

# CAPTAC-DR

# NEWS



**15** YEARS  
CAPTAC-DR

**60th edition: August - October 2024**



CAPTAC-DR



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## A word from the Director

### Welcome to the 60th edition of our newsletter!

We are pleased to provide this space dedicated to disseminating CAPTAC-DR's work, knowledge, and innovation in capacity building.

This issue presents several highlights in August, September, and October 2024. In addition, two articles are presented that address the role and contribution of CAPTAC-DR in the coordination network of treasuries in the region (Foro de Tesorerías Gubernamentales de América Latina, FOTEGAL) and on the performance of tax administrations, an initial approximation using the results of the International Survey on Revenue Administration (ISORA).

Ari Aisen,  
**CAPTAC-DR** Director



# Visibility

During Q2, the Director of CAPTAC held several meetings with the authorities of the region (Costa Rica, El Salvador, Guatemala, Nicaragua, Panama, and the technical secretariat of the Central American Monetary Council) to address issues related to priorities in capacity building in the region and the start of Phase IV of the Center.

There were also several activities in which the Center played an important role:

- The Resident Representative in Guatemala, a Communications Officer, and the Director of CAPTAC-DR gave a presentation at the regional donor forum in Antigua Guatemala on the role of the IMF, the regional macroeconomic outlook, and capacity building. This activity included a dialogue with civil society organizations from the region.



*Presentation of the IMF and Economic Prospects, Antigua Guatemala, Guatemala, October 2024.*

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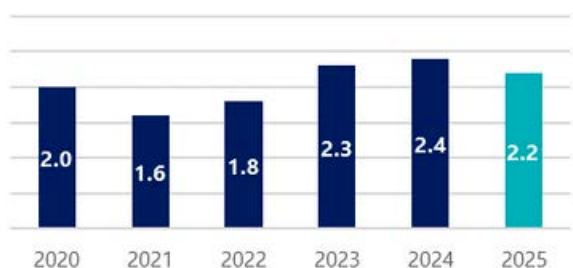


*XIV Latin American Annual Seminar on Public Treasury Management - San Salvador, El Salvador, September 2024.*

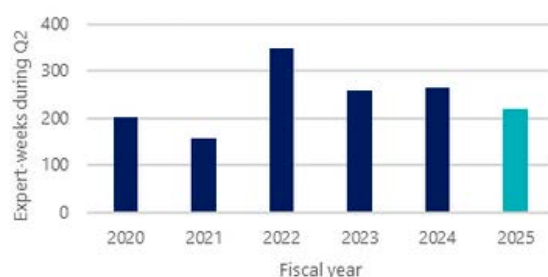
- **Highlights for Q2**

During the second quarter (Q2), the Center carried out approximately 40 capacity development activities, including technical assistance and regional training workshops, contributing to the progress of nearly 100 objectives and 130 milestones across the 7 member countries in the region. The progress made in capacity development during this period received a weighted milestone rating of 2.2 out of 4, in line with expectations for this quarter of the fiscal year. Cumulatively, nearly 220 expert-weeks have been assigned, which represents 30% of the annual work plan. [1]

**Milestone progress in the Second Quarter per Fiscal Year**



**Cumulative Expert-Week Utilization in the Second Quarter by Fiscal Year**



**The following advancements are noteworthy:**

- The areas of tax and customs administration started the 7th edition of the management course. The curriculum is divided into two parts. In the virtual part, now in progress, managers receive theoretical technical training to improve their ability to implement strategies aligned with international best practices. Some issues addressed are planning, risk management, new technologies, challenges of the digital economy, project management, actions to promote governance and transparency and gender equality, and human talent and change management. Once this part is completed, participants will participate in the classroom part, where they can implement what they have learned through case studies and practice.
- The budget departments of the region were trained on gender budgeting within the budget cycle. At this event, which took place in Antigua Guatemala, from August 5 to 8, 2024, the region's countries presented and held a peer-to-peer exchange on the experience of the countries for its implementation. Among the topics discussed were tools and methodologies for analyzing and identifying roles and challenges, technological solutions in the region, and identifying indicators and follow-up and monitoring mechanisms.



*Public Financial Management (PFM) Technical Group. Seminar on Gender-Responsive Budgeting, Guatemala City, Guatemala, August 2024.*



*Public Financial Management (PFM) Technical Group. Seminar on Gender-Responsive Budgeting, Guatemala City, Guatemala, August 2024.*

[1] For more information on the work plan for FY25, please visit: [Annual Report FY24 and Work Program FY25](#).

- The members of the Working Group on Government Finance Statistics (GTEFP), in the framework of its 12th Meeting held in Guatemala City, participated in a seminar from October 28 to 30, which aimed to exchange the progress of the plan to harmonize government finance and public debt statistics in the region, under the 2018-2024 work plan, as well as to define the goals for the period 2024-2027 and finalize the preparation of the 8th edition of the Regional Report on Government Finance Statistics. This event is coordinated with the technical secretariats of the Central American Monetary Council (CMCA) and the Council of Ministers of Finance of Central America, Panama, and the Dominican Republic (COSEFIN).



*CAPTAC-DR Director, Ari Aisen and Vice Minister of Income and Fiscal Evaluation of the Ministry of Finance, Patricia Joaquín. SECOSEFIN Technical Consultant, Kenny Mendoza. SECMCA Economist, Wilfredo Diaz. Seminar on Consistency of Macroeconomic Statistics. Guatemala City, Guatemala. October 2024.*



*IMF Government Finance Statistics Division Chief, Steffi Schuster. Opening ceremony of Seminar on Consistency of Macroeconomic Statistics. Guatemala City, Guatemala. October 2024.*



*Executive Secretary of COSEFIN, Alfredo Flores. Opening ceremony of Seminar on Consistency of Macroeconomic Statistics. Guatemala City, Guatemala. October 2024.*



*CAPTAC-DR Long-Term Expert on Government Finance Statistics, Sonia Sanabria. Opening ceremony of Seminar on Consistency of Macroeconomic Statistics. Guatemala City, Guatemala. October 2024.*



*Technical Group on Government Finance Statistics (GTEFP). Seminar on Consistency of Macroeconomic Statistics. Guatemala City, Guatemala. October 2024.*



*IMF Government Finance Statistics Senior Economist, Bruno Da Rocha. Opening ceremony of Seminar on Consistency of Macroeconomic Statistics. Guatemala City, Guatemala. October 2024.*



*CAPTAC-DR Director, Ari Aisen and Vice Minister of Income and Fiscal Evaluation of the Ministry of Finance, Patricia Joaquín. Seminar on Consistency of Macroeconomic Statistics. Guatemala City, Guatemala. October 2024.*

# Performance of the Tax Administrations in the CAPTAC-DR Region: A First Approach

By: José Alfredo Tijerina Guajardo

## Introduction

Between 2015 and 2023, tax revenues from Tax Administrations (TAs) in the CAPTAC-DR region showed an average increase of 1.2 percentage points in GDP. Six countries increased their tax revenues, and four of them did so with an increase of more than one percentage point of GDP. In addition, according to preliminary estimates, the Value Added Tax gap (VAT gap) [2] decreased in 4 countries between 2018 and 2022. On average, the estimated reduction was 4.9 percentage points.

Conceptually, the level of tax revenues as a proportion of GDP results from several factors: economic activity, the complexity of tax legislation, fiscal policies, and tax administrative reforms (TA), among others. It should be noted that the latter refers to adjustments in the operation of TAs in the search for a balance between control and service to taxpayers to increase tax collection [3]. It includes improvements in their internal processes, adoption and improvement of technologies, improvement of human capital, and a better redistribution of their personnel, among others.

This note first approximates the relationship between the VAT gap and tax collection versus the performance indicators of tax administrations. These relationships are constructed through simple correlations. In other words, we observe whether the region presents consistent patterns in tax revenues and VAT gaps in the face of different administrative reform initiatives and whether their evolution is consistent with the main results of TA actions and projects.

## Performance of the Region [4]

As mentioned above, the average tax collection in the region (Figure 1) shows that it was 13.7 percent of GDP in 2015 and 14.9 percent of GDP in 2023 (see Figure 1, despite the significant drop in 2020 under the pandemic).

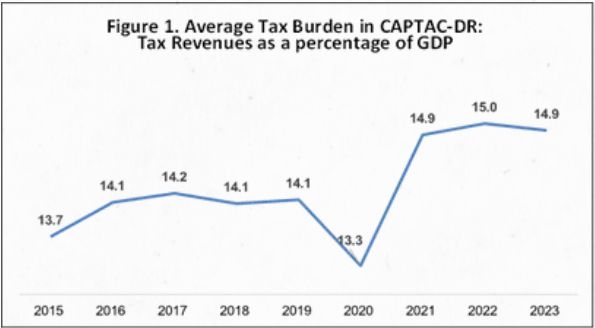
For the initial approach to TA performance, we have chosen some indicators that measure the outcome of some of the substantive tax processes of these institutions and other aspects, such as digitalization.

[2] The VAT compliance gap is the difference between estimated VAT tax revenues and VAT actually collected.

[3] Tax revenues "administered by the TA" or "over which it has the power to collect" is the definition generally used to evaluate its performance.

[4] The main source of information is the International Survey on Revenue Administration (ISORA) at <https://data.rafit.org/?sk=ba91013d-3261-42f8-a931-a829a78cb1ec> for the period 2018-2022. The term "performance" is similar to what is established in the Tax Administration Diagnostic and Assessment Tool (TADAT) as Performance Areas. ISORA contains indicators commonly used in TADAT. Some studies highlight that these data should be interpreted with caution. See, for example, Crandall, William, Elizabeth Gavin, and Andrew Masters (2021). "ISORA 2018 Understanding Revenue Administration" Fiscal Affairs Department, DP/2021/025. IMF. <https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2021/11/03/Understanding-Revenue-Administration-464865>.

As an initial consideration, measuring the relationship between these indicators and tax revenues or the VAT gap is not easy. Therefore, it starts with a preliminary approach to the relationship between these. An improvement in the indicators includes a sustained increase in revenue. Thus, the following is recommended to TAs: 1) use third-party information with adequate computer processing systems and pre-filled tax returns; 2) strengthen compliance risk management, including creating an automated taxpayer profile; and 3) the generation and implementation of electronic audits. [5]

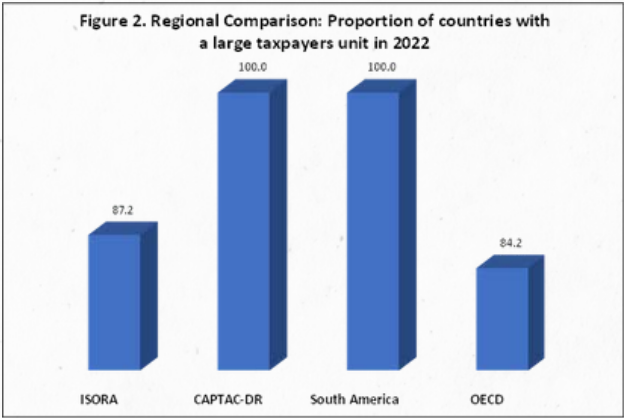


Source: IMF 2015-2022, and for 2023, based on information from each country.

### Some Results

This section uses other ISORA indicators to examine the relationship between these and tax collection. The data allow us to observe correlations consistent with the results of previous IMF studies and the graph above.

a) Having a Large Taxpayers Unit (Unidad de Grandes Contribuyentes, UGC) increases tax revenues and reduces the VAT gap. Tax literature indicates that having a specialized unit dedicated to large taxpayers' attention, service, and control [6] favors tax revenue collection. Currently, all CAPTAC-DR countries have a CGU (Figure 2):

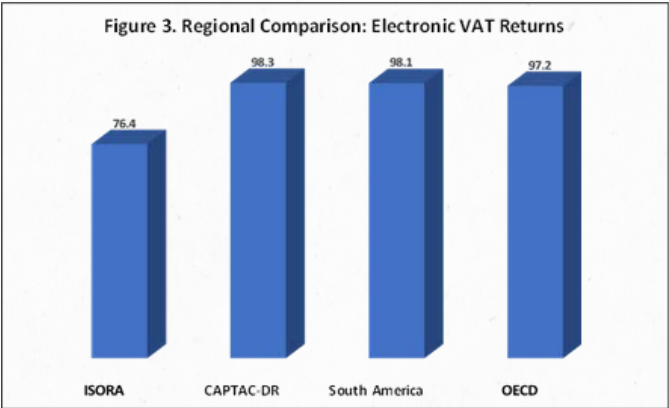


Note: International Survey on Revenue Administration (ISORA). Organization for Economic Co-operation and Development (OECD). Source: Own calculations based on ISORA data.



[5] These relationships arise from estimates by Chang, Eui Soon, Elizabeth Gavin, Nikolay Gueorguiev, and Jiro Honda (2020). Raising Tax Revenue: How to Get More from Tax Administrations? WP/20/142. IMF. <https://www.imf.org/en/Publications/WP/Issues/2020/07/24/Raising-Tax-Revenue-How-to-Get-More-from-Tax-Administrations-49584>.  
 [6] These generally contribute between 40 and 70 percent of total tax revenues.

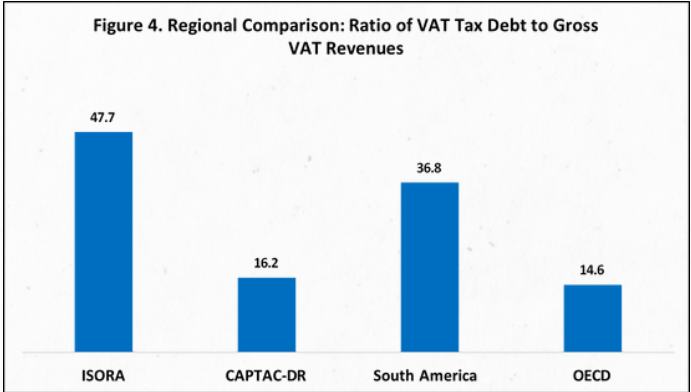
b) The more significant electronic payments (in number and value) to total costs, the smaller the VAT gap. In other words, as tax payments become more straightforward, the VAT gap tends to decrease. In addition, the filing of electronic VAT returns has a direct relationship with these payments. In other words, electronic tax returns are accompanied by mechanisms that facilitate the payment of taxes. Regarding electronic tax returns, the CAPTAC-DR region has the highest average (Figure 3), and between 2018 and 2022, it has increased by 3.8 percentage points.



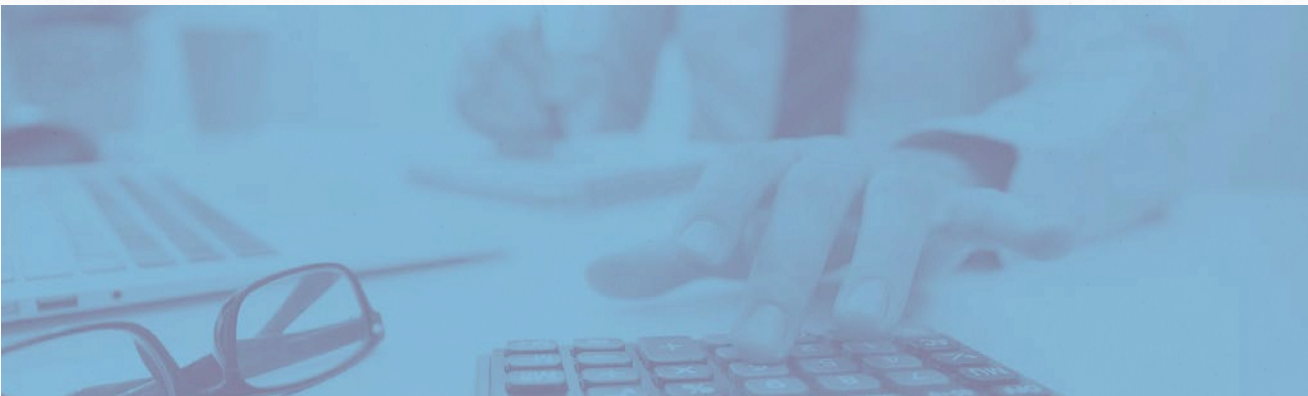
Note: Average figures: 2018-2022. ISORA= International Survey on Revenue Administration. OECD Organization for Economic Cooperation and Development.  
Source: Own calculations with data from ISORA.

c) The magnitude of tax debt harms tax collection and directly affects the VAT gap. Generally, this indicates that when the collection process of firm and enforceable tax debts is weak, the perception of risk decreases, generating a pernicious effect on the tax cycle since the probability that this collection will be realized is low.

Figure 4 shows that the CAPTAC-DR region has a ratio of VAT debt to gross VAT collection of only 16.2 percent; however, this data should be taken with caution, as continuous amnesty programs have been observed between 2018 and 2023 in some countries in the region. It is important to note that tax amnesty programs weaken the incentive for tax compliance, negatively affecting tax revenues.



Note: Average figures: 2018-2022. ISORA= International Survey on Revenue Administration. OECD Organization for Economic Cooperation and Development.  
Source: Own calculations with data from ISORA.



d) Using data analysis tools, artificial intelligence, and machine learning [7] favors tax revenue collection. The ease of analysis and detection of possible tax inconsistencies persuades taxpayers to improve their compliance.

e) Digitalization is understood as the digital authentication of the taxpayer before TAs, and pre-filled income or VAT returns, even partially, have a positive effect on tax revenues and an adverse effect on the VAT gap. It reduces the cost of compliance, increases the certainty of interaction with the taxpayer, and makes tax evasion more difficult.

### Final Comments

A preliminary analysis of the ISORA data, together with the evolution of tax revenues and the estimated levels of the VAT gap for the countries of the CAPTAC-DR region, allows us to observe significant relationships consistent with the results found in previous IMF studies. In other words, strengthening the development of compliance risk management and improving and facilitating tax compliance and control leads to higher tax revenues.

CAPTAC-DR supports the activities and projects listed above and will continue to do so. Through capacity building, the Center aims to reduce the VAT gap, a tax representing, on average, 38 percent of the region's total tax revenues. Supporting the creation of a shadow VAT return [8] as a first step towards a pre-filled VAT return and promoting access to third-party information relevant to TAs are tasks that CAPTAC-DR has proposed to strengthen in the short term, without forgetting other actions, such as compliance risk management and the strengthening of audit procedures.

A designated CAPTAC-DR team is working to formally measure the impact of the Center's capacity building on the regional countries' performance. This study will show how the capacity building offered by CAPTAC-DR has enabled TAs in the region to increase their tax revenues. The expectation is that this study will be completed by April 2025.



*Official closing photo with the authorities of the Technical Assistance at the General Directorate of Taxation, within the framework of the Compliance Improvement Plan.*

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[7] Defined as "a subset of artificial intelligence that allows computers to automatically learn and improve from data without being explicitly programmed to do so" in "The Fintech Ecosystem: The Case for Stablecoins and Institutional Arrangements for Financial Technology Oversight" in CAPTAC-DR Bulletin 59.

[8] The shadow VAT return is a tool that allows replicating the taxpayer's VAT return with third party and electronic invoice information within the TAs.

# Integrating the role of the Treasury in public financial management

## CAPTAC-DR's participation in the XIV Annual Latin American Seminar on Public Treasury Management (FOTEGAL)

By: Marta Cubillo, María José Velásquez and Andrés Navas

The XIV Annual Latin American Seminar on Public Treasury Management (FOTEGAL), organized by the General Treasury of El Salvador, was held in San Salvador from September 24 to 26, 2024, and brought together more than 300 public financial management professionals from 17 Latin American countries.

In its 14th edition, the Seminar was held simultaneously with the 10th edition of the Forum of Latin American Accountants (FOCAL). The Minister of Finance of El Salvador, Mr. Jerson Posada, presided over the inauguration, highlighting his country's achievements in public financial management (PFM) and the opportunity for El Salvador to organize these international events.

The National Treasurer of El Salvador, Mr. Juan Murillo, and the Accountant General, Mr. Joaquín Montano, chaired both forums during the 2023-2024 period, facilitating effective coordination and a comprehensive approach to discussing important issues.



*XIV Latin American Annual Seminar on Public Treasury Management – San Salvador, El Salvador, September 2024.*

The event in El Salvador brought together treasurers, accountants and representatives from 16 countries: Argentina, Bolivia, Brazil, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, Uruguay and the Dominican Republic. It also brought together representatives of international organizations such as the World Bank, the Inter-American Development Bank, the U.S. Treasury Office, the IMF Fiscal Affairs Department (FAD), CAPTAC-DR, the Central American Bank for Economic Integration, the OECD and the Council of Ministers of Finance of Central America, Panama and the Dominican Republic (COSEFIN).

The Latin American treasurers at the Forum elected the National Treasurer of the Dominican Republic, Mr. Luis Delgado, as the new president of FOTEGAL, who pledged to continue working to promote the modernization of treasury management in the region. This recognition is a testament to the CAPRD region's positive impact and ability to generate significant changes in government practices.

## About FOTEGAL

FOTEGAL is made up of 17 Latin American countries. It is a permanent meeting mechanism for exchanging experiences and knowledge of government treasury systems. Since its creation in 2011, the Forum has been supported by the International Monetary Fund (IMF), the Inter-American Development Bank (IDB), and the World Bank (WB) and in recent years has been joined by the Office of U.S. Treasury Assistance (OTA), and the Organization for Economic Cooperation and Development. The participation of international organizations in the Forum makes it possible to communicate new trends, broaden experiences outside Latin America, and identify the region's needs regarding capacity building and the necessary coordination among cooperating partners. In its 15 years of existence, FOTEGAL has been the central Forum for exchanging experiences for government treasuries in the countries of the CAPTAC-DR region.

The Seminar is an event that takes place once a year. It has become a benchmark in the region, highlighting the importance of sharing experiences and best practices in treasury management, promoting the modernization and efficiency of government treasuries. It is the platform where the countries of the Central American region, Panama and the Dominican Republic, share their experiences, challenges, and achievements and take the opportunity to train in an environment of international experience.



## The integrating role of Treasuries in public financial management

CAPTAC-DR, through its resident advisor in public financial management, Ms. Marta Cubillo, talked about the role of treasuries in efficient public financial management.

Treasuries are the entities designated to manage the financial resources of a country's government in the most efficient way possible. They nurture their operation by controlling information and using various instruments to fulfill this role.

- **Treasuries as information takers:**

Treasuries take, through debt, budgetary, and risk management, inputs from various sources to design the proposed budget and for their treasury management, guided by fiscal policy.

- **Treasuries as information generators:**

Treasuries provide decision-makers with real-time information on financial dynamics by monitoring budget execution and its balance sheet. Treasury reports provide information on 1) the debt market, 2) expenditure and revenue collection situation, and 3) financing risks.

The integrating role lies in the way in which the Treasury acquires an integral vision of treasury management between fiscal policy, debt, and the public budget through its actions:

- Performs budget execution programming
- Authorizes the placement of debt
- Concentrates resources of government entities and revenue collection
- It consolidates liquidity to guarantee the operation
- Reverse excess liquidity
- Processes payments
- Generates information on financial performance management

*"Modern treasury transcends traditional functions and becomes a collaborative process for the entire organization" - Ms. Marta Cubillo, in her presentation at FOTEGAL on the integrating role of the Treasury in public financial management.*



*CAPTAC-DR Long-Term Expert in the area of Public Financial Management, Martha Cubillo*



*XIV Latin American Annual Seminar on Public Treasury Management – San Salvador, El Salvador, September 2024.*

It should be noted that treasuries with an integrating role also play a role outside their explicit responsibility for public finances. Treasuries play critical roles in other contexts, among them:

- **Macroeconomic stability:** As the governing body, treasuries support fiscal stability from their operations; by monitoring tax revenue and public spending, they either stimulate or moderate economic activity. Additionally, they collaborate with central banks to harmonize monetary and fiscal policies, facilitating the programming of their sterilization interventions in the money market to stabilize liquidity, reduce costs, and guarantee price level stability.
- **Financial sector regulation and supervision:** Treasury departments design and supervise financial and fiscal laws, identify and mitigate risks to maintain economic stability, and promote policies that increase access to financial services for the population.
- **Boosting economic and social transformation:** Supporting public and private investment through innovative financing schemes, which, in turn, contribute to the design of sustainable development policies that would include the management and concession of natural resources, and implement income mobilization systems, such as social programs.

- **Innovation in public administration:** Treasuries also promote digital and governance innovations, such as technological modernization in managing public revenues and payments and implementing monitoring and accountability systems.
- **Representation in international forums:** As indicated in this article, the participation of treasuries in forums such as FOTEGAL allows them to strengthen their relations with international organizations and other treasuries. It also allows them to participate in trade, investment, and global economic cooperation agreements. Finally, it facilitates the prioritization and definition of plans for technical assistance, as they do with CAPTAC-DR.

Modern, inclusive treasuries transcend traditional functions and transform into a collaborative process for the entire organization. Modern treasurers must be "all-around professionals," consultants to other administrations and project managers for the reform initiatives they face. Government treasuries are at a critical juncture where daily tasks need to be aligned to meet the needs of the modern public sector.

CAPTAC-DR's mission is to contribute to developing the capacities of public institutions in the region. In asset and liability management, the aim is for the region's treasuries to evolve towards management practices with a new vision of the integrating role of treasuries in PFM with digitized, innovative processes that promote transparency and improve accountability.

The Director of CAPTAC-DR, Mr. Ari Aisen, participated in FOTEGAL with the moderation of the session "Strategies for liquidity management," where the best practices and methods to optimize the use of resources and for the financial sustainability of the countries were discussed, and the panel discussion on "Transformation to a Digital Treasury: Progress and challenges," which explored the opportunities that digitalization brings to improve operational efficiency and transparency in financial management.



*Moderator/Commentator: Ari Aisen, Director of the Regional Technical Assistance Center of the International Monetary Fund (IMF) for Central America, Panama, and the Dominican Republic (CAPTAC-DR).*



XIV Latin American Annual Seminar on Public Treasury Management - San Salvador, El Salvador, September 2024.



## **CAPTAC-DR and its contribution to the modernization of public management**

FOTEGAL and FOCAL have established themselves as an essential platform for promoting the development of best practices in public financial management in Latin America. Their focus on exchanging experiences and international collaboration has enabled countries to move towards more effective and transparent governance. These forums are vital for strengthening the capacities of government institutions and fostering an environment of cooperation that benefits all stakeholders.

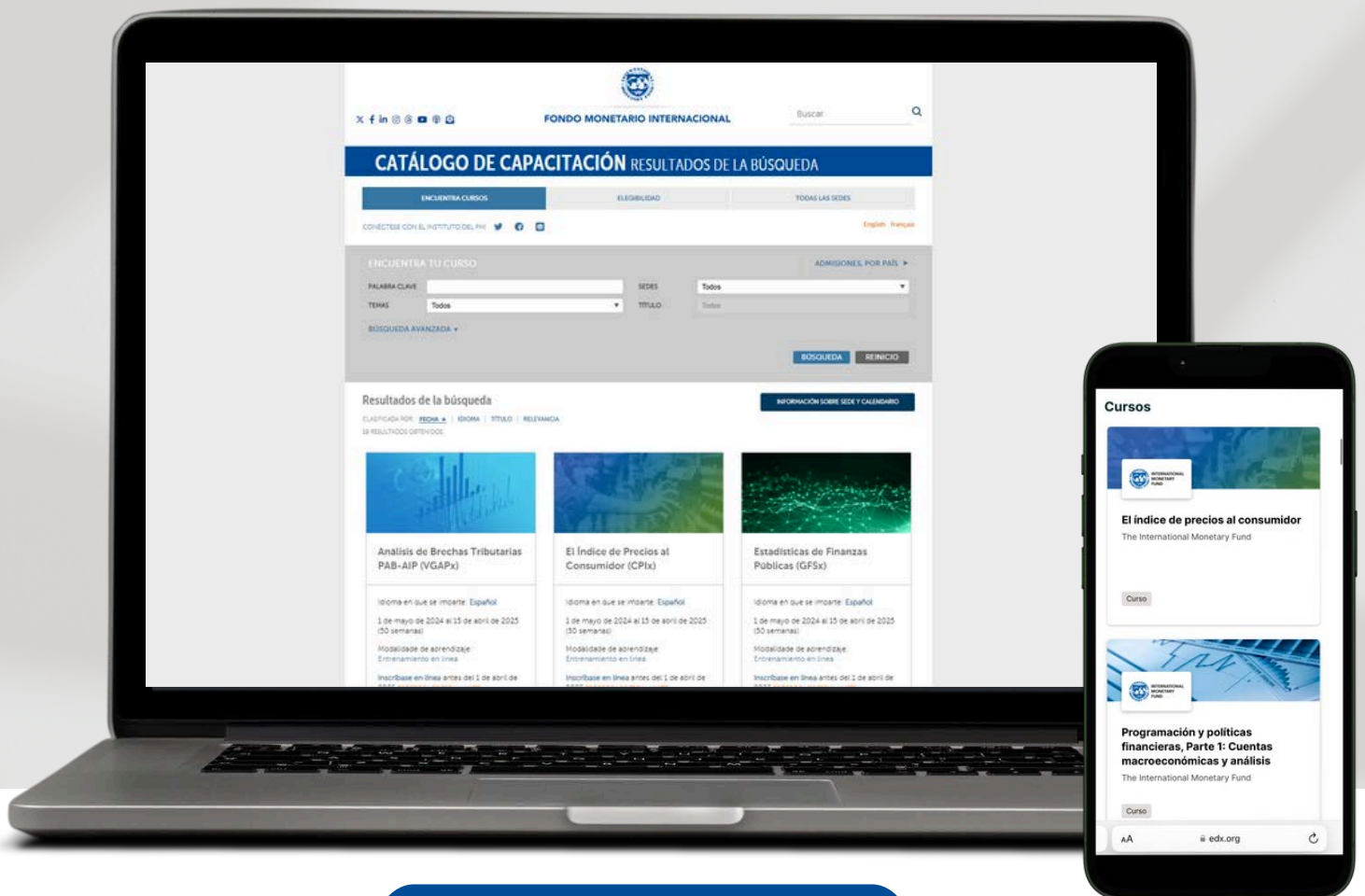
These efforts are aligned with the objectives of the IMF and CAPTAC-DR to improve fiscal management and promote integration actions in the CAPRD region. This improvement is done through technical assistance, regional training, and advice to local authorities, as well as by promoting best practices and innovative approaches to public resource management.

During the event, the member countries publicly acknowledged the transcendental support provided by CAPTAC-DR in capacity building and promoting best practices in PFM. They recognize that the support of international organizations in this Forum for exchanging ideas and experiences facilitated learning among participants and laid the groundwork for future cooperation among the region's countries.

CAPTAC-DR's participation in the XIV Annual Latin American Seminar on Public Treasury Management (FOTEGAL) not only reaffirms its commitment to capacity building in the region but also emphasizes the importance of international cooperation in finding solutions to the problems faced by ministries of finance or treasury. As countries work together and become better integrated, exchanging knowledge and experiences will continue to be a key component in achieving more robust and effective public financial management in the CAPRD region and Latin America.



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