

CAPTAC-DR NEWS

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XIII Meeting of the CAPTAC-DR Steering Committee

On June 16th, authorities of the seven member countries of the Center, the financial partners (the Central American Bank for Economic Integration, the European Union, Colombia, Spain, Luxembourg, and Norway), representatives of the regional councils (the Central American Monetary Council, the Council of Finance Ministers, and the Central American Council of Superintendents of Banks, Insurance and Other Financial Institutions), observers, and staff of the IMF and CAPTAC-DR, participated in the annual meeting of the Steering Committee.

The members of the Steering Committee approved the work program and budget for fiscal year 2022 (May 2021 to April 2022), which were presented during the meeting. The plan contemplates a significant increase in capacity development activities, relative to the previous year to address new needs from the pandemic, the increase of IMF-supported programs in the region, and to partially offset the under-execution of the work program of the previous two fiscal years.

The meeting also included presentations of success cases on capacity development in the region, progress in integrating cross-cutting themes into the Center's work program, challenges and opportunities of remote work, and the forthcoming external evaluation of the Center. The presentations made during the meeting are available at the Center's website: (<https://www.captac-dr.org/content/captacdr/es/Capacitacion.html>).

In addition, the members expressed their interest in continuing the integration of cross-cutting themes in the work program, particularly in i) risk assessment of the financial system because of climate change; ii) use of big data and machine learning; iii) evaluation of the introduction of digital currencies by central banks and, in general, greater digitalization of payment systems. The Center, with the support of the IMF's capacity development departments, will seek to address these needs.

The representatives of the member countries expressed their gratitude to the financial partners for supporting the capacity development in the region. For its part, the Steering Committee thanked the Center and the IMF for their commitment to the fulfillment of the work program. The agenda, Annual Report and Work Program FY2022, and the minutes of the meeting are also available at CAPTAC-DR's website.



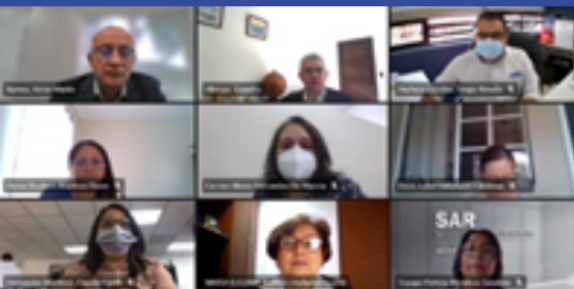
In these images: representatives of institutions of the CAPRD region, financial partners, CAPTAC-DR team (director and resident experts) and IMF economists, at the virtual meeting of the XIII Steering Committee.

Visit our website: www.captac-dr.org to download all the material shared during the XIII Meeting of the CAPTAC-DR Steering Committee.

Technical Note - Virtual Course: Control Of Compliance And Payment Obligations

The course, held from June 7th to 11th, had the virtual participation of officials from Central America, Panama and the Dominican Republic, and the collaboration of CAPTAC-DR non-resident experts who spoke about the Colombian and Peruvian experiences. Each session was held by presenting the agenda items followed by a round of questions.

"Voluntary compliance requires the support of the tax administration."



1. Control of returns

2. Payment agreements

3. Tax current account

The COVID-19 pandemic has caused countries to grant special treatments on tax filing and payment. This situation has caused compliance in the presentation of returns and payments to deteriorate. Therefore tax administrations must take action to strengthen the tax compliance.

Control of tax returns

The tax return control approach, according to the Colombian and Peruvian model, focuses on the obligations determined in the taxpayer registry and the validations at the beginning of the return process.

Both models agree on the importance of an electronic format to receive the information and to correct errors in it, as an initial part of the process.

The control strategy focuses on determining the omissions of each tax obligation and applying a series of massive measures that include the following actions:

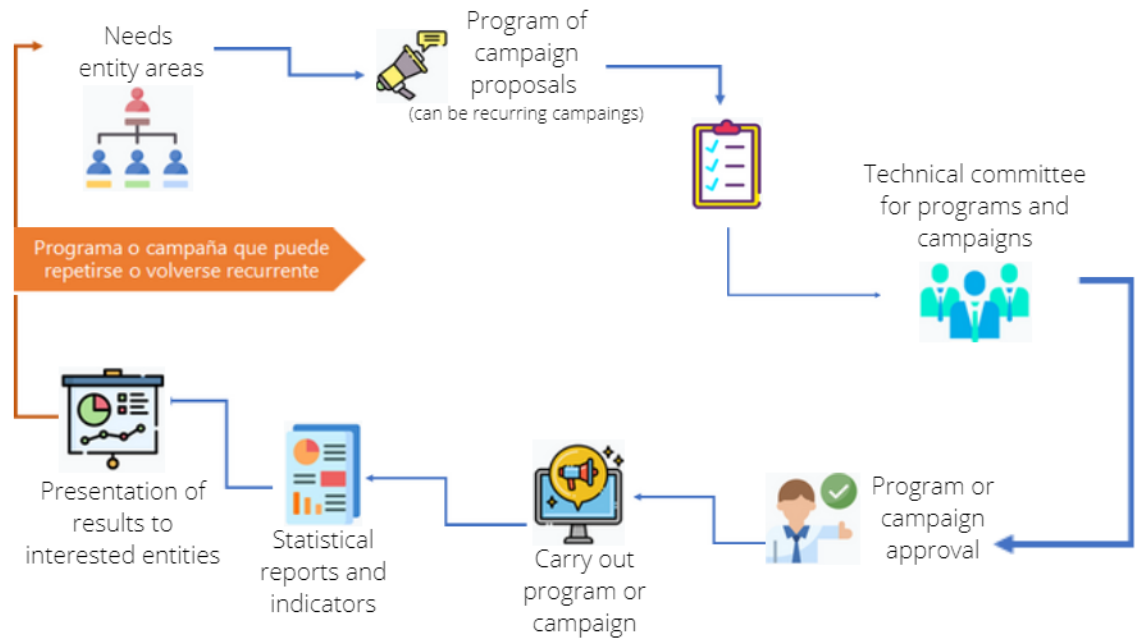
- Preventive measures: reminders of the tax obligation.
- Inductive measures: invitations to regularize the obligation.
- Coercive measures that include financial penalties for non-filing of returns and for filing in an untimely manner.

Good practice in tax returns

1. Electronic filing of returns
2. Electronic rectification with validations and automatic acceptance
3. Prefilled or shadow returns

Massive controls and actions

(Extract from the presentation *Control of Declarations*)



Topic conclusions

The control of the filing of returns is a permanent function of the tax administrations that responds to the need to have information on the operations of the taxpayers and the determination of the taxes to be paid.

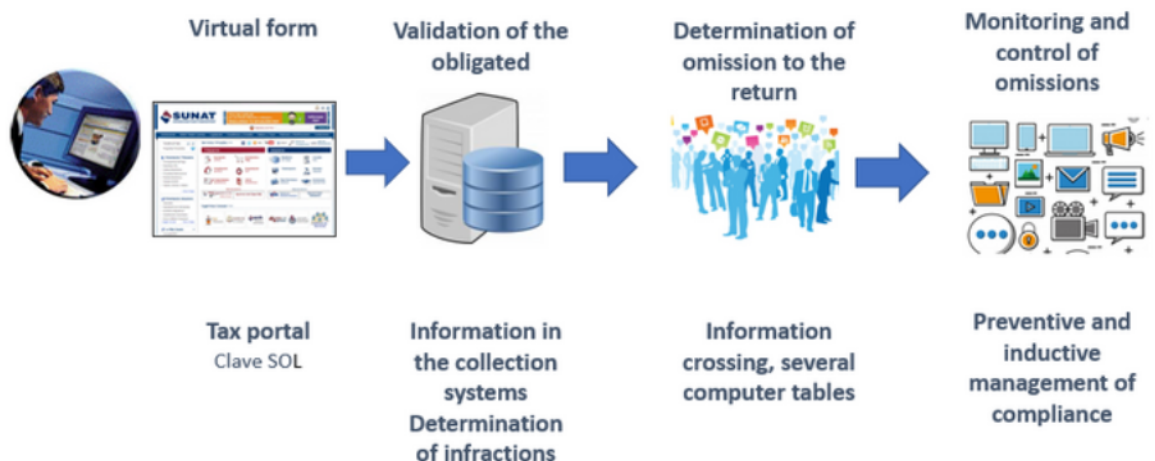
The tax returns control strategy starts by determining the universe of taxpayers required to file returns (informative or determinative) based on updated information from the taxpayer registry.

Subsequently, treatments are determined for each taxpayer based on their level of risk. These treatments may include communications in the form of reminders sent in bulk before the expiration of the obligation. After expiration, inductive actions (messages, emails, etc.) and sanctioning measures such as the issuance of fines, among other measures, would be applied.

It is important to note that a massive control strategy is based on electronic notification, communications and acts of the tax administration.

Reception, validation and determination scheme

(Excerpt from the presentation *Control of Returns, Peru scheme*)



Control of payments also implies control of payment agreements or installments

Guarantee:

The systems that incorporate the presentation of guarantees on the debt covered by the payment agreement must contemplate different guarantees that generate lower expenses for the debtor and that can be of immediate execution.

Payment agreements

The procedures for payment agreements or installments of debt in Colombia and Peru are highly regulated, always establishing: i) who can be accepted, ii) debt that can be accepted, iii) requirements that must be met, iv) conditions for the loss of the payment agreement, and v) necessary guarantees.

Both models are based on semi-automated processes, since they contemplate the resolutions and determination of quotas automatically in some way, but with manual controls for the loss.

The Colombian model also contemplates the following measures: change of guarantees, variable installments, extraordinary payments, modification of interest rates, collection from guarantors, and evaluation of special situations such as fortuitous events or force majeure events.

The Peruvian model, for its part, contemplates: electronic applications, semi-automated evaluations, fixed interest rates, change of guarantees, debts that cannot be accepted, deferral of installments, and refinancing of tax debt.

Topic conclusions

A payment or fractioning agreement is a tax benefit that seeks to comply with tax obligations regarding the debt.

The main conclusions are:

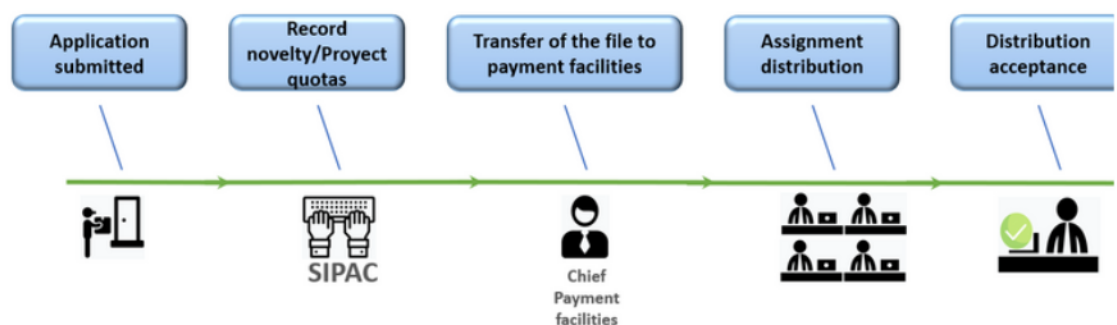
- Regulate the different aspects of a payment agreement that includes: i) foster care requirements, ii) eligible debt, iii) determination of installments, iv) interest rate, v) causes of loss of the agreement, among others.
- The process of accepting a payment agreement should be based on a simple process that involves an electronic application, online validations and electronic issuance of resolutions to resolve the requests.
- The loss of the payment agreement must be supported by facts and its consequence must involve the automatic transfer of the debt to initiate its coercive collection.

Good practices on payment agreements

1. Electronic application
2. Automatic evaluation of applications
3. Automatic notifications to remind payment of fees

Application record

(Excerpt from the presentation *Payment facilities*)



Taxpayers' discharges must use some electronic or digital signature system and guarantee the security of their information.

Acknowledgments:

- Rafael Mancho (non-resident expert)
- Gerardo López (non-resident expert)

Tax Current Account

The Tax Current Account (TCA) in Colombia and Peru has different degrees of development, although in both cases comprises the different aspects that can affect it (inputs), its functionality and outputs.

The TCA in Colombia allows capturing the information of the returns, payments and all the administrative acts that include tax, customs, exchange, non-fiscal obligations, administrative or disciplinary sanction whose collection is assigned to the DIAN and judicial decisions. Based on the captured information, it determines debit and/or creditor balances for each type of tax, automatically calculating its update and the corresponding penalties.

The TCA in Peru contains the different events generated from the returns, payments and acts of determination of the tax obligation for tax concepts, generating the debtor and/or creditor data based on the different states of the debt, automatically updating the balances and generating sanctions.

Topic conclusions

The tax current account must centrally contain all the acts and actions that affect the determination of debtor and/or creditor balances, keeping an updated control of the different statuses of such acts and/or actions.

The TCA must allow the online registration of all actions that affect the balances for each tax and tax period for each taxpayer. It should consider that the TCA should be affected by data that can be modified, rectified or canceled in accordance with the legal system of each country. Additionally, the TCA must allow the automatic updating of balances according to the interest generated for each balance, the automatic generation of penalties and the compensation of tax debt (ex officio or at the request of the taxpayer).

The TCA will provide online and updated information on balances to both internal users and taxpayers and should serve as a source for the accounting of the tax administration, allowing in turn the automatic refund of taxes when appropriate.

Good practices on tax current accounts

1. Parameterized system that allows any regulatory change

2. The system must contain all the events that affect balances

3. Supported by automated and online processes

Recommendations

A modern tax administration must have the following elements:

- Electronic system of returns (determinative and informative) that allows the online reception and validation of the information, includes corrective returns.
- Online receipt of payments, identifying the type of tax and payment period.
- Online reception and management system for payment agreements.
- Online management to modify errors in payments and acts of determination of the debt.
- Tax checking account that manages online the determination of debtor and creditor balances, allows the compensation of the debt and the automatic refund of taxes according to the legislation of each country.

CAPTAC-DR non-resident experts presented the experiences of Peru and Colombia in the process of controlling declarations, payment agreements and tax checking accounts.



Ivonne Chugo



María Eugenia Torres

Acknowledgements:

- Ivonne Chugo (non-resident expert)
- María Eugenia Torres (non-resident expert)

Modernizing Customs Management

International trade is constantly evolving, both the way of doing business, and the mechanisms of distribution and delivery of goods to their final destination —always in search of efficiency and security in the logistics chain that results in increases in the competitiveness.

Similarly, the risks faced in the movement of goods also evolve, thus increasing threats not only to the tax revenues of the countries but also often to the safety and protection of their citizens.

In both contexts, the role of customs is fundamental, which is why it forces customs to undertake continuous improvement of their processes to meet demands of trade facilitation. This is an innovative way to facilitate investing in the strengthening of its officials, relying on available technological advantages, promoting a solid and updated legal framework, and working in coordination with other customs, other government agencies and the private sector.

Within this framework, CAPTAC-DR is supporting two very important initiatives to improve customs management in Costa Rica and the Dominican Republic, which are described below.

Reform of the General Customs Law in Costa Rica:

Through the Ministry of Finance, the National Customs Service has proposed a reform to its General Customs Law in force since 1995, which, although at the time it was an important innovation, it requires an update. This in light of the WTO Trade Facilitation Agreement, the SAFE Regulatory Framework of the WCO, the Revised Kyoto Convention of the WCO, and the regional integration commitments. This update should also consider other good international practices that allow to more effectively address the demands of fraud and contraband control, as well as as facilitation of lawful trade for operators.

The Legislative Assembly has recently approved the adoption of the Central American Uniform Customs Code and its Regulations (CAUCA and RECAUCA, by the acronyms in Spanish) in its fourth version, which is an important milestone for the country and regional integration, since this version has been in force since 2008 in the rest of the countries of the region. With the implementation of these regional legal instruments on May 1st of this year, it becomes even more imperative to update the national customs regulatory framework in the country.



Image obtained from: <https://www.pexels.com/photo/judgement-scale-and-gavel-in-judge-office-5669602/>

The CAPTAC-DR provided technical assistance to the SNA in the review of the reform initiative of the General Customs Law based on good practices and international instruments, ensuring that it provides sufficient powers to customs to strengthen their capacities to improve the compliance of trade operators and thus contribute in a better way to the revenue collection and the improvement of the competitiveness of the country. In addition, this reform is very important for the execution of the digitization strategy that the Ministry of Finance has planned to implement through the *Hacienda Digital* project and will be essential to apply a comprehensive risk management in the institution.

The initiative to reform the General Customs Law is in the process of analysis in the assembly and discussion with all interested parties, who have already presented a series of proposals to amend such initiative. This represents an important civic exercise in which both the SNA and the private sector must work hand in hand to achieve the approval as soon as possible to adapt customs processes to these new provisions. The reform will allow to have a customs legal framework that contributes to increasing compliance,

transparency, modernization, and the efficiency of the customs service, in line with the best international practices.

D24H: An initiative to consolidate the Dominican Republic into a Regional Logistics Hub

In the National Development Strategy 2030, the Dominican Republic set out to turn the country into a regional logistics center, taking advantage of its geographical location. With the purpose of being the pillar in this transformation process, the new administration General Directorate of Customs (DGA), which began its functions during the second half of 2020, has continued with the implementation of the Institutional Strategic Plan (PEI) 2017-2021 and it has started the implementation of a series of new initiatives and improvement projects to achieve this objective.

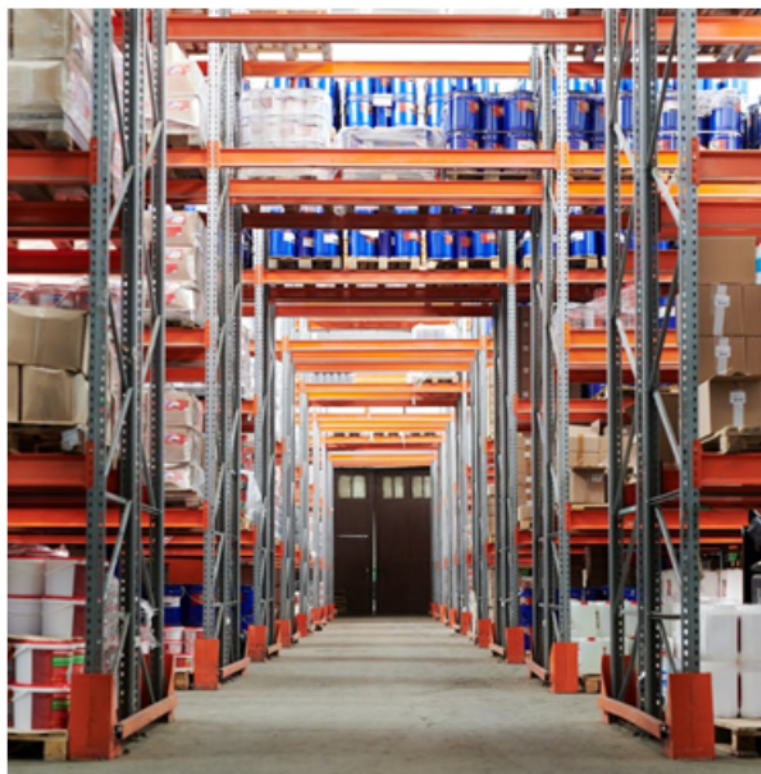


Image obtained from: <https://www.pexels.com/photo/warehouse-with-concrete-floors-4483610/>

Among the strategic initiatives promoted as priorities by the DGA and in which the CAPTAC-DR has been providing technical assistance is the project called "24-hour dispatch (D24H)", implemented in its first phase at the beginning of June of this year. This aims to incorporate improvements to its customs clearance process that allows increasing the amount of import and export goods that are released in the main ports in 24 hours or less after their arrival in the country, thus improving competitiveness and allowing the agile cargo movement.

The main strategies to achieve this objective are:

- (i)** simplify processes and increase the early procedures carried out by operators, including the transmission of the cargo manifest;
- (ii)** expand the Authorized Economic Operator (AEO) program, also implementing a new compliance program that allows more companies in the country to be trustworthy;
- (iii)** designate a team of officials to provide personalized attention to operators in order to carry out an agile dispatch and improved service;
- (iv)** improve coordination with other agencies and the private sector; and
- (v)** incorporate substantial improvements to their customs risk management systems and practices, focus their resources on the highest risk merchandise during clearance, and strengthen their post-clearance control tasks, implementing a new risk analysis computer module for this and training its officials in the topic, with the support of CAPTAC-DR.

In the first month of implementation of this initiative, the DGA managed to dispatch more than 1500 containers in less than 24 hours, registered 106 operators in the new reliable operators program, start the implementation of the new risk analysis module and several cumbersome or duplicate tasks that have streamlined the dispatch process.

The DGA will continue working on the expansion of this initiative, incorporating more technology into the processes and its customs management system, reducing discretion, institutionalizing comprehensive risk management, improving the post-clearance audit, promoting the approval of the reform of the customs law currently in the assembly and, above all, achieving the incorporation of more government agencies to the D24H and the OEA program. All this with the objective of increasing the levels of facilitation and control of customs operations that allow them to offer competitive conditions to consolidate the figure of a regional logistics hub as proposed, for which they have the support of CAPTAC-DR.



Image obtained from: <https://pixabay.com/es/photos/estrech%C3%A1ndole-la-mano-3205463/>

Budgeting with a Gender Approach in Latin America: Current Practices and Looking to the Future

From July 6th to 9th, 2021, the seminar on budgeting with a gender perspective was held, in which 16 countries from the Latin American region participated, 10 from South America and 6 from the CAPDR region. The seminar was co-organized by CAPTAC-DR and the Fiscal Affairs Department (FAD), in collaboration with the Legal Department of the IMF (LEG) and UN Women.

The objective of the seminar was to provide support to the finance ministries in the introduction and strengthening of budgeting with a gender perspective; topics such as the legal framework, policy design and impact evaluation, budget classification, transparency of resources and progress in performance indicators and goals were addressed.

In addition, in interactive sessions, analytical tools were provided to facilitate improvements around gender-sensitive public finances as well as generating a space for the exchange of experiences among peers that facilitates the introduction of improvements and innovations.

The exchange of experiences included the high-level participation of the vice ministers of finance of Argentina and Guatemala, who presented progress made in their respective countries in terms of gender budgeting.

The seminar highlighted the importance of the culture of fiscal transparency, the identification of budget spending focused on gender, and that the issue is immersed in economic policies, since this would be a key factor to focus economic recovery efforts after the crisis triggered by the COVID-19 pandemic.

The event made clear the need to address the budget issue with a gender perspective in Latin America and specifically in the CAPDR region, in which only two countries present any progress. After the event, some countries in the CAPDR region have requested CAPTAC-DR's support to prepare budget management instruments that allow them to adopt the approach.

The event had 122 participants, of which 79% are public officials and the rest belonging to delegations from the EU, ECLAC, PEFA, IDB, IBP and ACIJ.

Capacity Development Activities

During the first quarter of fiscal year 2022 (May to July), meetings were held with the authorities and officials of the Central Banks of the member countries in order to identify capacity development needs and align the work plan programming. These meetings allow the Center to provide assistance in a focused, and flexible manner adjusted to the needs of the member countries.

In addition to the above, technical assistance was provided to support the Central Bank of Honduras (BCH) in the development of the foreign exchange derivatives market. Honduras continues to work on reforms to move to an inflation targeting regime. To do this, it is necessary to have a more flexible exchange rate regime, which requires that agents have instruments that allow them to protect themselves from exchange rate risk.

Exchange derivatives meet this objective since they allow to set the exchange rate at which currencies are bought or sold in a future time. The BCH has worked on the regulation to regulate this market. The CAPTAC-DR mission supported the BCH in evaluating the regulation project to align it with the best international practices, given the characteristics of the Honduran market.

Technical Assistance and Training in Government Finance Statistics and Public Debt Statistics

During the period May - July 2021, technical assistance missions have been carried out for Honduras, Guatemala, Costa Rica, and Nicaragua, as well as a regional seminar on statistics of Social Security Funds.

Here are some highlights about the technical assistance (TA) missions and their objectives.

Honduras (May 2021):

In Honduras, the main objective was to support the execution of the action plan to improve the compilation and dissemination of public debt statistics, according to the handbook *Public Sector Debt Statistics: Guide for Compilers and Users 2011* (GPSDS 2011).

The main aspects to be considered in the consolidation of public debt statistics were reviewed and the main operations between different entities of the subsectors to be consolidated were analyzed.

This mission also worked on advances to expand the sectoral coverage of public debt statistics, on the compilation and treatment of data sources for the compilation of debt statistics of decentralized entities (extra-budgetary central government), local governments, funds of the social security and non-financial public enterprises.

The work plan for the improvement of the PSDS during the years 2022-23 was also reviewed.

Guatemala:

A technical assistance mission was carried out along with the Ministry of Finance of Guatemala to review the consolidated data for the general government, as established in the *Government Finance Statistics Manual 2014* (GFSM 2014).

Currently, Guatemala publishes GFS data for the central government, local governments, and social security funds, with high quality from the point of view of coverage and statistical discrepancy.

In the last months, the team has continued working on an automation process for the consolidation of the fiscal statistics of the different subsectors in order to have consolidated general government data.

Regarding the public sector debt statistics (PSDS), currently, Guatemala publishes central government budget statistics. For this topic, the TA supported the review of the work plan for the improvement of the PSDS for the period 2022-23, in order to achieve the adoption of the methodology according to international standards.

Costa Rica:

Capacity development for Costa Rica's Ministry of Finance was focused on giving support in the execution of the action plan for the compilation and dissemination of GFS and PSDS by December 2021, according to the GFSM 2014 and the GPSDS 2011.

The mission reviewed progress in terms of coverage and sectorization of the public sector in Costa Rica was, the information sources of the GFS, and the transversal strengthening of the financial public administration system. This allowed the creation of applications that facilitate the conversion of budgetary and financial data into statistical data harmonized with the GFSM 2014. This conversion seeks to promote a higher level of efficiency and transparency in the management of public resources.

Nicaragua (July-August 2021):

At the end of July and beginning of August 2021, technical assistance was provided to Nicaragua for the strengthening of the compilation and consistency of data above and below the line for central government (financing).

The activities for this TA included the review of the data compilation of the central government fiscal statistics for the period 2017-2021, as well as assistance on the internal work of reconciling the accounts below the line (financing) with the accounts above the line of the central government balance sheet, based on recommendations previously made in past missions.

Regional (virtual) Seminar Registration of Social Security Data in the GFS and the PSDS (June 2021):

During the second week of June 2021, CAPTAC-DR shared a seminar-workshop on the registration of data on social security funds. Technical teams of the Ministries of Finance and Central Banks of the member countries participated in the event, applying the methodology used in the GFSM 2014. The aim was to strengthen the processes of both the expansion of institutional coverage and the consolidation of general government statistics, within the framework of the regional project for the harmonization of GFS and PSDS.

Case studies from other countries in the Latin American region were analyzed. All member countries' technical teams gave a presentation on the current situation and the progress made in compiling and disseminating social security data within the framework of GFS and PSDS.

More than 100 staff from the various units of the Ministries of Finance and Central Banks of the CAPDR region participated in this event.

Capacity Development in National Accounts

The current pandemic has modified the work plans in the different countries. Undoubtedly, this affects high-interest projects such as the change in the base year of the National Accounts. In this context, the administrations have taken actions to meet this objective efficiently. CAPTAC-DR has aligned itself to prioritize and support institutional strengthening in the region.

In this last trimester, remote technical assistance was provided to Honduras, Nicaragua and Costa Rica. The first two cases advanced in their base year change projects (BYC) and the implementation of the 2008 System of National Accounts (2008 SNA); the third, carried out improvement processes in its temporal disaggregation techniques for the analysis of time series of short-term indicators. This is focused on improving the quality and precision of National Accounts statistics.

During the work with the staff of the National Accounts Department of the Central Bank of Honduras (CBH), actions were carried out within the framework of the BYC 2016, prioritizing the review of the compilation of this new reference year under the most updated standards, and the new sources of information. In addition, some improvement actions were prioritized, as well as the stages of the dissemination plan.

With the participation of 23 department officials, the following steps and challenges of the compilation were centered in the areas of institutional sectors and short-term indicators.

With a team of 9 officials from the Central Bank of Nicaragua (BCN), a technical assistance mission was developed from June 21 to July 7, to continue with the

implementation of the 2008 SNA in the context of the new CAB2019 exercise. Works on relevant topics related to economic activity were addressed, such as central government accounts, financial intermediation services indirectly measured (FISIM), and sources and recommendations for the treatment of databases as a product of intellectual property.

The foregoing attends the efforts of the authorities to update their reference year and the new plans for the development of these compilations.

At the end of the trimester, along with the team of short-term indicators section of the Central Bank of Costa Rica, a training workshop was developed on statistical methods and techniques for signal extraction with the series of the Monthly Indicator of Economic Activity, following the most recent recommendations of the IMF's 2017 Quarterly National Accounts Manual. This was an opportunity to develop the team's capabilities in the use of the X-13 ARIMA SEAT software, as well as in its alignment with the recommendations on review and dissemination policies that complement its current implementations.

In response to the needs arising from the pandemic, the work plan designed by CAPTAC-DR for the region will address strategic points of the projects to update the National Accounts. In addition, the general price framework will be addressed, through the alignment of the formats of assistance and training of human capacities. This is to consolidate the capacity already created and achieve self-sufficiency in the procedures.

Meet CAPTAC-DR's New Team Member

Raúl Real - Financial Supervision and Regulation



Financial Supervision and Regulation advisor for CAPTAC-DR since August 2021. Before joining CAPTAC-DR, Raúl served as Head of Financial Supervision of the Superintendency of Financial Services at the Central Bank of Uruguay, where he worked for 16 years. He has extensive experience in matters of supervision and regulation of banks, financial conglomerates, insurance companies, as well as other non-bank financial entities. He also worked as a short-term expert for the IMF's Monetary and Capital Markets Department, collaborating on issues related to consolidated supervision of financial conglomerates for the Caribbean region. He has the title of Public Accountant granted by the University of the Republic of Uruguay (UDELAR), also a postgraduate diploma in Economics from the same university. He is currently a candidate for a Master's degree in Financial Regulation and Global Central Banking at the Business School of the University of Warwick, UK.