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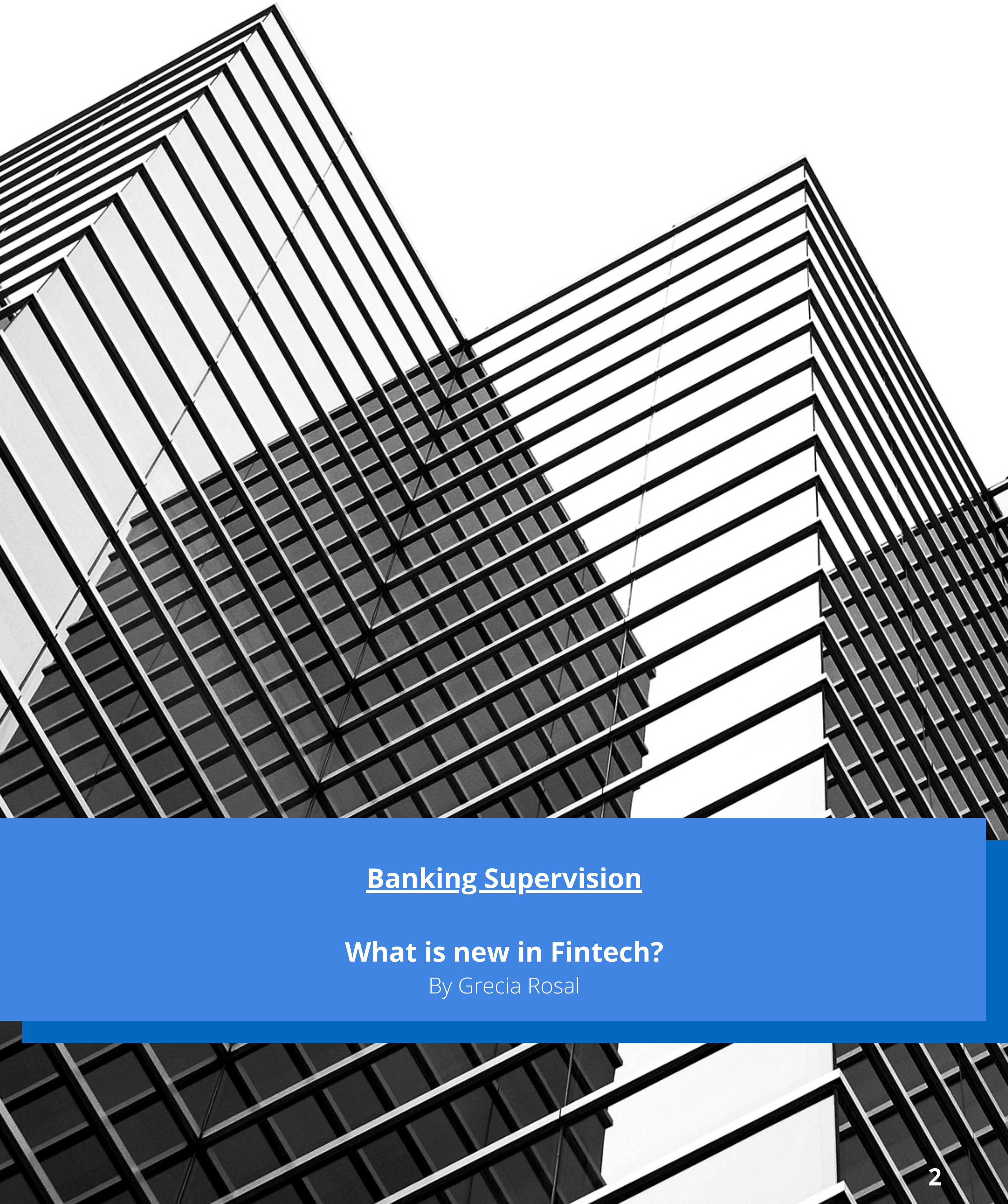
Meet the new CAPTAC-DR team member

José Alejandro Villalta – Technical Assistant /Economist

José Alejandro Villalta joined CAPTAC-DR in August 2020 as a technical assistant for the Tax Administration and Public Financial Management areas. His academic preparation includes a degree in Business Economics, with an award-winning thesis, and he is currently pursuing a Master's degree in Finance at Rafael Landívar University. Professionally, he has experience in control and products maintenance in private banking.

SPECIAL NOTE



Banking Supervision

What is new in Fintech?

By Grecia Rosal

Financial technology (Fintech) is a concept that refers to technological innovation in financial services that results in new processes, products or applications to provide services in institutions and markets of the financial sector (Financial Stability Board, n.d.).

Most people tend to associate Fintech with internet and mobile banking services, but this is a technological phenomenon that encompasses other areas of financial services (such as lending, insurance, investment management, etc.).

This emerging and disruptive industry competes with traditional financial methods, especially in the dimensions of information and communications. It is important to analyze Fintech evolution, especially because of its impact on financial intermediation and its role in the financial inclusion of the CAPDR countries.

Fintech development was a widely discussed topic at the virtual seminar on "Financial Inclusion Issues" held from December 7-18 by the Institute for Capacity Development, in coordination with CAPTAC-DR. The seminar discussed current innovation trends in different financial services and the Fintech new dimensions.

Traditional channels

In the last decade, academic literature has considerably explored technological innovation in financial services and the way the development of new processes and products impacts financial intermediation. Boot et al. (2020) have conceptualized the role of innovation in financial intermediation along two clear dimensions: information and communications.

In the case of the information dimension, traditionally, technological innovation has allowed the increased use of soft information (non-numerical information), not just exclusively hard information (usually financial statements and credit history) in financial markets (Liberti & Petersen, 2018).

The use of hard information allows, for example, borrowers to obtain credit in higher volumes and with better terms (Boot, et al., 2020). However, using only hard data limits the availability of credit to entities that lack it, such as micro, small and medium-sized enterprises (MSMEs) or informal workers.

The use of soft information in bank credit relationships makes it easier for a wider set of agents to obtain credit.

According to the aforementioned authors, technological innovation has also impacted a second dimension: communication. The Internet has allowed the adoption of online banking, leading to greater reach, process automation and greater benefits for customers.

Fintech has even allowed the entry of actors specialized in certain financial services. For example, in the deposit market, banks that do not operate with physical branches have emerged, but use third-party ATMs to operate.

Technological innovation has allowed new actors to enter the financial market and has also facilitated the consolidation of existing banks.

According to Houston et al. (2001), consolidation is driven by advantages associated with strengthening the point of contact with customers and eliminating excess capacity associated with branches.

New trends

The digital era and rapid technological change continue transforming the banking sector. How disruptive are these changes? What are the new transformative changes in the financial sector? Under the same conceptual framework as Boot et al. (2020), there are transformative trends in the dimensions described above (information and communication).

Information innovation is associated with the use of new types of digital data for the analysis of credit granting, for example, a customer's online shopping habits.

The use of artificial intelligence and machine learning encourage the use of data for decisions, such as online search and purchase history or customer ratings of online suppliers serve as an alternative to the hard data that banks often use.

A case that stands out is MercadoLibre, an online commerce platform in Latin America, whose internal ratings can more accurately predict a client's risk of credit default against banks' credit scores (Boot, et al., 2020). These methods represent an advance in financial inclusion, as they facilitate the granting of credits to informal workers, households and enterprises (Boot, et al., 2020).

Recent innovation in communication has also been disruptive in the financial sector. This innovation is driven by the interconnection between different digital platforms in social media, online shopping and mobile communication that has increased the consumers digital footprint (data trail resulting from internet interaction).

Online commerce platforms, such as Amazon or Alibaba, incorporate more financial services, becoming new financial providers that compete in payments, asset management and financial information with traditional banks (Boot, et al., 2020).

Also, in payments market, new participants, such as Paypal and Adyen, have facilitated payment in online shopping, serving a substantial part of this market (Boot, et al., 2020).

The future of banks

Recent trends in information and communication innovation raise questions about the future of banks, especially in the CAPDR region, where there is low formal financial penetration and limited technological and infrastructure development.

In addition, telecommunications companies are the ones with the most technology to offer certain financial services, such as mobile money. This makes it difficult for banks to compete.

CAPTAC-DR's "Financial Inclusion Issues" webinar discussed three possible routes for the future of Fintech:

- First, Fintech companies will be niche providers; they will seek out residual customers that banks cannot serve. This will happen if Fintech companies cannot reduce its costs to compete with existing banks.

- The second route is providing shared financial services between banks and Fintech companies. Under this scenario, banks and Fintech companies provide financial service, as neither can significantly lower their costs. Generally, in this scenario, banks would outsource to Fintech companies as providers.

- The third route does not involve financial disruption, but cooperation with non-banking online platforms, such as shopping platforms, so that certain financial services are incorporated into the purchasing decision.

Undoubtedly, the rapid development of Fintech has great challenges for financial system regulators in the CAPDR region. The potential risks associated with regulations, infrastructure, market structure and social conditions, especially in the context of the COVID-19 pandemic, are subject to further discussion and analysis, as well as development of greater human and institutional capacities.

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Tax Administration
Technical Note: Webinar on Planning and Risk Management during COVID-19

Tax administrations face a series of risks that may affect the achievement of their objectives and thereby tax compliance; therefore, strategic planning, as a necessary element of management, must consider these risks.

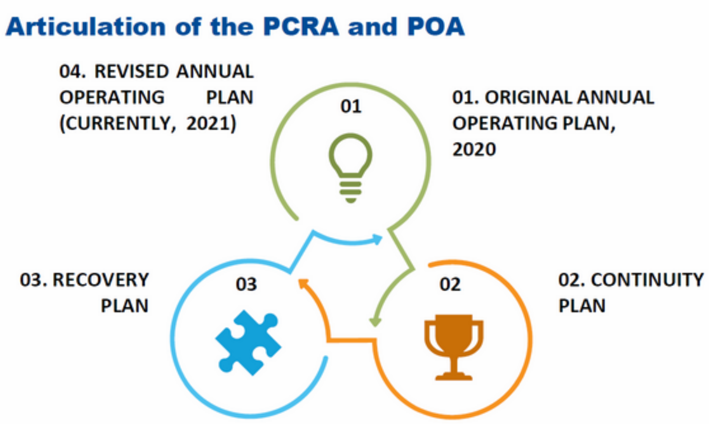
The current COVID-19 pandemic situation has generated an economic crisis in different countries, which undoubtedly affects the region and therefore tax collection and compliance. In this context, tax administrations need to be more efficient to recover tax compliance as soon as possible.

Event summary

Strategic planning and risk management during COVID-19 are highly relevant for tax compliance recovery. Tax administrations carry out multi-year strategic plans that require a process for updating them over time. In addition, the current crisis situation generated by COVID-19 requires the implementation of agile changes in tax processes.

Tax administrations face challenges that may limit their freedom of action. Strategic planning presents great opportunities that may also be perceived as limiting and that may be grouped into: i) agreements or programs with the Ministry of Finance; ii) governance of information needed to achieve its purposes; iii) staff training; and iv) coordination among different tax administration units.

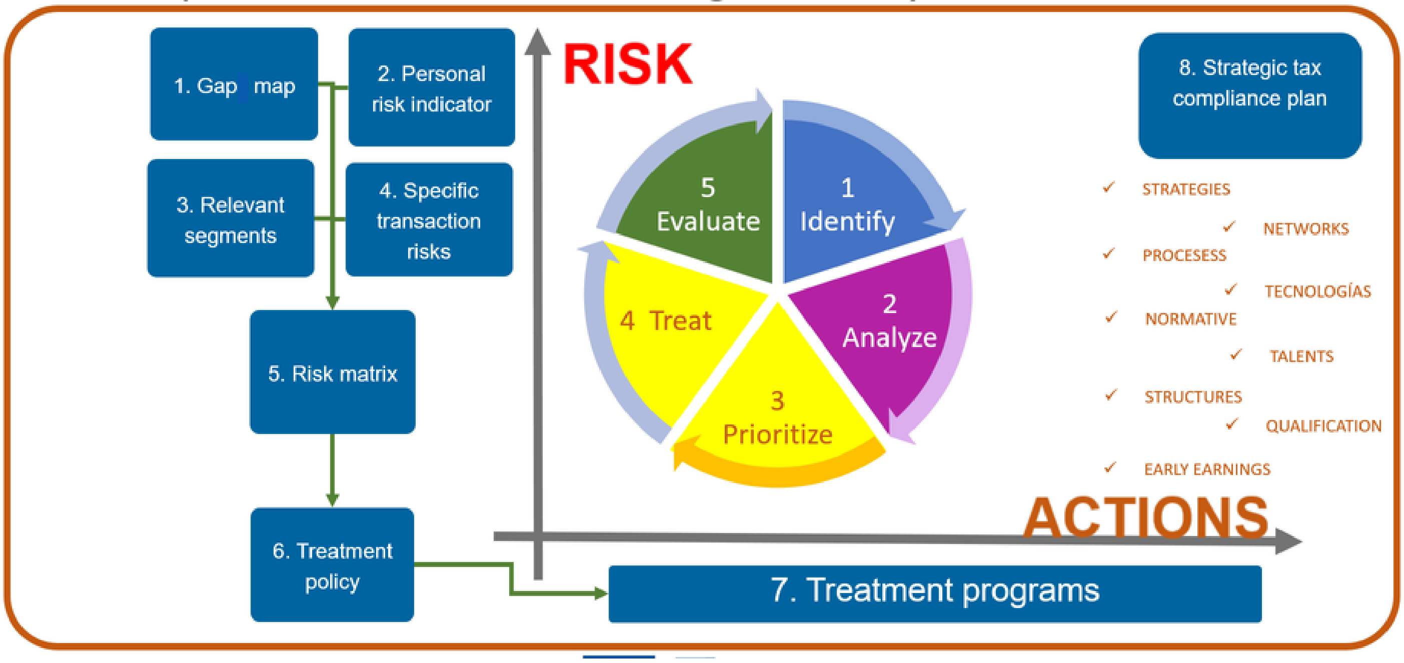
The current crisis generated by the COVID-19 pandemic has forced tax administrations to make changes to their annual operating plan. The priority of the administrations in this crisis has been to implement a business-as-usual plan that allows taxpayers to comply with their obligations, simply and remotely. After the first moment, the challenge for the tax administrations is to recover compliance.



Slides from the presentation shared during the webinar on planning and risk management during COVID-19.

1. **PCRA**: Revised Annual Operating Plan (acronym in Spanish).
2. **POA:** Annual Operating Plan (acronym in Spanish).

Comprehensive risk management process and tools



Conclusions

- The current crisis generated by the COVID-19 pandemic does not necessarily require changing the strategic plan. The risk management methodology is a very important tool for decision making within strategic planning, so the current crisis should not require a change in the multi-year strategic plan, except perhaps to review the prioritization of risks in the annual operating plan.

- Risk management is an important tool to guide actions in a multi-year strategic plan. Tax administrations need to define strategic objectives, strategies and actions to improve tax compliance over time. To this end, it is currently vital to identify, prioritize and take action against the risks they face.

Recommendations

- Strategic plan development based on risk management methodology. The correct implementation of risk management allows to efficiently identify priorities for tax administrations for multi-year periods.

- Operational plans development focused on results as a product of risk management. Crisis contexts can be faced with greater certainty if there is qualitative and quantitative information on the circumstances affecting tax compliance. Risk management allows identifying and prioritizing risks, as well as having effective treatments to deal with them.

"Risk management is an integral part of multi-year strategic planning and the annual operational plan."

TADAT Guide, 2019

Customs Administration

Existing tools to support post-clearance audit and risk management

The Center organized a series of webinars focused on existing tools for risk management and post-clearance audit to continue supporting capacity building of customs administrations, especially in response to the challenges caused by the COVID-19 pandemic. These online events address strategic issues, helping customs administrations to align approaches and learn about practical experiences from other countries.

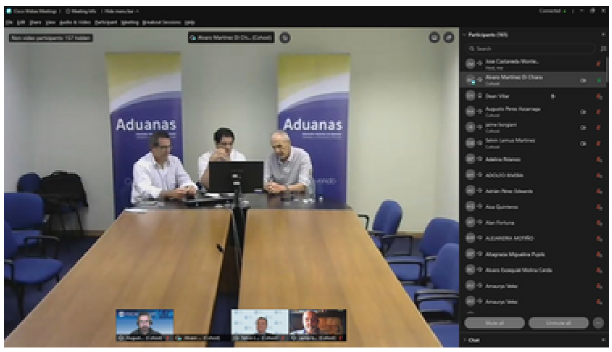
This series of webinars arises from the contribution of CAPTAC-DR with the development of the Regional Strategy for Integrated Risk Management in Customs (ERGIRA) and the commitment to support its implementation since its approval by the Council of Ministers of Economic Integration (COMIECO). In accordance with this strategy and at the request of the Central American Customs Committee, this series of webinars has been organized to support compliance with milestone 1, result 2, strategic line 3 of ERGIRA, "Execution of an effective subsequent control".

So far, three webinars have been held, with extremely satisfactory results. Thanks to technology, more than 250 customs officials from 13 countries in the Latin American region have participated, reaching managerial and operational levels. Participants expressed their satisfaction through satisfaction surveys, giving these events a 4.7 average score out of 5. The topics discussed so far are as follows:

Webinar 1: Customs Studies and Qlik Risk Analysis Tools

Webinar 2: The traditional post-clearance audit process through the use of electronic means

Webinar 3: MANTIS tool for Traceability and Monitoring of the Post-Customs Clearance Audit



Alvaro Martinez, Jorge Marenales and Daniel Carbajal from the National Customs Directorate of Uruguay present the Mantis Tool implementation process, its application in traceability and monitoring of Post-Clearance Audit and results in standardization of processes and collection, in the second webinar of the series.

Interest in these events has grown considerably in the CAPDR region and in extra-regional countries, as evidenced by the increase in the number of participants per event. The participation and valuable contributions of officials from Chile, Ecuador, Paraguay, Peru, Uruguay and Spain, in addition to officials from the CAPDR region, have been welcomed.

Institutions such as the Secretariat for Central American Economic Integration (SIECA), the United States Agency for International Development (USAID), the United States Department of the Treasury´s Office of Technical Assistance (OTA) and the Ministry of Economy of Guatemala (MINECO) have also participated in these events.

The Center is grateful for the valuable presentations from the customs administrations of the Dominican Republic, Uruguay and Spain in this series of webinars, which was of great support and interest to the participating Latin American countries. As such, CAPTAC-DR will continue this work given the success and level of satisfaction achieved.

CAPTAC-DR will organize more similar events, optimizing technological advantages currently available, to continue supporting the region's customs administrations' actions to face the current COVID-19 crisis and the subsequent recovery of activities.

In the third webinar, Guillermo Beltrán from the Spanish Tax Agency discusses the elements, processes and tools of traditional post-clearance audit process through the use of electronic means.

Selvin Lemus, CAPTAC-DR Customs Administration Resident Advisor, in cooperation with Solangie Carbonelle and Carlos Canelo, Dominican Republic officers and speakers of the first webinar, presenting results from the Economic Studies Department and how they apply the Qlik tool for risk analysis.

Real Sector Statistics
Costa Rica: New base year project for national accounts to 2017

On January 19, 2021, the Central Bank of Costa Rica (BCCR) organized an online press conference to communicate the work done regarding the update of the base year of the national accounts from 2012 to 2017.

BCCR officers; BCCR President, Rodrigo Cubero; ECLAC Statistics Director Rolando Ocampo; IMF Statistics Department Deputy Director, Gabriel Quirós; CAPTAC-DR Coordinator, Lisandro Ábrego; and IMF Statistics Department Senior Economist, Lisbeth Rivas were present during the transmission.

During the conference, the authorities shared reflections that addressed the importance of the base year for updating national accounts in Costa Rica, and the advantages that the achievement of this milestone provides for economic policy decisions and for monitoring economic and financial development.

The importance that this change represents as a quality indicator of macroeconomic statistics, -which must be updated every 5 years according to international standards- was also highlighted.

CAPTAC-DR has contributed to this process providing technical assistance and training to BCCR to improve and update its macroeconomic statistics. This joint effort was not significantly affected by the COVID-19 pandemic.

Learn how CAPTAC-DR has worked for the modernization of national accounts in the CAPRD region.

- **Pillars of modernization**
- **Significant improvements**
- **Innovations**

Click here to check the full infographic:

https://bit.ly/2ZPbJrf

Base year update project in the CAPDR region

Transition to new national accounts will be completed in 2-3 years, and the new base year will not be older than 10 years.

	Previous base year	New base year
Costa Rica	2012	2017 (completed)
El Salvador	2005	2014
Guatemala	2001	2013 (completed)
Honduras	2000	2016
Nicaragua	2006	2019
Panama	2007	2018
Dominican Republic	2007	2018

Government Finance Statistics
Advances in public finance and public sector debt statistics

Technical assistance missions in public finance statistics were carried out in Honduras, El Salvador and Panama during the quarter.

In Honduras, the focus was on expanding fiscal data coverage, debt statistics and account reconciliation. In El Salvador, it was on the evaluation of debt data and progress in fiscal data coverage. In Panama, an assessment of progress since the last mission and specific recommendations for the compilation of fiscal data were made.

The Government Finance Statistics area has also collaborated in an IMF Fiscal Affairs Department mission to Nicaragua to strengthen fiscal transparency, control of COVID-19 expenditures and public enterprises supervision.

In terms of remote/online cooperation, hours of effort have been devoted to compiling general government public finance data with Guatemala and the Dominican Republic, with several virtual interactions with the Ministries of Finance and Treasury of both countries' teams.

These efforts are related with future missions scheduled for February 2021 and will represent new data sets that will be disseminated throughout these countries.

The Center has worked closely with Costa Rica and El Salvador´s technical teams to support fiscal data development for decision-making. Honduras and Panama have received online support and coordination through phone or video calls.

In terms of progress at regional level, countries continue updating at a regional harmonized fiscal database, available on the Central American Monetary Council's website:

- **http://www.secmca.org/EFPA.html**

At the same time, meetings have been held for the preparation of an analytical fiscal report at the regional level and meetings for the coordination of the next Technical Group meeting on Public Finance Statistics, which involves 14 institutions (6 central banks, 7 ministries of finance and INEC of Panama), as well as the secretariats of the regional councils, the CMCA and COSEFIN.

In addition, the Center has been following up with UNCTAD on future developments in the DMFAS that will support countries of the region in the recording, analysis and dissemination of public debt statistics, always seeking to be increasingly aligned with the most updated international standards.

Fiscal statistics for decision making

Dominican Republic

- The Central Bank and the Ministry of Finance use internal reports with the most updated GFS concepts for monetary and fiscal policy decision making.

El Salvador

- A report on the 4 public companies with the international concepts of GFS in the medium-term fiscal framework was published in September 2019, in accordance with the *LRF

Honduras

- Stand-by agreement considers the GFS publication under international standards
- Currently evaluating the adaptation of the LRF indicators to the new concepts

Guatemala

- Published a separate section in the budget law with the most updated GFS concepts.
- Published the first quarterly analytical reports of the region in 2020 with the *MEFP 2014 structure

1. **LRF:** Fiscal Responsibility Law (acronym in Spanish).
2. **MEFP:** Memorandum of Economic Financial Policies.