REGIONAL TECHNICAL ASSISTANCE CENTER FOR CENTRAL AMERICA, PANAMA, AND THE DOMINICAN REPUBLIC

PROGRAM DOCUMENT

FOR THE THIRD
FINANCIAL CYCLE
(May 2019–April 2024)

CENTRAL AMERICA, PANAMA, AND DOMINICAN REPUBLIC
REGIONAL TECHNICAL ASSISTANCE CENTER (CAPTAC-DR)

PROGRAM DOCUMENT FOR PHASE III
(MAY 2019-APRIL 2024)

May 31, 2018

UNIÓN EUROPEA

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SHCP
SECRETARÍA DE HACIENDA Y CRÉDITO PÚBLICO

THE GOVERNMENT OF THE GRAND DUCHY OF LUXEMBOURG

CONTENTS

SELECTED ACRONYMS

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
CCBSCO	Central American Council of Superintendents of Banks, Insurance Companies, and Other Financial Institutions
CEMLA	Center for Latin American Monetary Studies
CIAT	Inter-American Center of Tax Administrations
CMCA	Central American Monetary Council
COSEFIN	Central American Council of Finance Ministers
ECLAC	Economic Commission for Latin American and the Caribbean
FIN	Finance Department
FSSF, FSSR	Financial Sector Stability Fund, Financial Sector Stability Review
GIZ	German International Cooperation
IADB	Inter-American Development Bank
ICD	Institute for Capacity Development
IFS	Institute of Fiscal Studies of Spain
IFRS	International Financial Reporting Standards
IPSAS	International Public-Sector Accounting Standards
OECD	Organization for Economic Cooperation and Development
OTA	United States Office of Tax Administration
RBM	Results-Based Management
RMTF	Revenue Mobilization Trust Fund
SIECA	Secretariat of Central American Economic Integration
TSA	Treasury Single Accounts
USAID	United States Agency for International Development
US-CBP	Customs and Border Protection
WCO	World Customs Organization
WTO	World Trade Organization

SUMMARY

- **CAPTAC-DR has assisted the development of policy frameworks in Central America, Panama, and the Dominican Republic since 2009**. The Center has contributed to build the capacity of member countries to design and implement policies in support stability, growth, and regional integration. With the assistance of the Center, countries have strengthened their tax and customs administrations, public financial management, financial supervision and regulation, central banking, and statistics in the real sector and the government finances.

- **Countries face the challenge of building capacity to formulate policies to boost growth, improve income distribution, and ease vulnerabilities over the medium term**. To this end, the region needs stronger institutions to collect tax revenue, facilitate international trade, and promote better spending of public resources and fairness. It requires better foundations to supervise financial risks, foster financial inclusion, and keep inflation low. Countries will benefit from better data for policy making, investment decisions, and assessing inequality gaps.

- **The Center has developed a program for Phase III (2019-24), aligned to the priorities of member countries**. CAPTAC-DR is in an excellent position to assist the region to meet these needs, leveraging its expertise on macroeconomic and financial issues. With the support of the IMF Headquarters, the Center will strive to further integrate capacity development with IMF surveillance and program work to sharpen the advice, and develop projects to address capacity for emerging policy themes (inequality, gender, and climate change) as well as cross-cutting issues (such as governance and transparency).

- **CAPTAC-DR's collaboration with development partners and other providers is key to make its assistance more effective and sustainable**. Strong collaboration with partners will reinforce synergies and align stakeholders to the same capacity building goals. The Center will also rely on the IMF's results-based management to foster project implementation, strengthen monitoring, and guide the allocation of resources. The logical frameworks for each project will combine a sequence of outcomes and verifiable milestones based on the authorities' priorities.

- **The external evaluation provides a very positive assessment of the Center and identifies areas of improvement**. It pointed out to a very strong demand for CAPTAC-DR's services and stressed the very high value of service. The evaluator proposed actions to clarify the definition of targeted outcomes and needs in the logical frameworks; consolidate the communication strategy; and focus projects in public financial management to areas of comparative advantage. CAPTAC-DR will address these proposals in preparation and during Phase III.

- **The cost of operating CAPTAC-DR for the new 5-year cycle is projected at US$43 million**. This budget results from the CD priorities identified by country authorities and the IMF. The financing for this budget would be shared by development partners, member countries, the IMF, and the Central Bank of Guatemala as host institution. In the case of insufficient financing, careful prioritization of activities and a probable reduction of assistance could be required.

BACKGROUND AND ACHIEVEMENTS IN PHASE II

(July 2014-April 2019)

A. What Does CAPTAC-DR Do?

1. **The IMF's Regional Capacity Development Centers (RCDCs) are a collaborative effort among the IMF, development partners, and member countries[1]**. The Centers' strategic goal is to strengthen member countries' institutional and human capacity to design and implement sound macroeconomic and financial policies. The global network of 16 RCDCs delivers effective, efficient, and responsive IMF capacity development (CD), comprising technical assistance (TA) and training in the field.[2]

2. **In this vein, CAPTAC-DR is supported by 4 development partners and 7 member countries**. Development partners are the European Union, Canada, Mexico, and Luxembourg, while member countries include Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and the Dominican Republic. The Center has provided CD services to member countries since June 2009. The IMF provides in-kind contribution, while development partners and member countries finance the operations of the Center.

3. **CAPTAC-DR complements the strategic CD advice from IMF Headquarters (HQ), and ensures full alignment to member countries' needs**. CD priorities to support macroeconomic stability and inclusive growth are identified by the IMF and country authorities. The regional councils of finance ministries (COSEFIN), central bankers (CMCA), and financial superintendents (CCSBSO) play a key role in detecting CD needs at a regional level and harmonizing countries' strategies. CD activity is integrated with the IMF's lending and surveillance operations, and coordinated with other CD providers.

4. **CAPTAC-DR delivers CD activities mainly through resident advisors**. The Center provides CD services on public finances (tax administration, customs, and public financial management), financial sector (central banking and financial supervision), and macroeconomic statistics (real sector and government finance statistics). Resident advisors develop close working relations with country authorities and understanding of national and regional CD needs. CAPTAC-DR also deploys short-term experts to supplement the work of the seven resident advisors. The Center also builds human capital through TA-linked training to address skill gaps in member countries and facilitate adoption of TA advice for sustained CD results.

5. **CAPTAC-DR governance is aligned with the IMF's network of RCDCs, and its policies leverage the IMF's considerable knowledge resources**. The management systems and practices of the Center are harmonized with those of the IMF and other RCDCs, and are aligned with broader development practices, such as Results-Based Management (RBM). The Center benefits from quality

[1] See https://www.imf.org/en/About/Factsheets/Sheets/2017/06/14/imf-regional-capacity-development-initiatives

[2] For more detail on the operational and financial management of the Center see paragraphs (¶) 51-63 below.

control through the IMF's review process ('backstopping') to ensure compliance with international best practices, and is subject to an external evaluation at the mid-point of each financing cycle.

6. **The governance structure of CAPTAC-DR reflects a successful and lasting partnership among stakeholders**. A Steering Committee, comprising member countries, development partners, and the IMF, guide the design and monitoring of the CD program on a regular basis. A Center Coordinator (CC), an IMF staff member, oversees the operations, including the preparation of the work plan. This structure helps strengthen ownership, responds to CD priorities of member countries to be reflected in the Center's work, allows CAPTAC-DR to respond to evolving needs as they emerge, and ensures broader consistency with IMF CD strategies.

B. Main Accomplishments

7. **During Phase II, CAPTAC-DR contributed to many achievements and solid progress in reforming the frameworks of macroeconomic and financial policies in the region.**

Tax Administration

8. **Member countries strengthened several dimensions of their tax administrations, largely as envisaged by the strategic objectives of Phase II**. With continued assistance by CAPTAC-DR, the region improved the capacity to collect tax revenues through stronger taxpayer controls, better data for risk analysis, and improved control management systems. There was also important progress in the capacity to conduct an integral control of the value-added tax (VAT). In some countries, however, further progress was somewhat inhibited by the high turnover in personnel and the limited provision of human and financial resources to tax offices. Key outcomes achieved during Phase II include:

- **Strategic management**. Member countries have built capacity to either elaborate strategic and operational plans, and/or reform their organizational structure. Some countries (El Salvador, Honduras, Nicaragua, and the Dominican Republic) also established key performance indicators and enhanced management capacity as part of these strategies.

- **Core functions**. Tax administrations continued to adopt international best standards on core tax processes, which supported voluntary tax compliance and deterred tax evasion. Nicaragua improved capacity on all core functions, while the rest of the region made good progress in most of the core functions. More specifically,

  - ✓ **Tax registry**. Costa Rica, El Salvador, Honduras, and Nicaragua enhanced the reliability of their tax registry, the main pillar to develop effective taxpayer control;

  - ✓ **Invoicing**. El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic upgraded control over paper-based invoices. While Costa Rica, Guatemala, and Panama have begun adopting electronic invoicing;

- ✓ **Declaration**. All countries developed capacity for the electronic submission of declaration of VAT and corporate income tax, which has greatly facilitated voluntary compliance with tax obligations; and

- ✓ **Auditing**. All countries improved the coverage of tax auditing programs and other verification tools, which simplified the detection of inaccurate reporting and fraud. Costa Rica, Nicaragua, and the Dominican Republic also enhanced the auditing for large taxpayers.

- **Training**. Regional and country seminars focused on upgrading institutional and human skills to facilitate improvement in the core areas of tax administration, namely VAT obligations control, invoicing, audit, and risk management. More than 180 officials in the region participated in training activities during Phase II, with women officials representing more than 50 percent of the trainees. Participants rated highly the quality of training (on average, 4.9 out of 5).

Customs Administration

9. **The region continued strengthening the capacities of customs administration**. Upgrades in core processes triggered by the Trade Facilitation Agreement of the World Trade Organization (WTO) and the integration of customs controls eased discretion, helped fight evasion, and facilitated trade. Based on a diagnostic conducted in Phase I, the region moved closer to best practices on risk management and developed new strategic plans. Special CD interventions were needed, in coordination with IMF HQ, and other CD providers, to address the institutional crises faced by Guatemala and Honduras in 2015-16. After 10 years of being in force, the Center and the World Bank contributed to modernizing the regional customs code and its regulation. Main results achieved during Phase II include:

- **Trade facilitation**. The WTO trade facilitation agreement of 2017 provided key goalposts for the development of customs administrations in the region. Once ratified, adherence to the agreement led to initial improvements in core customs processes in Costa Rica, El Salvador, Guatemala, Honduras, and Panama. Actions to simplify red tape and expedite procedures resulted in shorter clearance times and fewer opportunities for corruption. Based on the WTO agreement, the Center jointly with the World Bank developed a gap analysis on the regional customs code and its regulation (CAUCA and RECAUCA), providing the region with an agenda for the required amendments to the customs legal framework.

- **Risk management**. The region has adopted an integrated risk management strategy, developed by the Center at the request of customs offices. Based on this strategy, member countries (Costa Rica, El Salvador, Honduras, and the Dominican Republic) implemented more effective measures in the prevention and mitigation of fraud-related risks, by adopting a methodology developed by IMF HQ and CAPTAC-DR for the segmentation of traders based on compliance levels. In terms of improving traceability of goods**,** the main ports in El Salvador, Guatemala, and Honduras introduced a comprehensive control program, designed to support stronger tax collection and fraud control. Guatemala and the Dominican Republic adopted a new model for post clearance audit, with focus on improved controls over special procedures.

- **Training**. CAPTAC-DR organized nine regional seminars on customs reform during Phase II, with participation of 234 officers, of which 49 percent were women. The events strengthened the technical capacities of officers and complemented TA provided to the region. These events were coordinated with IMF HQ, with collaboration of other CD providers, such as the Inter-American Center of Tax Administrations (CIAT), the Inter-American Development Bank (IADB), the Central America Integration Secretariat (SIECA), the United States Office of Tax Administration (OTA); the Agency for International Development (USAID), the World Customs Organization (WCO), and the customs administrations of Argentina, Bolivia, Mexico, Spain, Uruguay, and the United States. Participation surveys of these workshops gave an average quality rating of 4.9 out of 5.

Public Financial Management

10. **The region made strong progress in achieving the strategic objectives of Phase II**. Countries significantly improved public financial management (PFM) by improving processes for medium-term budgets, treasury management, as well as medium-term macroeconomic and fiscal projections. To attain these outcomes, CAPTAC-DR helped countries build capacity on the management of financial assets through the establishment of Treasury Single Accounts (TSA), multi-year macro-fiscal programming, fiscal risks assessment, and government accounting. This progress allowed countries to improve their analysis and decision-making in expenditure policies. Selected outcomes achieved during Phase II include:

- **Treasury management**. All member countries are now using a TSA, albeit with different levels of coverage or functionalities. They are progressively eliminating payments in cash or checks, and developing new payment methods (including, electronic transfers and debit cards). Most of them also modernized the way they collect non-tax incomes.

- **Fiscal programming**. The Center assisted finance ministries in strengthening capacities to conduct macroeconomic forecasting. Five countries developed models for financial programming and debt sustainability analysis. This had a positive impact on the quality of medium-term macro-fiscal frameworks and enabled the initial assessment of macro-fiscal risks.

- **Fiscal risks**. All member countries have mapped their relevant fiscal risks. Countries either have developed an annual fiscal risk report or are in the process of doing so. The reports are an important step for the mitigation of fiscal risks and provide relevant information for decision-making in the budget process.

- **Government accounting**. Initiatives in the accounting area focused on the implementation of selected International Public-Sector Accounting Standards (IPSAS) and initiated work on accounting consolidation.

Financial Supervision

11. **The region advanced on the tailored adoption of best practices for supervision and regulation during Phase II, keeping pace with changing international standards**. In line with this ambitious objective, the transition to risk-based supervision and cross-border consolidated supervision broadly progressed as planned, while most members adopted prudential criteria based on Basel guidelines and International Financial Reporting Standards (IFRS). Beyond the objectives of Phase II, training also focused on cross-cutting issues, such as financial inclusion and the role of supervision on anti-money laundering and combating of financing to terrorism (AML/CFT).

12. **As a result, member countries strengthened their capacity to conduct surveillance and preserve the stability of the financial sector**. Although, more time will be required to complete the journey to international best standards, some of the main outcomes attained with assistance from the Center include:

- **Regional banks**. Members developed common understanding of risks from regional banking groups, and began the adoption of standardized supervision of liquidity risk for regional banks. They also established standardized guidelines for a gradual adoption of key accounting practices under the IFRS.

- **Regulation**. The region significantly refined the prudential framework, by updating regulations on the main financial risks: credit, liquidity, market, operational, country and transfer risks, and interest rate risk in the banking book. Members issued standards for corporate governance, consolidated and cross-border supervision, and loan-loss provisions. Early actions were taken regarding cross-cutting issues, such as consumer protection and e-money in El Salvador.

- **Supervision**. Based on international standards, members refined processes for risk-based supervision, off- and on-site inspection, and supervision capacity through training. The effort focused on credit, market, liquidity, and operational risks; and on the quality of information for reporting. In the non-banking system, some countries began introducing risk-based supervision for the insurance sector, while others have been assessing options to extend the perimeter of supervision to credit unions (Guatemala and the Dominican Republic).

- **Basel standards**. The region is adopting capital and liquidity standards (Basel II, III). Some countries are updating capital requirements for credit and market risks; are introducing prudential standards for systemically-important banks; and/or developed procedures to monitor banks' internal assessment of capital adequacy. Most countries are introducing the liquidity coverage ratio and plan to implement the net stable funding ratio.

- **Training**. Extensive training supported these TA projects during Phase II. Countries received regional and bilateral training on supervision of financial risks (credit, market, liquidity, operational), Basel II standards, corporate governance, and consolidated and cross-border supervision. There was training on topics such as financial inclusion, integrating AML/CFT efforts and risk-based supervision, managing problem banks, and catastrophic insurance.

13. **The Center's assistance on financial supervision was closely aligned with the IMF CD strategy**. CAPTAC-DR participated in an IMF HQ diagnostic mission for the development of macroprudential policies for member countries, and took part in Financial Sector Stability Reviews (FSSR) for Costa Rica and Honduras.

Central Banking

14. **Strengthening the effectiveness of monetary policy during Phase II helped member countries keep inflation close to their targets**. Central banks achieved important outcomes planned for Phase II. They improved the use of monetary instruments and facilities, and the enhanced analytical capacity to support a better management of monetary operations. Member countries, including dollarized economies, upgraded the frameworks for macroprudential monitoring, financial safety nets, and financial structures, which prepared the region to anticipate and mitigate the impact of adverse shocks. Key achievement made during Phase II include:

- **Monetary operations**. Member countries with independent monetary policy made progress in aligning monetary operations with international best practices. They developed short-term instruments that could support a more effective transmission of monetary policy, and improved analytical capacity to perform better liquidity forecasting and management. Central banks are now more prepared to increase reliance on interbank, money, and foreign exchange markets and move towards a forward-looking framework for monetary policy.

- **Financial stability analysis**. Over the last three years of Phase II, countries built initial capacity to identify gaps in institutional and operational frameworks for financial stability analysis. They emphasized the construction of indicators for the monitoring of systemic risks and the design of basic tools for macroprudential analysis, including macro stress-testing models, to prepare the stage for development of macroprudential frameworks over the medium term. At the regional level, CMCA built capacity to undertake macroprudential analysis, with focus on the design of analytical tools and training. This has prepared CMCA to complement central banks efforts in monitoring systemic risk across the region.

- **Financial safety nets**. Member countries strengthened bank resolution and liquidity frameworks through CAPTAC-DR's CD assistance coordinated with IMF HQ. This effort has enhanced the capacity to deal with external shocks, especially in dollarized economies.

National Accounts and Price Statistics

15. **The region made remarkable strides in achieving the strategic objectives of Phase II**. Countries substantially improved the quality of their national accounts and price indices through the

compilation of reliable and coherent statistics, in line with international best practices. This effort contributed to the harmonization of statistics and facilitated timely and informed decisions by policy makers and private investors. The *System of National Accounts 2008* (*2008 SNA*) and other international standards firmly guide the ongoing enhancements in the framework for macroeconomic statistics in member countries[3].

16. **All projects recorded substantial advancement**. Beyond the commitment of individual members, the CMCA played an essential role in supporting the accomplishment of outcomes in the region, the harmonization of statistical frameworks across countries, and the elaboration of work plans to close remaining gaps with international standards over the medium-term. Key achievements during Phase II include:

- **National accounts**. Six members (Costa Rica, El Salvador, Guatemala, Nicaragua, Panama, and the Dominican Republic) updated the base year of the national accounts. In the process, they broadened the coverage of and improved methodologies for annual, quarterly, and monthly economic indicators. They also strengthened statistical techniques for the compilation of economic surveys and updated economic classifications. By the end of the Phase II, five members (Costa Rica, Honduras, Nicaragua, Panama, and the Dominican Republic) have started rebasing projects to bring the base year within the 5-10-year-old benchmark suggested by international best practices. El Salvador, Honduras, and Nicaragua also compiled the annual accounts by institutional sectors.

- **Price indices**. As data sources, economic and social surveys improved, the statistics offices across the region built capacity to upgrade key prices indices—namely, for producer prices as well as imports and exports prices. The effort focused on the revision of the basket of products and the updating of the base year in the price indices, contributing to obtain more accurate measures of volumes.

- **External sector statistics**. The region successfully concluded the project of harmonization of external sector statistics in December 2015 and the Center supported further improvements in statistics through dedicated missions. All countries now compile and disseminate the quarterly balance of payments, the international investment position, and the external debt data according to the *IMF Balance of Payments Manual (BPM6)*. Costa Rica, El Salvador, Guatemala, Honduras, and Panama report the Coordinated Direct Investment Survey, and three members (Costa Rica, Honduras, and Panama) report the Coordinated Portfolio Investment Survey. The region advanced in harmonizing the treatment of in-bound activity (*maquila*), foreign trade, and foreign direct investment with the framework of the national accounts.

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[3] Some of the statistics international standards covered by the IMF are provided in the *Balance of Payments Manual, sixth edition; the update of the External Debt Statistics: Guide for Compilers and Users, 2013; International Reserves and Foreign Currency Liquidity Guidelines for a Data Template, 2012; the Quarterly National Accounts Manual, 2017; the Consumer Price Index Manual, 2004; the Producer Price Index Manual, 2004; the Export and Import Price Indices Manual, 2009; the Monetary and Financial Statistics Manual and Compilation Guide, 2016; Government Finance Statistics Manual 2014; and the Financial Soundness Indicators: Compilation Guide.*

- **Monetary and financial statistics**. Building on the fully harmonized framework of monetary and financial statistics in place since 2008, the region largely adopted the *Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG 2016)*, and began aligning the monetary statistics with the *2008 SNA*, the *BPM6*, and, to some extent, with the *Government Finance Statistics Manual 2014 (GFSM 2014*). This effort has resulted on a more consistent framework for the compilation and dissemination of monetary data. In addition, Nicaragua, Panama, and the Dominican Republic improved the compilation of the quarterly financial accounts and flow of funds for the purposes of monetary policy and financial programming.

- **Training**. The Center provided training to build up technical skills on national accounts according to the requirements raised by the member countries. Training sessions addressed the quarterly national accounts, rebasing of national accounts, implementation of the *2008 SNA*, and harmonization of macro statistics. These regional activities benefitted from the collaboration of the Center for Latin American Monetary Studies (CEMLA) and the Economic Commission for Latin America and the Caribbean (ECLAC).

Government Finance Statistics

17. **The region decisively embraced the new work stream on government finance (GFS) and public-sector debt statistics (PSDS) launched in August 2017**. The strategic objective set for Phase II was to strengthen the public finance statistics for the design and analysis of fiscal policy. There was good progress in building capacity to compile and disseminate high-quality statistics. Members assessed the state of development of the statistical framework and built action plans based on policy priorities to gradually adopt IMF guidelines (*GFSM 2014, and the Public-Sector Debt Statistics Guide, 2011*). The regional councils (COSEFIN, CMCA) created an interinstitutional working group to design a regional strategy for the harmonization of statistics over the medium-term. Outcomes achieved in Phase II include:

- **Compilation, dissemination**. Members updated the institutional definition and sectorization of the public sector to match international standards, and took steps to broaden the coverage of data. They reported the operations of the central and general governments in the IMF Yearbook and aligned central government debt with data compiled for GFS—the Dominican Republic published the monthly operations of the central government in line with *GFSM 2014* guidelines. Members also mapped and estimated partial data on contingent liabilities for future dissemination, with emphasis on impact from natural disasters, legal claims, and social security benefits.

- **Harmonization with macroeconomic statistics**. Members began efforts to gradually secure consistency with the national accounts, the balance of payments, and monetary sector, considering the institutional coverage, sectorization, and residence criteria of public sector debt. Some also improved the valuation of financial instruments and the use of accrued interest.

- **Training**. The Center provided substantial hands-on training to build up the required human skills for the implementation of the action plans. This included a regional seminar to define the scope of the action plans, three regional seminars on the quality of statistics and usage for policy analysis and decision making, and four customized country seminars (Costa Rica, Guatemala, Panama, and the Dominican Republic) for compilation and analytical use of *PSDS*. Finally, a seminar, jointly organized with the area of public financial management, focused on accounting and consolidation of GFS to improve the consistency of statistics.

C. Collaboration with Development Partners and Other CD Providers

18. **CAPTAC-DR coordinates activities with development partners and other CD providers in the region**. Resident advisors are the focal point in the field. They strive to coordinate with member countries and collaboration with CD partners to avoid duplicity, identify opportunities for synergies, and assess the absorption capacity of beneficiary countries. Collaborations are also sought in training activities, through shared training events and sponsored speakers, with partners covering some of the costs.

19. **Collaboration is particularly evident on tax and customs administration and national accounts statistics, with important synergies in the other areas**. The most active CD partners operating in similar areas are: the IADB, the European Union, OTA, USAID, and the World Bank. To facilitate collaboration, all CD providers have access to the Center's annual work plan and CD activity plans, posted on the Center's webpage (www.captac-dr.org). Key collaborations in Phase II include:

- **Public finances**. In tax and customs administration, the Center partnered with CIAT, IADB, the Institute of Fiscal Studies (IFI) of Spain, the German Agency for International Cooperation (GIZ), SIECA, USAID, the United States Customs and Border Protection (US-CBP), OTA, WCO, and the World Bank. In public financial management, dialogue for future collaboration was established with the UN Women for gender budgeting and coordination continued with the European Union on public financial management assessments.

- **Financial sector**. In financial supervision and regulation, collaboration in regional projects occurs mainly with the IADB and the World Bank. In central banking, there has been coordination with the ECLAC and the Central Bank of Mexico to strengthen the capacity of central banks, while the CMCA collaborated to develop systemic risk monitoring at the regional level.

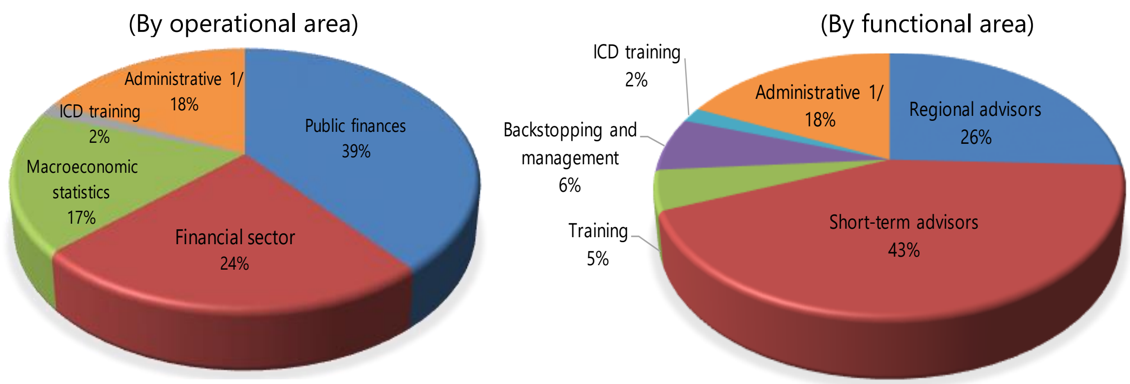
- **Macroeconomic statistics**. The Center has coordinated with the CMCA and its working groups to undertake regional projects on national accounts statistics; with the World Bank for the household and expenditure surveys (Honduras), and has organized regional training events with CEMLA and ECLAC on national accounts, balance of payments, and monetary and financial statistics. In government finance statistics, activities were coordinated with the regional councils (COSEFIN and CMCA), in the context of a regional strategy for gradual harmonization of public finance statistics.

D. Budget and Financing

20. **Expenditure is expected to reach US$33.9 million by the end of Phase II (April 2019)**. Due to initial financing constraints, CD delivery in the first three years of the phase stood at some 80 percent of the originally programmed level. However, execution has been scaled up during the last two years of Phase II, with the establishment of the area of government finance statistics and full implementation of the training program.

21. **The lion's share of expenditure is related to CD in public finances** (tax administration, customs, and public financial management), which will amount to nearly 40 percent of expenditure (Figure 1). CD in support of the financial sector (central banking and financial supervision) will account for about 25 percent of total spending in Phase II, while activities on macroeconomic statistics (mainly, the real sector and public finances) are expected to represent 17 percent. The remaining balance is allocated to managing the CAPTAC-DR office and meeting HQ functions.

Figure 1. CAPTAC-DR: Projected expenditure breakdown during Phase II
(From a total of US$33.9 millions)



1/ Of which 2.5 percentage points is in-kind expense by host Guatemala.
Source: CAPTAC-DR staff.

22. **From a functional perspective, experts represent the largest cost**. Resident advisors and short-term experts, including for regional and bilateral training, will reach three-fourths of total expenditure. Backstopping and management of CD activity by the IMF are expected to absorb only 6 percent of total funds. Managing the CAPTAC-DR office (including local staff salaries) and meeting HQ functions (finance, security, human resources, and mid-term external evaluation) will amount to 18 percent of the total budget. These administrative costs are met by a combination of the trust fund management fee (7 percent of contributions by partners and members), in-kind contributions from the Central Bank of Guatemala as CAPTAC-DR host, and IMF's own resources.

23. **Contributions from development partners and member countries are expected to cover most of the budget of Phase II**. Development partners' contributions of US$27.3 million will finance around 80 percent of the projected expenditure. Member countries' contributions will amount to US$3.5 million (US$0.5 million per country), or the equivalent of close to 10 percent of

total expenditure. In-kind contributions from the Central Bank of Guatemala for office-related expenses and from the IMF will cover the balance.

Table 1. Projected budget for Phase II
(In millions of U.S. dollars, unless otherwise noted)

Partner	Contribution	Percent
Total budget	**33.9**	**100.0**
Cash contributions	30.8	90.9
European Union	9.6	28.3
Canada	7.5	22.1
Mexico	5.0	14.7
Luxembourg	5.1	15.0
Member countries	3.5	10.3
In-kind contributions		
IMF	2.3	6.8
Central Bank of Guatemala (host)	0.8	2.4

Source: IMF staff estimates.

E. Mid-Term External Evaluation

24. **With almost 10 years of CD delivery in the region and as part of a global network of RCDCs, CAPTAC-DR has learned and leveraged important lessons**. Two independent mid-term evaluations of CAPTAC-DR activities, one in each 5-year phase, and shared best practices from the network of 16 RCDCs, have provided useful insights to continuously improve the impact of the Center's services. Evaluator's recommendations to Phase II have been discussed with the Steering Committee and incorporated in the design and operations of Phase III.

25. **Phase II's mid-term evaluation provides a very positive assessment of the Center**. According to the OECD Development Assessment Committee (DAC) criteria, also adopted by the Common Evaluation Framework of the IMF, the evaluators confirmed that Phase III will rely on very sound foundations—the DAC criteria are relevance, impact, efficiency, effectiveness, and sustainability. The external evaluation pointed to a very strong demand for CAPTAC-DR's CD services; highlighted efficiency improvements since 2013 (date of the past external evaluation) in relation to budget execution; coordination across CD delivery channels and administrative capabilities; and confirmed a very high value for money relative to other CD providers in the region.

26. **The evaluation also identified areas to strengthen CAPTAC-DR's operations**. Suggested recommendations include enhancements to the RBM system (for instance, a clearer definition of outcome targets and needs); consolidation of the communication and outreach strategy (i.e., assessing past efforts and consolidating gains in the new phase); and focused CD services in public financial management (by limiting interventions to areas of comparative advantage).

27. **CAPTAC-DR welcomed evaluator's findings and will address recommendations in preparation and during Phase III.** Recommendations and follow-up actions were discussed at the Steering Committee meeting of April 2018, where the evaluator also made proposals on how to

strengthen the role of the Steering Committee itself. The complete set of findings of the evaluation and the IMF staff's proposed action plan is detailed in Annex 1.

THE NEXT FIVE YEARS: CAPTAC-DR'S PHASE III
(MAY 2019-APRIL 2024)

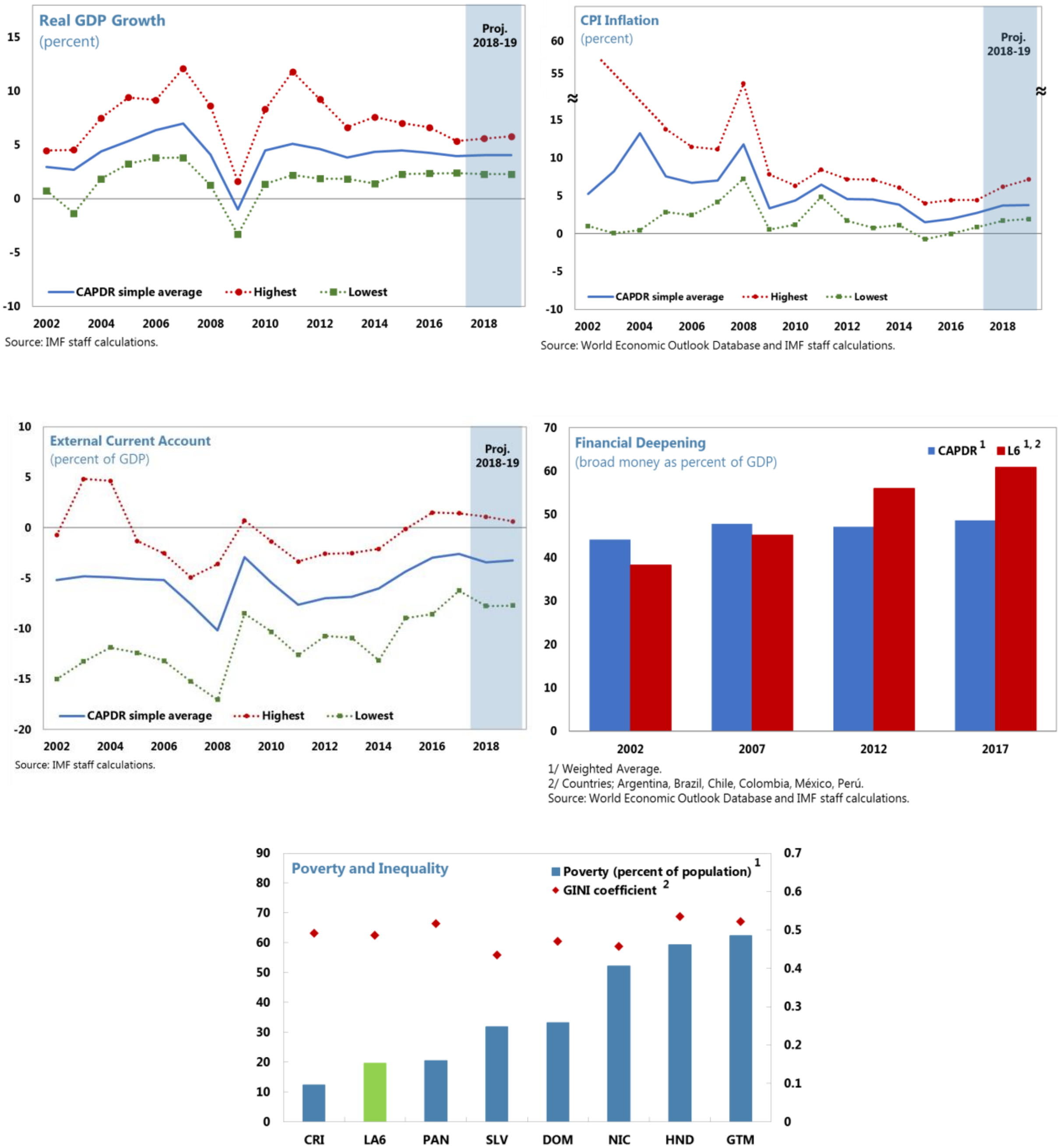
A. Macroeconomic Outlook and Challenges

28. **The region has traditionally maintained remarkable macroeconomic and financial stability, but social conditions have lagged those in other regions** (Figure 2). Countries are well integrated with the rest of the world (mainly, the U.S. economy) through strong links on trade, remittances, and financial and investment flows. The region recovered quickly from the effects of the 2008-09 Great Recession, owing to its countercyclical policy response and the rebounding of external demand. Output growth averaged 4.3 percent per year during 2010-18, reflecting strong growth in Panama and the Dominican Republic, while inflation stayed in the single digit. Key reforms in the regulatory framework boosted the soundness of the financial sector, however progress in financial deepening has been slow. Despite these positive developments, social conditions remain weak, with high poverty levels in most countries, unequal distribution of income, and poor social infrastructure.

29. **On current policies, the region's economic outlook is somewhat subdued**. Supported by an expected favorable performance of the U.S. economy, output growth would be close to potential (4¼ percent per year) over the medium term. However, this is insufficient to secure the convergence of the region with higher middle-income countries and deliver a significant reduction in poverty. The region is expected to maintain macroeconomic stability and the external balance. Inflation would stay within the instituted target bands, despite that shortcomings in monetary policy frameworks hinder an effective transmission of monetary decisions. External current accounts deficits are expected to be manageable and financed mostly by foreign direct investment, while gross reserve buffers would provide limited protection against external shocks.

30. **The regional economy faces important macroeconomic vulnerabilities** (Figure 2). Fiscal policy carries the greatest vulnerability, as most countries have been unable to rebuild fully the buffers used during the 2008-09 Great Recession and redirect fiscal policy to address important social gaps, while public debt-to-GDP ratios will continue to rise. These features make countries vulnerable to adverse shocks, including changes on the still favorable external financing conditions. Given the strong economic linkages with the U.S. economy, the region could be affected by tightened U.S. immigration policies that could reduce remittance flows. Structural weaknesses arising from high oil dependency, low economic diversification, and weak factor productivity could create instability on family incomes and jobs, including from volatility in commodity prices. Despite the stronger financial regulatory framework, banks in the region are largely exposed to high financial dollarization, rising external borrowing, and growing sovereign debt in the balance sheets.

Figure 2. CAPTAC-DR: Macroeconomic and Social Indicators



Source: IMF staff calculations.

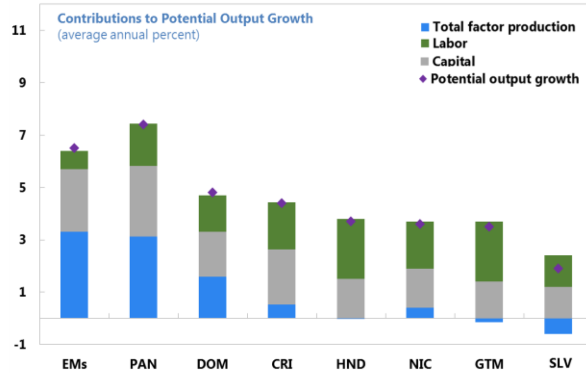
Source: World Economic Outlook Database and IMF staff calculations.

Source: IMF staff calculations.

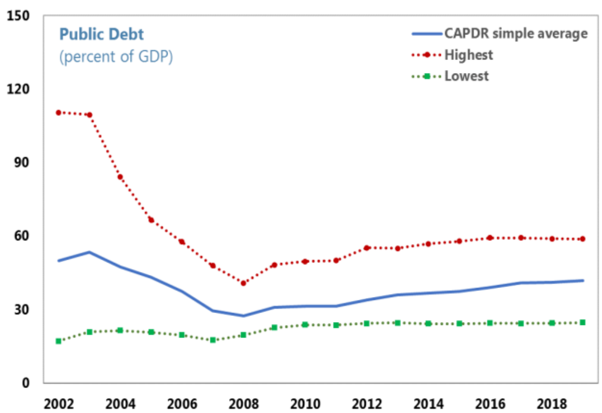
1/ Weighted Average.
2/ Countries; Argentina, Brazil, Chile, Colombia, México, Perú.
Source: World Economic Outlook Database and IMF staff calculations.

1/ Poverty line of US$4 per day.
2/ GINI coefficient (right axis). Perfect equality (inequality) is "0" ("1").
Source: IMF staff calculations.

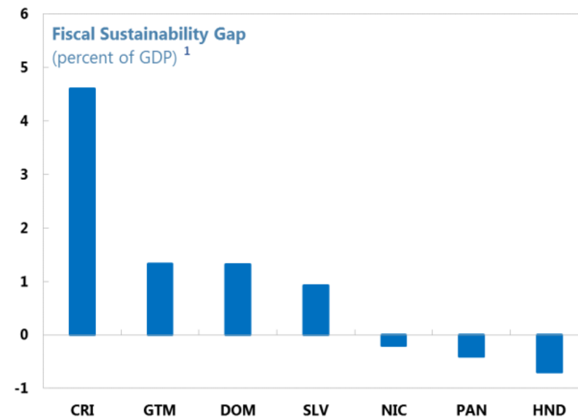
Figure 3. CAPTAC-DR: Macroeconomic Vulnerabilities



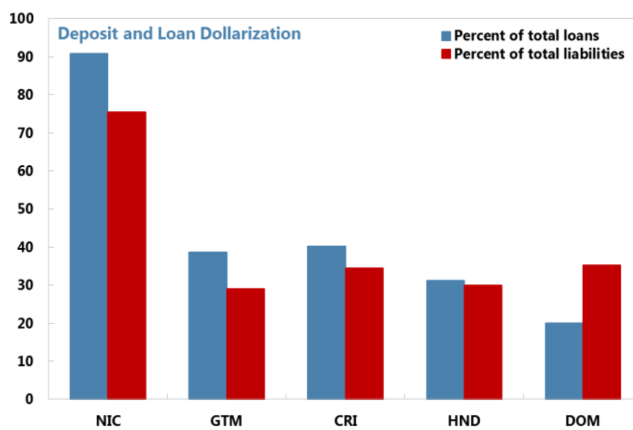
1/ Period of 2001-18 for CAPDR countries, and 2001-14 for emergency markets economies (EMs).
Source: IMF staff estimates.



Source: World Economic Outlook Database and IMF staff calculations.



1/ Fiscal correction that would stabilize the debt-to-GDP ratio.
Source: World Economic Outlook Database and IMF staff calculations.



Source: World Economic Outlook Database and IMF staff calculations.

Policy Priorities

31. **Building on a long period of stability and growth, the region needs to gear the focus toward closing existing social gaps**. Member countries should upgrade their policy frameworks to address the challenges that they face. Some common challenges across the region include:

- **Inclusive growth**. The region needs to raise the growth potential with structural reforms that generate productivity gains and increase investment to boost job creation. Opportunities to lower-income families need to be opened through policies that foster women's participation in the labor force, financial inclusion, and quality of education, among other. Tackling crime, corruption, and strengthening the rule of law would also facilitate investment and lift public support on a reform agenda. These elements would unlock domestic sources of growth and foster greater inclusion. This priority would require stronger macroeconomic institutions (such as, public financial management and statistics for analysis) and human capacity to design strategies that remove economic obstacles and promote governance in public agencies.

- **Regional integration**. The region also needs to deepen its economic and financial integration, like in other more dynamic regions, to attract investment and boost growth. Countries need to seize on the opportunity provided by the WTO trade facilitation agreement to promote intra-regional trade, through steps to harmonize trade regulations and customs practices, upgrade technologies and infrastructure, and establish the envisaged customs union for Northern Triangle countries (El Salvador, Guatemala, and Honduras). They also need modern supervisory frameworks to reap the benefits of financial integration while mitigating the associated risks.

- **Fiscal policy**. Most countries need to phase out sustainability gaps, create space for critical public investment and equality spending, and restore capacity for countercyclical responses. This ambitious agenda must rely strong on government agencies to foster revenue mobilization, reallocate spending to support inclusive growth, and promote fiscal transparency and accountability. Reforms would also have to address pressures from the pension and healthcare systems, with the aging of the population. Developing stronger fiscal policy frameworks, with credible fiscal anchors, will not only help entrench fiscal discipline, but will also persuade civil society to support the difficult policies for fiscal consolidation and inclusion.

- **Monetary policy**. The five non-dollarized member countries need to strengthen the monetary policy framework to increase the effectiveness of monetary policy as a tool for macroeconomic stabilization. They also need stronger foundations for greater exchange rate flexibility to isolate the economy against external shocks and strengthen the credibility of the inflation targeting frameworks. Given the close correlation between price stability and financial stability, it is essential to develop sound macroprudential policy frameworks, together with the associated institutional and operational foundations. This effort needs to be conducted at the regional level and in coordination with financial institutions of supervision.

- **Financial sector**. The region should continue to strengthen safety net frameworks, reduce mismatches in balance sheets, and close the gap with respect to international best practices on the regulatory, accounting, and operational aspects of risk-based supervision and cross-border consolidated supervision. The perimeter of supervision needs to be extended to the insurance and other non-bank institutions to ensure the integrity of the sector, enhance the intermediation of savings, and open access to the unbanked segment of the population.

B. CAPTAC-DR's Role in Tackling the Region's Challenges

32. **The key objective of the Center in Phase III is to build the capacities of member countries to support their economic policy priorities and attain regional integration goals**. CAPTAC-DR is well placed to respond to the needs of its member countries, leveraging its expertise on macroeconomic and financial issues and assisting member countries in developing human and institutional capacity, both at the national and regional levels, to design and implement their desired policy strategies.

33. **The strategy and objectives for Phase III have been identified through extensive consultation**. Discussions were conducted with member countries, IMF HQ, development partners, and other CD providers. The foundation of this strategy is the national reform strategy of each member country. Regional strategies developed by the three regional councils, played a critical role to helped determine priorities and CD demand. Consultations indicated that CAPTAC-DR should continue assist countries in the following priority areas:

1. Tax Administration
2. Customs Administration
3. Public Financial Management
4. Financial Sector
5. Central Banking
6. National Accounts and Price Statistics
7. Government Financial Statistics

34. **The priority areas are fully aligned with the IMF CD strategy, broader regional goals, and areas of expertise**. Prospective areas of engagement for the new phase are closely tied to the IMF commitments to the Financing for Development agenda to facilitate the attainment of the Sustainable Development Goals, through increased domestic resource mobilization, better spending of public resources, broader financial inclusion, and enhanced macroeconomic statistics for policy analysis. The delivery of CD will be carefully calibrated with other IMF's multi-partner vehicles, such as the Financial Sector Stability Fund (FSSF), the Revenue Mobilization Trust Fund (RMTF), the Tax Administration Diagnostic Assessment Tool (TADAT), and Public Expenditure and Financial Accountability (PEFA). These complementarities will enable the Center to maximize the impact of its interventions and avoid overlap or duplication of efforts.

35. **The objectives and indicators for Phase III are summarized in the logical framework** (Annex II). In line with the IMF's RBM system, the annual work plans associated with Phase III will develop each of the proposed multi-year projects into dedicated logical frameworks (logframes). They will provide broader indicators, which will be supplemented with specific milestones. The

agreed milestones will be relevant and verifiable, consistent with the timetable of project implementation and monitoring. The main objectives of the proposed multi-year projects are:

- **Public finances**. With a view of supporting revenue mobilization efforts, CD activities on tax administration and customs administration will aim at strengthening management and governance arrangements, and the core administration functions, while improving the gender balance in the organizational structures. To gear public spending toward investment and social priorities and enhance fiscal transparency, public financial management activities will focus on integrating treasury and debt management, developing strategies to mitigate fiscal risks; strengthening medium-term fiscal frameworks; gender budgeting; public investment management; and implementing international accounting standards.

- **Financial sector**. CD activities on financial supervision and regulation will mainly focus on achieving international best practices in risk-based supervision; cross-border consolidated supervision; and macroprudential supervision. Activities will also improve capacity to mitigate vulnerabilities arising from financial dollarization and other mismatches in balance sheets. Central banking will address the shift to forward-looking monetary policy frameworks; systemic risk and financial stability; and developing macroprudential policy frameworks.

- **Statistics**. In light of the need to have better data for policy maker and private investors, CD activities on national account and price statistics will bring statistics closer to international best practice, along with improved harmonization with the external and monetary statistics, while focusing on year-rebasing projects in the region and helping measure inequality gaps. The area of government finance statistics will strengthen the compilation and dissemination of government and public-sector debt statistics, together with the analysis of fiscal policy, and will help harmonize these statistics across the region over the medium term.

Operational Mechanisms

36. **Based on the upcoming Review of the IMF Capacity Development Strategy, CAPTAC-DR will strive to further enhance the effectiveness and sustainability of CD delivery**. During Phase III, the Center will rely on the following operational principles:

- **Integration**. Take steps to integrate further CD activities with IMF surveillance and program work to enhance impact. Continue integrating training and TA projects in support of the strategic priorities of member countries;

- **Emerging themes**. Strive to address, through its CD projects, evolving needs on emerging themes (inequality, gender, climate change) and other cross-cutting issues (governance, transparency, AML/CFT, correspondent banking relations) as they arise;

- **Results-orientation**. Leverage the adoption of the IMF's RBM framework to facilitate implementation, monitoring, and reporting of CD services. With the standard catalog of objectives, outputs, and indicators, the Center is expected to improve its dialogue with the authorities and report to development partners; and

- **Synergies**. Maintain close collaboration with development partners and other CD providers to pool efforts and strengthen partnerships in CAPTAC-DR's core CD areas of activity.

C. Capacity Development Program

Tax Administration

37. **The strategic objectives for Phase III are to enhance managerial capacity, governance, and core functions of the tax administration**. Building on the progress made in Phase II, particularly on taxpayers' registries, member countries will seek to further develop risk management and taxpayer controls. The emphasis will center on increasing voluntary tax compliance and strengthen governance across the region. Expected outcomes for Phase III are related to the following topics:

- **Managerial capacity and governance as pillar of voluntary tax compliance**. Upgrade managerial capacity to unlock tax administration reforms, with dedicated resources and adequate communication strategy. Clarify the organizational structure along functional lines and/or taxpayer segments, with the adoption of a clear separation of roles between the central office and local branches. Assess risks to tax collection and develop mitigation strategies. Establish accountability and transparency indicators to elevate integrity and ethical standards.

- **Core functions I**. Build further capacity of tax offices to: (i) sustain the integrity of the taxpayer registry; (ii) conduct automated cross-checking of third party data to verify return information; (iii) support audit operations, with an IT system that consolidates historical records of taxpayer compliance; (iv) utilize analytical data to select the auditing of high-risk taxpayers; (v) allow for international exchange of information and adopt tax transparency standards; (vi) issue tax rulings to provide taxpayers with certainty as to how the tax administration will apply the tax law; and (vii) support voluntary compliance through improved customer service.

- **Core functions II**. Simplify further tax filing, including pre-filing of declarations and reminding taxpayers of approaching deadlines. Introduce automated processes to quickly identify taxpayers who fail to declare on time. Enhance the management of tax arrears, which requires: (i) a sounder legal framework; (ii) dedicated collection units with full-time and well-trained staff; and (iii) outbound call centers and e-communication facilities to contact debtors.

- **Training**. Countries will obtain training on various topics through regional and bilateral events, with the objective of facilitating the achievement of expected outcomes and developing tax administrations officers' capacities. Training activities will be delivered in coordination with other CD providers and development partners, seeking gender balance in participation.

Customs Administration

38. **The strategic objectives for Phase III emphasize a strengthening in the areas of managerial capacity, governance, and core functions to facilitate trade and reduce evasion,**

while improving gender balance in customs. The agenda for customs administration in member countries will be guided by the continued implementation of the WTO trade facilitation agreement, the shifting towards a regional customs union (mainly in El Salvador, Guatemala, and Honduras), and the goals of reducing fraud and contraband. Despite the remarkable progress achieved in Phase II, there remain significant gaps in various areas of customs. The Center will support the following expected outcomes for Phase III:

- **Managerial capacity and governance**. Work extensively to consolidate capacity for strategic management, set out regular accountability plans, and clarify the organizational structure along functional lines. Utilize key performance indicators and develop high-quality customs statistics to inform decision-making regarding future reforms on customs operations. Develop more effectively human capital, including by establishing a sound customs career and achieving greater gender balance in the organizational structures, with a view of boosting integrity and ethics on customs operations.

- **Core functions**. To progressively close the gap with the WTO trade facilitation agreement, improve the main customs processes, apply customs controls more effectively, and make more intensive use of information technology, in the context of a coordinated border management approach—this strategy would greatly reduce the opportunities for corruption and evasion. Update the regional customs legal framework, using as reference the gap analysis developed in Phase II, to support the modernization of the regional customs management and raise the competitiveness in trade operations.

- **Risk management**. Implement the regional strategy on risk management developed in Phase II to strengthen capacity to prevent and mitigate risks related to fraud and contraband, while facilitating legal trade. The strategy will guide actions to improve the areas of traceability of goods, risk analysis, post-clearance audit, coordination with tax and other stakeholders, and fostering the use of technology to enhance customs capacity.

- **Training**. Strengthen the technical skills of customs officers to achieve the strategic objectives for Phase III. The Center will introduce a Management Development Program, targeting middle- and high-level officers across the region to upgrade managerial capacities. The Center expects to deliver its training strategy, by leveraging knowledge and financial resources from other international institutions and customs offices from countries outside the region.

39. **The Center will continue to collaborate with other CD providers, building on the successes of Phase II**. Collaboration in the areas of tax and customs administrations will help unify strategic objectives, reach synergies, and avoid duplication. The Center will maintain regular communication and coordination channels with other CD providers such as the CIAT, COSEFIN, the European Union, IADB, OTA, USAID, SIECA, WCO, and the World Bank. CAPTAC-DR will also actively participate in IMF missions and support HQ surveillance and program work in the region.

Public Financial Management

40. **Strategic objectives for Phase III are to foster fiscal sustainability, budget efficiency, and transparency**. Despite progress achieved during Phase II, with the introduction of the TSA and improved macro-fiscal forecasting, there are areas that need further attention, including gaps in cash management and investment policies; performance of the TSA; Treasury's role in monitoring all government financial assets; and the capacity of Finance Ministries to assess the fiscal impact of macroeconomic or specific shocks. To address these gaps, Phase III will focus on the improvement of budget preparation and gender sensitivity, sound assets and liabilities management, and appropriate fiscal risk management. The expected outcomes for CD assistance in Phase III include:

Core themes

- **Budgeting**. Improve budget preparation and strengthen medium-term fiscal frameworks; develop capacity to improve the credibility of the annual budget and medium-term budget documents, through more reliable forecasts and budget structures that can be linked to stated policy objectives; improve medium-term macro-fiscal forecasts.

- **Assets and liabilities management**. Broaden the TSA coverage to at least the central government agencies; improve the integration of treasury and debt management; and enhance the management of greater liquidity that may resulting from stronger TSAs.

- **Fiscal risks and reporting**. Disclose fiscal risks through comprehensive annual reports, and develop strategies to mitigate such risks. For member countries that plan to produce annual fiscal-risk reports or improve them, the Center will share specific techniques for assessing fiscal risks in state-owned enterprises, local governments, pension schemes legal disputes and natural disasters, amongst others. For member countries that have already taken steps in this direction, support will be provided on the elaboration of strategies to mitigate fiscal risk. This effort will decisively enhance decision-making in budget formulation.

Emerging policy issues

- **Governance**. Develop stronger institutions for PFM under good governance. Build capacity to design, execute, and sustain PFM reforms. The Center will conduct shared diagnostics and assessments of Public Investment Management (PIMA) to improve the effectiveness and efficiency of investment projects.

- **Transparency**. Broaden the coverage of financial statements and gradually implement IPSAS standards. Accurate reporting is one of the main pillars of the Fiscal Transparency Code and the Centre will assist the region elaborate more comprehensive and reliable fiscal statements, with a view of promoting greater transparency, accuracy, and international comparison.

- **Inclusion**. Build capacity to promote gender-sensitive budgets in all member countries, and strengthen internal control over expenditure, with the objective of improving budget execution and transparency.

- **Training**. The Center will give greater priority to integrate training to TA on emerging issues, especially gender balance and fiscal transparency. CAPTAC-DR will coordinate with development partners to leverage their experience in these areas.

Financial Supervision

41. **Building on previous progress, the focus will be on the continued implementation of best practices on supervision and regulation for Phase III**. CD efforts will center on risk-based supervision, consolidated cross-border supervision, and macroprudential supervision. The Center will remain agile in responding to emerging country needs, including issues on correspondent banking relations and AML/CFT, and will increase the focus on cross-cutting issues, such as financial inclusion. Expected outcomes for Phase III are:

- **Regional**. Consolidate cross-border supervision, by adopting (i) a common approach to corporate governance on financial groups and risk management, (ii) a standardized methodology for capital adequacy of banking groups, and (iii) homogenous treatment of consolidated risks exposure (i.e. related parties and large exposures). Adopt CD advice on regulations for regional banking groups, and harmonize IFRS, as countries focus on the assessment and adoption of more complex accounting standards (including the IFRS 9 Financial Instruments, and IFRS 3, 16, 15, and 17). The CCSBSO will develop a common accounting language that will reduce regional financial risks.

- **Regulations**. Enhance the regulatory and prudential frameworks to further underpin financial stability. At their own pace, countries will update and introduce risk regulations (credit, market, and operational risks) and other standards (interest rate risk in the banking book, country and transfer risk, and sovereign risks). Countries are also interested in the oversight of emerging risks and CAPTAC-DR will assist as needed.

- **Supervision**. Oversee more effectively key risks in the banking and non-banking sectors. In the banking sector, develop monitoring tools for credit, market, liquidity, and operational risks. Update on- and off-site manuals and procedures, and improve information reporting systems for off-site monitoring. In the non-banking sector, taking advantage of progress made in Phase II, strengthen the monitoring of the insurance sector and related risks (i.e., catastrophic risks); and develop capacity to supervise the insurance and securities sector. Countries plan to conduct diagnostics to broaden the supervisor's perimeter (i.e. to overview credit card issuers), and assess the challenges of supervising fintech businesses and cyber risks.

- **Basel standards**. Build strong capital positions to cover for unexpected risks, will require the introduction of: (i) required capital for market and operational risks, (ii) guidelines for internal capital assessment; (iii) updated capital quality requirements, and (iv) Basel III capital buffers. Regarding liquidity standards, introduce the liquidity coverage ratio and the net stable funding ratio. These ingredients will strength the microprudential foundations that are required for an effective implementation of macroprudential policy.

- **Training**. The strategy is to facilitate implementation of TA projects and build the supervisory skills of officials in the region. Training will also cover cross-cutting topics, including financial inclusion, macroprudential supervision, anti-money laundering, and other relevant areas of technological innovation (such as fintech, cyber risk, e-money, and mobile banking).

42. **The Center's CD assistance on financial supervision will also leverage IMF knowledge resources**. CAPTAC-DR will closely coordinate activities with IMF HQ and team up with other IMF multi-partner vehicles, such as the FSSF for work on financial supervision, and the topical global fund for anti-money laundering initiatives to meet the anticipated higher regional demand for CD in the latter area.

Central Banking

43. **The strategic objectives for Phase III are to further improve the effectiveness of monetary policy and develop additional capacity for financial stability analysis**.

- **Monetary policy**. Central banks are expected to take decisive steps towards building a framework of forward-looking monetary policy. For countries under inflation targeting, the priority will be to ensure consistency between frameworks for monetary and foreign exchange operations with the stated medium-term target for inflation, supported by the development of the interbank market and the secondary market for securities. For countries introducing greater flexibility on the exchange rate, the goal is to strengthen money markets to smooth out the transition and enhance transparency in their foreign exchange markets.

- **Financial stability**. Countries will build capacity to gradually develop stronger frameworks for macroprudential policies. The initial task will be to identify and assess relevant systemic risks that could threaten financial stability. Countries with a high degree of financial dollarization will focus on reducing exposure to currency risks as they transition to more flexible exchange rates.

44. **Expected outcomes of CD support in central banking during Phase III are**:

Regional level

- **Systemic risk**. Building on improvements achieved in Phase II, further develop frameworks for systemic risk monitoring at the regional level, combining the use of analytical models with indicators of regional vulnerabilities.

- **Payment system**. Support the rollout of a regional payment system through training provided, in coordination with MCM, to staff working on the operationalization of the principles of the Committee on Payment and Settlement Systems and on the adoption of operational best practices.

Country level

- **Monetary operations**. Ensure full consistency between the frameworks of monetary policy and operations with the usage of monetary instruments and intervention in foreign exchange markets, with a view of decisively shifting to the implementation of forward-looking monetary policy. Support further development of payment systems and interbank markets, including for repurchase operations, to deepen the transmission of monetary policy decisions to aggregate demand.

- **Financial stability**. Support the development of institutional and operational frameworks for macroprudential policies that would integrate stress-testing models with proper analysis of the expanded arsenal of systemic risk indicators. This would help central banks to foster financial stability at different stages of business cycles.

- **Financial safety net**. Upgrade further the financial safety net to minimize potential costs in the resolution of financial institutions, in line with the evolution of the region's financial systems. This upgrade would contribute to contain moral hazard in the financial sector.

Emerging policy issues

- **Governance**. The Center will continue supporting an upgrade of central banks' financial reporting in line with the IMF's safeguards assessments to help ensure adequate use of financial resources by central banks.

- **Financial inclusion**. Recent studies show that the upgrade of retail payment systems helps reduce transaction costs for financial intermediation, which favors access to financial services for low-income segments of the population. The Center will explore opportunities for training of central banks' staff on issues associated with retail payment systems through upgrades in electronic banking, digital platforms, and other fintech developments that contribute to a reduction of transfer costs.

- **Climate-related shocks**. In developing central banks' systemic risk monitoring frameworks, the Center will make sure that coverage of potential losses arising from climate change is incorporated, including by assessing the financial sector exposure to regions especially vulnerable to weather-related shocks.

National Accounts and Price Statistics

45. **The strategic objective for Phase III is to strengthen the quality of national accounts statistics to better inform policy analysis and formulation, and help assess income inequality and gender gaps**. The region is more prepared to produce and disseminate real sector statistics in line with international best practices. The expected outcomes over the next five years will focus on consolidating the technical procedures of the national accounts offices; harmonizing national accounts with other sectoral statistics; and developing key indicators for social and economic inclusion. Training will help build technical capacity of statistical offices and improve the regular

production and dissemination of more accurate national account and price statistics series. Priority outcomes for Phase III are:

Regional level

- **Harmonization**. Improve the standardization of methodologies for the compilation of national accounts in the region; harmonize the external sector statistics and monetary and financial sector statistics with the national accounts, in line with international standards (*BPM6, MFSMCG 2016*); develop capacity for the analysis of statistics. As for regional training, the Center will seek collaboration with other CD providers, such as CEMLA and ECLAC.

- **Inequality**. Within the context of the IMF mandate, develop capacity to produce statistics that measure gender gaps and income inequality, with a view of informing the design of inclusive policy-making.

Country level

- **Base year**. Rebase the national accounts regularly to maintain the benchmark year no older than 10 years, as suggested by best practices. There will be rebasing projects in five members (Costa Rica, Honduras, Nicaragua, Panama, and the Dominican Republic). For the two members that recently concluded their rebasing projects (El Salvador and Guatemala), CD assistance will focus on the accuracy of the data compilation and preparation for a new rebasing process. Other projects for all members will help upgrade: (i) the compilation of quarterly national accounts and monthly indicators; (ii) the sources of data for annual national accounts; and (iii) the measurement of the non-observable economy.

- **Price indices**. Develop capacity to update producer, consumer, and foreign trade price indices. This process will supplement the national account projects, thus providing more accurate macroeconomic statistics by country and for the region. By the end of Phase III, member countries should be able to independently modernize their prices indices.

- **Institutional sectors**. Strengthen the accounts of institutional sectors, and in the context of rebasing projects, enhance the integration of these accounts with the flow-of-funds matrix. This is expected to enhance the financial programming and analysis of macroeconomic policies across countries. Taking advantage of progress in harmonizing the monetary and financial, and balance of payments statistics, the goal is to harmonize the remaining institutional sectors (the public finances and real sector statistics) into the overall system of national income accounts in each member country during Phase III.

Government Finance Statistics

46. **The strengthening of statistics for the design and analysis of fiscal policy will remain the strategic objective for Phase III**. The focus will shift from raising awareness on the importance of adhering to best practice to implementing the work plans developed during Phase II. Key expected outcomes will include the broadening of data coverage, with improved consistency and

dissemination of high-quality comparable statistics across the region—this is in line with initiatives of transparency and anti-corruption followed around the globe. During Phase III, there will also be emphasis on improving the functional classification of expenditures to inform assessments of the environment and social protection; and gradually harmonizing statistics across the region. Expected outcomes for Phase III will be:

- **Public finance statistics**. Achieve consistency with other macroeconomic statistics: this will require (i) improving sources of data, practices for accounting, and methodology of compilation for annual and quarterly statistics; (ii) broadening the coverage of operations (presently, there is partial coverage of local governments, state enterprises, decentralized agencies, trust funds, public-private partnerships, and off-balance operations). Achieve consistency in the measurement of the fiscal deficit (between "above the line" and "below the line") and incorporate balance-sheet elements into the consolidation of operations.

- **Public-sector debt**. Broaden the institutional coverage of the public-sector debt and contingency liabilities data to include local governments, trust funds, decentralized agencies, and state enterprises; and widen public sector debt transactions. The latter will require expanding the compilation of transactions to include nonnational definitions of public debt (other accounts payable, and currency and deposits) and financial assets (other accounts receivable) to generate stronger statistics of net public debt for surveillance.

- **Training**. Build capacity to analyze public finance and debt statistics to inform surveillance and policy work: there will be coordination with the work stream of public financial management and the interinstitutional working group to develop analytical indicators, assess linkages with other statistics, and focus on priorities for public financial management (such as inclusive policies). Training will facilitate the process of harmonization of *GFS* and *PSDS* in the region.

General Training

47. **A range of focused training courses will support the achievement of the strategic objectives set out for Phase III**. Aligned with the priority areas, courses will emphasize aspects of domestic revenue mobilization, public financial management, banking supervision and financial stability, monetary and exchange rate policies, macroeconomic statistics, and inclusive growth (the IMF course catalog is in http://www.imf.org/external/np/INS/english/pdf/catalog2018.pdf). The courses will provide knowledge on best practices and will be framed considering these key aspects:

- **Integration**. Training will continue to be integrated with TA projects, and both will reinforce each other in support of surveillance and policy priorities. Participating officials will be encouraged to use training (whether face-to-face or online) in support of their strategic objectives for CD and, to this end, courses will be matched with the most important needs of member country authorities.

- **Emerging policy issues**. Training will highlight macroeconomic policies that address the issues of gender balance, social inclusion, and environmental impact, as well as governance.

CAPTAC-DR will incorporate in its annual work plan a mix of courses that combines core area topics (public finances, financial sector, and statistics) with gender budgeting, inclusive growth, natural resource depletion analysis, and anti-money laundering, among other topics.

- **Customization**. Opportunities for customized training will be explored, which is closely tailored to country's needs—for instance, training officials within an agency over one or several missions. Customized training has a greater direct impact than traditional training, but at a higher cost, and thus needs to be deployed selectively, whenever demand by the recipient country is strong and the project is deemed high priority by the IMF.

- **Collaboration**. Regional training with other CD providers can be organized in line with envisaged TA projects. In this context, fostering peer-to-peer learning across countries will be a key goal of any training activity.

D. Projected Financing Requirements

48. **The budget of CAPTAC-DR for Phase III is projected at US$43.4 million** (Table 2). This financing envelope is determined by the CD needs identified by member countries and the IMF strategy for the region. It also reflects the desired level of CD delivery and absorption capacity sustained in FY18-19. The financing for this budget is expected to be shared by the Central Bank of Guatemala as host institution, the IMF, member countries, and development partners.

- **Guatemala, IMF**. In-kind contribution is projected to amount to US$3.4 million, as the Central Bank of Guatemala will cover some administrative salaries and office facilities, while the IMF will cover other overheads.

- **Member countries**. Members have been encouraged to consider an increase in their financial support, for a combined contribution of US$10.5 million or US$1.5 million by country. If members were to agree, the increase would bring their share to 24 percent of Phase III budget (up from 10 percent in Phase II). Such an effort would reflect the appreciation of members to the results of the Center and would put its financial sustainability on a more solid ground.

- **Development partners**. Targeted resources sought from development partners amount to US$29.5 million for Phase III, slightly up from US$27.5 million in Phase II.

49. **The proposed budget reflects the activities described in preceding sections and includes the following specific components:**

- **Resident advisors and short-term experts**. The Center will maintain seven resident advisors, one for each topical CD area, as noted in ¶33. The Center will continue to rely on high-quality short-term experts to supplement the work of resident advisors on TA and training to member countries, as discussed in the proposed CD program (¶37-47). This will allow the Center to respond flexibly to member countries' CD needs.

Table 2. CAPTAC-DR: Proposed Budget for Phase III
May 2019 – April 2024
(In millions of U.S. dollars)

Project / Activity	Total Budget
Customs Administration	**5.0**
Long-term Advisors	2.0
HQ Led Missions	0.4
Short-term Advisors	1.6
Seminars & Study Tours	0.5
Other[1]	0.5
Public Financial Management	**5.3**
Long-term Advisors	1.9
HQ Led Missions	0.4
Short-term Advisors	1.5
Seminars & Study Tours	0.9
Other[1]	0.6
Tax Administration	**5.0**
Long-term Advisors	2.0
HQ Led Missions	0.4
Short-term Advisors	1.6
Seminars & Study Tours	0.5
Other[1]	0.5
Banking Supervision and Regulation	**4.2**
Long-term Advisors	1.8
HQ Led Missions	0.1
Short-term Advisors	1.4
Seminars & Study Tours	0.3
Other[1]	0.6
Monetary Policy Operations	**4.2**
Long-term Advisors	1.8
HQ Led Missions	0.1
Short-term Advisors	1.4
Seminars & Study Tours	0.3
Other[1]	0.6
Government Finance Statistics	**4.1**
Long-term Advisors	1.8
HQ Led Missions	0.3
Short-term Advisors	0.7
Seminars & Study Tours	0.8
Other[1]	0.5
Real Sector Statistics	**5.1**
Long-term Advisors	1.8
HQ Led Missions	0.0
Short-term Advisors	1.8
Seminars & Study Tours	0.8
Other[1]	0.7
Financial and Fiscal Law	**0.5**
HQ Led Missions	0.5
Other[1]	0.0
General Training	**1.3**
Administration[2]	**1.4**
Governance and Evaluation	**0.3**
Contingency	**0.8**
Subtotal	**37.4**
Trust Fund Management	*2.6*
Targeted Contribution	**40.0**
IMF (in-kind)	**2.5**
Central Bank of Guatemala (in-Kind)	**0.9**
Projected Budget	**43.4**

Source: IMF, Institute for Capacity Development

[1] Includes backstopping, project management, language services, security, and governance costs under CD departments.

[2] Comprises FIN and WHD project management, as well as Center Coordinator travel, local staff, and local office operations costs.

- **Backstopping and management**. IMF HQ quality review will help ensure that the CD services provided by the Center are of high standards and consistent with the IMF's best practices; while IMF HQ support on project management will secure that the CD delivered by the Center is effective and efficient.

- **External evaluation**. The budget also reflects the cost of the next independent mid-term evaluation of the operations of the Center.

50. **A contingency plan addresses the eventuality of insufficient or delayed financial contributions**. The Center will seek early pledges and commitments to secure a smooth transition and stable operations during Phase III. However, depending on the magnitude of any financing shortfall or timing gap, contingency actions could be implemented chronologically as follows:

- **First**, the training program would be sharply prioritized while keeping a balance between TA areas. Courses with lower priority would be the first to be phased out;

- **Second**, the number of outcomes would subsequently be reduced, leaving up to one or two outcomes per area at most. This reduction would be accompanied by larger-than-equivalent reductions in short-term experts' contracts, as resident advisors would be redeployed to cover a larger part of the missions currently performed by short-term experts; and

- **Third**, if the previous measures would be insufficient, the number of topical areas (and resident advisors) would be orderly scaled back to match resources without compromising the program objectives in the other areas. At the same time, fundraising efforts would be scaled up including requests for additional contributions by current partners and members countries.

E. Operational and Financial Management

Value for Money

51. **As part of the global network of RCDCs, CAPTAC-DR operates in accordance with standardized IMF procurement, operational, and financial procedures**. Requirements are set out for competitive contracting and obtaining best value, while ensuring that specific standards are maintained and subject to scrutiny and review. Travel and accommodation entitlements comply with IMF standard rules. CAPTAC-DR remuneration for resident advisors and short-term experts are competitively based on international comparators to secure the best qualified candidates, including securing appropriately experienced and skilled experts from the region.

52. **The institutional capacity of the IMF helps secure high quality support services at competitive cost**. This includes corporately negotiated accommodation rates and travel agency services. Working within this framework, CAPTAC-DR staff will continuously strive to ensure best value for money from service providers, particularly on the aspects below:

- **Regional training**. The selection of venues for training is based on: (i) the comparison of price and quality of services to select the most competitive offers (in some cases collaborating with partners that may cover certain costs); (ii) overhead outlays, such as travel and administrative costs for CAPTAC-DR experts and participants; and (iii) cost effectiveness for participant travel. These factors are regularly reviewed and analyzed for future planning and budgeting;

- **Short-term experts**. Travel cost for short-term experts, who originate from outside the region, is optimized whenever possible through back-to-back assignments;

- **Planning and coordination**. Maximizing planning secures expert availability and ensures lowest travel and accommodation rates. This approach prevents additional costs that could be incurred due to unforeseen changes. Linking up with activities of development partners and other CD providers helps generate synergies and savings.

53. **Alternative cost-saving measures are continuously explored**. This entails increased use of technology, such as video conferencing and on-line training, including for post-mission follow-up and, where applicable, for some seminars with presentations of less than one hour.

Operations

54. **Work plan**. The annual work plan makes operational the strategic objectives outlined in the program document. The CC, in collaboration with resident advisors, develops the work plan in consultation with member countries, incorporating their strategy for macroeconomic reform and within the context of the IMF's CD prioritization process. IMF's country teams and resident advisors maintain continuous dialogue with member countries and agree on CD needs and priorities. The development of the annual work plan is aligned with the IMF's budget cycle and with its resource allocation process to ensure timely and predictable delivery of CD interventions.

55. **Integration**. CAPTAC-DR conducts intensive discussions with IMF country teams to: (i) share developments on capacity building to inform surveillance; and (ii) receive teams' assessment on emerging policy priorities and new areas of CD need. As noted in ¶36, the Center seeks to deepen this two-way approach during Phase III to raise the effectiveness of CD services and enhance the understanding on the capacity of a member country to absorb policy advice. The IMF is developing new ways to further operationalize the integration of CD and surveillance, which will benefit the activities of CAPTAC-DR.

56. **Performance**. The Center relies on the RBM system to track implementation of CD projects. Member countries and the Center agree on a logframe for each project, establishing a set of milestones and indicators to be progressively implemented to achieve the strategic objectives. Logframes are based on RBM catalogs of standard indicators and objectives, which harmonize all CD services delivered by the IMF. This system provides consistency and predictability to the planning and delivery of CD activities by the Center.

57. **Quality**. The IMF HQ and the Center share responsibility for sustaining the quality of the advice and activities delivered by CAPTAC-DR. The process begins with the selection of highly-qualified resident advisors and the recruitment of short-term experts from a roster of qualified experts. It continues with the backstopping from HQ of the Center's activities. HQ authorizes all TA

reports prepared and presented by resident advisors and short-term experts, and together with country authorities and the Center, follow up on the implementation of advice. The CC provides another layer of quality control through the management of the Center and continued engagements with member countries.

58. **Accountability**. CAPTAC-DR operates in a manner that ensures that the delivery of CD is responsive to member countries. The IMF's dissemination policy supports accountability and facilitates coordination (http://www.imf.org/external/np/pp/eng/2013/061013.pdf). Under the policy, TA reports may be shared with the Steering Committee members with consent of the TA beneficiary on a no-objection basis, and with the understanding that such information is kept confidential. Sharing of TA reports with non-Steering Committee partners is determined on a case-by-case basis, depending on whether that partner has a legitimate interest in the TA report in question and has signed a confidentiality agreement, for example through its engagement in related activities in the member country. Countries are also encouraged to publish TA reports in the public domain.

59. **Governance.** As noted in ¶6, the Steering Committee provides strategic guidance to the Center, and meets once a year at the IMF HQ to discuss the work plan for the coming fiscal year. The Chairman is the *pro tempore* President of the CMCA and the Vice-Chairman is the *pro tempore* President of COSEFIN. The President of the CCSBSO and Executive Secretaries of the three regional councils are permanent observers. The Coordinator acts as the Steering Committee Secretary.

60. **Feedback**. The Steering Committee constitutes another forum for accountability. Countries can formulate immediate feedback and advice on the delivery and value of CD assistance. The Steering Committee receives relevant information to guide the work of the Center. Furthermore, IMF staff solicit contributions from recipient countries at the various stages of CD delivery.

61. **External evaluation**. An independent evaluation of CAPTAC-DR operations will be carried out at the mid-point of Phase III. The evaluators are expected to assess effectiveness, impact, and sustainability of the CD provided by CAPTAC-DR, bearing in mind the long-term nature of capacity building. The evaluation will also focus on the relevance of projects and the efficiency of delivery. Recommendations will inform discussions on CAPTAC-DR's future operations.

Financial Management

62. **Subaccount**. Contributions to Phase III will be made into a multi-partner CAPTAC-DR subaccount, under the IMF's Framework Administered Account for Selected Fund Activities (the "SFA Instrument", see http://www.imf.org/external/np/pp/eng/2009/030409.pdf). The subaccount will be used to receive and disburse financial contributions for the Center's activities; all contributions to the subaccount will be for the sole use of CAPTAC-DR. The basis for the financial arrangements between development partners or member countries and the IMF will be a letter of understanding. The letter establishes the purposes of the contributions related to this Program Document, subject to the terms and conditions of the Subaccount, as well as the SFA Instrument.

63. **Audit**. The IMF will report on CAPTAC-DR subaccount's expenditures and commitments through a secure external webpage. Annual reporting on the execution of CAPTAC-DR's work plan and budget will be provided at each Steering Committee meeting. Costs will be reported on an actual basis. The operations and transactions conducted through the subaccount during the financial year will be audited as part of the SFA Instrument, and the external audit report will be posted on the IMF's external website as part of the IMF's Annual Report.

COMMUNICATION AND VISIBILITY

64. **CAPTAC-DR seeks to consolidate the visibility of its activities, building on the progress achieved in Phase II**. Communications and outreach activities are based on a proactive strategy, updated regularly and presented in the annual reports. The emphasis will be on raising awareness of the activities of the Center; increasing visibility of development partners; and better disseminating CD achievements. Efforts will leverage the following channels and platforms:

- **Website**. The Center will make full use of its website, which has recently been made easier to navigate and more standardized with other RCDCs. In terms of its content, the Center carries out frequent updates to make the website the go-to place for information on technical assistance and training. Twitter and Facebook serve as key outlets for social media to broaden the target audience.

- **Newsletter.** The quarterly newsletter provides updates on training activities, achievements, and CD activities planned for the coming quarter. The Center will continue distributing the newsletter to member countries and development partners, and posting it on its website and through social media to enable news of CD activities to reach a broader audience.

- **Quarterly reports**. The report monitors progress in milestones envisaged in CD projects and seeks to identify obstacles and potential actions to optimize performance. These reports are distributed to member countries, development partners, and IMF staff.

- **Meetings with development partners**. The Coordinator and resident advisors conduct regular meetings with development partners in the region. Development partners also participate in regional training events to promote visibility and strengthen the result-orientation of CD interventions.

- **Meetings with regional councils**. The Coordinator and resident advisors participate in the quarterly meetings of the regional councils of central bank governors, finance ministers, and banking superintendents. These are an occasion to report on CD developments and discuss options to deepen the regional orientation of the Center's operations.

- **Fund-wide CD platforms**. CAPTAC-DR news will be communicated to a wider audience leveraging the IMF corporate digital platforms and social media accounts, notably imf.org/capacity development and the @IMFCapDev Twitter and Facebook accounts.

Annex I. CAPTAC-DR—Proposed Action Plan in Response to the External Mid-Term Evaluation

(March 30, 2018)

Recommendation	IMF Staff Response	Action(s)	Timing	Responsible
1. Expand the scale of CAPTAC-DR service delivery The scale of CAPTAC-DR CD services should be expanded in Phase III to respond to the high demand and maximize the potential impact. Consideration should be given to establishing a Phase III budget of US$35-40 million.	**Agree**	Phase III proposed budget of US$35-40 million: A level of operations at US$7-8 million per year seems broadly appropriate for the next phase, subject to funding availability. The draft Program Document for the new phase will reflect a volume of CD delivery in line with FY18 (and FY19, US$7-8 million) for a total envelope around US$40 million. Constraints include financial resources, quality control on CD delivered, demand from member countries, and absorption capacity.	Phase III	CAPTAC-DR
2. Create a Performance and Special Needs fund The method of allocating CAPTAC-DR resources across countries should be adapted to give greater weight to performance and to country specific needs: A "Performance and Special Needs Fund" should be created, comprising a minimum of 10% of the total envisaged for STX inputs. This should be left unallocated at the outset of the year and assigned after the 2nd quarter either to projects, where performance is ahead of schedule, or to provide additional support for special needs.	**Partially agree**	CD provided by CAPTAC-DR, and more broadly by the IMF, is demand-driven. The RBM system and the quarterly monitoring reports prepared by CAPTAC-DR, in addition to the ongoing CD dialogue and area department strategic priorities, allow a sound prioritization process. "Performance and Special Needs Fund": Funds cannot remain unallocated until the resource needs for the phase are fully met. A "strategic reserve" could be explored in the context of a broader review of the RTAC budget process and discussed with the Steering Committee. Expansion through STX inputs: CD delivery model will depend on the demand and needs of the member countries.	Phase III	CAPTAC-DR
3. Build on efficiency gains to reduce unit costs The cost-saving measures already introduced in Phase II should be assessed for effectiveness, continued and deepened**.** In addition, savings should be introduced in HQ backstopping to move towards a limit of 5% of unit costs.	**Disagree**	Quality control, monitoring and supervision, i.e. backstopping, ensure consistency with IMF policies, standards, and international best practices. It is a key feature of IMF CD and it is not an overhead cost. A new LTX in the center or a new area of intervention can require more backstopping intervention. 5% benchmark for backstopping: CAPTAC-DR and IMF HQ would not commit to a 5% benchmark. CAPTAC-DR and IMF HQ will monitor more closely backstopping unit cost and report annually to the SC.	-	-
4. Narrow the scope of the PFM portfolio The scope of support historically offered within the PFM thematic area has been reduced to focus more on IMF/ CAPTAC-DR areas of comparative advantage: (i) Treasury & Cash Management; (ii) Macro-fiscal programming and monitoring and (iii) Monitoring and control of Fiscal Risks. It is recommended that this should be the focus of the portfolio in Phase III.	**Agree**	Narrowed scope: PFM in Phase II focused on the areas of treasury, budget management, and added fiscal risks later in the phase, with deviations explained by one-time requests. Prioritization: PFM in Phase III is to maintain a focused scope, providing CD in the above areas, fiscal transparency and reporting, as priorities. CD will however continue to be demand-driven, keeping focus on a few priorities and accounting for resource availability and absorption capacity.	Phase III	FAD, CAPTAC-DR

5. Introduce Outcome targets by country / thematic area Annual Outcome targets should be introduced for each thematic programmed in each country along with proposed indicators of progress and a baseline value for 2018 from which to measure progress.	**Agree**	Clear definition of outcomes needs: Objectives and outcomes in Phase III will be clearly articulated within the context of a strategic logframe for the Center and sector logframes. Use of CD-Port: CAPTAC-DR, as all other RTACs and CD delivery across the IMF, will use the CD-Port or other successor performance systems as approved by the IMF, to monitor and report progress of both outcomes and milestones in Phase III.	Phase III	CAPTAC-DR, CD-delivery departments
6. Consolidate Outreach and Communication strategy Implementation of Outreach and Communication Strategy, should be deepened to consolidate gains to date and ensure further development**.** An assessment should be made during FY2019 to consider precise focus for Phase III and level of resources required.	**Agree**	Assess strategy in FY19: New website, outreach reports, and intensified engagement with external partners will be revisited possibly in FY20, to allow time to reap the benefits of current strategy. Consider external communication specialist: Strategy will continue to be weighed against Fund policy and refined with experience from external partners; this recommendation will be addressed within current staffing levels. Required training and equipment should be factored into Phase III budget: The proposed budget accommodates reasonable resources in support of these requirements.	April 2019	CAPTAC-DR
7. Improve functionality of the Steering Committee It is important to address any remaining doubts there may be over the Steering Committee's ability to provide effective governance, in particular regarding its influence over staff retention and other matters affecting the impact and sustainability of CAPTAC-DR CD: consultation with the Steering Committee is needed and consideration should be given to holding a mid-year meeting of the Steering Committee, either alongside a meeting of one of the Regional bodies (COSEFIN, etc.) or via video-conference.	**Agree**	CAPTAC-DR and the IMF recognize the strategic role of the Steering Committee and its members. The operational oversight of the Center remains the responsibility of the relevant IMF department. Mid-year Steering Committee meeting: CAPTAC-DR will consult with SC members whether there is interest and time availability for a meeting in the region, perhaps focusing on a sector or topic. IMF staff will engage in extensive consultations with the SC during Phase III.	April 2019	CAPTAC-DR, SC members

Annex II. CAPTAC-DR—Strategic Logical Frameworks for Phase III

CAPTAC-DR's strategic objective			
Strengthen member countries' institutional and human capacity to design and implement sound macroeconomic and financial policies, through increased fiscal space, stronger financial sector stability, better macroeconomic statistics for analysis, and the inclusion of emerging topics, in support of inclusive growth.			
Tax Administration			
Regional Strategic Objective	**Verifiable Indicators**	**Progress on Indicators**	**Risks, Assumptions and Risk Mitigation**
Tax Administration: (1) To strengthen revenue administration management and governance arrangements	• Reform management capacity in place for reform implementation, including dedicated resources and key indicators established, regularly reported and monitored. • Clear organizational structure along functional lines and/or taxpayer segments, with the adoption of clear separation of roles and responsibilities between HQ and local branches. • Compliance risks identified, assessed, ranked, and quantified through intelligence and research, and the establishment of a compliance improvement program in place to mitigate risks.	*Reporting on progress through RBM; annual report to Steering Committee; quarterly summary report; Art. IVs statistical annexes; mid-term evaluation*	• Weak political commitment at both, national and regional level. Probability: Medium. Impact: High. • Frequent changes in high level authorities. Probability: High. Impact: High. • Difficulty / delay in the implementation of the recommendations of technical assistance due to the high turnover rate of staff and poor provision of human and financial resources. Probability: High. Impact: High.
Tax Administration: (2) Enhance tax compliance, by strengthening core tax administration functions	• Management of filing compliance improves over time. • On-time payment ratio and management of tax arrears improve over time. • Appropriate range of tax audits and other initiatives used to detect and deter inaccurate reporting and fraud. • Automated cross-checking used to verify return information.	*Reporting on progress through RBM; annual report to Steering Committee; quarterly summary report; Art. IVs statistical annexes; mid-term evaluation*	• Weak political commitment from some authorities to implement the recommendations of the technical assistance at both, national and regional level. Probability: Medium. Impact: High. • Difficulty / delay in the implementation of the recommendations of technical assistance due to the high turnover rate of staff and poor provision of human and financial resources. Probability: High. Impact: High.

Customs Administration			
Regional Strategic Objective	**Verifiable Indicators**	**Progress on Indicators**	**Risks, Assumptions and Risk Mitigation**
Customs Administration: Strengthening management, governance arrangements, and core functions to facilitate trade, reduce evasion, while improving gender balance in customs.	• Reform management capacity strengthened. • Increased effectiveness in the fight against fraud and smuggling. • Substantive provisions of the customs laws are better aligned with modern standards and/or protocols. • Customs procedures (including transit) better aligned with international standards and regional integration objectives.	*Reporting on progress through RBM; annual report to Steering Committee; quarterly summary report; Art. IVs statistical annexes; mid-term evaluation*	• Lack of political commitment from authorities to implement the TA recommendations. • Inadequate staffing, skills or expertise assigned to various functions. • Lack of continuity of projects and high turnover among officials. • Financial or human resource constraints.

Public Financial Management			
Regional Strategic Objective	**Verifiable Indicators**	**Progress on Indicators**	**Risks, Assumptions and Risk Mitigation**
Public Financial Management: Strengthening the medium-term budget process, government accounting, fiscal risk management and asset and liabilities management to promote fiscal sustainability, fiscal transparency, and budget efficiency and equality.	• The extent to which fiscal risks are reported (PI-10). • The management and monitoring of government assets and transparency of asset disposal (PI-12.1) • Develop macroeconomic and fiscal forecasts (PI-14). • Expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings (PI-16). • Ministry of Finance can forecast cash commitments and requirements and offer data on the availability of funds to budgetary units for service (PI-21) • Annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards (PI-29)	*Reporting on progress through RBM; annual report to Steering Committee; quarterly summary report; Art. IVs statistical annexes; mid-term evaluation*	• Institutional support and continuity for medium-term projects; including inadequate staffing or expertise assigned to various functions; • Technology systems are inadequate and not kept to date. • To manage this risk, CAPTAC will increase its focus on institutional strengthening.

Financial Supervision			
Regional Strategic Objective	**Verifiable Indicators**	**Progress on Indicators**	**Risks, Assumptions and Risk Mitigation**
Financial Supervision. Implement and strengthen international best practices in financial supervision and regulation, including risk-based supervision, consolidated and cross-border supervision, and macroprudential supervision to promote financial stability and inclusion.	• New regulations are revised, adopted, and effectively enforced by authorities. • Regulatory and supervisory frameworks are more closely aligned with RBS; processes and manuals for key supervisory functions are established and effectively implemented. • Basel II/III requirements are incorporated in laws and regulations; and banks comply with them. • Provisioning guidelines are more closely in line with IFRS.	*Reporting on progress through RBM; annual report to Steering Committee; quarterly summary report; Art. IVs statistical annexes; mid-term evaluation*	• Inadequate ownership by authorities • Insufficient supervisory capacity • Insufficient IT systems in place • High staff turnover and inability to retain competent staff • Need to change banking legislations • Insufficient information availability

Central Banking			
Regional Strategic Objective	**Verifiable Indicators**	**Progress on Indicators**	**Risks, Assumptions and Risk Mitigation**
Central Banking Operations: More effective monetary policy with decisive steps towards a forward-looking framework for monetary operations and policy, supported by stronger and focused frameworks for macroprudential policies and analysis focusing on relevant systemic risks.	• Establishment of an effective *operational strategy* consistent with the monetary framework and country circumstances. • A set of monetary instruments necessary to meet the operating objective is established and an effective liquidity management strategy utilizing the monetary instruments to achieve the operating target is in place. • Adequate framework for interpretation of warning signals detected by systemic risk indicators is established and used by central bank staff for monitoring and policy recommendations.	*Reporting on progress through RBM; annual report to Steering Committee; quarterly summary report; Art. IVs statistical annexes; mid-term evaluation*	• Institutional support including human resources, especially for new functions related to systemic risk monitoring; • Political support may weaken at times of policy tightening; • Insufficient resources, including inadequate staffing, may lead to delays in implementation, which may weaken institutional support.

National Accounts and Price Statistics			
Regional Strategic Objective	**Verifiable Indicators**	**Progress on Indicators**	**Risks, Assumptions and Risk Mitigation**
Real Sector Statistics: Continue the enhancement of compilation methods for national accounts and prices statistics through the implementation of the latest international guidelines, to provide macroeconomic information for policy makers, and foster measurement of inequality gaps.	• The concepts, definitions and methods for national accounts and prices broadly follow the international guidelines. • Source data needed to compile periodic benchmark estimates are comprehensive and reasonably approximate the definitions, scope, classifications, valuation, and time of recording required (recommended at least 5-yearly benchmarks), and timely • Seven countries improved their technical capacity to sustain recurrent compilations for annual, quarterly and monthly, national accounts and prices series.	*Reporting on progress through RBM; annual report to Steering Committee; quarterly summary report; Art. IVs statistical annexes; mid-term evaluation*	• Institutional support for medium-term rebasing projects; including human resources, IT and strengthening of data sources; • Mobility of the national accounts and prices staff opens training gaps; • Technology and human resources constraints.

Government Finance Statistics			
Regional Strategic Objective	**Verifiable Indicators**	**Progress on Indicators**	**Risks, Assumptions and Risk Mitigation**
Government Finance and Public-Sector Debt Statistics: Improve the design, analysis and governance of fiscal policy, by strengthening the compilation and dissemination of fiscal and macroeconomic statistical data for decision making.	• Fiscal and public debt data are consistent with other macroeconomic statistics. • Regional harmonization was reached and countries publish comparable fiscal and debt indicators, • Four countries use the *GFSM 2014* framework for fiscal policy design, analysis, transparency, reduction of inequality and decision making; • Seven countries improved their capacity to monitor and manage fiscal risks.	*Reporting on progress through RBM; annual report to Steering Committee; quarterly summary report; Art. IVs statistical annexes; mid-term evaluation*	• Inadequate staffing, skills or expertise assigned to various functions; • Technology constraints (e.g. IT systems not being kept up to date; limited datasets for statistical compilation); • Institutional limitation to collect source data (from local governments, public corporations and public trust funds); • Lack of political commitment to improve fiscal and debt indicators, guided by the *GFSM 2014*; • To manage these risks, CAPTAC-DR will increase its focus on institutional assessments and strengthen engagement with ministerial and central banks.

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