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The value-added tax (VAT) is among the most significant taxes driving revenues in over 160 countries where it’s implemented, typically reaching at least 30% of total tax revenue (Pessoa et al. 2021). Besides strengthening revenue collection, a broad-based VAT (with few exemptions or differentiated rates across economic sectors and products) remains neutral. It leaves resource allocation in the economy unaffected while promoting savings.

A relevant aspect of the proper functioning of the VAT is related to the refunds of this tax. Practice shows that access to these is limited in specific segments (Table 1), which points to the need to balance refunds (because without this, the neutral effect of the tax would not be achieved) and to prevent fraudulent VAT refunds.

Table 1. VAT refunds (percentage of gross VAT tax revenue)

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<th>Region</th>
<th>2021</th>
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<tr>
<td>ISORA</td>
<td>27.7</td>
</tr>
<tr>
<td>Latin America</td>
<td>22.3</td>
</tr>
<tr>
<td>Europe</td>
<td>22.2</td>
</tr>
<tr>
<td>Asia and Oceania</td>
<td>32.8</td>
</tr>
<tr>
<td>Africa</td>
<td>16.3</td>
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<tr>
<td>CAPTAC-DR</td>
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Source: Own calculations with ISORA data, excluding extreme and null values.

Tax administrations should be equipped to manage VAT refund requests to prevent undue refunds efficiently. There are several mechanisms (Andrew and Baer, 2023), but most importantly, these are based on risk management.

Risk management allows the identification of fraudulent activities in VAT refund claims. It also expedites refunds for taxpayers with high tax compliance, also recognized as low risk. Risk management provides for the segmentation of similar groups of taxpayers and the analysis of tax compliance behaviors. The risk management process is illustrated below (Figure 1). It ranges from the context in which the tax administration operates, the identification and quantification of risks, to the execution, monitoring, and evaluation of results.

Figure 1. Risk Management Process Model


Tax administrations’ primary concern is to approve an improper VAT refund.[1] Thus, most have established criteria taxpayers must meet when applying for a refund. This initial step considers the legal and regulatory requirements that refund applicants must adhere to. These requirements may include formal aspects such as timely submission of a customer and supplier list, which is unnecessary when a generalized or sufficiently extensive electronic invoicing system is in place within the tax administration (see Alonso et al., 2021). These requirements are typically detailed in a guide or manual for VAT refund requests.

[1] In the European Union, the VAT gap, which encompasses all types of VAT non-compliance, is estimated to be 10.3 percent of total gross VAT (Andrew and Baer, 2023).
Once all the requirements are met, the taxpayer’s compliance is simultaneously assessed based on risk management, which indicates tax adherence across the essential processes of the tax administration: registration, declaration and payment, revenue collection, and tax audits (or accurate contribution reporting). This process gauges whether a taxpayer falls into the low, medium, or high risk. Moreover, it sets out the strategies and actions to determine the validity of a refund request. These actions range from potential on-site verifications to confirm whether the supplier is genuinely operational or merely simulating operations to audits aimed at ensuring the authenticity of the refund balance and not a result of improper refund planning. An automated and digitalized process offers a better service to compliant taxpayers and streamlines the identification of improper VAT refund claims. In some tax administrations, periodic reviews ensure that taxpayers requesting VAT refunds continue to meet the requirements. These reviews may involve a random selection or other risk-based criteria for selection.

In risk management, one relevant aspect is the segmentation of taxpayers. This segmentation allows for analyzing taxpayers with similar characteristics in size, economic sector, and tax regime. Thus, the analysis starts by comparing tax compliance among similar taxpayers, which leads to identifying outlier cases that require further study (see a sector-specific case in Swistak and Vernon, 2023). It is expected to assume that taxpayers with a strong focus on exports will generate VAT balances they must request. However, for taxpayers who do not engage in exports or do not sell at rates lower than the standard VAT rate, an alert is triggered, requiring at least a deeper analysis.

CAPTAC-DR has emphasized implementing risk management processes in the substantive processes of tax administrations. These key aspects have been emphasized throughout the region via technical assistance and remote seminars in every country. Efforts will persist in expanding risk management across different tax administration topics and areas, not only in auditing but also in VAT refunds. CAPTAC-DR will continue to strive to positively influence the implementation of international risk management practices, especially concerning VAT refunds. The objective is to enhance the ability to identify fraudulent claims and provide improved service to compliant taxpayers.

References:
Over 70% of administrations in Central America, Panama, and the Dominican Republic have launched extensive modernization programs. These initiatives can potentially reshape the landscape of international trade and national competitiveness at regional and global levels for the next 10 to 15 years. Examples include the Digital Treasury Project in Costa Rica, funded by the World Bank; the Customs Modernization Program in Honduras, financed by the Inter-American Development Bank (IDB); Guatemala’s digital transformation efforts; Panama’s Invisible Shield initiative; and the 24-Hour Dispatch (D24H) system in the Dominican Republic. These projects are all aimed at significantly impacting customs management across the region.

All these initiatives demand the implementation of best practices across various areas, such as strategic planning, process redesign and automation, modernization of customs and risk management systems, and adoption of disruptive technologies. Nevertheless, there is a common need to establish a mechanism for tracking and monitoring their progress, ensuring that these initiatives contribute to attaining their strategic objectives. This mechanism entails performance measurement and evaluation.

One of the Old Phrases that Remains Relevant today

In the 19th century, William Thomson Kelvin [2] said, “What is not defined cannot be measured. What is not measured cannot be improved. What is not improved is always degraded.” Little did he know that two centuries later, his words would remain as pertinent and essential as they are now, particularly in the realm of customs, among others.

Although outcome and performance measurement have been fundamental elements of quality management models since the 1960s, it is common to find customs agencies that, despite having quality management models, strategic and operational plans, well-trained personnel, and sufficient resources to process the information on a large scale; lack an institutional culture of systematic measurement and evaluation of their performance. This culture would allow them effectively measuring their results and making informed decisions regarding improvement in voluntary compliance, increased trade facilitation, reduction of discretion, improved transparency, and resource management, among other aspects.

An example in the region illustrates that despite drafting plans that balance revenue, security, facilitation, and institutional development, most customs agencies are primarily evaluated based on revenue collection, diminishing the emphasis on their other functions. Only Guatemala’s SAT [3] and the DGA in the Dominican Republic [4] have established units dedicated to systematic analysis and the generation of indicators beyond simply meeting the revenue targets set by the central government. This revenue target is the sole indicator systematically tracked by all administrations, and, in some instances, they play a critical role in determining the tenure of top officials.

[2] United Kingdom June 26, 1824 - December 17, 1907
How Can Customs Effectively Measure Their Performance?

Customs can adequately measure their performance by defining and implementing a set of indicators that allow for measuring management outcomes at strategic, tactical, and operational levels. The definition of these indicators should ensure that they are relevant, specific, measurable, achievable, realistic, and time-bound, as demonstrated by best practices in the field.

At a strategic level, it's crucial to gauge the extent to which the customs agency achieves the results and strategic objectives outlined in its Institutional Strategic Plan. At the tactical level, the focus is on assessing the outcomes of strategic initiatives in terms of their influence on cross-functional processes. Meanwhile, at the operational level, the results of processes and activities are measured, providing insights for area managers and frontline staff to respond to demands based on their respective roles, such as workload management, processing times, and the effectiveness of control measures, thereby determining their contribution to tactical objectives.

What Tools Can Customs use to Guide the Development of their Performance Measurement and Evaluation System?

There are helpful reference frameworks for this purpose, such as:

The IMF book “Customs Matters: Strengthening Customs Administration in a Changing World“ [5] (FMI 2022) extensively addresses the topic in chapter 3 and provides examples of indicators, serving as a valuable resource for customs seeking to begin developing a culture of measurement.

Additionally, the International Survey on Customs Administration (ISOCA), jointly managed by WCO and IMF, collects quantitative and qualitative data on customs administrations to support analysis and research, providing a better approach to data collection for evidence-based advisory and capacity building.

On its part, the WCO has developed the “Performance Measurement Mechanism” (PMM) [7], launched in December 2023. This mechanism aims to assist customs administrations in making informed and relevant strategic decisions and aiding the WCO Secretariat in formulating evidence-based capacity development interventions by introducing a comprehensive performance measurement methodology and a comprehensive assessment mechanism covering all customs competencies.

Furthermore, the Tax Administration Diagnostic Assessment Tool (TADAT) measures and compares the performance of tax administrations independently, standardized, comprehensively, and evidence-based. It includes references that are also applicable to customs administrations. A similar tool focused on customs would be ideal for measuring customs performance comprehensively and comparatively, using a rating scale and a set of standardized indicators.

Through its extensive technical assistance missions in customs administrations across the region, CAPTAC-DR has identified significant challenges these agencies face in fostering an institutional culture centered on performance measurement and evaluation. These challenges range from focus, quality, timeliness, and availability of information. Therefore, CAPTAC-DR will continue to work on institutional strengthening for these customs administrations in the coming years. The aim is to establish a culture of performance measurement and assessment, transparency, and accountability throughout the region.
A cross-cutting element in public policy management are fiscal risks. Countries have developed multi-year projection tools, but fiscal risks have not been a highly developed element, and in some countries, they are either a non-existent topic or poorly managed.

There isn’t a standardized classification, but two main categories are identified: macroeconomic risks and specific risks. Empirical evidence shows that macroeconomic risks are the fiscal risks that arise with the highest frequency and magnitude. Macroeconomic risks’ materialization implies a disruption in macroeconomic variables that leads to a significant change in fiscal variables, particularly in deficit and public debt. The IMF Fiscal Transparency Manual outlines a guiding principle regarding macroeconomic risks, emphasizing that governments should disclose how fiscal outcomes might differ from central projections due to changes in the macroeconomic assumptions supporting those projections.

Specific risks represent the realization of contingent liabilities and obligations triggered by uncertain events. These include liabilities arising from government-guaranteed loans, adverse legal rulings against the state, expenses related to natural disasters, guarantees extended to subnational entities, and obligations stemming from non-sovereign debt.

The constant exposure of countries to different types and levels of risks requires the development of competencies for proper management. This process begins with the identification of fiscal risks, the assessment of their potential impacts, and the dissemination of this information. After completing this stage, it’s time to manage the risks. This management of risks entails conducting an analysis focused on mitigating the risk, preparing to cover potential costs, or accepting and effectively managing them.

The management of fiscal risks in the region is interesting for two reasons. One reason is the significant vulnerability of the region’s economies to macroeconomic shocks and external fiscal risks, particularly from natural disasters like seismic events, volcanic eruptions, and hydro-meteorological phenomena. Another reason is the increasing interest in addressing this issue by finance ministries or treasury departments.

Following evaluations of fiscal transparency and assistance provided to several countries in crafting medium-term fiscal frameworks, there has been significant progress in identifying fiscal risks. However, their publication in documents accompanying annual budgets has been accompanied by limited information.
Recently, the region has made significant strides in managing and enhancing transparency regarding fiscal risks by adopting the Fiscal Risks Assessment Tool (FRAT). CAPTAC-DR aided Costa Rica (July 2021), Nicaragua (November 2021), El Salvador (December 2021), Guatemala (April 2023), and the Dominican Republic (July 2023) in establishing a risk portfolio. This assistance facilitated an initial evaluation of exposure to diverse fiscal risks, including macroeconomic risks, institutional risks (such as policy implementation and governance capacity), and specific risks (involving state-owned enterprises, public-private partnerships, the financial sector, environmental risks, legal actions against the state, subnational governments, and natural resources). The FRAT tool identifies the interrelationship between the different types of fiscal risks and provides matrices detailing the fiscal impact and likelihood of occurrence for the identified risks. It aids in prioritizing these risks and constructing matrices to illustrate the interactions between different fiscal risks.

The use of the tool allows countries to achieve:

- A better structure and content of the fiscal risk report.
- Incorporating risk prioritization and impact-probability matrices into the analysis.
- Taking ownership of the FRAT tool for updating data and expanding the portfolio.
- Retroactively build historical datasets of estimated impacts resulting from significant changes in fiscal policies, aiming to enhance the analysis of macroeconomic risks and improve fiscal projection formulations.
- Identifying information gaps to undertake proper risk management.

The FRAT tool

The FRAT tool, developed by the IMF's Fiscal Affairs Department (FAD), allows an initial assessment of the exposure of public finances to different sources of fiscal risks. The tool serves as an initial step in risk analysis and is intended to assist governments in understanding their position regarding identifying, quantifying, and prioritizing fiscal risks. It can analyze up to 14 macroeconomic, specific, and institutional fiscal risk sources.

The analysis uses qualitative questionnaires supplemented by some quantitative assessments. Government entities complete these questionnaires and can be modified over time to reflect advancements in fiscal risk management.

Using FRAT facilitates a deeper understanding of the government’s exposure to fiscal risks, the allocation of institutional responsibilities for risk management, and prioritizing designing and implementing mitigation measures. Additionally, it can aid in anticipating potential risk occurrences enhancing fiscal sustainability, transparency, and accountability. The internal analyses and discussions undertaken to complete the FRAT questionnaires help construct the argumentative rationale that substantiates the prioritization of risks and assessing their fiscal impact and likelihood of occurrence. This process builds a robust foundation for the evaluation, supporting credibility. The tool supports the following specific knowledge areas:

- Descriptions of risk sources and their impact on public finances
- Underlying factors driving risk materialization
- Historical occurrences of risks materializing
- Institutional responsibilities for risk management
- Interactions among risk sources
- Historical volatility of macroeconomic and fiscal variables
- Analysis of forecast errors and fan charts
- Mitigation measures and provisions for each risk source
- Prioritization of risks based on their potential fiscal impact and likelihood of occurrence

Source: IMF FAD 2021.
Summary of Capacity Development Activities

**Tax Administration**

- In Costa Rica, a proposal for an improvement plan for compliance was developed, and risk identification in international taxation was carried out, emphasizing high-net-worth individuals. In El Salvador, risks in international taxation were identified, and assistance was initiated to define the impact of electronic invoicing and collection on tax revenue, among other initiatives. In Guatemala, a prototype of a shadow declaration for special medium taxpayers was developed. In the Dominican Republic, progress in the timely submission of declarations, payment, and collection was evaluated, and a plan was defined to strengthen these aspects.

- A virtual seminar on the digitization of taxpayer’s services was conducted at the regional level.

**Customs Administration**

- During November and December 2023 and January 2024, CAPTAC-DR conducted four technical assistance missions regarding customs administration. In Costa Rica, a mission was carried out to prepare the 2024 Annual Audit Plan with a sectoral focus and based on risk management. In El Salvador, the effectiveness of customs risk analysis was strengthened. Guatemala received a change management workshop, which will aid in modernizing the country’s customs. In the Dominican Republic, risk analysis during clearance was reinforced.

- At the beginning of 2024, the virtual phase of the Post-Clearance Audit Specialization Program began, with the participation of 28 officials from customs administrations in the region.
• CAPTAC-DR's Public Financial Management area conducted missions in Costa Rica, Honduras, Panama, the Dominican Republic, and a regional event in El Salvador for this quarter. In Costa Rica, assistance was provided to formulate the 2024 gender-focused budget. Honduras received two missions, one to improve budget execution programming and the second to project the cash flow. Panama received a diagnostic mission for introducing a gender-focused budget, and the Dominican Republic concluded the PIMA evaluation.

• A regional seminar on “Fiscal Transparency: Comparability, similarities, and differences between IPSAS, fiscal statistics, and budget classifiers” was held in San Salvador.

• CAPTAC-DR continues to support the supervisory authorities of Costa Rica's National Council for the Supervision of the National Financial System to strengthen the current regulatory and supervisory framework for overseeing financial conglomerates domestically. The Center provided training and technical assistance to Guatemala's Superintendency of Banks in developing and implementing the Basel liquidity standard (Net Stable Funding Ratio). Additionally, technical assistance was initiated for the Dominican Republic’s Securities Market Superintendency to review the existing regulatory and supervisory framework for brokerage firms and the Investment Fund Management Company and identify areas for improvement.

• In Guatemala, the development of a new semi-structural model was completed. With technical assistance, the Bank of Guatemala adapted a quarterly projection model to the characteristics of the Guatemalan economy. Likewise, the semi-structural model project continued in Nicaragua, and virtual technical assistance was initiated for model calibration for analysis and forecasting.

• Two regional workshops were held. The first focused on Bayesian macroeconomic models, with officials from the six central banks in the region and with the participation of the Executive Secretariat of the Central American Monetary Council. The second was directed at central banks with monetary policy to introduce a platform for liquidity forecasts with advanced statistical models supporting determining auction amounts.
Costa Rica, El Salvador, Honduras, and Panama received technical assistance in analyzing financial and non-financial balance sheets and improving key economic indicators. Highlights include changing the reference for Panama’s Monthly Economic Activity Index, compiling Honduras’ Producer Price Index, and improving indicators in El Salvador. Nicaragua and the Dominican Republic started work this quarter on macroeconomic statistics.

In conjunction with the Economic Commission for Latin America and the Caribbean and the IMF Statistics Department, the first regional workshop on macroenvironmental statistics and climate change was organized, with the participation of over 60 officials from various institutions.

Technical assistance was provided in Public Finance Statistics (PFS) to Guatemala in compiling data from the public financial sector. Honduras received two missions, the first involving the compilation of financing data for the Central Government Budget and the second a diagnosis of balance compilation. In Nicaragua, technical assistance in PFS was conducted to continue expanding institutional coverage, specifically in compiling some non-financial public entities. The Dominican Republic received training in PFS and Debt Statistics.
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Reform Management Fundamentals: Establishing a Reform Program (VITARA-RMF)

Apply before:
- April 01th, 2024

- Government Officials, register here.
- General Public, register here.

Course Description:
- This course explains the key concepts of reform management, the process of preparing a tax administration reform program, the key governance and management provisions of tax administration reforms, and the management of administration reform projects.

VITARA - Reform Management Specific Topics: Managing a Reform Program (VITARA-RMS)

Apply before:
- April 01th, 2024

- Government Officials, register here.
- General Public, register here.

Course Description:
- This course introduces tools and methods for planning, monitoring, and reporting of tax administration reform programs; approaches to resourcing reforms and managing resourcing risks and stresses; successful change management practices, and the concept of post-implementation evaluation.

Programming and Financial Policies, Part 2: Program Design (FPP.2x)

Apply before:
- April 01th, 2024

- Government Officials, register aquí.
- General Public, register aquí.

Course Description:
- This course is especially for officials from ministries of finance, economy and planning, and central banks, who provide advice on macroeconomic policy or are involved in the implementation of such policies.
Balance of Payments and International Investment Position Statistics (BOP-IIPx)

Apply before:
- April 01th, 2024

Course Description:
- This course is for individuals interested in learning the fundamentals of compiling international accounts encompassing balance of payments and international investment position (IIP) statistics in accordance with internationally accepted standards.

Government Finance Statistics (GFSx)

Apply before:
- April 01th, 2024

Course Description:
- This course, delivered by the Department of Statistics, focuses on the conceptual framework of government finance statistics (GFS), in accordance with the IMF's Government Finance Statistics Manual 2014 (GFSM 2014), and on practical aspects of the data compilation.

VITARA - Strategic Management (VITARA-SMG)

Apply before:
- April 01th, 2024

Course Description:
- This course imparts fundamental knowledge on the concepts related to the strategic management of a tax administration. The different plans that the tax administrations draw up for the execution of their strategies are also highlighted, to later explain the content, the schedule, the resources and the tasks necessary to formulate a plan distributed in different stages.
Analysis of tax gaps
PAB-AIP (VGAPx)

Apply before:
• April 01th, 2024

• Government Officials, register [here](#).

Course Description:

• This online course, delivered by the Fiscal Affairs Department, teaches how to prepare and run the VAT Gap Estimation Model (VGEM) of the IMF’s Revenue Administration Tax Gap Analysis Program (RA-GAP).

Public Sector Debt Statistics (PSDSx)

Apply before:
• April 01th, 2024

• Government Officials, register [here](#).
• General Public, register [here](#).

Course Description:

• This course analyzes the coverage and accounting standards applicable to public sector debt, its valuation, its classification, important methodological issues, and the sources and methods used to compile the statistics.

Debt Sustainability Framework for Low Income Countries (LIC DSFX)

Apply before:
• April 01th, 2024

• Government Officials, register [here](#).
• General Public, register [here](#).

Course Description:

• The course explains all the steps to apply the low-income country debt sustainability framework. First, the data needed, and the tools used to realistically assess the plausibility of macroeconomic projections are determined. Later in the course it is explained how to calculate through the debt sustainability framework the capacity of a country to repay its debt, which is used to determine the thresholds of the debt burden indicators.
Financial Programming and Policies, Part 1: Macroeconomic Accounts and Analysis (FPP.1x)

Apply before:
• April 01th, 2024

Course Description:

• Government Officials, register here.
• General Public, register here.

Course Description:

• In this course, taught by the Training Institute, the basic principles or concepts necessary to carry out financial programming are explained; the main characteristics of the four large macroeconomic sectors (real, fiscal, external and monetary), and how they are related to each other. For each sector, the course presents the accounting framework, the interpretation of variables and indicators of these accounts and the basic analysis of the accounts.