

## PROGRAM DOCUMENT

April 2009

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





**Annex III**

**CENTRAL AMERICA-PANAMA-DOMINICAN REPUBLIC  
REGIONAL TECHNICAL ASSISTANCE CENTER  
(CAPTAC)**

**PROGRAM DOCUMENT  
(MARCH 31, 2009)**

**CENTRAL AMERICA-PANAMA-DOMINICAN REPUBLIC**  
**REGIONAL TECHNICAL ASSISTANCE CENTER (CAPTAC)**  
**PROGRAM DOCUMENT**  
**(MARCH 31, 2009)**

**Executive Summary**

**Objective and priorities:** To establish a regional technical assistance center to increase capacity building assistance to Central America. CAPTAC's TA, which will emphasize institution building, will complement policy-oriented TA provided directly from IMF headquarters. Assistance will be provided at both the regional and national levels in close coordination with other TA providers in the region. In line with the evolving role of the IMF, CAPTAC will enhance the IMF's ability to provide more focused, flexible, and responsive technical assistance (TA) and training to Central American countries. Initially, the center's activities will focus on five key areas representing common policy challenges to member countries, including those related to increased integration: (i) tax and customs policy and administration; (ii) medium-term expenditure frameworks and PFM-related issues; (iii) money and public debt markets; (iv) financial sector supervision; and (v) macroeconomic statistics.

**Governance and operational arrangements:** CAPTAC's arrangements will follow those of other IMF regional TA centers: (i) a Steering Committee—composed of representatives of beneficiary countries, donors, and the IMF—will provide strategic guidance to the Center; (ii) a Center Coordinator—an IMF staff member—will be responsible for the day-to-day management of the center; and (iii) the Center's professional staff will comprise resident advisors and short-term experts recruited, supervised, and backstopped by the IMF. CAPTAC's work plans will be integrated with the IMF's regional TA strategy for Central America, Panama and the Dominican Republic.

**Budget:** The estimated total cost of opening and operating CAPTAC for an initial five-year phase is about US\$35 million. The IMF will cover part of the start-up costs and the salary costs of the center coordinator. Donors—including the host country and beneficiaries—will finance the remaining costs.

Contents	Page
I. Introduction .....	4
II. Macroeconomic Context and the Case for CAPTAC .....	5
A. Recent Economic Developments .....	5
B. Regional Integration and Similarities—The Case for CAPTAC .....	8
III. Specific Priorities in Capacity Building .....	10
A. TA on Fiscal Issues .....	11
B. TA on Monetary and Financial Sector Issues .....	12
C. TA on Macroeconomic and Financial Statistics .....	13
D. Specialized Training on Macroeconomic and Financial Issues .....	15
IV. Implementation Strategy .....	15
A. Program Objectives .....	15
B. Strategic Integration with IMF Headquarters .....	16
C. Collaboration and Coordination with other Parties .....	17
V. Governance and Operational Arrangements .....	18
A. Governance Structure and Center Management .....	18
B. The Work Plan of the Center .....	19
C. Accountability and Quality Control .....	20
D. Evaluation .....	20
VI. Financing/Stakeholder Input and Administrative Issues .....	21
A. Financing and other Stakeholder Input .....	21
B. Administrative Arrangements .....	21
C. Center Location .....	22
Table	
1. Indicative Captac Budget .....	23
Figures	
1. Central American Region: Real Per Capital GDP Growth .....	6
2. Central America: Selected Macroeconomic Indicators .....	7

## I. INTRODUCTION

1. This document proposes the establishment of a Central America<sup>1</sup> Regional Technical Assistance Center (CAPTAC).<sup>2</sup> The Regional Technical Assistance Center (RTAC) model of technical assistance (TA) delivery entails the use of resident advisors located in regional centers, supplemented by assistance from short-term experts and regional training activities. The principal aim of this approach is to deliver capacity building assistance that is: (a) demand-driven and responsive to the needs of countries; (b) closely linked to the poverty-reducing strategies of countries; (c) consistent with priorities identified in IMF surveillance and lending programs; and (d) closely linked, complementary and additional to TA provided by IMF headquarters and other donors.

2. The overarching objective of CAPTAC is to facilitate the achievement of the long-term development goals of the countries served, through assistance in building capacity for sound economic management in the core areas of the IMF's expertise. The establishment of CAPTAC both supports and leverages on Central America's regional economic integration efforts. As Central American countries pursue closer economic links with each other, there will be increased needs for TA and training to tackle common issues and challenges. This consideration, coupled with the similarities between CAPTAC countries' economic structures and stages of development, argue for a coordinated regional approach to TA delivery.

3. Experience demonstrates that RTACs can be effective vehicles for delivering IMF TA in these circumstances. It is also an added advantage that CAPTAC will bring efficiency gains in terms of lower travel costs and the ability to respond quickly to country needs. The objective is for CAPTAC to be opened in the first quarter of 2009. Beneficiary countries included in CAPTAC's coverage will be Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

4. The remainder of this paper is structured as follows: Section II outlines the macroeconomic context for Central America and the case for establishing CAPTAC; Section III details specific capacity building priorities in CAPTAC countries and the region; Section IV addresses the implementation strategy behind the CAPTAC project; Section V explains CAPTAC's governance and operational arrangements; and Section VI contains information on financing and administrative arrangements for the Center.

---

<sup>1</sup> For the purposes of this project, Central America comprises Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

<sup>2</sup> As of June 2008, the IMF has established six RTACs: the Pacific Financial TA Center (PFTAC); the Caribbean Regional TA Center (CARTAC); the East Africa Regional TA Center (East AFRITAC); the West Africa Regional TA Center (West AFRITAC); the Middle East Regional TA Center (METAC); and the Central Africa Regional TA Center (Central AFRITAC). More information on the RTACs may be found at [www.imf.org](http://www.imf.org).

## **II. MACROECONOMIC CONTEXT AND THE CASE FOR CAPTAC**

### **A. Recent Economic Developments**

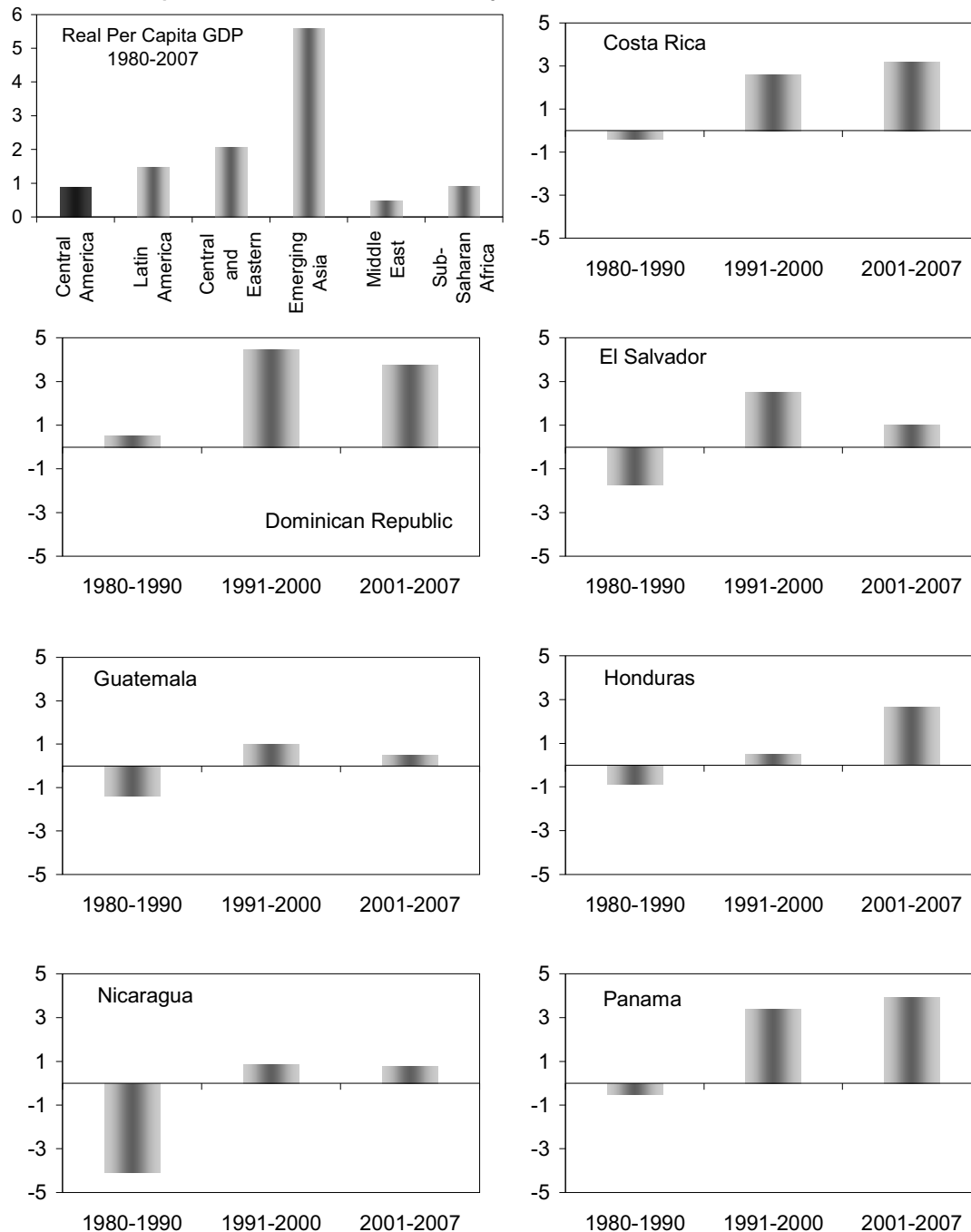
5. Central America's macroeconomic performance has been strong in the last two years, but development needs remain significant and poverty remains high:

- Average growth was 6.8 percent in 2006 and 6.7 percent in 2007, higher than the Latin America average. Baseline projections point to a moderation of growth in 2008, mostly as a result of the slowdown in the United States (U.S.). Central America is highly exposed to the U.S., which is its main trading partner and the main source of foreign direct investment, tourism inflows, and remittances.
- Despite high growth rates in recent years, per capita growth has been relatively modest in the last three decades, and lower than in other developing areas (Figure 1). Poverty and inequality remain high, even by Latin American standards.

**Figure 1. Central American Region: Real Per Capita GDP Growth**

(Average annual growth rate)

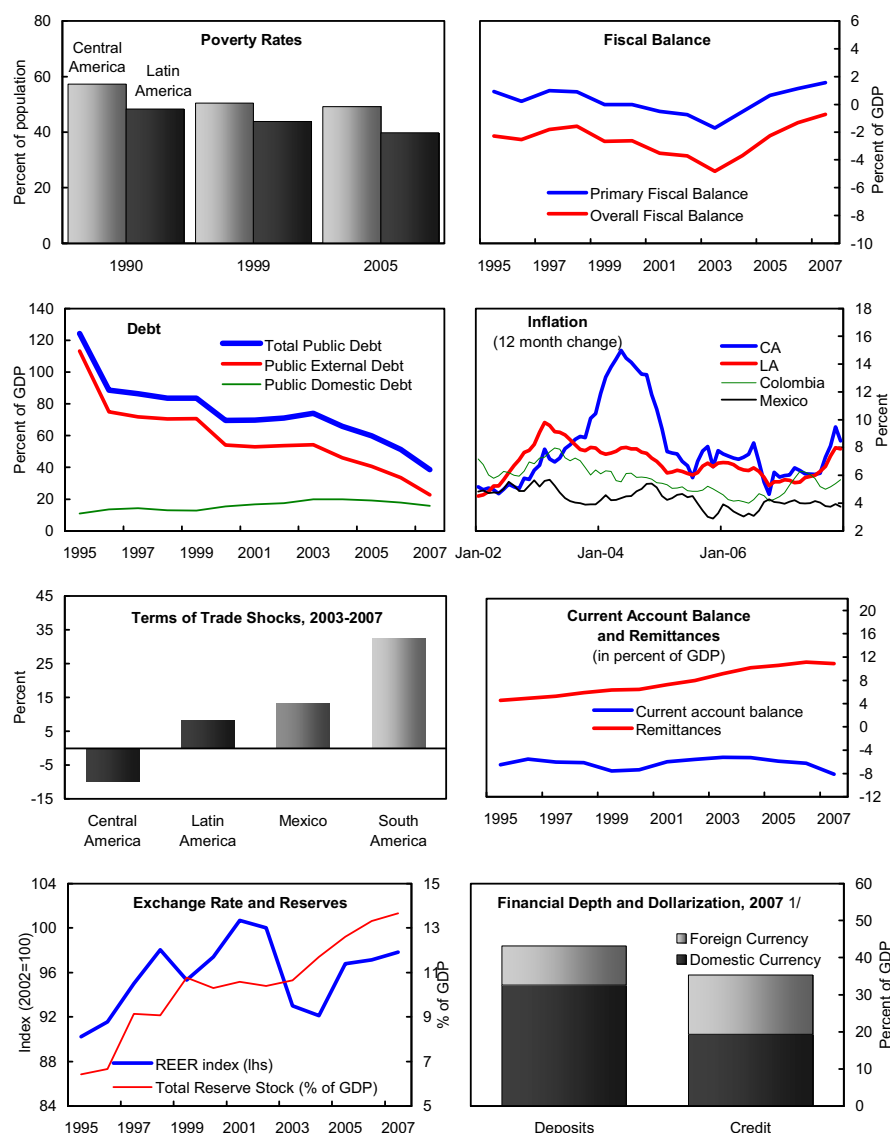
*On average, real GDP per capita growth has been moderate, and lower than in other developing areas. But performance has varied substantially across countries.*



Source: IMF, World Economic Outlook

- Inflation has risen across the region, largely driven by international food and oil prices. Average annual inflation rose to about 9.3 percent at end-2007 (above the Latin American average), from about 6 percent at end-2006 (Figure 2).

**Figure 2. Central America: Selected Macroeconomic Indicators**



Source: IMF, World Economic Outlook; IMF, International Financial Statistics; IMF, Information Notification System; and Economic Commission for Latin America and the Caribbean.

1/ Excludes Panama and El Salvador.

- Though still relatively shallow, the region's banking systems are growing and undergoing change, with increased presence of international institutions, and increasing cross-border operations. Particular risks stem from: fast private sector credit growth (close to 20 percent on average in 2007) and still high level of financial dollarization (Figure 2); opaque group structures for offshore financial entities and financial/economic groups, which have contributed to recent bank failures or bank stress; and weaknesses in consolidated supervision.
- The regional current account deficit has risen, from an average of about 5.5 percent in 2005-2006 to 7.8 percent of GDP in 2007. Soaring oil prices have had a large impact, but this negative shock has been partially offset by strong export growth and remittances. Large capital inflows have allowed for a sustained increase in reserves relative to GDP (Figure 2).
- Fiscal performance has been strong, with some indication that the increase in revenues observed in a number of countries has been structural. Average public sector deficits in 2007 were about 0.5 percent of GDP. Public debt has been substantially reduced, but remains relatively high in most countries (Figure 2).

#### **B. Regional Integration and Similarities—The Case for CAPTAC**

6. The similar economic structures of Central American countries have served as a strong platform for achieving greater regional economic integration. In that regard, the pace of regional and global economic integration has greatly accelerated in the last two years, as demonstrated by increased cooperation through key regional bodies that are spearheading that process. These include the Central American Monetary Council (CAMC), the Council of Finance Ministers (COSEFIM), the Council of Financial Sector Superintendents, the Council of Ministers of the Economic Integration (COMIECO), and the Central America Economic Integration Secretary (SIECA). Other milestone achievements include:

- The conclusion of the Central America free trade agreement with the United States (CAFTA-DR).<sup>3</sup> CAFTA-DR has entered into force for all member countries except for Costa Rica, which is expected to complete the passage of domestic implementation laws by October 2008.
- A free trade agreement with Canada (Canada-CA4) is being negotiated by Guatemala, El Salvador, Honduras, and Nicaragua.

---

<sup>3</sup> Panama is not a CAFTA-DR member.

- The regional authorities are pressing ahead with the creation of a Central American customs union.<sup>4</sup>
- Negotiations on an Association Agreement with the European Union are underway.
- Major regional banks in Central America have been acquired by large international banks (such as Citibank, HSBC, and Scotiabank) in the past two years, and the financial and nonfinancial sectors are increasingly operating at the regional level.

7. These regional integration and globalization developments provide an excellent environment within which Central American countries can collaborate to pursue common economic objectives. In particular, as Central American countries build greater inter-linkages through regional integration, the need for a coordinated approach to tackling economic reform issues has become more apparent than ever before. These issues include:

- Raising still low tax-revenue ratios to finance much needed increases in social and infrastructure spending; enhancing the efficiency of spending; and improving debt management, while keeping public debt on a firm downward track.
- Strengthening monetary policy frameworks to keep inflation at low levels.
- Deepening financial intermediation and developing capital markets, while strengthening financial supervision and regulation, domestically and regionally.
- Maintaining the pace of regional and global economic integration, while keeping a sustainable external position.
- Improving macroeconomic statistics to better support economic policy decisions both at the country and the regional level.

8. The IMF has been providing capacity building assistance to Central American countries in all of the above issues, and is planning to scale up that assistance to support the Central American authorities' push for even greater integration and growth. While there are many modalities to deliver more IMF TA to Central America,<sup>5</sup> several considerations suggest CAPTAC as an effective instrument to step up capacity building in the region:

- A large potential for economies of scale, since the region is pursuing major common reform objectives, including those related to increased integration. CAPTAC's

---

<sup>4</sup> A regional framework agreement was signed in December 2007.

<sup>5</sup> Such as headquarters-based missions, short-term experts, and long-term resident experts (regional and country-specific).

regional focus will put it in a good position to recognize similarities in countries' TA needs, and to take advantage of potential positive externalities and economies of scale. TA and training across national boundaries—such as support for region-wide initiatives and institutions and provision of opportunities for government officials to establish networks across countries—will be another benefit of the regional structure of CAPTAC.

- Addressing the economic challenges faced by Central American countries requires a combination of higher level policy advice and operational/implementation assistance. While the former can be delivered from IMF headquarters, experience has shown that the latter is best delivered through a vehicle like CAPTAC. First, the placing of high-quality technical expertise in close proximity to countries allows TA to be made available promptly to address emerging problems and urgent needs. Second, CAPTAC's ability to field frequent TA missions to beneficiary countries means there will be continuous and consistent follow-up on implementation issues, thereby helping to maintain the momentum for improvement and reform in CAPTAC countries.
- Cost-effectiveness: lower travel costs and times.<sup>6</sup>

9. It is important to note that the creation of CAPTAC in the Central American region is meant to enhance the quantity of IMF TA to Central American countries. The primary aim of the new Center is to provide *additional* TA to beneficiary countries in a manner that complements other assistance from IMF headquarters.

### III. SPECIFIC PRIORITIES IN CAPACITY BUILDING

10. IMF capacity building assistance, including TA and training that could be delivered through CAPTAC, will be geared to support country authorities in their efforts to address the above policy challenges. As part of the IMF's regular policy dialogue with its member countries, future priorities in capacity building have been identified in consultation with the Central American authorities. These priorities reflect reforms and assessments geared towards the achievement of objectives that are shared by the IMF and country authorities. They are also linked to the work programs of the regional council of finance ministers, central bank presidents, and superintendents of financial institutions.

---

<sup>6</sup> In the case of training, for instance, the average cost for a round-trip ticket from Central America to Brasilia (where a large portion of IMF regional training is delivered) is five times higher than the average cost of a round-trip ticket from any country in Central America to Guatemala.

### A. TA on Fiscal Issues

11. Sound fiscal frameworks are required to underpin the region's economic integration. IMF fiscal TA to Central American countries will be focused on revenue policy and administration, with due support to the ongoing tax coordination effort, and public financial management (PFM). There have been significant achievements in tax policy and revenue administration, and recent IMF TA on medium-term expenditure frameworks (MTEF), while still in early stages, holds the promise of continued policy dialogue and coordination in the region. Main areas of fiscal TA needs include:

#### *Regional Level*

- **Promoting tax coordination.** With advances in the customs union and on tax coordination in the region, CAPTAC can play a constructive role in identifying specific needs for assistance in the tax policy area, facilitate interface with headquarters, and follow up on implementation. Significant work is anticipated in preparation of a regional code of conduct on tax incentives, and other tax issues of interest for participating countries.
- **Supporting the Central American Customs Union (CACU).** This is a challenging task given the relatively large share of informal economy and high levels of tax evasion, and the fact that tax and customs administrations still fall behind international best practices. The many outstanding policy issues—including the extent to which free circulation of goods will be allowed, the existence of free economic zones, the bilateral free trade agreements with third-party countries, and the distribution of customs revenue—will require close coordination and cooperation between the various administrations.
- **Modernizing PFM systems.** Adoption of modern PFM systems would contribute to sound fiscal policy formulation and implementation. As an initial step, following a successful regional seminar in October 2007, the COSEFIM agreed to set up a working group on MTEFs. The IMF is already assisting CAPTAC countries with the preparation of the First Meeting of the COSEFIM Working Group for the adoption of an MTEF, to be held in Tegucigalpa in early August 2008. The first tasks of the group will be to prepare a diagnostic document and define an action plan.

#### *Country Level*

- **Modernization of tax administration and support to tax policy coordination.** For customs administrations, TA will focus on a comprehensive reform of operational procedures, post-release audit methods and enforcement, and risk management techniques. Priorities for tax administrations will include TA to improve registration procedures as well as audit and arrears management. Strengthening human resources

- **PFM.** The focus of TA in this area will be to strengthen the institutional framework for macro policies. In particular, continued IMF TA is needed to strengthen treasury management, inter-governmental transfer systems and PFM legal frameworks in most of CAPTAC countries (Costa Rica, Dominican Republic, Guatemala, Nicaragua), and public investment planning (Costa Rica, Guatemala, Panama).
- **Sustainability of expenditure.** IMF TA has guided the design of reforms to improve the effectiveness of government subsidies (Dominican Republic, El Salvador), address aging-related spending pressures on pension systems (Nicaragua), and manage fiscal risks arising from public-private partnerships (El Salvador, Guatemala).

## **B. TA on Monetary and Financial Sector Issues**

12. Enhancing TA on monetary and financial sector issues serves as a natural corollary to the work of CAMC and Council of Financial Sector Superintendents. Key priorities for Central American countries in these areas include:

### ***Regional Level***

- **Cross-Border Consolidated Supervision and Harmonization of Laws and Regulatory Frameworks.** The aim in this area is to reduce vulnerabilities by developing a harmonized framework for consolidated cross-border supervision. TA in this area could be complemented by assistance to help countries identify reforms needed to strengthen financial crisis management frameworks, e.g., central bank emergency liquidity assistance facilities, bank resolution frameworks, and deposit insurance schemes.
- **Capital Market Development.** Deeper domestic capital markets will be important to reduce vulnerabilities, improve access to financing, and allow a more effective conduct of monetary policy. With respect to *public debt markets*, TA is needed to help strengthen market fundamentals and management, support the development of the money and secondary debt markets, and improve legal frameworks. On the side of *private capital markets*, there is need for more TA to help develop asset-backed securities markets and also a regional private capital market. Such developments will facilitate the diversification of retail investment opportunities and strengthening of institutional investors.

- **Implications of the internationalization of financial systems.** The ownership of financial systems in the region has been profoundly modified recently with the increased participation of foreign banks. This, together with the recent global financial crisis, underscores the importance of minimizing the CAPTAC-DR countries' vulnerability to exogenous financial shocks. TA and training are needed to assess risks in parent bank-local branch relationships, their impacts on the adequacy of domestic safety nets, as well as measures to reduce countries' vulnerability to shocks.
- **Unregulated investment vehicles.** Given the apparent development of alternative and unregulated investment vehicles, countries are in need of TA to assess regulatory gaps and the effectiveness of consolidated supervision arrangements.

### *Country Level*

- **Effectiveness of monetary policy frameworks.** The IMF has been providing TA to support efforts to increase the transparency of central bank operations and enhance liquidity management (Honduras and Nicaragua), as well as advice on technical and operational requirements for the adoption of inflation targeting (Costa Rica, Guatemala).
- **Financial regulation and supervision.** TA has focused on enhancing laws and regulations in line with international best practices (Dominican Republic, Guatemala, and Panama), strengthening supervisory capacity to deal with greater exchange rate flexibility (Costa Rica), and improving crisis resolution (Guatemala).

### **C. TA on Macroeconomic and Financial Statistics**

13. The IMF has been providing extensive statistics TA to Central American countries in recent years. Current work aims at improving the quality and consistency of macroeconomic statistics and establishing common statistical definitions, to enable the dissemination of comparable statistics for the region. Key TA projects and priorities on statistics include:

### *Regional Level*

- **Harmonization of monetary and financial statistics.** Begun in 2006, an IMF project on regional harmonization of monetary and financial statistics has achieved statistical harmonization comparable to that in the European Union. Going forward, the priority is to continue improving source data and inter-sectoral consistency. The project focuses mainly in data for depository corporations. The main future objectives will be to: (a) improve source data; (b) enhance inter-sectoral consistency of monetary statistics, particularly with balance of payments and fiscal statistics; (c) compile and disseminate comprehensive data for other (nondepository) financial

corporations (e.g., pension funds, insurance companies, investment funds); and (d) enhance the overall quality of macroeconomic statistics to better support debt vulnerability analysis, for example, by compiling the balance sheet approach matrix.

- **Harmonization of government finance statistics (GFS).** An IMF project is expected to start in the second half of 2008 to compile and publish comparable GFS statistics using the *2001 IMF GFS Manual* methodology, and to prepare a detailed migration plan for gradual adoption of the full *GFSM 2001* methodology. IMF TA will facilitate this process through the compilation and dissemination of GFS sub-annual and annual data. The project aims at fulfilling countries' objective of elaborating and publishing comparable statistics across countries to permit a comparative analysis of fiscal developments and facilitate the regional policy dialogue.
- **Harmonization of external sector statistics.** An IMF project is expected to start in the latter part of 2008 to assist countries in compiling comprehensive and consistent external sector statistics in line with internationally accepted standards. The project will develop harmonized compilation systems for balance of payments, international investment position, and external debt statistics. Specific emphasis will be made on data consistency across macroeconomic statistics produced by national statistical agencies, using agreed common definitions of financial instruments, economic sectors, and valuation criteria, among others, in all countries.

### *Country Level*

- **Real sector.** Countries are improving national accounts (Dominican Republic, Guatemala, Honduras, Nicaragua), implementing consumer price index (CPI)-related indexes (Costa Rica), and advancing in the production of producer price indexes (PPI) (Honduras, Nicaragua). Key TA needs for the future comprise the development of quarterly national accounts (QNA) in Honduras and El Salvador; the change of base year and completion of the implementation of the *1993 System of National Accounts (SNA)* in Costa Rica, Dominican Republic, El Salvador, Nicaragua, and Panama; the benchmark of the QNA with the new annual series in Nicaragua, the completion of the QNA in Guatemala, and; the completion of the PPI in Nicaragua, Guatemala, and Honduras.
- **Government finance.** Costa Rica, Honduras, and El Salvador are relatively advanced in the process of implementing the *GFSM 2001* framework. Costa Rica is preparing a new Chart of Accounts aligned to the *GFSM 2001* framework; Honduras has included a GFS module in its Integrated Management System (IMS); and El Salvador reports accrual and cash data for publication in the *IMF GFS Yearbook* following the recommendations of the *GFSM 2001*. Main shortcomings relate to institutional and transaction coverage in the IMSs, classification, basis for recording (Dominican

Republic, Honduras, Nicaragua, Guatemala, and Panama), and lack of coordination among statistical agencies to analyze discrepancies between the fiscal accounts and financial data. Most of the countries require relevant adjustments in the institutional and legal frameworks to improve collection, compilation, and dissemination of GFS.

- **Balance of payments.** Efforts are ongoing to produce and disseminate timely balance of payments statistics on a quarterly basis (Honduras, Guatemala), as well as to compile annual International Investment Position (IIP) data (Guatemala) and a set of total external debt statistics (Dominican Republic, Guatemala, Nicaragua, and Panama). Future work will aim at improving the coverage through collection of data for most relevant items, including trade (interregional and outside the region), remittances, income account, portfolio investment, and direct investment, where applicable (Dominican Republic, Guatemala, Honduras, and Nicaragua).

#### **D. Specialized Training on Macroeconomic and Financial Issues**

14. As a complement to TA delivered in each of the above areas, the IMF also provides training on macroeconomic and financial issues, both from its headquarters and regional training institutes. Courses and seminars on macroeconomic analysis and policymaking provide the conceptual foundations, practical analytical skills, and diagnostic tools required by policymakers in the region to conduct successful macroeconomic management. Some of this training could be delivered on-site within the Central American region, thereby possibly enabling greater customization of training programs to the circumstances and policy concerns of regional countries. Subjects that could be covered by courses conducted on a regional basis include financial programming, trade and exchange rate policies, and macro-impact of budgets.

### **IV. IMPLEMENTATION STRATEGY**

#### **A. Program Objectives**

15. The overarching objective of CAPTAC is to facilitate the achievement of the long-term development goals of the countries served, through assistance in building capacity for sound economic management in the core areas of the IMF's expertise. Specifically, CAPTAC assistance will aim to strengthen the institutional and human capacities of Central American governments to undertake effective public financial management, manage robust financial systems, and produce high-quality macroeconomic statistics. Although achievements in individual countries may be expected to vary somewhat on account of their unique circumstances and needs, as a general matter, tangible outcomes of CAPTAC's assistance will include:

- Improved country capacity for macroeconomic analysis, policy formulation, and forecasting.

- More effective functioning of checks and balances in public financial management, taking account of codes of good practices promoted by the IMF and other institutions. More transparent and efficient systems and procedures for budgeting, treasury operations, and expenditure planning and control, with appropriate safeguards in terms of oversight and auditing.
- Enhanced overall level of tax compliance by combating tax evasion and encouraging voluntary compliance via strengthening tax and customs administrations capacity. High quality taxpayer services and a targeted, risk-based enforcement policy. Trade facilitation through a modern, efficient customs administration.
- Improved legal and regulatory framework for bank supervision. Further development of financial markets and better coordination and implementation of financial sector supervision.
- Methodologies for compilation of economic and financial statistics upgraded to the latest international standards. Improved dissemination of macroeconomic data and metadata.

16. By providing intensive and focused assistance, CAPTAC resident advisors will be well-placed to help countries attain the above outcomes. At the same time, the broad-based regional nature of CAPTAC resident advisors' tasks will prevent them from being asked by national authorities to undertake operational responsibilities in any one country, which event would undermine efforts to transfer skills and capacity to local officials. It is expected that CAPTAC will commence operations with six resident advisors—two in each of the IMF's core areas of expertise, viz., fiscal, monetary and financial systems, and statistics.

17. In addition to the assistance to be provided by the resident advisors, CAPTAC will also be able offer short-term visits of temporary experts to assist the beneficiary countries in implementing their capacity-building projects. In selecting both resident advisors and short-term experts, due consideration will be given to using qualified personnel from the region. The integration and use of local expertise, where appropriate, will form an important component of CAPTAC's broader mandate to develop local policymaking capacity and expertise.

## **B. Strategic Integration with IMF Headquarters**

18. The assistance provided through CAPTAC will be integrated with TA from IMF headquarters. Specifically, it is foreseen that resident advisors would focus largely on "implementation-oriented" TA, thus supporting the execution of "policy-oriented" advice provided by IMF headquarters (e.g., the design of reform strategies and action plans in a given area). This division of activities will be informed and guided by the IMF's overall TA strategy for the countries concerned, as outlined in the IMF's regional TA strategy note for Central America.

19. More generally, in order to maximize impact and effectiveness, the IMF's TA activities are being integrated closely with its surveillance and lending operations, as well as with recipient countries' policy agendas. Surveillance and lending operations can help

identify TA needs that are in line with the country's reform objectives and the IMF's policy views. In turn, TA can be used to help countries implement reforms identified in surveillance and lending programs. Through these close linkages, CAPTAC TA would be based on reform objectives agreed as part of the IMF's holistic engagement with Central American countries.

20. Consistent with the above, CAPTAC TA will also benefit from coordination with IMF resident representatives in the Central American region. In particular, the IMF's regional resident representative will interact closely with the Center's personnel, allowing the latter to benefit from the resident representative's more in-depth knowledge of the unique circumstances of the region.

### **C. Collaboration and Coordination with other Parties**

21. CAPTAC activities will support recent progress to improve coordination of macroeconomic and financial policies across the region. It is expected that a large share of capacity building activities will be related to regional reform priorities, as set by the regional bodies of CAPTAC countries (e.g., CAMC, COSEFIM, etc.).

22. To create synergies, but also avoid overlap and inefficient use of resources, the Center will give due attention to the coordination of related capacity-building assistance from other donors and TA providers. For example, economic engagement with the Americas is a major foreign policy goal of the Canadian government, and the Canadian International Development Agency (CIDA) has active regional and bilateral programs in Central America. Key objectives of CIDA's development assistance to Central American countries include strengthening governance, economic renewal, and human capital formation. These will form the basis for an enabling environment for private sector development. In the area of revenue administration, the Inter-American Development Bank (IDB), the World Bank, and the Inter-American Center of Tax Administrations (CIAT) based in Panama are all actively assisting Central American countries with relevant reforms. CAPTAC will also support CABEI's objectives, which promotes and finances economic integration in the region. CAPTAC TA will leverage on the efforts of all these donors and agencies.

23. CAPTAC will also endeavor to support the aid coordination efforts of national governments through exchange of information, expert advice, and participation in aid coordination meetings within the Center's areas of specialization. Nevertheless, in light of the critical importance that strong country ownership plays in ensuring the success of aid strategies, the leading role for aid and TA coordination will continue to lie with the respective country authorities.

## **V. GOVERNANCE AND OPERATIONAL ARRANGEMENTS**

### **A. Governance Structure and Center Management**

#### ***The Steering Committee***

24. The governance structure of CAPTAC will follow the well-established model of the IMF's RTACs. First, as indicated above, TA delivered through CAPTAC is geared towards complementing and adding to other forms of IMF TA; is fully-integrated with the countries' shared reform objectives with the IMF; and supportive of the reform programs implemented with the assistance of other relevant TA providers and donors. Second, in addition to IMF oversight and quality control, accountability to beneficiary countries and donors is another key feature of the RTAC method of TA delivery. Specifically, CAPTAC will be guided by a Steering Committee (SC), composed of representatives of beneficiary countries appointed by their country, donors, and the IMF. The Steering Committee can decide to invite regional institutions and other TA providers, where relevant, as observers. The SC will be chaired by a representative of a beneficiary CAPTAC country (the host country initially, after which chairmanship will rotate).

25. The SC's function is to provide strategic guidance for, and contribute to, the setting of the Center's priorities, including through the endorsement of the Center's work plans. It is expected that the Committee will look at broad country priorities and provide its views on the Center's role in assisting beneficiary countries in the core areas of its expertise. Committee meetings are expected to be held annually. The Center Coordinator (see below) will serve as Secretary to the Steering Committee.

#### ***Center Coordinator***

26. While the SC will provide overall strategic guidance for the Center, management of the day-to-day activities and staff of CAPTAC will fall under the responsibility of the Center Coordinator. The Coordinator, who will be supported by a small administrative staff, will maintain close relationships with the beneficiary countries, act as a liaison with the relevant departments in IMF headquarters, and work with bilateral and multilateral donors and other TA providers to facilitate effective coordination of TA delivered to CAPTAC countries.

27. The Coordinator will also serve as the key interlocutor between the IMF and the SC. Additionally, the Center Coordinator will liaise closely with bilateral/multilateral agencies and other donors in the field, in order to promote effective coordination and complementarities among TA programs and ensure that CAPTAC's work plans do not duplicate or conflict with the work of another agency.

#### ***Resident Advisors and Short-term Experts***

28. As previously indicated, the resident advisors will form the bulk of TA expertise of CAPTAC, and it is proposed to begin CAPTAC's operations with six full-time advisors. These advisors will deliver a large share of CAPTAC TA, and will be physically based at the Center. The resident advisors will undertake short visits, as and when necessary, to the

beneficiary countries in order to: (a) identify needs and develop new TA projects; (b) monitor ongoing projects and follow up on the implementation of earlier assistance provided; and (c) help coordinate CAPTAC TA with other activities that may be carried out by other donors. The resident advisors will also act as a referral point for the Center's cooperation with other providers of regional and in-country training courses, seminars, and workshops. In addition, where appropriate, they will respond to *ad hoc* and urgent requests for advice and assistance by countries in the respective areas of their expertise.

29. Each resident advisor will be selected by IMF headquarters, based on, *inter alia*, technical expertise, practical experience, knowledge of the Central American region, educational qualification, etc. IMF headquarters will also have responsibility for continuously supervising the substantive work and advice of the advisors, to ensure that the technical quality of their outputs meets international standards. Such supervision will include annual inspection visits by the relevant TA department. Through this process, resident advisors will always have the benefit of access to the IMF's broad knowledge base and international network of expertise, from which to draw lessons on how particular issues may have been resolved elsewhere in the past.

30. The work of resident advisors will be complemented by assistance from short-term experts, who will provide further support to meet the needs of beneficiary countries. Like resident advisors, all IMF short-term experts undergo a stringent certification process by the respective TA department at IMF headquarters. Short-term experts are supervised by these TA departments, which may delegate such authority to their resident advisors in CAPTAC. As with resident advisors, in selecting short-term experts, due consideration will be given to suitably qualified persons from the region.

## **B. The Work Plan of the Center**

31. The Center's work plan will be developed within the context of each beneficiary country's overall macroeconomic reform strategy. The IMF's continuous dialogue with its member countries provides a useful basis for the identification of key capacity-building needs in each country concerned. Drawing on this, TA priorities will be determined and detailed country TA programs formulated jointly by CAPTAC and IMF headquarters. This ensures that the activities of CAPTAC and IMF headquarters are fully integrated with each other and with country reform agendas, for maximum impact. As a reflection of this need to integrate the work of CAPTAC with the IMF's overall TA program, the development of the annual work plan will also be coordinated with the IMF's budget cycle and resource allocation processes.

32. The individual country TA programs, which may form part of broader regional projects, will comprise the Center's work plan. The work plan is submitted to the SC for its endorsement at its regular meetings. Prior to formal endorsement, the Center Coordinator can also seek strategic guidance of SC members when assembling the work plan. At each SC meeting, the Center Coordinator will deliver a report on the execution of activities vis-à-vis a previously endorsed work plan.

### **C. Accountability and Quality Control**

33. It is a core objective of the program that, in responding to specific country needs, the activities of CAPTAC embody a strong degree of country ownership and commitment, as a means to foster increased effectiveness and sustainability of the TA delivered. The effective use of Center resources will therefore be closely monitored in a number of ways, beginning with close oversight by IMF headquarters, as follows.

- First, as indicated above, the Center's resident advisors will be supervised and backstopped by the IMF. Operationally, quality control of the work of CAPTAC resident advisors will be provided through: (a) the screening and selection process for advisors; (b) regular supervision and backstopping support from IMF headquarters; and (c) periodic inspection visits by IMF headquarters staff that could be complemented by diagnostic missions, during which beneficiary countries may provide feedback on the performance of any resident advisor. Other interested parties may also be consulted, as appropriate, in this process.
- Second, the Center Coordinator—an IMF staff member—will have responsibility for day-to-day operations of the Center, the Center's budget, and the administrative supervision of the Center's staff. The IMF will also, in the context of any IMF-supported country programs and surveillance activities, monitor the progress of beneficiary countries in implementing reforms that are supported by the Center.

34. As a complement to the technical and qualitative supervision that will be exercised by IMF headquarters, it is also expected that the Center's experts will utilize a Results-Based Management System (RBMS) to track the implementation of all CAPTAC TA projects and activities in each country. This entails the use of logical frameworks to monitor TA project implementation against pre-specified objectives, outputs, and indicators. Implementation of the RBMS will be enabled through the IMF's Technical Assistance Information Management System (TAIMS)—a standardized database for managing and tracking all of the IMF's TA activities, including for the purposes of monitoring TA project implementation. This will serve to facilitate consistency and coherence in the planning and execution of IMF TA to the beneficiary countries, regardless of whether the assistance is to be delivered via the Center or by IMF headquarters.

35. Given the limited resources available to the Center, a main prioritization criterion in determining the work plan will be each beneficiary country's record in making effective use of TA previously received. Peer review among the country representatives on the SC should, therefore, reinforce cooperation, accountability, and the effective use of resources.

### **D. Evaluation**

36. It is proposed that, after no fewer than three years of operation, an independent evaluation of the work of CAPTAC be carried out by a team of outside experts. The evaluation will assess the effectiveness and sustainability of the Center and the TA provided by it, bearing in mind the long-term nature of capacity building, and will formulate

## VI. FINANCING/STAKEHOLDER INPUT AND ADMINISTRATIVE ISSUES

### A. Financing and other Stakeholder Input

37. The estimated total cost of opening and operating CAPTAC for an initial five-year phase is about US\$35 million (Table 1). This indicative budget of US\$35 million is based on recent IMF experience in the establishment and operation of RTACs, and is premised on the assumption that CAPTAC's TA will be anchored by six resident advisors. Cost estimates are largely based on IMF standard costs for staff and TA experts. However, in the operation of CAPTAC, expenditures will be accounted for on the basis of actual costs incurred.

38. To provide assurance and stability for the Center's operations, financing will be secured in advance for the entire five-year period. Of the total budget, the IMF will cover part of the start-up costs and the salary and benefits of the Center Coordinator. Local operating costs of about US\$2 million plus most of the start-up costs are covered by the host country. Donors, including CAPTAC beneficiary countries, would cover the TA delivery budget of about US\$29 million. These include costs related to the six resident advisors, expenses associated with diagnostic missions and training, travel costs of the resident advisors, additional short-term TA generated by the Center, costs associated with the IMF's backstopping, supervision, and management of the Center, and costs for the mid-term evaluation.

39. Financial contributions aside, experience has also shown that nonfinancial support from stakeholders will be critical for CAPTAC's success. In particular, strong commitment and participation from CAPTAC beneficiary countries will be key. Without this, no lasting results will be achieved. It is therefore expected that CAPTAC beneficiary countries will take full ownership of and drive project implementation by, *inter alia*, appointing senior-level government officials as SC members, providing travel and *per diem* expenses for these officials to attend SC functions, and appointing suitable staff as contact points with whom the resident advisors can work on a regular and frequent basis. Where necessary, CAPTAC beneficiary countries may also be approached to assist with administrative and logistical support for in-country training activities and other CAPTAC events.

### B. Administrative Arrangements

40. All contributions from donors will be made into a multi-donor CAPTAC Subaccount to be established under the IMF's Framework Administered Account to administer external financial resources for selected Fund activities (SFA), as amended from time to time. This Subaccount will be used to receive and disburse financial contributions for the Center's activities; all resources contributed to the Subaccount will be for the sole use of CAPTAC, as outlined in the Center's indicative budget presented in Table 2.

41. The basis for the financial arrangements between donors and the IMF will be a letter of understanding establishing the purposes of the contributions, and the method, terms, and conditions by which the costs of TA activities of CAPTAC will be financed from the

resources contributed to the Subaccount. The IMF will administer and account for all donor contributions in accordance with its financial regulations and other applicable IMF practices and procedures. Except for the Center's local administrative staff, the IMF will select and recruit all Center personnel—including the Center Coordinator, resident advisors, and short-term experts—in accordance with its normal procedures. All personnel so recruited will be considered employees of the IMF.

42. The IMF will provide donors with reports on the Subaccount's expenditures and commitments. The operations and transactions conducted through the Subaccount will be subjected to annual audits of the SFA. Separate reporting on the execution of CAPTAC's budget will also be provided at each SC meeting.

### **C. Center Location**

43. IMF staff has undertaken a study of possible Center locations, based on operational criteria to ensure the effective functioning of the Center. These criteria included cost and complexities of air travel, quality of infrastructure (e.g., communications facilities), safety and health considerations, and other relevant criteria. On the basis of that assessment, and in consultation with CAPTAC countries, it has been decided to accept the generous offer of Guatemala to host CAPTAC in the country's capital city, Guatemala City.

**Indicative CAPTAC Budget**  
**FY2009 - FY2013**  
**(Draft)**

<b>Capital /Start-up Costs</b>	<b>In U.S. Dollars</b>
<b>Total Capital /Start-up Costs</b>	<b>1,037,000</b>
IMF Staff and Recruitment Costs	417,000
Facilities Costs	620,000

<b>Operating Budget</b>	<b>In U.S. Dollars</b>
<b><u>I. Office coordination and administration</u></b>	<b>4,640,000</b>
Center Coordinator	2,580,000
Local Staff	455,000
Communication	292,000
Office Lease	642,000
Residence Lease	338,000
Security	64,000
Other contractual services	269,000
<b><u>II. TA Provision</u></b>	<b>27,796,000</b>
Resident Advisors TA Delivery	10,715,000
Salaries	9,153,000
Travel Costs	1,562,000
Short-term Expert TA Delivery	8,057,000
TA Seminars	2,708,000
Training on Macroeconomic and Financial Issues	1,303,000
Diagnostic Interventions	490,000
Center Coordinator Travel Costs	141,000
Evaluation	300,000
Backstopping and Project Management *	4,082,000
<b><u>III. Trust fund management</u></b>	<b>1,915,000</b>
<b>Total</b>	<b>35,388,000</b>

*Source: Office of Technical Assistance Management.*