, Windhoek, Namibia
August 24-28, 2015

Strengthening Fiscal Frameworks and PFM Systems for Managing Natural Resource Wealth (AFS)
September 21-25, 2015

Press Release

Integration of Customs and Tax duties in fight against Fraud (jointly with AFRITAC Central)
September 28 – October 2, 2015
Press Release
Large Taxpayer Administration (AFS)
October 5-9, 2015
Press Release

Risk Based Supervision - Enhancing the skills of Bank of Mauritius Staff in on-site Supervisory Process (AFS)
October 6-15, 2015

Financial Market Analysis
Venue: SARB Academy, Pretoria, South Africa
November 9-20, 2015

Improving Financial Reporting in Developing Countries Using International Public Sector Accounting Standards (IPSAS)
November 30-December 4, 2015
Press Release

High Frequency Indicators
December 7-11, 2015
Press Release

National Accounts: Compilation of Quarterly GDP
December 14-18, 2015
Press Release

Macroeconomic Diagnostics
January 25-February 5, 2016

Enhanced Compliance of Indirect Taxes
February 15-19, 2016
Press Release

Risk Based Supervision and Pillar II of Basel II
February 22-26, 2016

Macroeconomic Management in Resource Rich Countries (jointly with AFRITAC Central)
February 29-March 4, 2016

Price Statistics
March 21-25, 2016

Debt Sustainability Analysis
April 18-22, 2016
AFRITAC SOUTH IS AN IMF INITIATIVE SUPPORTED BY THE FOLLOWING MEMBER COUNTRIES AND PARTNERS:

- Angola
- Botswana
- Comoros
- Lesotho
- Madagascar
- Mauritius
- Mozambique
- Namibia
- Seychelles
- South Africa
- Swaziland
- Zambia
- Zimbabwe

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State Secretariat for Economic Affairs SEDO

Australian Government Department of Foreign Affairs and Trade

Swiss Confederation

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AFRICA DEVELOPMENT BANK GROUP

SOUTH AFRICAN DEVELOPMENT COMMUNITY
TOWARDS A COMMON FUTURE