

**EXECUTIVE  
BOARD  
MEETING**

SM/22/208  
Supplement 5

August 3, 2022

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Independent Evaluation Office—The IMF and Capacity Development—Case Studies for Western Hemisphere**

Board Action: Executive Directors' **consideration** (Formal)

Tentative Board Date: **Monday, September 12, 2022**

Publication: The IEO proposes that, after the Executive Board completes its discussion, this background paper be posted on the external IEO website together with the evaluation's main report, management comments, any IEO response, and a summary of the Board discussion. The Board would be notified of any changes or corrections made in the published version.

Questions: Mr. Collyns, IEO (ext. 38383)  
Mr. Kell, IEO (ext. 37715)



# IEO

Independent Evaluation Office  
of the International Monetary Fund

## BACKGROUND PAPER

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BP/22-02/05

### **The IMF and Capacity Development— Case Studies for Western Hemisphere**

Teresa Ter-Minassian

**IEO Background Paper**  
Independent Evaluation Office  
*of the* International Monetary Fund

The IMF and Capacity Development—Case Studies for Western Hemisphere

Prepared by Teresa Ter-Minassian\*

July 27, 2022

The views expressed in this Background Paper are those of the author and do not necessarily represent those of the IEO, the IMF or IMF policy. Background Papers report analyses related to the work of the IEO and are published to elicit comments and to further debate.

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**ABBREVIATIONS**

ACES	Analytic Costing and Estimation System
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BEPS	Base Erosion and Profit Shifting (OECD)
BoJ	Central Bank of Jamaica
CAPTAC	Central America-Panama-Dominican Republic Regional Technical Assistance Center
CARTAC	Caribbean Regional Technical Assistance Centre
CD	Capacity Development
CDD	Capacity Development Department
CDMAP	Capacity Development Management and Administration Program
CSN	Country Strategy Note
EFF	Extended Fund Facility
e-GDDS	Enhanced General Data Dissemination System
FAD	Fiscal Affairs Department (IMF)
FATF	Financial Action Task Force
FCL	Flexible Credit Line
FTE	Full-Time Equivalent
ICD	Institute for Capacity Development (IMF)
IDB	Inter-American Development Bank
ITF	Inflation Targeting Framework
LAC	Latin American and Caribbean Countries
LTX	Long-Term Expert
MCM	Monetary and Capital Markets Department (IMF)
MDB	Multilateral Development Bank
PATS	Participant and Applicant Tracking System
PCT	Platform for Collaboration on Taxes
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
PROFISCO	Fiscal Management Modernization Program in Brazil
RBM	Results-Based Management
RCDC	Regional Capacity Development Center
RFI	Rapid Financing Instrument
SAT	Superintendency of Tax Administration (Guatemala)
SBA	Stand-By Arrangement
SECO	Swiss Secretariat for External Cooperation
SEZ	Special Economic Zone
SUNAT	National Revenue Authority (Peru)
STA	Statistics Department (IMF)
STX	Short-Term Expert

TA	Technical Assistance
TADAT	Tax Administration Diagnostic Assessment Tool
TIMS	Travel Information Management System
UFR	Use of Fund Resources
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
VAT	Value-Added Tax
WHD	Western Hemisphere Department (IMF)

## OVERVIEW

This paper presents the main findings of four case studies for the IEO's evaluation of IMF capacity development (CD) during the period 2012–2020 of countries in the Western Hemisphere. The four countries in question (Brazil, Guatemala, Jamaica, and Peru) constitute a fairly representative sample of the countries covered by the IMF's Western Hemisphere Department (WHD). They differ significantly in size, population, per capita income, quality of institutions, and level of capacity. One of them (Jamaica) is a recent recipient of Fund financial assistance; two (Brazil and Guatemala) have been surveillance-only countries for at least the last decade. Peru qualified for support under the flexible credit line (FCL) in 2020, but to date has not drawn on it. As regards engagement with the Fund in CD, Brazil can be characterized as a moderate user, Guatemala and Peru as higher-intensity ones, and Jamaica as a heavy user, especially during the 2016–2018 period (Table 1).

	Brazil	Guatemala	Jamaica	Peru
CD Missions (Total, 2012–2020, TIMS)	81	360	369	192
CD in FTE/Year (FY2012–2021, TIMS)	1.0	2.8	3.9	1.8
CD FTE (percentage of WHD FTEs, FY2012–2021, TIMS)	1.8	4.9	6.9	3.2
CD intensity rank (compared to other WHD, FY2012–2021, ACES)	22	4	1	7
CD intensity rank (compared to all recipients, FY2012–2021, ACES)	108	36	17	58
Training participant weeks/year (FY2012–2021, PATS)	261.9	103.7	123.1	102.5
GDP per capita PPP (USD, 2019, WEO)	15,454.3	8,486.9	10,990.5	13,327.7
Rank GDP per capita PPP (2019, WEO)	88	124	115	100
Population (million, 2019, WEO)	210.1	17.6	2.7	33.2
UN Human Development Index (rank, 2020, UN)	84	127	101	79
Government Effectiveness Indicator (rank, 2019, WB)	118	154	62	106

Source: IEO staff calculations.

The evaluation is based on a range of evidence. Some fifty interviews were conducted with country authorities and Fund staff in WHD, the CD-providing departments (CDDs), and the two Regional Capacity Development Centers (RCDCs) operating in the region (the one covering Central American countries and the Dominican Republic (CAPTAC), and the one covering the Caribbean countries (CARTAC), as well as with some other technical assistance (TA) providers, in particular the World Bank and the Inter-American Development Bank. The evaluation also reflects insights from a review of relevant Fund documents, including Article IV Staff Reports and Special Issues papers, and a representative selection of TA reports for the countries covered.

The paper is organized as follows. This overview summarizes the evaluation's findings, and discusses some issues and lessons arising from them. Each case study presents in Section I a brief overview of the country's main economic characteristics and socio-political context. Section II focuses on the country's engagement with the Fund in CD. This section covers four main aspects of CD: (i) strategy, prioritization, and allocation; (ii) delivery; (iii) partnerships, coordination with

other CD providers, and dissemination and publication of CD outputs; and (iv) effectiveness and impact.<sup>1</sup> Section III concludes with an overall assessment of the CD engagement with the country in question.

## Key Findings

In the four WHD case studies, CD has been largely demand-driven:

- In Brazil and Peru, the authorities have set the CD agenda, which the Fund staff have been keen to accommodate. The systemic nature of Brazil, and the belief that CD was reflected in responsible macro-economic management in Peru, undoubtedly contributed to the staff's attitude.
- In Jamaica, CD has been driven by the objective (shared by the authorities and the staff) of supporting the design and implementation of the reforms included in the UFR-supported government program.
- In Guatemala, some two-thirds of the CD has been provided by CAPTAC. As the host country of the Center, Guatemala has considerable influence on shaping the latter's work program. WHD's staff has actively supported continued CD engagements, to address the policy and institutional weaknesses identified in its surveillance. CDDs' attitudes have fluctuated over time, reflecting their evolving perceptions of the effectiveness of the CD provided to date.

The Fund is widely regarded by country authorities as the best provider of CD in its core competency areas (macro-fiscal, tax policy and administration, most aspects of the public financial management; monetary and exchange rate policies; financial regulation, supervision, and stability; and economic statistics). They especially value the staff's technical expertise and broad knowledge of international experiences. However, the monetary authorities of the advanced EMs in the group (Brazil and Peru), tend to view the Fund more as a convener of, and contributor to, peer-to-peer learning, than a capacity-builder for their respective institutions.

The authorities interviewed generally supported greater integration of CD with surveillance. Several mentioned that they would favor greater granularity of analysis and recommendations in surveillance activities, based on CD inputs. In Jamaica's case, the authorities viewed CD as key to the success of their UFR-supported program.

All the case studies point to the importance of adequate follow-up to the initial delivery of CD. This is especially evident for CD provided to support institutional reforms, which typically extend

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<sup>1</sup> The IMF's Common Evaluation Framework (IMF, 2020d) defines effectiveness as "the extent to which the CD project achieved, or is expected to achieve, the intended results envisaged in the RBM log frame." It defines impact as "the extent to which the intervention has generated or is expected to generate significant positive or negative, intended or unintended, higher-level effects."

over a number of years, but is also useful for TA on policy-focused reforms. Recognition of this fact has led to the increasing use in CD delivery of a programmatic approach, involving a combination of missions led by HQ staff and subsequent assignments of long-term experts (LTXs) and/or short-term experts (STXs).

The authorities interviewed emphasized the importance from their standpoint of continuity in such staff and expert assignments. The two RCDCs covering Guatemala and Jamaica received high marks from the authorities for their experts' knowledge and understanding of the institutional and socio-political specificities of their respective regions, as well as for the responsiveness and timeliness of the assistance they provide. But the case of Guatemala suggests that their *modus operandi* (multi-year work programs based on broad donors' and recipients' consensus) can lead to some inertia in resource allocation even when the CD is less than adequately effective. Even closer monitoring by CDDs of the results of the CD provided by the RCDCs, and perhaps a more proactive input of the staff into their work programs, may be needed to avoid such risk.

Most of the authorities interviewed noted that adequate follow-up is also important in CD provided to advise on policy reform options, and that it can take different forms (including missions, workshops, on-demand remote consultation, and desk review of reform proposals), depending on the nature of the engagement and the level of capacity of the country. Especially in countries not covered by an RCDC, such follow-up requires a proactive attitude by both the authorities and the Fund staff.

The case studies suggest that the WHD mission chiefs have become more involved in CD follow-up in more recent years, not only in Jamaica where CD recommendations were frequently reflected in structural benchmarks in the program, but also in the three surveillance-only countries. Resident representatives have also played an active role, especially in Brazil, Jamaica, and until 2015, when the office was closed, in Peru. But, given the specialized nature of most issues covered, the main responsibility for follow-up to CD engagements remains with the thinly stretched staff of CDDs, and the case studies suggest that, especially outside the frameworks of multi-year projects, the follow-up has varied across countries, topics, and over time. Naturally, the interest and continuity of the counterpart authorities have also influenced staff efforts in CD follow-up. Staff expect that the full implementation of the new information and management system for CD (CDMAP) will promote more systematic follow-up.

The COVID-19 pandemic has taken a toll on CD delivery, which was lower in 2020 than on average during the evaluation period, especially in Guatemala and Jamaica. Staff ramped up on-line support to the authorities in preparing or adapting business continuity plans in monetary, fiscal, and statistical institutions, and in strengthening transparency and accountability for the pandemic-related spending. TA continued to be provided, albeit at a reduced scale, in a number of ongoing multi-year projects, facilitated by the fact that staff was already well familiar with key counterparts, but some planned new TA engagements had to be postponed. Training was less affected than TA, as it was more generally amenable to on-line delivery.

With the exception of Brazil, where most TA to the federal government<sup>2</sup> was funded with IMF01 resources, external funding through Trust Funds, the RCDCs budgets, or bilateral grants (e.g., from the Swiss Secretariat for External Cooperation (SECO) in Peru) covered the bulk of CD to the case study countries during the evaluation period. The authorities interviewed expressed appreciation for such funding, which they viewed as enabling the CD received. Some of the staff interviewed noted, however, that the heavy reliance on external funding had led to some loss of flexibility in the allocation of CD resources, both among and within countries, and over the course of projects.

The authorities in the case study countries have in general not been proactive in ensuring coordination among CD providers.<sup>3</sup> They tend to choose from which institution to request CD, based on their perceptions of comparative advantage in terms of expertise on the issue at hand and of resource availability, leaving coordination and possible cooperation largely to the providers' initiative. Some recognized that on occasion this may have led to duplication of efforts.

Fund staff have sought to coordinate with other multilateral and bilateral providers through various channels (WHD mission chiefs and senior management, resident representatives, RCDCs' coordinators and LTXs, and especially CDD staff), but for the most part on an informal and episodic basis. In some cases, e.g., Jamaica and the Sao Paulo project, cooperation with other institutions has been more systematic and fruitful. Agreements with the World Bank and other institutions on collaboration platforms like the Platform for Collaboration on Taxes (PCT), the Tax Administration Diagnostic Assessment Tool (TADAT), and the Public Investment Management Assessment (PIMA) have facilitated synergies and cross-participation in missions. Staff emphasized, however, that coordination with other institutions absorbs a significant portion of their time, and that their efforts in this area are not always adequately appreciated by country authorities or reciprocated by the other providers.

With the exception of Brazil, the authorities in the case study countries have not consented to the publication of most TA reports, adducing as reasons confidentiality concerns, the technical nature of the subject matters, or risks of use of the information by opposition parties for political advantage. Staff has also not been particularly eager to publish the reports because of the additional resources involved, and respect for the authorities' concerns. A better balance could be struck between such concerns and the benefits of greater transparency of CD activities, for example, by publishing summaries of main TA reports and of the authorities' reactions to the

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<sup>2</sup> A multiyear PFM project with the state of Sao Paulo was funded entirely by the recipient government, using proceeds of an IDB loan.

<sup>3</sup> Guatemala has recently created a high-level committee, chaired by the Central Bank Deputy Governor, to improve coordination of requests for CD both internally and among potential providers. It is, however, too soon to assess the effectiveness of this action.

recommendations contained therein, possibly as an Annex to the annual Article IV consultation. This would also help enhance the granularity and specificity of surveillance recommendations.

Assessing effectiveness and impact of CD in the four case studies has proven challenging. The Results-Based Management (RBM) framework to assess effectiveness was not applied systematically during the evaluation period. For the projects that received objective and/or outcome ratings, the ratings are generally well aligned with the findings outlined below from other sources of information, such as the interviews with staff and officials, and relevant documents. As regards impact, it is of course always open to debate precisely how much IMF CD contributed to observed progress in specific policy and institutional reforms. With these caveats in mind, the evaluation focused on available evidence of traction (i.e., to what extent CD recommendations were implemented) and of specific policy and institutional improvements in the areas covered by the CD. It also focused on the likely main determinants of the CD effectiveness, or lack thereof.

The analysis suggests that CD was on average most fruitful in Jamaica, where substantial and sustained improvements were achieved in key macroeconomic policies and institutions. This owed first and foremost to the authorities' strong ownership of the reform program supported by the Fund, and to their ability to build adequate socio-political consensus on difficult adjustment measures. It also owed to the intense and sustained engagement by the Fund staff in both WHD and the CDDs, as well as by CARTAC, over several years; and it benefited from partnerships with donors and some other CD providers. Going forward, the challenge will be to adjust the level and composition of CD to Jamaica, in a surveillance-only context, to supporting the consolidation of previous reforms and the progress still needed in a number of areas. The recent Country Strategy Note for Jamaica, discussed in the case study below, outlines the staff's proposed strategy towards this objective.

In both Brazil and Peru, the evaluation's analysis suggests that Fund CD (predominantly in the fiscal area) was generally appreciated by the authorities for offering independent advice of high technical quality and reflective of international best practice, and that in several instances it provided useful inputs into policy and institutional improvements. However, in both cases, but especially in Peru, its effectiveness was adversely affected by the political instability, and the related changes in government and in senior management of key institutions, which characterized most of the evaluation period.

In Guatemala, although the allocation of CD has been largely in line with reform priorities identified in surveillance, CD traction and impact have not been commensurate with the resources devoted to it. The political economy factors discussed in the case study below undoubtedly played a major role in this subpar performance. Severe capacity limitations and high management turnover in some of the recipient institutions also contributed to it. It would seem desirable to modulate the level and composition of future CD to Guatemala (and more generally) to better reflect the extent of progress in the reforms supported by it. This would

require close monitoring by the CDDs of the results of both their own CD and that provided by the relevant RCDC.

More generally, all the case studies suggest that alignment of CD with surveillance does not by itself guarantee effectiveness of the CD. What is key are the government's ownership of the reforms supported by the CD and its ability to ensure adequate socio-political consensus for them. This in turn raises the question of how the Fund staff should assess such ownership, especially in surveillance-only countries. How much weight should be given to the country's previous track record? Should a new government always be given the benefit of the doubt? It also suggests that, if the authorities consent to it, it may be useful for the Fund staff to reach out to a broader circle of relevant public and private stakeholders to help build social consensus on the reforms supported by the CD.

**BRAZIL**

## I. BACKGROUND

1. Brazil is by far the largest economy in South America, and one of the major emerging markets worldwide. During the period covered by this evaluation, it experienced a severe economic crisis in 2015–2016, as well as significant political instability. Both hindered the adoption of the fiscal and structural reforms that would have been necessary to sustainably boost economic growth.<sup>1</sup> As a result, GDP grew on average by only 1.2 percent a year between 2012 and 2019. Unemployment increased from 7.4 percent to around 12 percent of the labor force during the same period. The consumer price inflation rate rose to 9 percent in 2015, but declined rapidly thereafter, to around 3.5 percent, reflecting significant monetary tightening. The COVID-19 pandemic has taken a further toll on the economy, which contracted by 3.9 percent in 2020 (Figure 1). GDP rebounded strongly (by 4.6 percent) in 2021, but the medium-term outlook remains subject to significant downside risks.

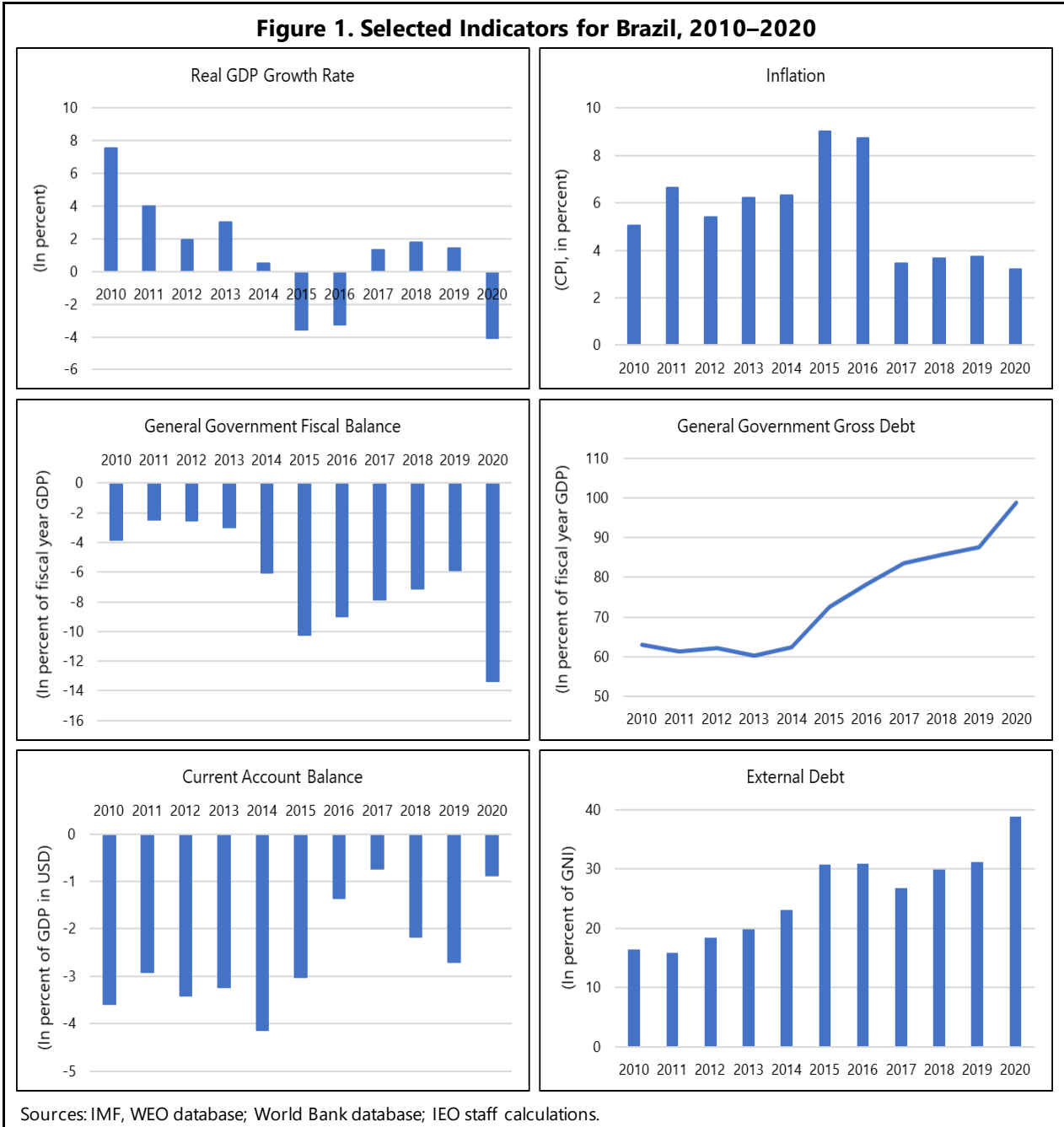
2. An area of special weakness in Brazil is its public finances. Although the tax burden is relatively high in light of the country's level of development, rapid growth of expenditures until 2017 led to the accumulation of significant primary deficits, and contributed, along with adverse interest rate-GDP growth rate differentials, to a rapid growth of the ratio of general government debt to GDP, to a level (nearly 88 percent, in the IMF's definition, in 2019) which is significantly higher than the emerging markets' average (some 55 percent).<sup>2</sup> Both the deficit and the debt rose further sharply in 2020, reflecting the impact of the COVID-19 and related fiscal stimulus measures. Moreover, the public finances suffer from long-standing structural weaknesses, including a tax system relying on a number of especially distortive and regressive levies, extensive earmarking and other rigidities in current expenditures, lack of fiscal space for badly needed infrastructure spending, and a system of intergovernmental fiscal relations that does not promote adequate subnational fiscal responsibility.

3. Brazil's engagement with the Fund in the last two decades has taken place through surveillance and capacity development (CD) only. The last Stand-By Arrangement (SBA) with the Fund expired in 2005. The latest Article IV consultation was concluded in September 2021. Successive Staff Reports and Selected Issues Papers have highlighted the range of structural policy and institutional weaknesses besetting the economy, and recommended a number of remedial actions, drawing inter alia on the staff's research and technical assistance (TA). Although the economic authorities broadly agree with much of the staff's analysis and recommendations, the country's complex political dynamics, exacerbated by the social impact of the COVID-19 pandemic, remain a major obstacle to needed progress in the reform agenda.

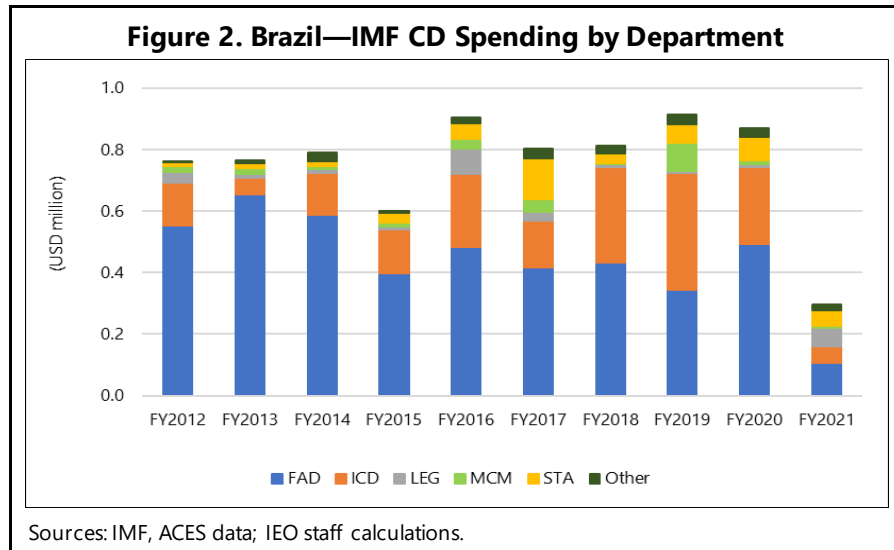
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<sup>1</sup> See, for example, Ter-Minassian (2012); World Bank (2017); and Spilimbergo and Srinivasan (2019).

<sup>2</sup> Fiscal Monitor, April 2021.



4. As a large emerging market country with well-developed economic policy and institutional capacities, Brazil has been a medium user of IMF CD in recent years, averaging less than 1 full-time equivalent (FTE) a year in 2012–2020. Engagement at the federal level was minimal in the early part of the evaluation period during the administration of President Dilma Roussef, when the bulk of the CD was provided to the state of Sao Paulo. Engagement with the federal government picked up during the economic crisis of 2015–2016, and has continued in the more recent years, including in a virtual mode during the COVID-19 pandemic (Figure 2).



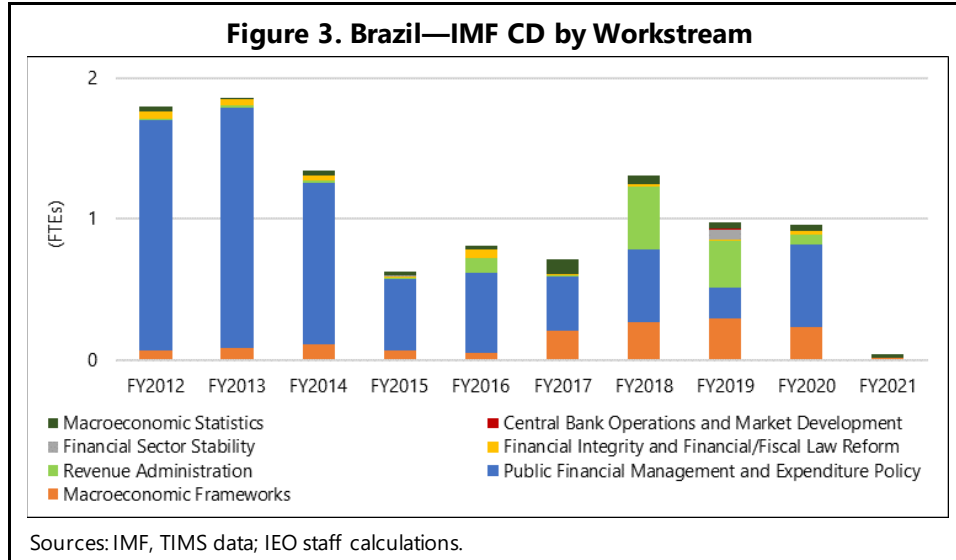
## II. CD ENGAGEMENT

### A. Strategy, Allocation, and Prioritization

5. The bulk of CD to Brazil during the evaluation period has been in the fiscal area. The authorities have been less interested in TA on monetary-financial and statistical issues since they consider their own capacity in these areas as quite strong. Nevertheless, they have been active participants in high-level workshops organized by Fund staff focusing on cutting-edge monetary issues, including one in 2019. They especially value peer-learning, involving advanced as well as other large emerging market countries. In the statistical area, they benefited from TA on Government Finance Statistics and on the recording of social protection arrangements in the national accounts in 2016–2017, and in 2020 on finalizing the second and third quarter GDP estimates in the midst of the pandemic. They have also made significant use of IMF Statistics Department’s (STA) specialized training.

6. IMF Fiscal Affairs Department’s (FAD) CD has covered a broad range of issues (Figure 3). In the macro-fiscal area, several missions over the period 2016–2020 advised on the design and implementation of fiscal rules at the federal and the sub-national government levels. Specifically, a mission in 2017 focused on the steps needed for a successful implementation of the rule limiting the growth of federal spending which had been adopted in 2016. It recommended the development and adoption of a full-fledged medium-term fiscal framework, and emphasized the need for reforms to reduce the pervasive spending mandates and rigidities in the budget. TA missions in 2019 and 2020 focused on strengthening the existing subnational fiscal responsibility framework, including by lowering the existing debt ceilings, adopting expenditure-based fiscal rules, strictly enforcing uniform accounting standards, and through a greater role for market discipline on state and local borrowing.<sup>3</sup>

<sup>3</sup> IMF (2019; 2020a).



7. In the public financial management (PFM) area, FAD conducted two major diagnostics, a Fiscal Transparency Evaluation in 2017<sup>4</sup> and a Public Investment Management Assessment (PIMA) in 2018.<sup>5</sup> Both identified significant weaknesses in the respective areas and outlined roadmaps of recommended PFM reforms to address them. Throughout the evaluation period, FAD also assisted the state of Sao Paulo in the design and implementation of a novel cost-accounting system for the major public services provided by the state. The output of this project, which was funded by Sao Paulo itself and conducted in cooperation with the IDB, is expected to become a model for a number of other states in Brazil.

8. In the tax area, FAD has had a limited involvement so far on the policy side but has been actively engaged in the more recent years on the administration side. Specifically, a comprehensive diagnostic of the state of the tax administration was conducted in early 2020, using the Tax Administration Diagnostic Assessment Tool (TADAT).<sup>6</sup> The diagnostic found that the main areas of relative weakness were the management of compliance risks and of tax arrears and the dispute settlement process, and made recommendations for improvement in these and other aspects of tax administration. Subsequently, FAD has been actively supporting through virtual workshops the implementation of several of the recommended measures. FAD has also supported the use of the TADAT diagnostic tool in some of the Brazilian states through short-term expert (STX) assignments and training.

9. The allocation of CD in Brazil is clearly demand-driven. The authorities decide in which areas, when, and in which form to request CD. However, their priorities have generally been well aligned with the content of surveillance. The pre-eminence of requests for fiscal TA reflects the

<sup>4</sup> IMF (2017a).

<sup>5</sup> IMF (2018).

<sup>6</sup> IMF (2020b).

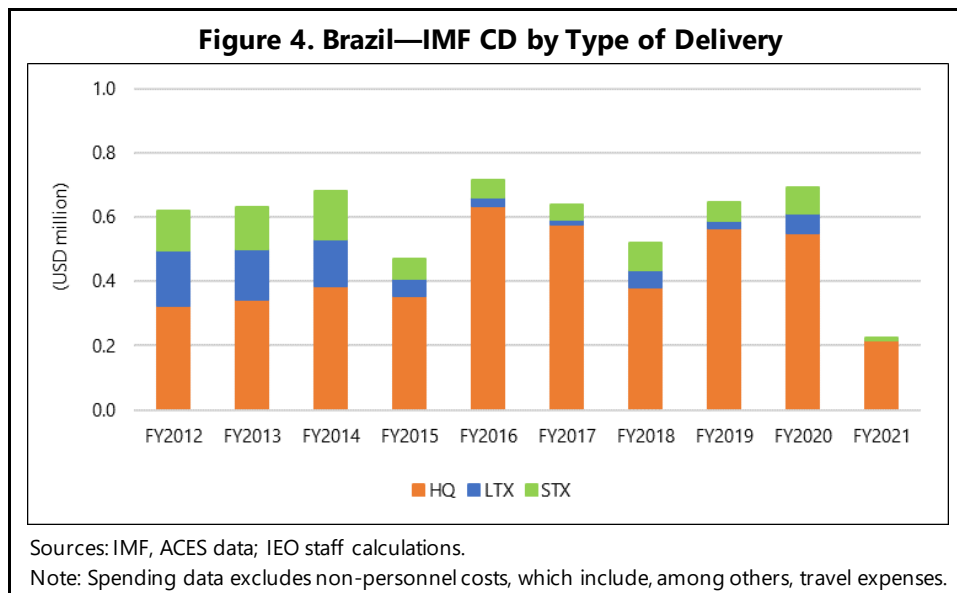
seriousness of the macro-fiscal challenges in Brazil and the recognition by both the authorities and the IMF staff of the significance of institutional weaknesses in such challenges. Therefore, successive WHD mission chiefs and resident representatives have encouraged and supported the authorities' requests for CD.

10. The systemic importance of Brazil also contributes to explaining why staff in both WHD and the CD-providing departments have been very responsive to the authorities' requests. The potential to generate regional spillovers and a country's systemic importance are identified in WHD's CD Regional Strategy Notes as criteria for the prioritization of CD requests. Staff also welcome CD engagements with the Brazilian counterparts because they see such engagements as helping to enrich the Fund's relationship with the country, as well as being intellectually stimulating and requiring familiarity with cutting-edge issues and techniques.

11. Finally, over the years Brazil has been a regular partner in IMF CD, by providing experts for CD missions and short- and long-term assignments, especially but not exclusively to Portuguese speaking countries in Africa. This partnership has spanned various fiscal and monetary/financial areas.

## B. Delivery

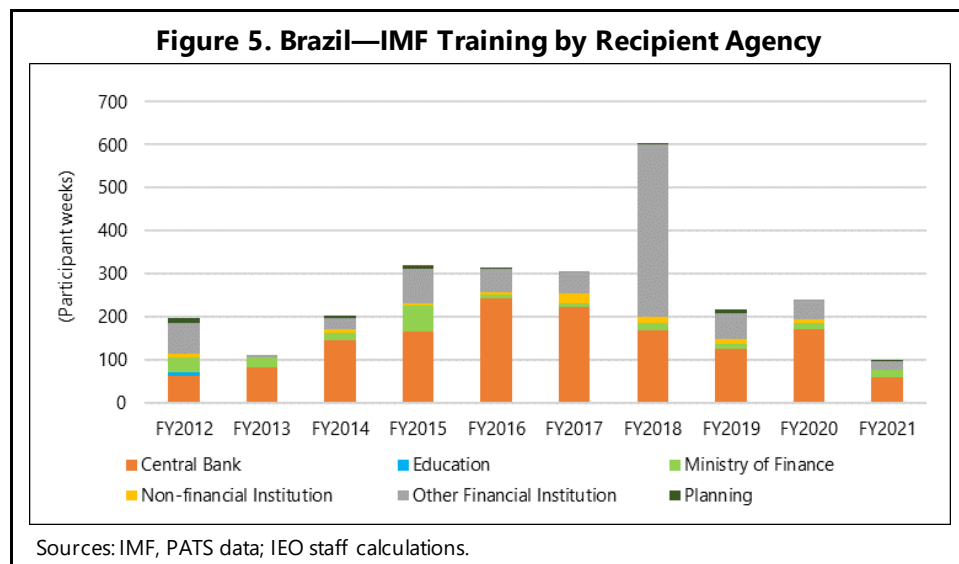
12. Most of the CD provided to the federal government during the evaluation period has taken the form of missions from headquarters (HQ), involving staff and some outside STXs. This reflects the episodic, rather than programmatic, nature of the CD delivered to the federal government, which focused predominantly on diagnostics and advice on specific issues of current interest to the authorities (Figure 4).



13. Although the advice was well-appreciated by the authorities (see Section D below for details), follow-up CD engagements have generally been limited. Several factors may have contributed to this: the authorities believe that they have adequate capacity to implement the CD recommendations that they agree with; also, the political instability has led to significant rotation in the high-level counterparts to CD missions. Furthermore, there has been limited follow-up to detailed CD advice in the Article IV consultations; most of the follow-up has been carried out by active and well-informed IMF Resident Representatives.

14. In contrast, the above-mentioned CD to Sao Paulo state was structured from the outset as a medium-term engagement, involving a mix of missions from HQ (initial diagnostic and periodic stocktaking), the placement of a long-term expert (LTX) during 2012–2014, and repeated STX assignments throughout the period. The nature of the project was well-suited to such a programmatic approach.

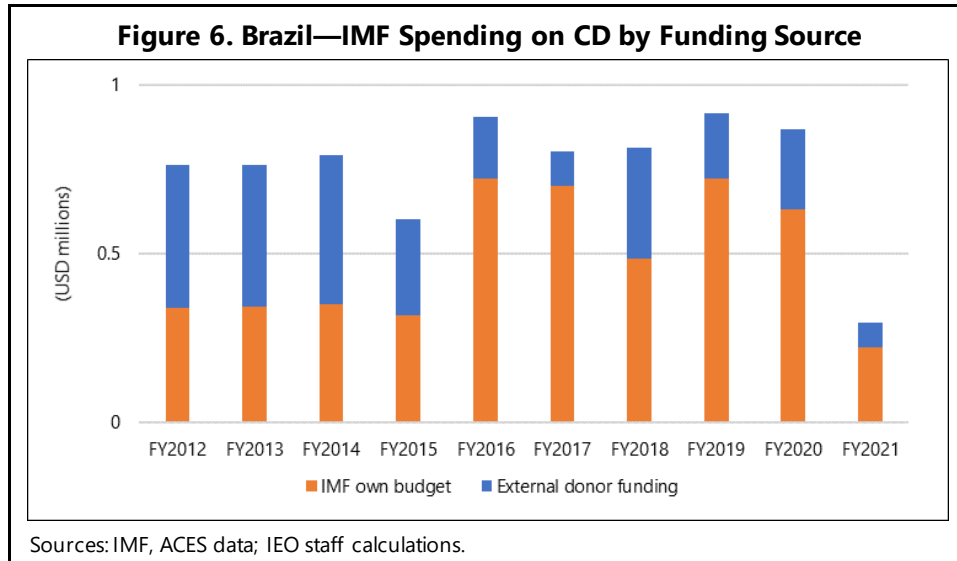
15. Like the rest of South America, Brazil is not covered by a Regional Capacity Development Center (RCDC), a fact that may also have contributed to the lack of systematic follow-up to the TA provided to the federal government. A Regional Training Center, cosponsored by the Fund and the Brazilian government, was located in Brasilia during part of the period and delivered a range of courses and seminars for officials from Brazil and other countries in the region, but it was closed in 2019 due to lack of funding. The closure of the Center affected negatively training delivery in 2019, but there has been some pickup subsequently, reflecting increased use of online courses and webinars (Figure 5).



16. The COVID-19 pandemic has led to the postponement of a planned TA mission on fiscal rules. However, there has been continued remote engagement in follow up to the 2020 TADAT mission, including methodological support on estimating tax compliance gaps, and high-level webinars on the Federal Revenue Authority’s medium-term reform strategy. The authorities interviewed expressed satisfaction with this form of follow-up TA delivery.

### C. Partnerships, Coordination, and Dissemination

17. With the exceptions of the Sao Paulo project—which was funded by the recipient state, using part of the proceeds of an IDB loan (Fiscal Management Modernization Program in Brazil (PROFISCO))—and of some of the TA and training delivered under the TADAT umbrella, CD to Brazil has been largely funded by IMF01 resources (Figure 6). This mainly reflects the level of development of the country, the absence of a RCDC, and the one-off nature of most CD engagements with it.



18. Partnerships and coordination with other CD providers have varied across CD engagements. They have been strongest when the engagement took place under the umbrella of a previously established partnership arrangement, like PIMA or TADAT. Staff from the World Bank and the IDB took part in both diagnostic missions in 2017 and 2019, respectively. Subsequently, the IDB has been assisting the government in the implementation of some of the reforms recommended in the PIMA. The IDB staff also cooperated with the FAD staff on the Sao Paulo project. FAD staff took a clear lead in those engagements, but found useful the contributions of these other institutions, particularly in the multi-year Sao Paulo project, which was also supported financially by the IDB through the above-mentioned PROFISCO loan.

19. More generally, the authorities decide which potential TA provider to approach for their specific CD needs, based on their perception of comparative advantages of each institution. Officials interviewed for the evaluation indicated that they consider the Fund as their best interlocutor in monetary, macro-fiscal, taxation, and most PFM issues. They tend to rely more on the World Bank and the IDB for assistance on expenditure policy issues (e.g., the above mentioned World Bank public expenditure review that contributed significantly to a major pension reform in 2018) and for specific PFM issues (e.g., procurement). They also rely on the World Bank and the Inter-American Development Bank (IDB) for assistance in strengthening subnational capacities (e.g., the successful IDB PROFISCO program), but they turned to FAD for

advice on subnational fiscal rules and borrowing controls. Assistance from multilateral development banks (MDBs) tends to be also preferred for longer-term institutional reform projects that require substantial financial resources, since the CD for such projects (involving dedicated training or investment in IT) is provided as part of loans.

20. Coordination with the World Bank (which has a large office in Brasilia) mainly takes place through the IMF's resident representative, who has maintained frequent informal exchanges of information with relevant members of the Bank's office. However, exchange of information on respective CD activities also occurs fairly regularly at HQ between the Fund's CDDs and the corresponding Directorates in the Bank, and at various levels between WHD and Latin American and Caribbean (LAC) countries. Contacts with the IDB were systematic in the Sao Paulo project, and during the TADAT and PIMA missions, but otherwise more informal and episodic, both in Brasilia, where the IDB also maintains a sizable office, and in Washington.

21. The Brazilian federal authorities have consented to the publication of most IMF TA reports in recent years (see Annex I for details). According to the officials interviewed, this reflects high regard for the technical quality of the same. It also facilitates dissemination of detailed knowledge on policies and institutions of a country of great regional and global significance.

#### **D. Effectiveness and Impact**

22. This section relies mainly on feedback from authorities interviewed, since RBM data on Brazil is very limited and mainly relates to recent STA projects (Figure AI.1; Annex I).

23. All the officials interviewed expressed high appreciation for the relevance, timeliness, and technical quality of the TA provided, in particular by FAD. This evaluator's reading of the TA reports confirms this assessment. The reports generally display a sound understanding of Brazil's economic and institutional features, and provide sensible recommendations, based on lessons from relevant international experiences. Preliminary indications suggest that TA in revenue administration has been particularly effective. In the words of the Revenue Secretary, the report of the 2020 TADAT mission represents "the compass that guides the current reform efforts of the tax administration," and his aim is to request a new TADAT assessment in a couple of years, which he believes will show major progress in the areas in which the initial diagnostic pointed to significant weaknesses. Significant advances have already been made, in particular in strengthening the taxpayer registry, developing a comprehensive strategy to manage compliance risks, and improving taxpayer services. In the authorities' view, these reforms have contributed to a better-than-expected performance of the federal revenues in the last year or so.

24. The authorities in the Ministry of Economy also regularly monitor the progress in the implementation of recommendations of the PIMA mission. Improvements to date include a more strategic approach to prioritizing federal investments and the creation of a registry of approved projects; the preparation of a comprehensive guide to cost-benefit analysis for proposed investments and training of officials in its use; a new procurement law to strengthen transparency

and value for money in investment bids; and developing a more detailed and quantitative analysis of fiscal risks from purchasing power parities (PPPs). Some progress has also been made in reducing spending rigidities associated with revenue earmarks. However, little progress has been made so far in developing comprehensive multi-year fiscal and expenditure frameworks that would support a sustained compliance with the expenditure rule over the medium term. More generally, limited progress has been made so far in implementing recommended reforms in areas that are especially politically sensitive, such as subnational fiscal rules and the whole framework of intergovernmental fiscal relations.

25. The project for the State of Sao Paulo successfully developed a methodology to cost public services that has the potential to be adapted over time to cover all activities of the state, a task that international experience shows to be very complex, given the diversity of the services provided. The methodology assigns costs to each public service provided by each cost center (e.g., school, prison, hospital) based on the relevant available financial accounting information. The methodology was validated by conducting pilots in different government agencies. It is now fully operational in the State Prison Administration and is in an advanced state of implementation in the Education Ministry. Initial efforts to implement it in the health sector and in the Finance Secretariat (*Secretaria da Fazenda*) have not progressed, due to technical complexities and changes in senior management of the institutions involved. The development of the methodology was followed by the preparation of extensive manuals documenting it, and by training of officials in its use, to promote its sustainability beyond the end of the project in 2020. The availability of reliable cost information is essential for rigorous analyses of efficiency in the delivery of public services, allowing comparisons among different cost centers and with international comparators.

### III. OVERALL ASSESSMENT

26. The case of Brazil illustrates well the fact that high-quality technical assistance and training by the IMF can provide significant value added also to countries that have achieved high levels of capacity in the areas of core Fund expertise. The authorities especially value the broad knowledge of international experiences, familiarity with the relevant state-of-the-art analytical techniques, and granularity of advice that the Fund CD can offer on policy and institutional reform issues. The apolitical nature of the advice is also appreciated as adding to its credibility in what is often a politically charged environment. Some of the authorities interviewed felt, however, that on occasion TA reports could have explored more the scope for technically second-best, but politically more feasible, reform measures, especially in the intergovernmental fiscal relations area.

27. The fact that CD in Brazil is clearly demand-determined, with the authorities deciding when, on which subjects, and from which provider to request assistance ensures the relevance of the TA to their policy agenda. The latter has also been generally well aligned with the IMF staff's views on policy and institutional reform priorities, as outlined in surveillance reports. Greater engagement with the central bank in the areas of lesser strength in monetary and financial

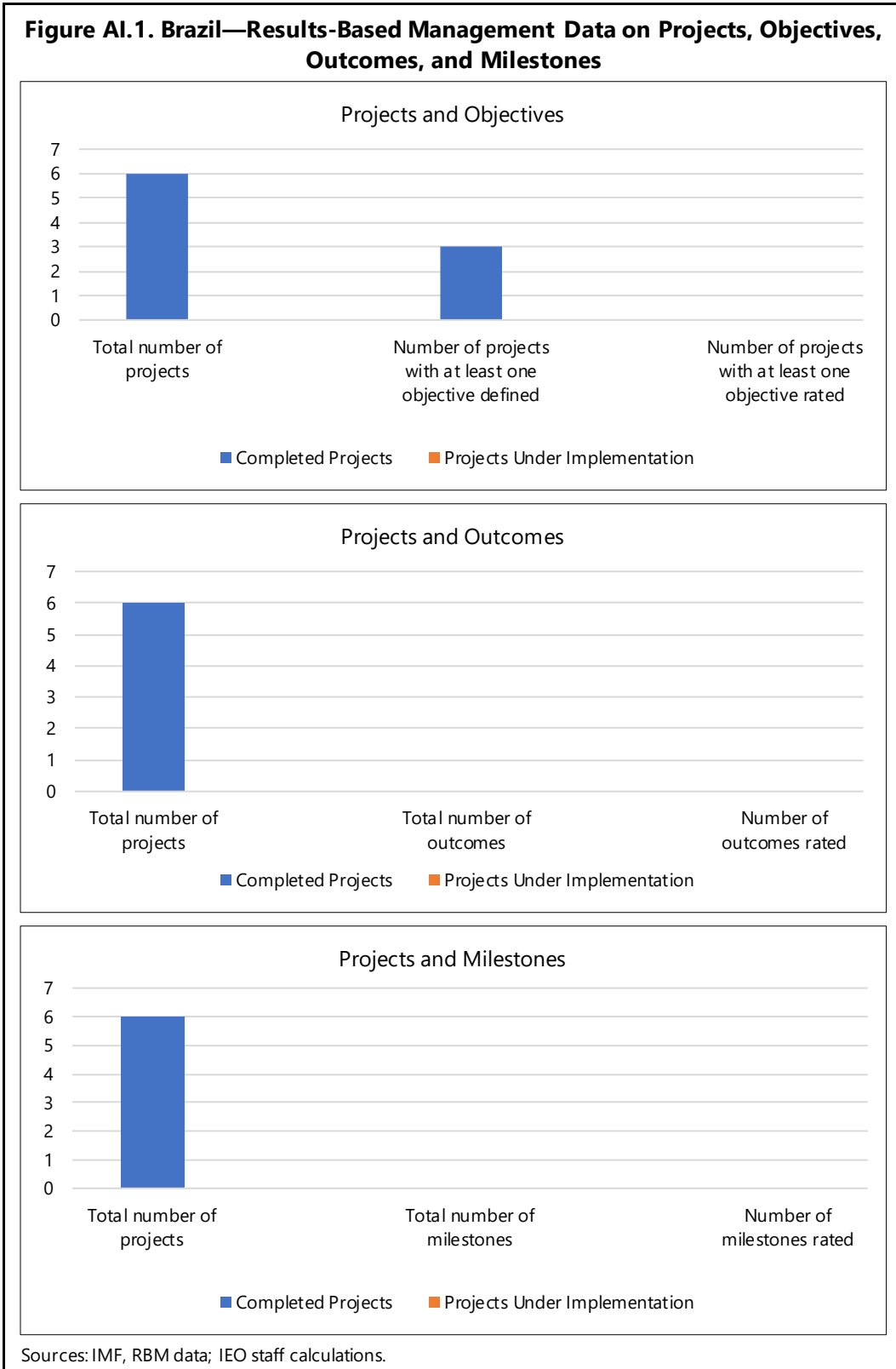
management might have been useful. Such engagement may increase going forward on newer issues, such as cybersecurity. It is less clear how much interest the authorities will have in the near term in other newer areas of TA, such as combating climate change and gender issues. In fact, some of them expressed the view that the Fund staff's expertise in these areas was not comparable to that in the institution's traditional core areas.

28. The authorities have taken seriously the advice provided by TA missions, and at the technical level have maintained a dialogue with the staff, through the resident representative and the relevant CDD, on progress in the implementation of recommended reforms. There have been, however, few follow-up CD engagements at the federal level, with the recent exception of the tax administration. This has limited the scope for increasing the specificity of the advice provided by the staff, as well as for better adjusting it to institutional and socio-political constraints.

29. Deepening the integration of CD with surveillance, in particular through a more detailed discussion of the advice provided by TA missions, and of the authorities' reactions to it, during Article IV consultation and interim staff visits, may help increase the traction of both CD and surveillance. This would be facilitated by increased virtual participation of the specialist staff and experts in surveillance missions, and by the inclusion of a more substantive Annex on CD activities in Article IV reports than is currently the case.

30. No Country Strategy Note (CSN) has been prepared for Brazil to date. A CSN would be useful in promoting a comprehensive and up-to-date reflection on priority needs for IMF CD to Brazil but, especially in view of the importance that the authorities attach to ownership of CD requests, it would be most useful if prepared in close cooperation with them, and with appropriate high-level involvement on both sides.

ANNEX I. CD ACTIVITIES FOR BRAZIL



**Table AI.1. Brazil—Number of Missions (2012–2020)**

Year	FAD	ICD	LEG	MCM	RES	STA	Others	Total
2012	9	0	1	1	0	0	0	11
2013	10	0	0	0	0	0	0	10
2014	7	0	0	0	0	0	0	7
2015	10	0	0	0	0	0	0	10
2016	7	0	1	0	0	0	0	8
2017	5	0	0	0	0	1	0	6
2018	8	0	0	0	0	0	0	8
2019	10	0	0	1	0	0	0	11
2020	9	0	1	0	0	0	0	10
Total	75	0	3	2	0	1	0	81

Sources: IMF, TIMS data; IEO staff calculations.

**Table AI.2. Brazil—Resident Advisors (2011–2014)**

Host institution	CDD	CD topic/workstream	Start date	End date
Ministry of Finance	FAD	Cost accounting	2/13/2011	2/12/2012
Ministry of Finance	FAD	Cost accounting	2/13/2012	2/12/2013
Ministry of Finance	FAD	Cost accounting	2/13/2013	4/13/2013
Ministry of Finance	FAD	Cost accounting	4/14/2013	6/12/2013
Ministry of Finance	FAD	Cost accounting	6/13/2013	2/28/2014

Source: IMF, Fiscal Affairs Department.

**Table AI.3. Brazil—List of TA Reports (2012–2020)**

	FAD	MCM	STA	LEG	Total	Of which		
						Available within IMF	Available but confidential	Published
2012	3	0	0	0	3	3	0	0
2013	0	0	0	0	0	0	0	0
2014	0	0	0	0	0	0	0	0
2015	1	0	0	0	1	1	0	0
2016	2	0	0	0	2	2	0	0
2017	3	0	1	0	4	1	0	2
2018	1	0	0	0	1	0	0	0
2019	1	0	0	0	1	1	0	1
2020	3	0	0	0	2	2	0	1
Total	13	0	1	0	14	10	0	3

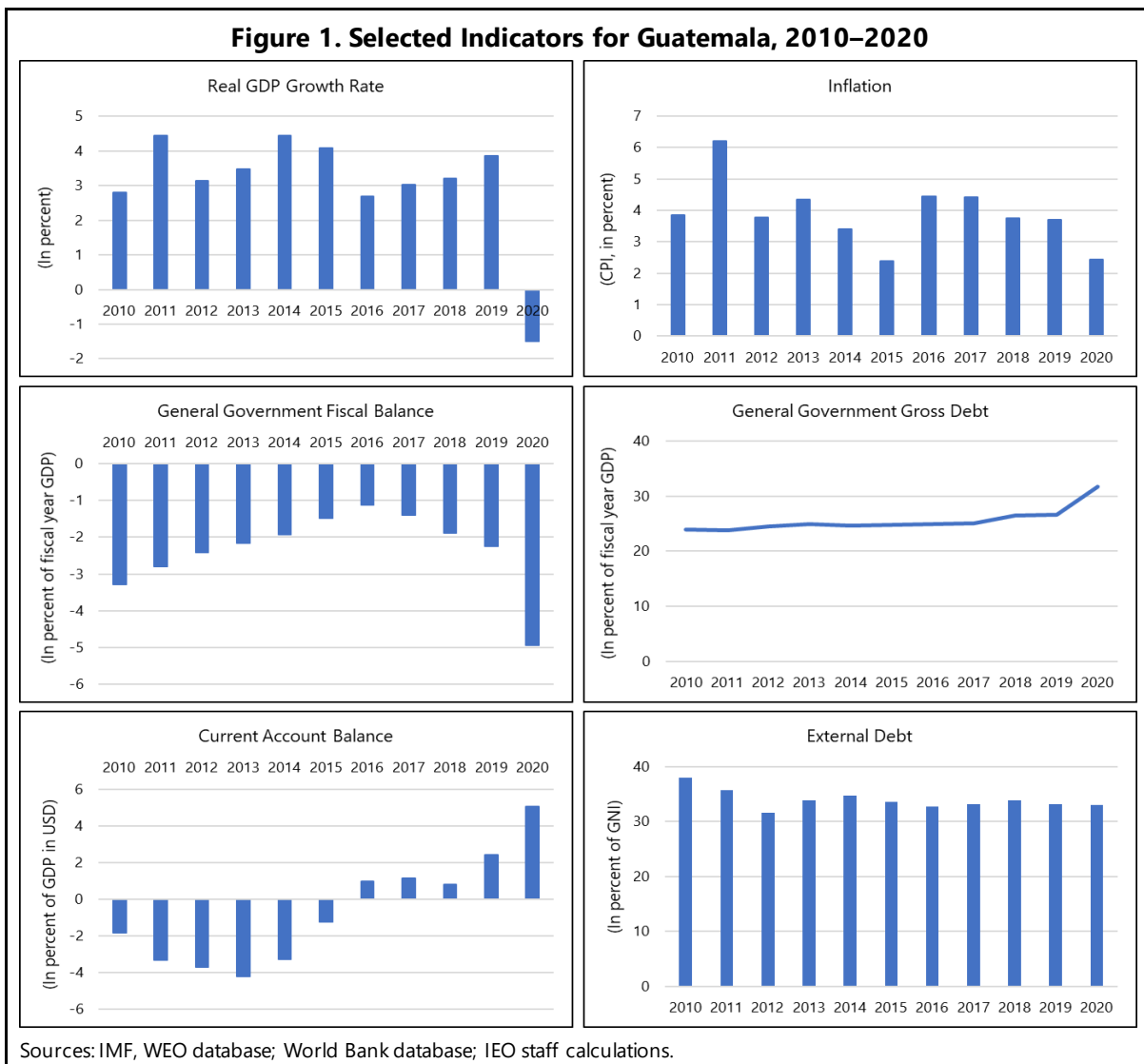
Source: IMF, Institutional Repository.



**GUATEMALA**

## I. BACKGROUND

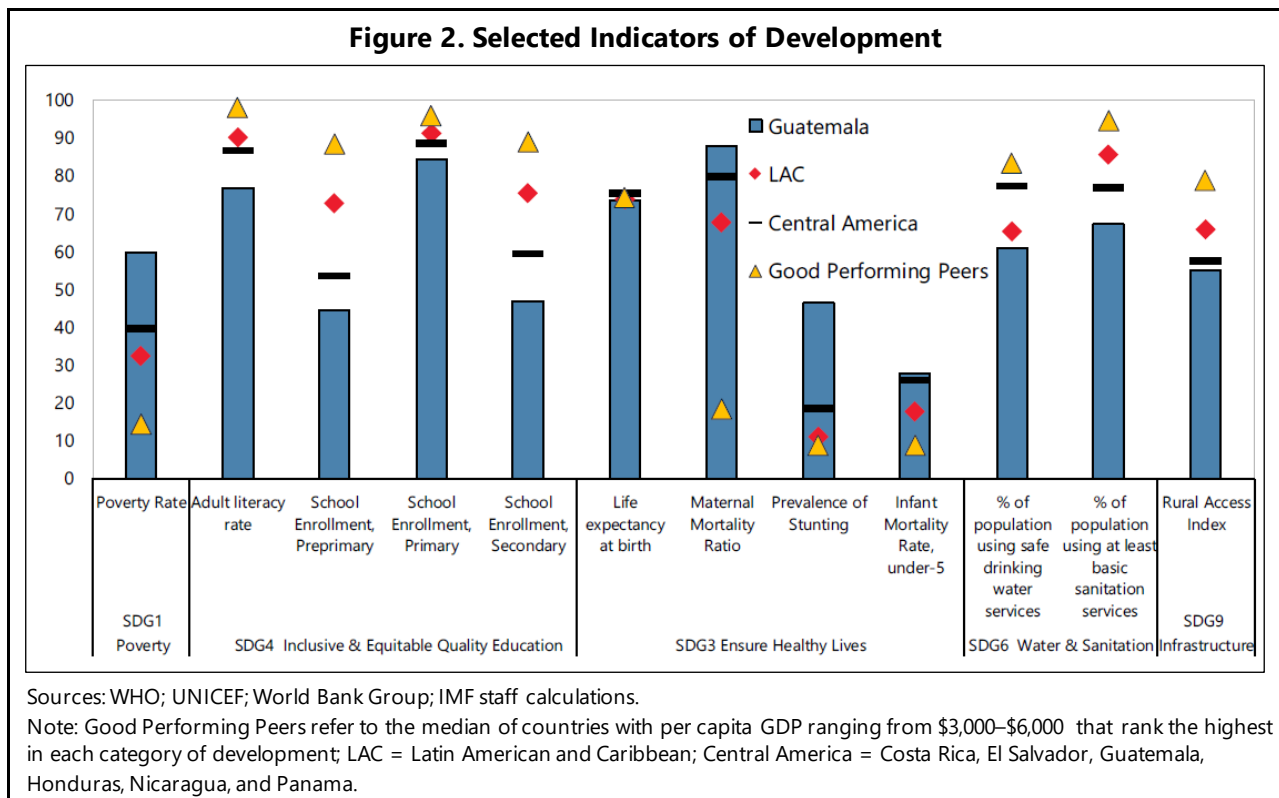
1. For several decades Guatemala has maintained a prudent macroeconomic management, with relatively low fiscal deficits and public debt,<sup>1</sup> and a monetary policy that kept inflation expectations well anchored. As a result, during the last decade GDP grew at an average annual rate of nearly 4 percent; inflation remained moderate, averaging under 4 percent a year; the current external account turned into a small surplus since 2016; and international reserves rose steadily, to nearly nine months of imports of goods and services by end-2019 (Figure 1). The economic impact of the COVID-19 pandemic to date has been lower than on average in LAC, with GDP falling by an estimated 1.5 percent in 2020 and projected by the IMF to rebound by 4.5 percent in 2021, reflecting a sizable fiscal stimulus, monetary and financial accommodation, and the recovery in the US.



<sup>1</sup> At under 27 percent of GDP, the debt ratio is among the lowest in the LAC region. It is relatively high, however, when compared to government revenues. Also, interest payments on the debt absorb nearly 20 percent of the revenues.

2. However, given the relatively fast population growth, per capita GDP rose only modestly (by about 1.2 percent a year on average in the last decade, to around US\$4,600 in 2020), leaving Guatemala as the fourth lowest country in LAC in terms of per capita income (only ahead of Haiti, Honduras, and Nicaragua). Guatemala ranks relatively low among LAC countries also in terms of governance indicators.

3. Moreover, social indicators, despite modest progress in some areas, remain at very low levels, typically below the average of countries with comparable levels of per capita income. Guatemala ranks as 127 (out of 189) in the UNDP Human Development Index; 59 percent of its population lives below the poverty line; and 23 percent below the extreme poverty one. Figure 2 below (from a recent IMF Working Paper<sup>2</sup>) highlights how Guatemala lags behind various comparator groups in key social indicators in the education, health, water and sanitation, and road infrastructure areas. It should be noted that these gaps differ significantly along various dimensions within the country, being especially large in rural areas and for indigenous groups.



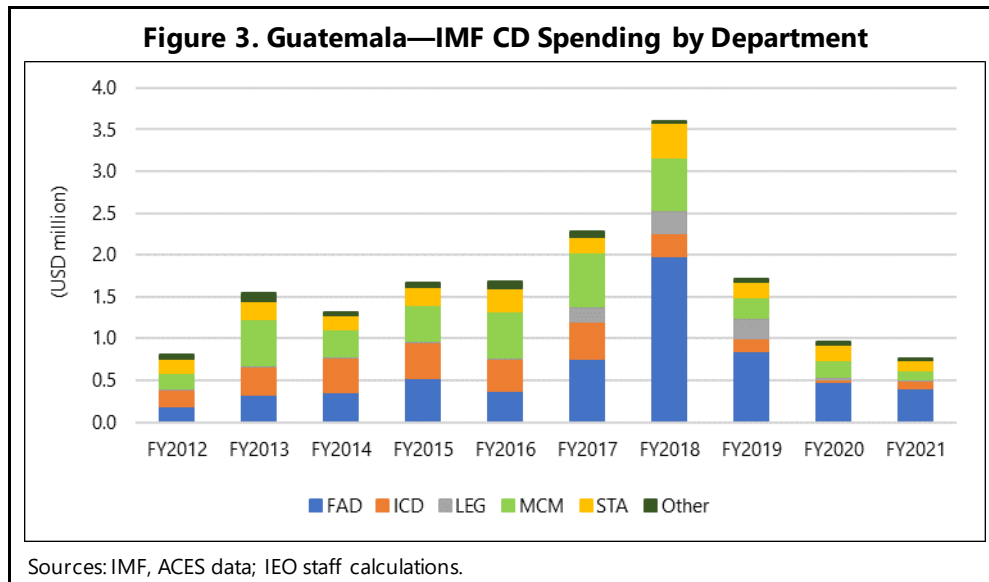
4. There is little doubt that very low expenditures on essential public services such as education, health, and basic infrastructures, along with inefficiencies in such spending, are largely responsible for the poor performance of Guatemala in terms of key social indicators. As a matter of fact, the above-mentioned Working Paper (Perez-Ruiz and Soto, 2019) estimated that filling the gaps with respect to good-performing countries at broadly comparable per-capita income

<sup>2</sup> Perez-Ruiz and Soto (2019).

levels by 2030 would require an increase in the total related spending equivalent to over 8 percent of GDP, along with significant institutional reforms to improve the effectiveness and efficiency of such spending.

5. Low revenue mobilization has been a major impediment to a sustainable increase in social spending in Guatemala for decades. The 1996 Peace Accord that followed a protracted and bloody civil war targeted a 50 percent increase in the tax to GDP ratio, to 12 percent. Even this modest target, which would leave Guatemala’s tax burden well below the average of comparable countries, has proven an elusive one. The tax system, which is marked by a predominance of consumption taxes, is income-inelastic, as well as regressive. It is characterized by very low rates, extensive exemptions that erode the tax base and complicate revenue administration, and high rates of non-compliance. Various attempts at tax reform have largely failed because of opposition by well-organized interest groups, in a context of generally weak executive and highly fragmented legislative branches of government. Although some improvements have been achieved in revenue administration (discussed further below), they have been insufficient to boost the revenue ratio to the targeted level.

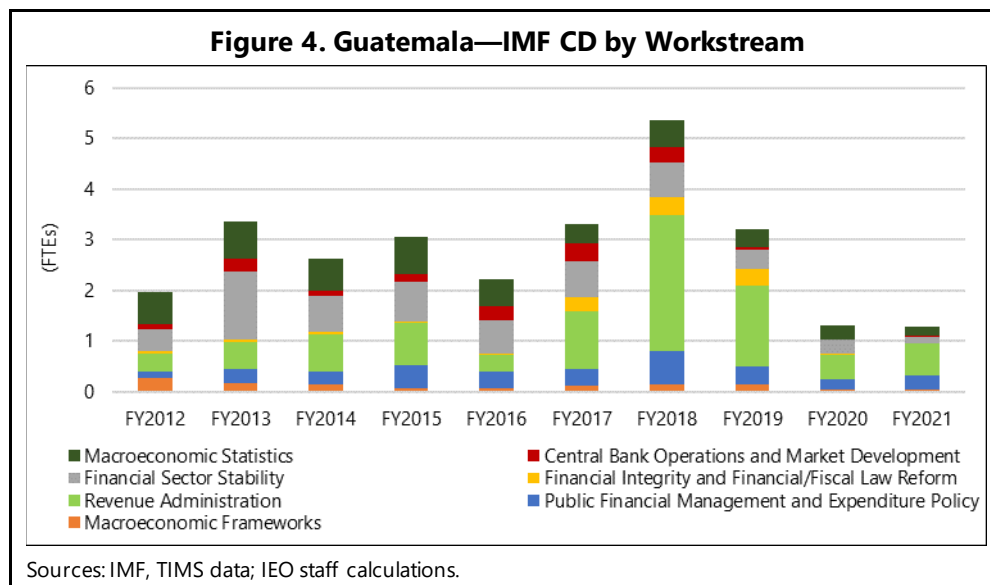
6. Over the last two decades, Guatemala has made no use of Fund resources (UFR). SBAs in 2002, 2003, and 2009 were not drawn upon, and the Rapid Financing Instrument (RFI) that was approved by the Executive Board in June 2020 has not been ratified by the Congress so far. The country has been, however, a relatively high-intensity user of Fund CD, averaging over US\$1.2 million a year (Figure 3). In the first half of the evaluation period, Monetary and Capital Markets Department (MCM) was the largest provider, followed by FAD and STA. In the more recent years, FAD has been the largest provider of CD to Guatemala.



## II. CD ENGAGEMENT

### A. Strategy, Allocation, and Prioritization

7. The primary focus of FAD's CD has been on revenue mobilization, given the importance of raising the tax ratio in Guatemala (Figure 4). Following several years of mainly revenue administration-focused CD, largely delivered through CAPTAC, assistance was ramped up in 2017 with missions from HQ in both tax policy and revenue administration, in the wake of a government change, precipitated by a major corruption scandal centered on the Revenue Agency (SAT), and the appointment of a more reform-oriented economic team. The tax policy mission identified options to raise revenues by up to 3.5 percentage points of GDP, mainly through increases in tax rates and a reduction of tax expenditures and loopholes. Other missions conducted through assessments (including through the application of the TADAT methodology) of the main weaknesses of the tax and customs administrations and recommended a sequenced program of remedial actions. A dedicated LTX was placed in CAPTAC to assist the SAT in the implementation of the recommended plan of action. CAPTAC has also continued to support the SAT through a number of STX assignments in recent years, focusing especially on strengthening the customs administration.



8. FAD has also assisted the Ministry of Finance in a range of PFM areas, including budget preparation and the medium-term fiscal framework, the Treasury Single Account and cash management, and the analysis and management of fiscal risks. Much of this assistance was based on a Fiscal Transparency Evaluation conducted in 2016 that had identified significant flaws, especially in the coverage of the budget and the related accounting and reporting, medium-term budgeting, and fiscal sustainability as well as a PEFA assessment of 2018.

9. MCM has provided CD to both the Central Bank of Guatemala (*Banguat*) and the Superintendency of banks, which is in charge of financial supervision. The assistance has spanned a range of areas, including strengthening *Banguat's* macro-modelling, forecasting, and operational capacities; modernizing bank regulation and risk-based supervision, with the aim of enabling conformance with Basel II/III standards; financial stability issues and stress-testing; and public debt management and capital market development. Assistance has also been provided by LEG to the Superintendency of banks on anti-money laundering (AML) legislation since 2017.

10. STA has provided CD to the National Institute of Statistics, the Ministry of Finance, and the *Banguat*, which is in charge of a substantial share of economic statistics, including the national accounts, external, and monetary and financial data. Assistance has spanned all areas, with particular emphasis on real sector statistics, and on promoting compliance of the fiscal statistics with Government Finance Statistics standards.

11. A review of Article IV Consultation reports indicates that the composition of CD has generally accorded with reform priorities identified in surveillance. Successive WHD mission chiefs and the Resident Representative for Central America, who is based in Guatemala, have taken an increasingly active role in steering CD resources to perceived priority needs. Also, mission chiefs interviewed indicated that they found the specialized inputs provided by CDDs very useful in enriching and providing a stronger analytical basis for the surveillance dialogue with the authorities on some issues, particularly in tax policy.

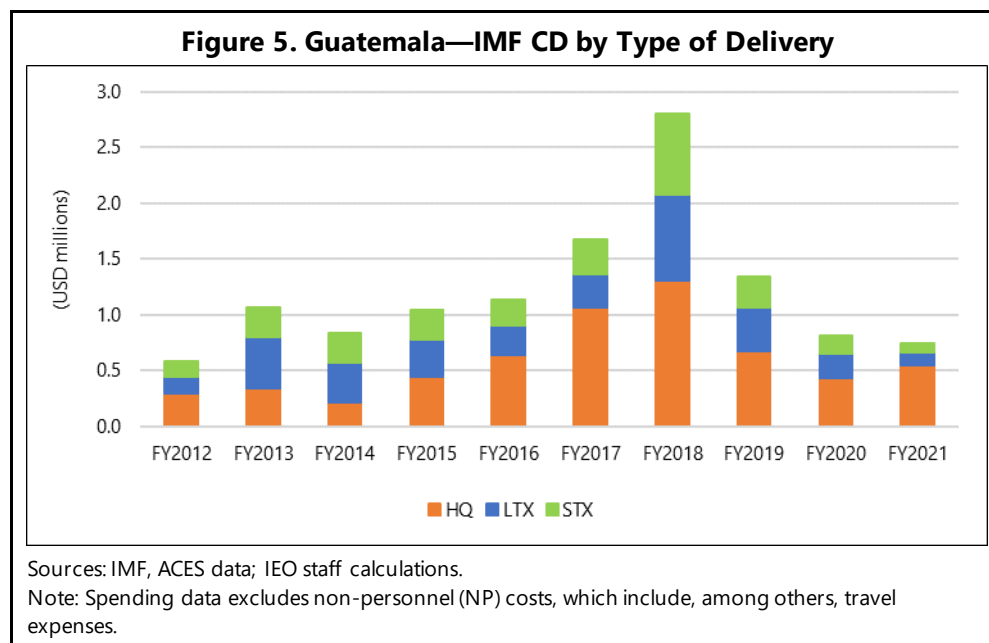
12. Guatemala is one of three countries in WHD for which CSNs have been prepared to date. The 2020 CSN for Guatemala identifies as the country's main policy challenge fostering medium-term growth by: (i) raising tax collections and spending efficiency to create fiscal space for infrastructure and social investments; (ii) improving competitiveness through business climate reforms; (iii) fighting corruption and fortifying the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regulations; (iv) strengthening the financial regulatory framework through a tailored and proportionate adoption of Basel II/III standards; (v) improving data collection and compilation; and (vi) enhancing the inflation targeting framework (ITF) through improved foreign exchange flexibility and liquidity management.

13. These surveillance priorities are expected to be reflected in the following priorities for further CD, namely continued support to the *SAT* in tax and customs administration; improving the medium-term fiscal framework; enhancing *Banguat's* ITF; supporting the Superintendency of banks in exiting the COVID19-related regulatory forbearance and in improving supervision of non-bank financial intermediaries; and improving price indices.

14. The CSN recognizes the limited effectiveness of TA to Guatemala to date and proposes that staff expand its outreach and communication to a broader circle of stakeholders. This is discussed further in Section D.

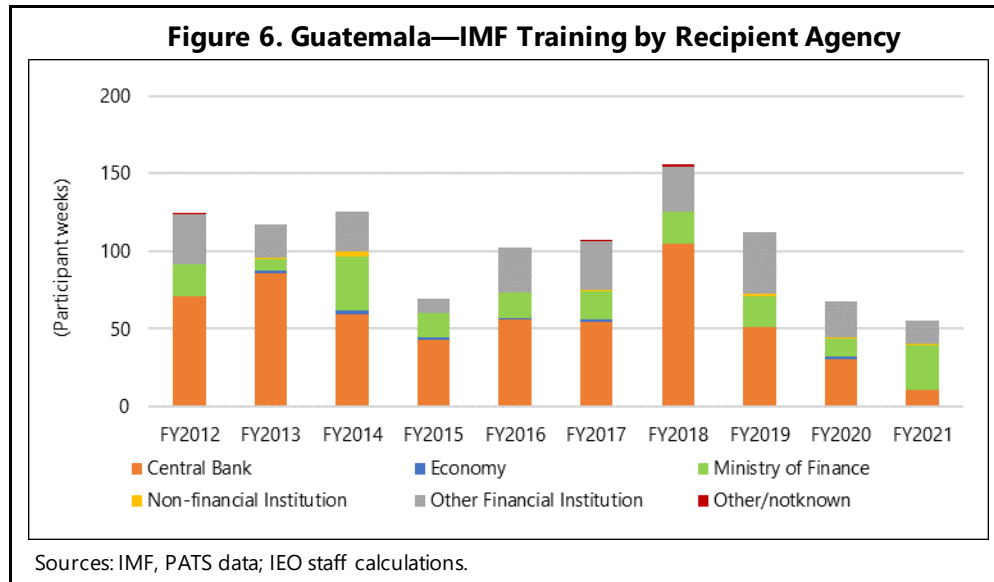
## B. Delivery

15. Approximately two-thirds of the CD provided to Guatemala has been delivered through CAPTAC, through a combination of LTX and STX assignments (Figure 5). This likely reflects a number of factors. Most of the assistance has been on institution- and capacity-building, rather than policy advice, requiring repeated interventions over an extended period of time. Also, the authorities maintain a fluid dialogue with the CAPTAC’s coordinator and LTXs, facilitated by the Center’s location in Guatemala City. In the interviews, officials expressed appreciation for CAPTAC staff’s technical expertise and knowledge of the country’s specificities, and for its responsiveness to their requests for support. Finally, the lower direct involvement of HQ staff in the delivery of CD to Guatemala may also reflect some frustration with the limited traction of the advice provided in most areas (see Section D below).



16. CDDs maintain, however, oversight on the operations of CAPTAC, by reviewing the proposed program of work of the Center, before it is submitted to its Steering Committee; by recruiting the LTXs assigned to the Center; by reviewing terms of references, back-to-office reports, and TA reports prepared by experts used by the Center; through regular virtual contacts with their respective LTXs; and through periodic inspection visits. The intensity of this backstopping has tended to vary by department and over time, being traditionally stronger in FAD and STA, but significantly increasing also in MCM in the last few years.

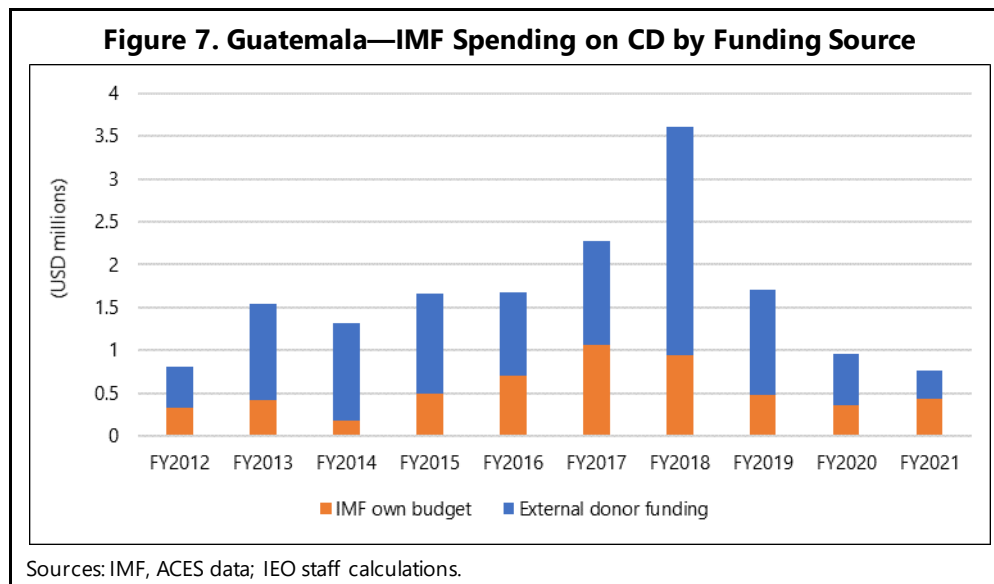
17. Guatemala has been a significant recipient of IMF training both in the form of Institute for Capacity Development (ICD) courses and of specialized training by other CDDs, averaging over 100 participant weeks per year during 2012–2020. The largest beneficiaries have been staff from *Banguat*, the Superintendency of banks, and the Ministry of Finance (Figure 6).



18. CD delivery has been more affected by COVID-19 travel restrictions in some areas than others, in particular leading to the postponement of some HQ missions, especially in areas like AML that require exchange of sensitive information. CAPTAC has continued to provide virtually both TA and training, albeit at a reduced scale, in selected areas, especially customs administration.

### C. Partnerships, Coordination, and Dissemination

19. The vast majority of CD to Guatemala has been externally funded. Main sources have been the CAPTAC budget, the Revenue Mobilization Trust Fund, and the AML/CFT Trust Fund (Figure 7).



20. The authorities have historically played a very limited role in ensuring coordination of the CD provided to them by a substantial number of multilateral sources (e.g., the World Bank, the IDB, the European Union, the Inter-American Center for Tax Administration (CIAT), and the Central American Monetary Council) and bilateral sources (the USAID, the US Office of Technical Assistance, the US Treasury, the German aid agency GIZ, and Spain, among others). Indeed, a former authority interviewed suggested that there was at times some duplication in assistance provided to Guatemala.

21. Coordination has been carried out on a largely ad hoc basis by the WHD and CDDs, as well as by the CAPTAC Coordinator and LTXs. These efforts have aimed to minimize risks of duplication, particularly in PFM areas, e.g., with the World Bank in the modernization of information systems, with the IDB in external auditing and decentralization, and with the European Union in performance-based budgeting. There have been also instances of cross-participation in missions, e.g., by the World Bank in TADAT, and the IDB in the Fiscal Transparency Evaluation.

22. The authorities have recently created a high-level committee, chaired by a Deputy Governor of *Banguat*, to improve coordination both internally, by reviewing, vetting, and sequencing requests for CD by different agencies, and among different CD providers. Meetings of the Committee are held during the Article IV consultation discussions and include, in addition to the relevant authorities, the IMF mission chief and representatives of the CD partners.

23. Publication of TA reports by Guatemala has been very scant (Annex I). Only the Fiscal Transparency Evaluation, the TADAT report, and a STA report on National Accounts have been published so far. The authorities and staff interviewed attributed this to the rather specialized nature of most TA reports on Guatemala, which in their view, would limit their interest for the general public.

#### **D. Effectiveness and Impact**

24. The effectiveness and impact of Fund CD to Guatemala have been on the whole modest. Advice in the tax policy area has had virtually no traction, mainly for the political economy reasons discussed in Section I above. The effectiveness of CD in tax administration has been mixed. The SAT has made progress in strengthening its legal framework; formulating a strategic plan based on FAD's recommendations; developing an improved taxpayer registry (which was identified as a major weakness in the TADAT report); implementing a new electronic invoicing system and utilizing it also to speed up value-added tax (VAT) refunds; and enhancing taxpayer services. However, little progress has been made so far in implementing the strategic plan and in improving risk-based compliance enforcement. This has partly reflected continued frequent turnover of the SAT's management and the latter's focus on short-term operational pressures, rather than longer-term institutional strengthening.

25. More substantial advances have been made in the customs administration, partly reflecting greater continuity in the senior management of this branch of the SAT. Customs

controls (including ex post auditing) have been significantly strengthened, especially in the major port (*Puerto Quetzal*); and smuggling and fraud in the use of the special custom regime for textiles (*maquilas*) have been significantly reduced. These actions resulted in a 40 percent increase in customs revenues over 2016–2019 but did not lead to a perceptible improvement in the overall tax ratio over the same period. Moreover, the ratio declined further in 2020, reflecting the impact of the pandemic on GDP.

26. In the PFM area, some progress was made in expanding the coverage of the Treasury Single Account and in cash management, as well as in increasing transparency in procurement, particularly for COVID19-related spending. Although some recommendations from the FTE of 2016 have been reviewed in the context of the Article 4, it remains unclear to what extent the pervasive weaknesses identified have been remedied so far. An FTE update has been requested by the authorities to take stock on progress and will be delivered by HQ in FY2023.

27. In the monetary and financial area, progress has been limited as well. CD-supported revisions of banking laws, which include improved frameworks for bank regulation and supervision and for the resolution of systemic banks, have been languishing in the Congress for years. As a result, Guatemala does not yet conform to Basel II standards. There remain disagreements with the Fund staff regarding the management of the exchange rate, with some implications for the conduct of monetary policy. Nonetheless, Fund CD is viewed by the authorities interviewed as having been useful in strengthening the analytical, modeling, and operational capacities of both *Banguat* and the Superintendency of banks. Only limited progress has also been made in strengthening AML legislation, an area that is especially difficult in view of the significant incidence of narco-traffic in the country.

28. In the statistical area, CD has produced some significant results. Guatemala has adopted the e-GDDS. The authorities now regularly publish quarterly national accounts and a monthly index of economic activity. However, important weaknesses remain in the compilation of price indices. Also, although CD was instrumental in promoting changes in the budgetary classifications that allowed the fiscal statistics to conform to Government Finance Statistics standards, their coverage remains limited to the central government, making Guatemala the only country in Latin America to do so.

29. Twenty two CD projects, both from HQ and CAPTAC, were available in the RBM database. Almost all of these had at least one objective rated, and in total there were 74 outcomes rated (Figure AI.1; Annex I). These broadly support the analysis above.

30. The above-mentioned 2020 CSN recognizes the limited effectiveness of TA to Guatemala to date, attributing it mostly to political economy constraints and low capacity in some of the recipient institutions. Going forward, it proposes that staff further expand ongoing outreach and communication to a broader circle of stakeholders, including the Congress and the private sector, with a view to building consensus on proposed reforms. It also expects the planned

semiannual staff meetings with the high-level coordination group mentioned in Section C above to lead to improved monitoring, and increased pressure for results in ongoing TA projects.

### III. OVERALL ASSESSMENT

31. Guatemala has been a relatively heavy user of Fund CD over the last decade, especially in view of its non-systemic and surveillance-only nature. This reflected its relative importance in the Central America context (where it is the largest economy); its obvious need to improve the level and quality of public services and to mobilize the revenue needed to fund such improvement; and the recognition of significant capacity weaknesses in macroeconomically relevant institutions, such as the Ministry of Finance and the Institute of Statistics. It may also have been facilitated by the location of the WHD resident representative for Central America, and especially of CAPTAC, in Guatemala City.

32. Although the allocation of CD has been largely in line with reform priorities identified in surveillance, the traction and effectiveness of the CD have not been commensurate with the resources devoted to it. The political economy factors mentioned in Section I above undoubtedly played a major role in this subpar performance. Capacity limitations and high management turnover in some of the recipient institutions also contributed to it. The CDDs involved appear to have responded to the inadequate progress mainly by limiting direct HQ engagements, although FAD also terminated the assignment of a dedicated LTX when it realized that the latter was not being adequately utilized by the authorities. On the other hand, delivery of CD through CAPTAC continued, with focus on focused, step-by-step improvements in specific areas.

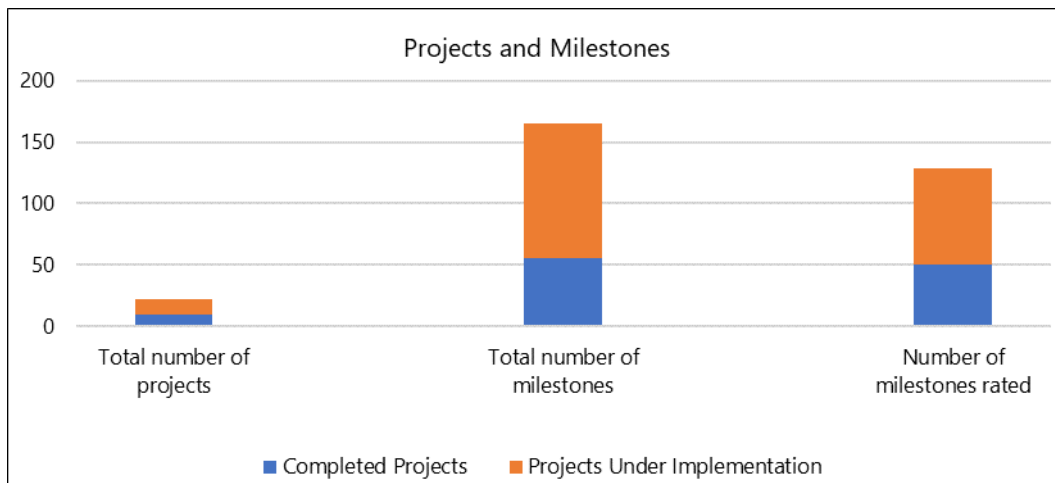
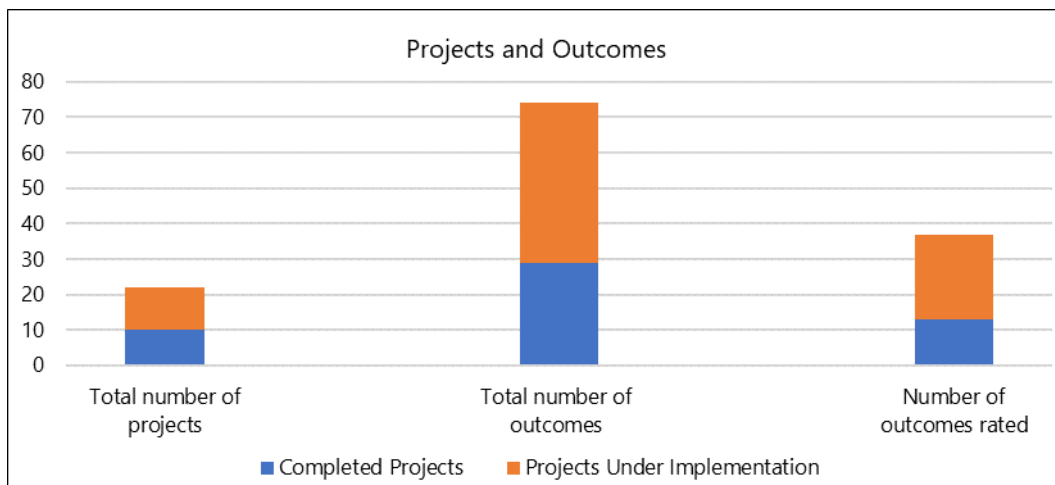
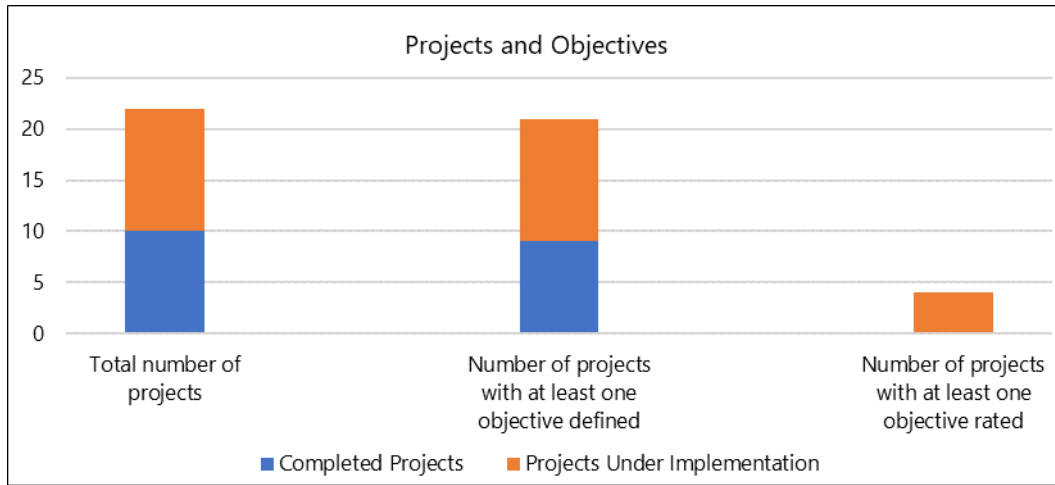
33. Going forward, it would seem desirable to modulate the assistance to better reflect the extent of progress in the achievement not only of stipulated milestones but also the broader objectives of previous interventions and realistic assessments of what is likely to be achieved from ongoing ones. This would require close monitoring by CDDs of the results of both their own CD and that provided by CAPTAC, which should be facilitated by increasing availability of RBM data.

34. It would also be useful to increase the reflection of CD recommendations and the progress in implementing them, in surveillance documents, to bring to the attention of the Management, the Executive Board, other CD providers, and the domestic public the fruits of the CD, or the lack thereof. This is especially the case since the publication of TA reports by Guatemala has been notably scant so far.

35. Finally, the planned broader engagement by the relevant Fund staff, especially in WHD, with important groups in the Guatemalan society (Congress, representatives of the private and financial sector, civil society) may be useful to increase the traction of both surveillance and CD.

ANNEX I. CD ACTIVITIES FOR GUATEMALA

**Figure AI.1. Guatemala—Results-Based Management Data on Projects, Objectives, Outcomes, and Milestones**



Sources: IMF, RBM data; IEO staff calculations.

**Table AI.1. Guatemala—Number of Missions (2012–2020)**

Year	FAD	ICD	LEG	MCM	RES	STA	Others	Total
2012	10	0	0	7	0	15	0	32
2013	7	0	0	23	0	13	0	43
2014	17	1	0	11	0	11	0	40
2015	28	0	0	12	0	12	0	52
2016	15	0	0	14	0	10	0	39
2017	24	0	5	11	0	4	1	45
2018	36	0	8	11	0	5	0	60
2019	18	0	6	4	0	2	0	30
2020	11	0	0	5	0	3	0	19
Total	166	1	19	98	0	75	1	360

Sources: IMF, TIMS data; IEO staff calculations.

**Table AI.2. Guatemala—Resident Advisors (2012–2019)**

Host institution	CDD	CD topic/workstream	Start date	End date
Ministry of Finance	FAD	Custom Administration-Seminary with BID and OMA	4/10/2012	4/13/2012
Ministry of Finance	FAD	Tax administration	7/1/2017	1/31/2019
Ministry of Finance	FAD	Tax Administration	7/1/2017	1/31/2019

Source: IMF, Fiscal Affairs Department.

**Table AI.3. Guatemala—List of TA Reports (2012–2020)**

	FAD	MCM	STA	LEG	Total	Of which		
						Available within IMF	Available but confidential	Published
2012	0	1	5	0	6	0	0	0
2013	2	0	2	0	4	1	0	0
2014	0	0	6	0	6	1	0	0
2015	0	5	8	0	13	2	3	1
2016	3	6	2	0	11	4	2	1
2017	1	5	2	0	8	2	3	1
2018	1	2	0	0	3	1	0	0
2019	1	0	0	0	1	0	0	0
2020	1	0	1	0	2	2	0	0
Total	9	19	26	0	54	13	8	3

Source: IMF, Institutional Repository.



**JAMAICA**

## I. BACKGROUND

1. Until 2013, Jamaica suffered decades of poor macroeconomic management, including an overvalued exchange rate and large public deficits. Together with long-standing structural weaknesses,<sup>1</sup> these policies contributed to near stagnation in GDP, high rates of unemployment (over 14 percent), poverty (21 percent) and crime, and the accumulation of public debt to clearly unsustainable levels (146 percent of GDP in 2012). In 2013, the government finally embarked on a sustained adjustment and reform program, which was supported by the IMF, first with an Extended Fund Facility (EFF) arrangement (2013–2016) and then with a precautionary SBA (2016–2019).

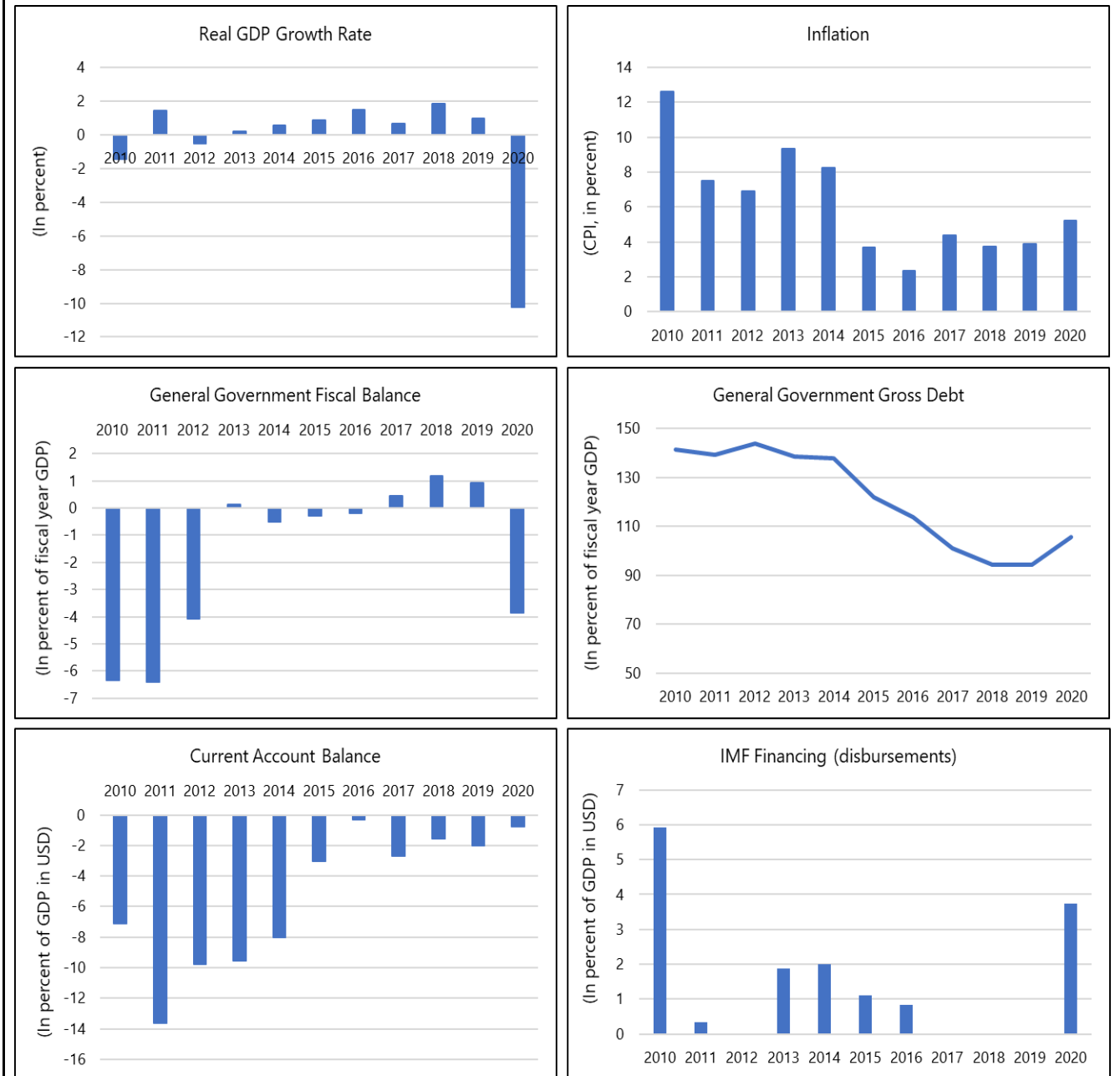
2. The main pillars of the program were a progressive flexibilization of exchange rate management; strengthening the governance framework and analytical and operational capacities of the Central Bank of Jamaica (BoJ), to facilitate a shift to inflation targeting in monetary policy; a number of financial sector reforms; and wide-ranging fiscal reforms. The latter included the adoption of fiscal rules, strengthening public financial management, a substantial reduction of tax expenditures, and the modernization of the revenue administration. These reforms allowed the maintenance of primary fiscal surpluses in excess of 7 percent of GDP over the period 2013–2019, and a steady decline of the public debt by some 50 percentage points of GDP, to 95 percent of GDP in 2019.

3. The Government mobilized societal support for this major adjustment and reform effort through the creation of a Council (EPOC) with broad-based representation of the business community, labour, and civil society, charged with overseeing the implementation of the program. The program was instrumental in reducing inflation, improving the current account of the balance of payments and allowing a significant rebuilding of international reserves, and promoting a gradual but sustained recovery in growth and reduction in the unemployment rate, to under 8 percent, through 2019 (Figure 1).

4. As a small open economy highly dependent on international tourism, Jamaica was strongly affected by the COVID-19 pandemic, with GDP plummeting over 10 percent in 2020, a loss in output that unfortunately is unlikely to be fully recouped for several years. The economic downturn, and the increases in health and social spending needed to mitigate the impact of the pandemic, temporarily halted the progress in fiscal consolidation, with the primary surplus shrinking to around 3 percent of GDP, and the public debt rising again, to 105 percent of GDP in 2020.

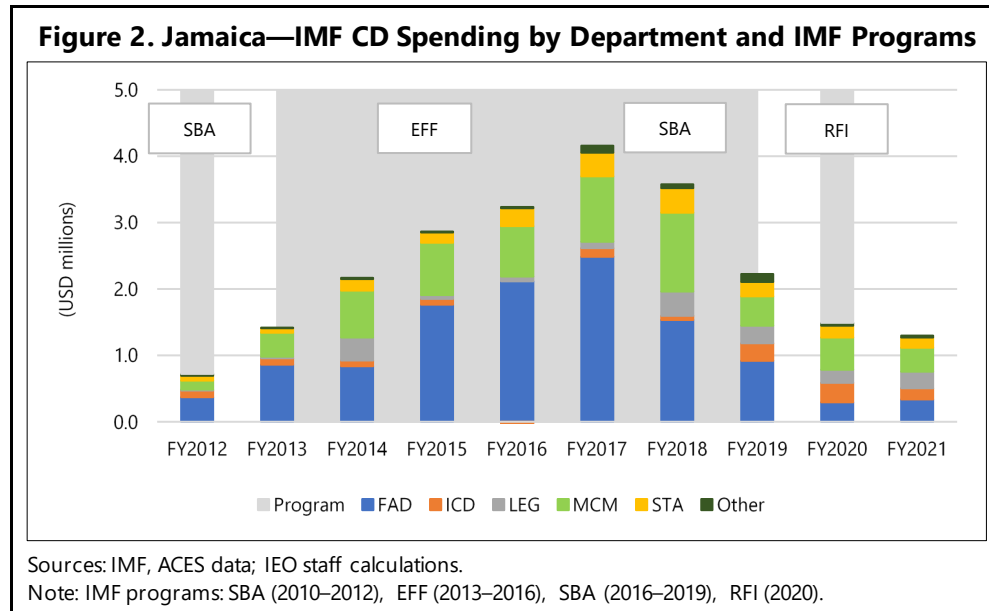
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<sup>1</sup> See Beurman and Schwartz, (2018), Chapter 12 for a comprehensive discussion of governance and institutional weaknesses in Jamaica.

**Figure 1. Selected Indicators for Jamaica, 2010–2020**

Sources: IMF, WEO database; World Bank database; IEO staff calculations.

5. Jamaica has been a heavy user of IMF CD during the evaluation period, ramping up with program engagements starting in 2013. The number of FTEs averaged some 2.7 a year and peaked at 5 in 2017. The bulk of the CD has been provided by FAD and MCM (Figure 2). A substantial share has been channeled through CARTAC, the local RCDC. Both the authorities and the staff interviewed emphasized the importance of the CD for the design and implementation of the policy and institutional reforms that formed the core of Jamaica's adjustment program.



## II. CD ENGAGEMENT

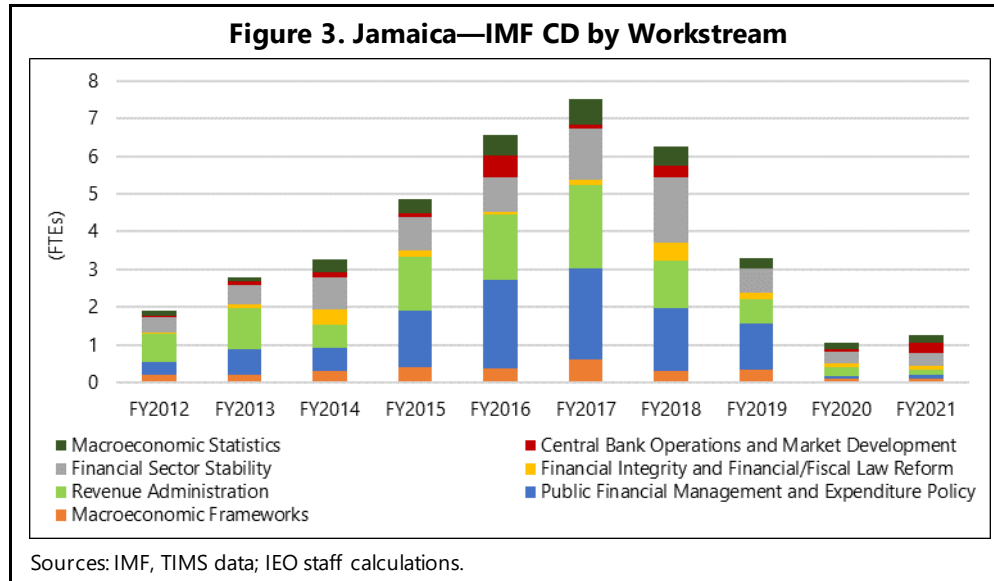
### A. Strategy, Allocation, and Prioritization

6. The first CSN for Jamaica was produced in 2020 (and is discussed further below). Prior to that, the allocation of CD resources was driven by a shared understanding by the authorities and the Fund staff of the priority policy and institutional reforms needed to ensure a successful implementation of the Fund-supported programs. Successive WHD mission chiefs and resident representatives played an active role, in collaboration with the CDDs, in identifying and prioritizing such needs, and in discussing with the authorities the nature and timing of CD interventions. Smooth integration of CD and UFR activities was also facilitated by frequent participation of the desk economist in CD missions. This helped improve the CDD staff's understanding of the broader economic and social context of the country and of the program's objectives, and the reflection of CD recommendations in the program's structural benchmarks.

7. FAD's CD averaged some 1.8 FTEs a year during 2012–2020 and covered a range of issues (Figure 3). The department supported the Jamaican authorities in the design and implementation of the fiscal rules, including by building institutional and staff capacity in macro-fiscal projections, policy analysis, the development of a medium-term fiscal framework consistent with the rules, and legislation to create an independent fiscal council. It also assisted them in:

- Reorganizing the Accountant General's Department (AGD) into a modern treasury and improving its systems and processes;
- Improving the functioning of the Treasury Single Account (TSA) and developing strong cash planning and management capabilities; and

- In collaboration with MCM, strengthening the institutional setting for the management of the public debt, including: the preparation of a medium-term debt strategy and an annual borrowing plan; improvements in operational activities; coordination with cash management; and market development.



- In addition, CARTAC supported a 2017 public expenditure and financial accountability (PEFA) assessment and the development of a comprehensive PFM reform action plan based on the results of that assessment.
- Some TA was also provided on expenditure policies, in particular on rationalizing the very high government wage bill, and on enhancing social protection in support of fiscal reforms. Another mission advised on options to reduce the large number of public bodies (extrabudgetary public institutions), and to improve their control and transparency.
- On the revenue side, FAD advised on a range of tax policy reforms, drawing on an earlier comprehensive diagnostic from 2008. The assistance included improving indirect taxation, including by eliminating the especially distortive financial turnover taxes; substantially scaling down tax exemptions; improving international aspects of corporate taxation; and strengthening property taxes. CD in revenue administration included support to the setting up of the Autonomous Revenue Agency (organizational design, recruitment of staff, and design of the implementation strategy for a new IT system, financed by the IDB) and to the modernization of tax and customs administration procedures.
- MCM's CD to Jamaica was quite intense and spanned a range of topics during the evaluation period. It involved some 15 missions a year from HQ or CARTAC. It included assistance on: strengthening the governance and operational capacities of the BoJ to enable a successful shift to inflation targeting; preparing a forecasting and policy analysis model (FPAS)

that continues to be used by the BoJ staff to date; improving risk-based supervision of banks and non-bank financial intermediaries; moving towards the adoption of Basel II standards; and developing a foreign exchange market, while limiting the BoJ's interventions in it to smoothing excessive volatility, and to preventing collusion by large operators, such as financial conglomerates.

12. LEG also provided significant TA to Jamaica, either on a stand-alone basis or in conjunction with FAD and MCM. The assistance focused on help in preparing legislation for fiscal and financial reforms, and for AML. The latter acquired special relevance when the FATF included the country in its "grey list" of jurisdictions with significant weaknesses in their AML/CFT legislation. Exiting this list would have important benefits for Jamaica in terms of facilitating inflows of remittances and capital.

13. CD by STA included some 26 TA missions, mostly delivered through the Caribbean RCDC (CARTAC), and the training of some 84 Jamaican officials at multi-country training programs. The TA was focused particularly on national accounts, price, and external sector statistics. ICD provided significant training to Jamaican officials in forecasting techniques, financial programming, and debt sustainability analysis.

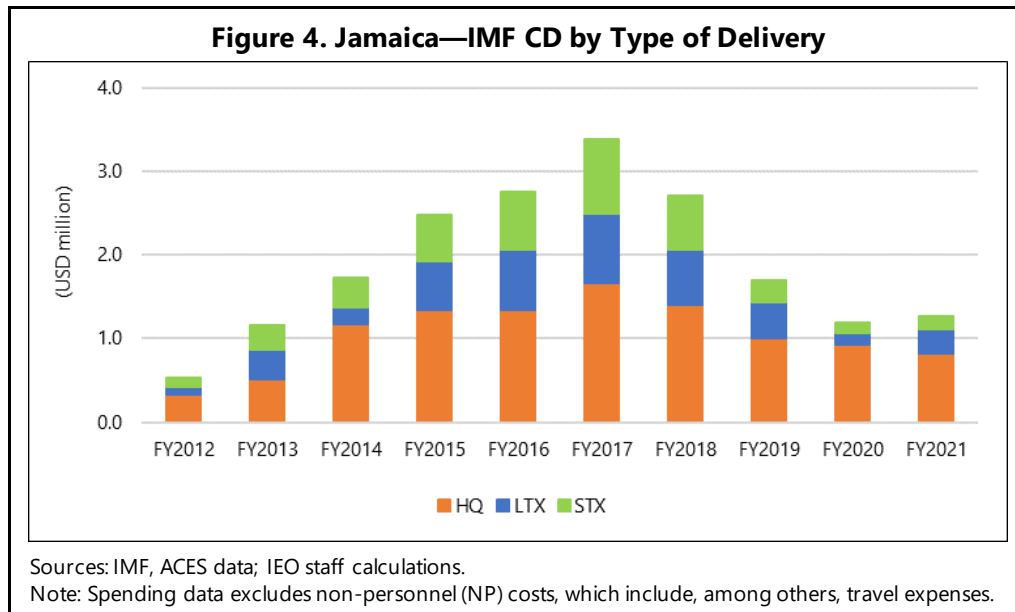
14. Jamaica's use of CD has become more focused in the last couple of years, as the country's engagement with the Fund has transitioned from program to surveillance, and dealing with the COVID-19 pandemic has absorbed more of the authorities' time. TA has been requested or delivered recently in estimating tax gaps, in further reducing the scope for government discretion in granting tax exemptions, and in strengthening AML.

15. Going forward, the authorities interviewed indicated that they expect CD to be concentrated on fewer issues but anticipate continuing strong need for training. The 2020 CSN also supports greater selectivity of CD. It calls for future CD to focus on supporting the consolidation of the reforms initiated under the program and the further strengthening of key fiscal and financial institutions. In the fiscal area, the CSN mentions as priorities the implementation of the independent fiscal council, and further strengthening the authorities' capacities for macro-fiscal analysis and forecasting. In monetary and financial areas, CD is expected to center on capital flows controls, CBDC issues and experiences, and addressing the challenges of risk-based consolidated supervision. In the statistical area, priority issues are the updating of the CPI methodology and a timelier production of the expenditure-based GDP estimates.

## **B. Delivery**

16. The delivery of CD to Jamaica involved a mix of one-off missions from HQ, mainly to advise on emerging policy issues, and a more programmatic sequence of interventions, primarily to assist in institution building. The latter generally started with a HQ-led diagnostic of reform needs and priorities and agreement with the authorities on an action plan, followed by the

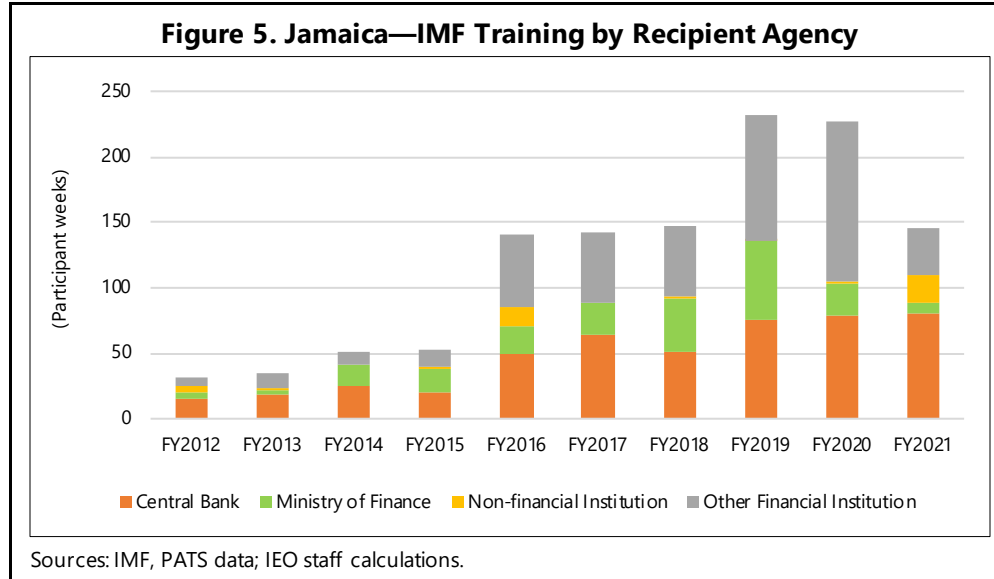
fielding of LTXs and STXs, as appropriate, and by periodic missions from HQ, to review progress and adjust plans as needed (Figure 4).



17. The authorities interviewed expressed satisfaction with the quality and timeliness of the CD provided and noted that the use of LTX and repeated visits by the same STX were particularly effective in ensuring continuity of knowledge and advice.

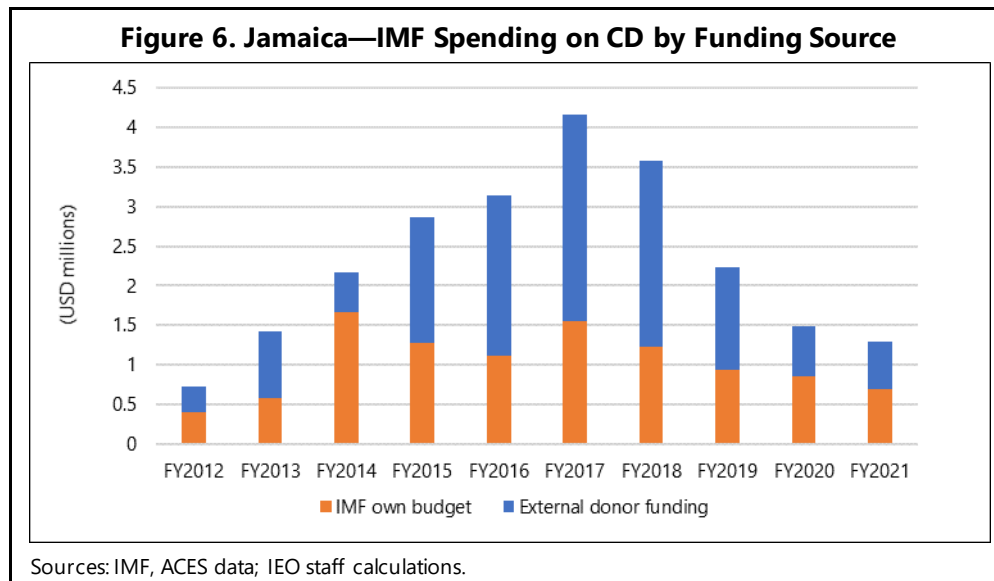
18. The Caribbean RCDC (CARTAC) played a significant role in the delivery of CD to Jamaica in most subject areas, accounting for 30 percent of CD delivered in 2012–2020. CARTAC activities were generally well coordinated with those from HQs through various channels, including discussions and agreement on the Center’s work programs periodically submitted to its Steering Committee; regular reporting by the LTXs in the Center to their respective backstoppers at HQ; and participation of the LTXs in missions from HQ in their respective areas. Backstopping is well established in FAD and STA and has been strengthened in MCM in recent years. The authorities interviewed were very appreciative of the assistance received from CARTAC, noting that the resident LTX there have a good understanding of the relevant characteristics of Caribbean countries, and can help individual members of the Center learn from each other’s experiences with CD delivery.

19. Training has played an increasing role in CD delivery to Jamaica in recent years and is very valued by the authorities, especially in agencies with lower capacity or higher staff turnover rates. Both the Central Bank and The Ministry of Finance and Public Services have been important beneficiaries of the training (Figure 5).



### C. Partnerships, Coordination, and Dissemination

20. The majority of CD to Jamaica has been funded externally. Major partners have been Canada and the CARTAC donors (Figure 6).



21. Jamaica provides good examples of successful cooperation with other multilateral and bilateral CD providers (e.g., in the AML area). Cooperation with the IDB in the early phases of the program was especially useful, as the two institutions complemented each other in fulfilling CD needs in their respective areas of expertise, as well as in the financing of the reforms. Cooperation with the World Bank is increasing, as the latter has stepped up its involvement with Jamaica in recent years, in particular on expenditure policy issues, climate change, disaster preparedness and remediation, and follow-ups to the Financial Sector Assessment Program

(FSAP). Coordination has been carried out at different levels by the WHD mission team, the resident representative, CDDs' staff, and by the coordinator and LTXs in CARTAC. All emphasized that effective coordination has required substantial time and effort, given the several institutions involved.

22. None of the TA reports has been published, with the exception of one on national accounts by STA. The fact that many recommendations of the reports were reflected in structural benchmarks of a strongly owned program may have lessened both the authorities' and the staff's perceived need for their transparency through publication. Staff's interest in publication may have also been dampened by the sheer number of the reports and the additional workload involved in their publication.

#### **D. Effectiveness and Impact**

23. The record of effectiveness and impact of CD to Jamaica is on average quite good, especially in the earlier years of the program, but with some variance across different policy areas. In the macro-fiscal area, TA contributed significantly to the successful implementation of fiscal rules, the adoption of legislation creating an independent fiscal council, and the strengthening of capacities for fiscal analysis and risk management in the Ministry of Finance and Public Services. In the PFM area, the assistance was instrumental in the creation of a modern Treasury and improvements in cash and public debt management, the latter in conjunction with CD from MCM. On the revenue side, the well-coordinated TA by the Fund and the IDB supported initial tax policy reforms that, along with strengthened revenue administration institutions and procedures, were reflected in a significant (5 percentage points) and sustained increase in the ratio of revenues to GDP. Less effective were subsequent missions on property and corporate taxation, and on the restructuring of the government wage bill, possibly signaling some reform fatigue, especially in politically sensitive areas.

24. In the monetary/financial area, CD by MCM was especially effective in strengthening the governance and the operational capacities of the BoJ in the conduct of monetary and exchange rate policies, and in the development of the market for government securities. A milestone in this area was the amendment of the BoJ legislation in 2021, which significantly strengthened the governance, and the operational and financial independence of the Bank. On the other hand, further progress is needed to complete ongoing reforms in bank regulation and supervision to conform to Basel III standards; and in strengthening the supervision of non-bank financial intermediaries. Further progress is also needed in reforming AML legislation and strengthening its implementation in order to exit FATF's "grey list." The BoJ is actively working with FATF for this purpose.

25. STA's CD contributed to significant improvements in the production of most macroeconomic statistics, despite limited absorptive capacity in the Statistical Institute. Jamaica implemented the recommendations of the e-GDDS in 2017 when it began publishing macroeconomic data essential for surveillance through the National Summary Data Page. Further

assistance will be required for the country to meet the Special Data Dissemination Standard (SDDS). The authorities interviewed expressed much appreciation for the training provided by ICD, which they regard as important in strengthening their staff's capacities, especially given the substantial turnover that their agencies typically experience.

26. The majority of institution-building CD projects in Jamaica has received outcome ratings in the RBM system (Figure A1.1; Annex I). These in general align well with the analysis above.

27. The, on balance, quite good record of effectiveness and impact of CD to Jamaica owes most to the strong ownership by two successive governments of the adjustment and reform program supported by the CD. The fact that CD recommendations were reflected in the UFR program's structural benchmarks also contributed to keeping the authorities' focus on the implementation of the recommendations. The close cooperation between the WHD and the CDD teams working on the country was certainly important, as was the technical quality and continuity of the assistance provided.

### III. OVERALL ASSESSMENT

28. Jamaica provides a good example of the benefits of close integration of CD with UFR, when the program's objectives are strongly owned by the national authorities. Jamaica had received significant CD in connection with previous unsuccessful IMF-supported programs, but its effectiveness had been generally small, reflecting poor commitment of the government to difficult adjustment and reform efforts. Beginning in 2013, CD was not only ramped up substantially in volume, but also prioritized to support the policy and institutional reforms called for by the program. As noted above, the WHD and CDDs cooperated closely in the identification, design, and support to the implementation of such reforms.

29. Although an explicit programmatic approach was more prevalent in institutional than in policy reforms, both types of CD involved follow-up and monitoring of progress, especially during the EFF period. Follow-up was facilitated by the active role of the Fund resident representative located in the BoJ, and by the existence of a RCDC for the Caribbean region. The fact that for several years the then BoJ's Governor chaired CARTAC's Steering Committee also helped ensure that the Center's work program for Jamaica was well-adjusted to the program's requirements.

30. There was also significant focus on strengthening the capacities of recipient institutions through both basic and specialized training. The effectiveness of this effort was, however, reduced by the high rate of turnover of the more qualified staff in those institutions, a problem whose solution would require politically difficult decisions on the compensation structure of the civil service.

31. The authorities interviewed were generally appreciative of the relevance and technical quality of the assistance received, albeit more so in some instances than others. For example, the

TA on the regulation and supervision of insurance and pension funds received lower marks than those on the BoJ governance and foreign exchange market development, reportedly (from the interviews) reflecting lower quality of the advice provided. In the fiscal area, the assistance on expenditure policy issues was viewed as less useful than that on macro-fiscal and PFM issues. The political sensitivity of the issues covered by the former may, however, have contributed to its lesser effectiveness.

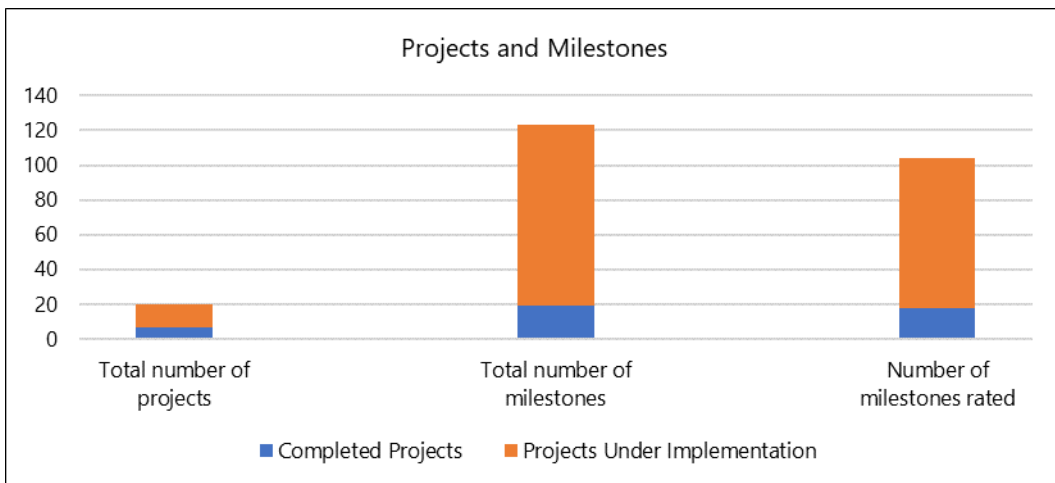
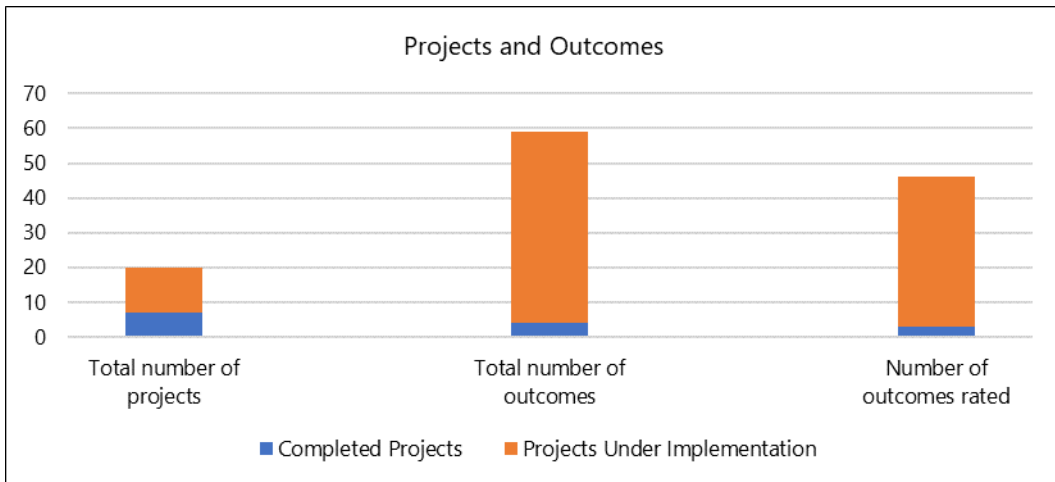
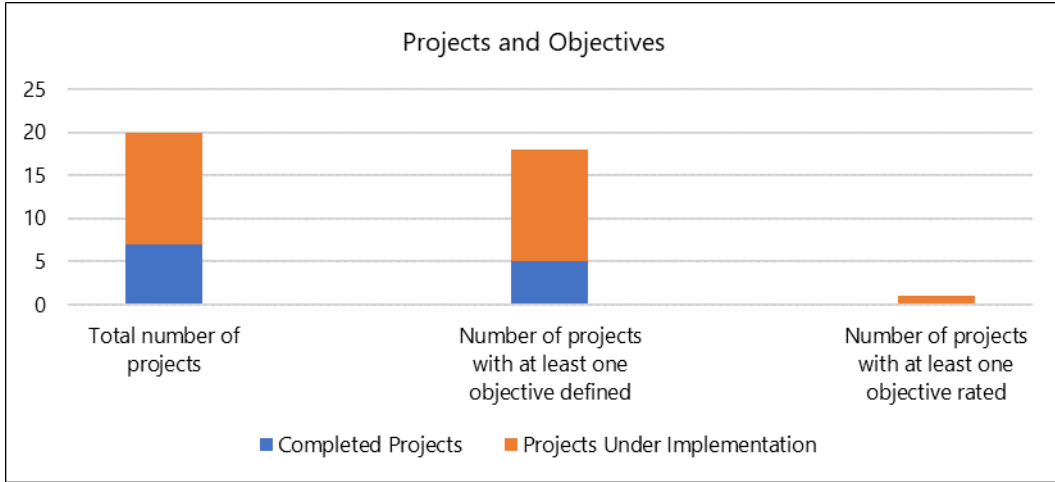
32. Cooperation with partners certainly contributed to CD's success. External funding was essential, especially for multi-year CD engagements. Cooperation with the IDB in revenue mobilization and PFM was intense and fruitful in the early phases of the program. The authorities did not take a leading role in ensuring coordination among different TA providers but appreciated and supported the staff's efforts to avoid duplication of efforts and in some instances to find synergies with other institutions involved in CD to the country. Given the sizable numbers of players involved, such coordination absorbed significant staff time.

33. Although CD's impact was on average relatively high, it appears to have diminished in the more recent years in some sensitive areas like tax policy, containment of the public wage bill and reform of public bodies, and structural improvements in financial markets, as financing pressures abated and the authorities' focus was diverted to responding to the COVID-19 pandemic.

34. Going forward, it will be key to ensure that CD remains as valued and effective in a surveillance-only context as under the recent UFR programs. For this purpose, it would be important to ensure that the level and allocation of CD reflects the authorities' perceptions of their needs for assistance (e.g., wanting more focus on capacity building and less on policy advice), that the content of the advice adjusts to evolving capacities, and that progress continues to be closely monitored, and is taken into account in modulating further assistance. Multiyear CD programs should maintain adequate flexibility to adjust to changing circumstances and priority needs.

ANNEX I. CD ACTIVITIES FOR JAMAICA

**Figure AI.1. Jamaica—Results Based Management Data on Projects, Objectives, Outcomes, and Milestones**



Sources: IMF, RBM data; IEO staff calculations.

**Table AI.1. Jamaica—Number of Missions (2012–2020)**

Year	FAD	ICD	LEG	MCM	RES	STA	Others	Total
2012	21	0	0	7	0	1	2	31
2013	23	0	2	8	0	1	1	35
2014	13	0	6	19	0	4	0	42
2015	28	0	0	15	0	2	0	45
2016	23	0	2	21	0	3	0	49
2017	32	0	1	20	0	4	4	61
2018	22	0	9	26	1	5	1	64
2019	10	2	4	4	0	2	1	23
2020	7	1	4	6	0	1	0	19
<b>Total</b>	<b>179</b>	<b>3</b>	<b>28</b>	<b>126</b>	<b>1</b>	<b>23</b>	<b>9</b>	<b>369</b>

Sources: IMF, TIMS data; IEO staff calculations.

**Table AI.2. Jamaica—Resident Advisors (2014–2018)**

Host institution	CDD	CD topic/workstream	Start date	End date
Ministry of Finance	FAD	Tax Administration	9/13/2014	9/12/2015
Ministry of Finance	FAD	PFM	3/15/2015	3/14/2016
Ministry of Finance	FAD	Extension of Tax Administration Advisor	1/3/2016	3/2/2016
Ministry of Finance	FAD	PFM Extension	3/15/2016	7/3/2016
Ministry of Finance	FAD	Appointment of Tax Administration Advisor	5/9/2016	5/8/2017
Ministry of Finance	FAD	PFM	9/15/2016	2/6/2017
Ministry of Finance	FAD	Extension tax administration LTX	5/9/2017	5/12/2017
Ministry of Finance	FAD	PFM	7/1/2017	6/30/2018
Ministry of Finance	FAD	PFM Extension	7/1/2018	12/31/2018

Source: IMF, Fiscal Affairs Department.

**Table AI.3. Jamaica—List of TA Reports (2012–2020)**

	FAD	MCM	STA	LEG	CARTAC	Total	Of which		
							Available within IMF	Available but confidential	Published
2012	1	1	0	0	0	2	1	0	0
2013	1	0	1	0	0	2	0	0	0
2014	3	3	0	0	0	6	5	0	0
2015	4	6	1	1	0	12	6	5	0
2016	1	2	1	0	2	6	5	0	1
2017	1	4	1	0	1	7	3	1	0
2018	1	3	3	2	0	9	1	3	0
2019	0	6	0	0	1	7	2	2	0
2020	0	3	1	0	3	7	7	0	0
<b>Total</b>	<b>12</b>	<b>28</b>	<b>8</b>	<b>3</b>	<b>7</b>	<b>58</b>	<b>30</b>	<b>11</b>	<b>1</b>

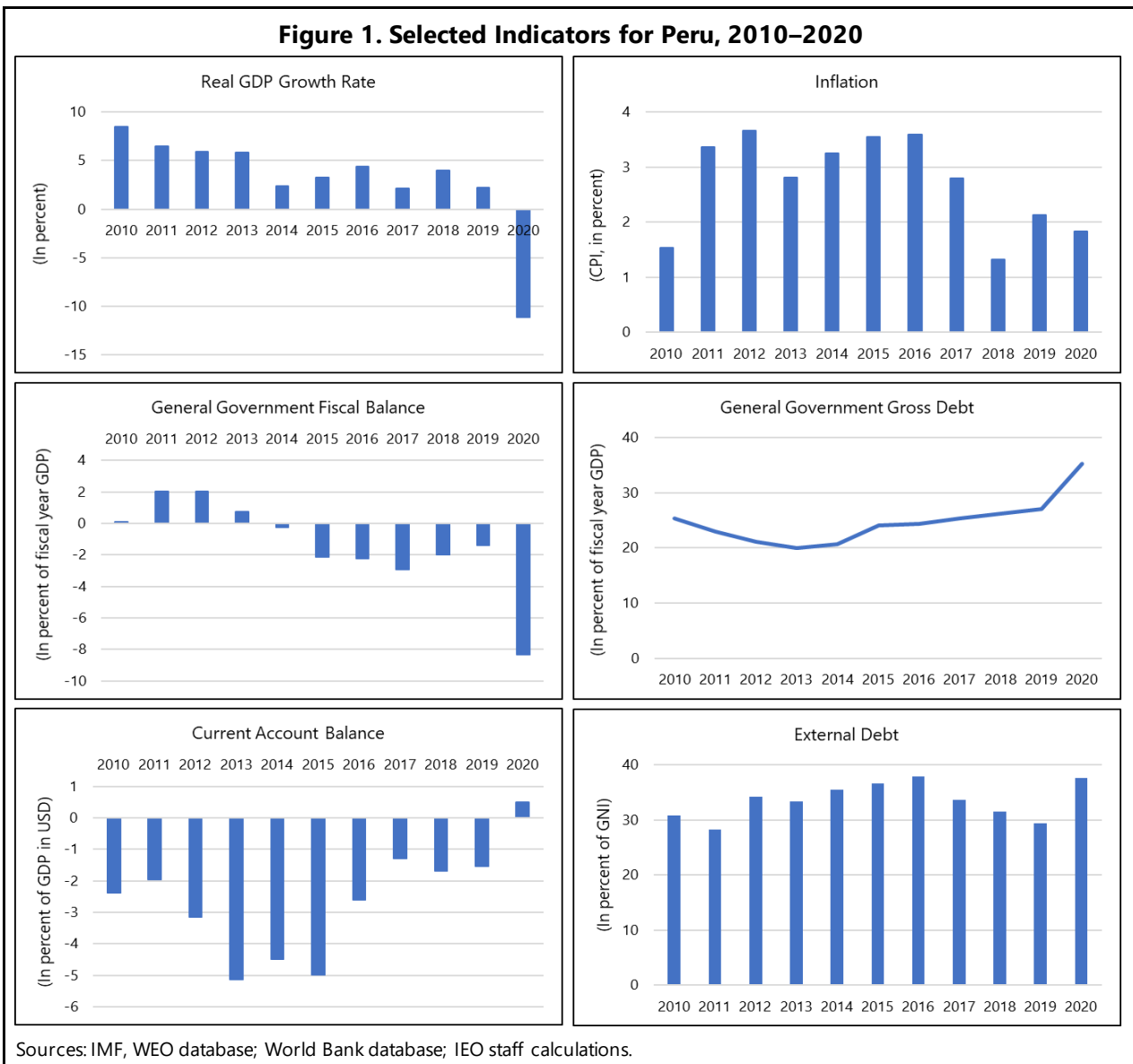
Source: IMF, Institutional Repository.



**PERU**

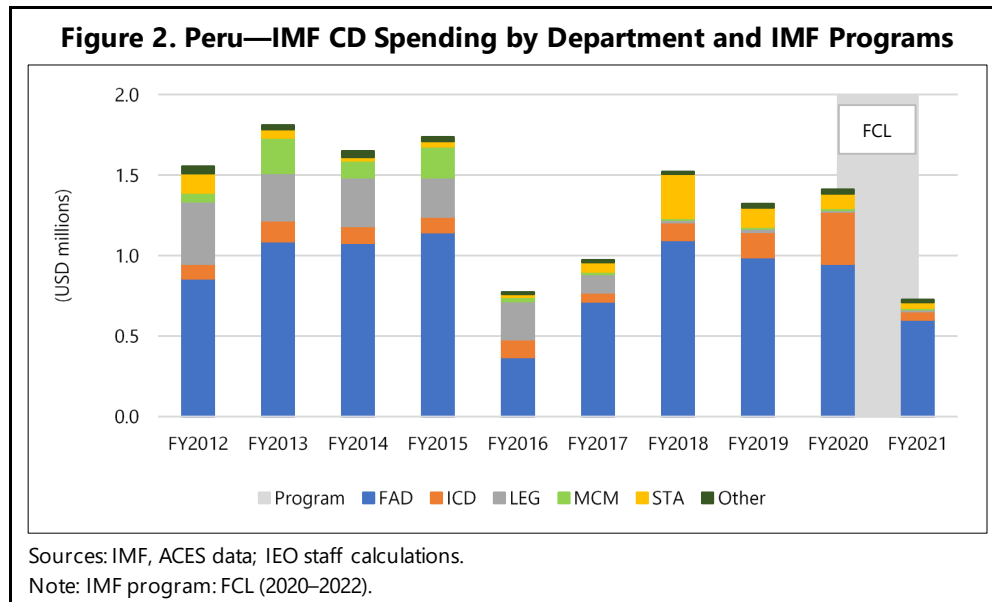
**I. BACKGROUND**

1. Over the last decade and a half, Peru has had one of the most consistent records of sound macroeconomic management in the LAC region.<sup>1</sup> Prudent fiscal management, supported by fiscal rules, helped contain the public sector debt below 30 percent of GDP until 2019, the lowest level in the region (Figure 1). Under the Inflation Targeting Framework (ITF), inflation has been low and stable, and financial dollarization has declined, while strong supervisory and macroprudential policies have helped preserve financial stability. These policies, along with rising revenues from natural resources, contributed to a strong economic growth performance, with GDP rising on average by over 5 percent a year from 2004 to 2019. This allowed halving the poverty rate, albeit to a still relatively high level of around 22 percent.



<sup>1</sup> See, for example, Werner and Santos (2015).

2. Progress in improving other social indicators and the access to and quality of public services, especially outside the Lima region, has been slower. The poor quality of health services, and a labor market characterized by high degrees of informality and contact-intensive activities, heightened the vulnerability of the population to the COVID-19 pandemic.
3. In the face of the pandemic, the government adopted very strict containment measures, while supporting incomes with one of the largest packages of fiscal and financial measures among emerging markets. It also obtained IMF support under the flexible credit line (FCL), so far treated as precautionary. Nevertheless, GDP fell by over 11 percent, one of the steepest declines in the region, and unemployment and poverty rose significantly.
4. During the period covered by this evaluation up and until May 2020, when the FCL was approved, Peru had no financial arrangements with the IMF. It has been a relatively high-intensity user of CD, averaging about 1.7 FTE per year between 2012 and 2020. The engagement has fluctuated significantly, being more intense during the first years of the period, when the government undertook some important fiscal reforms and prepared for the 2015 IMF-World Bank Annual Meetings in Lima (“the Road to Lima”). It has also picked up again since 2018, reflecting in particular renewed interest in IMF CD by the management of the Revenue Administration (Figure 2).



## II. CD ENGAGEMENT

### A. Strategy, Allocation, and Prioritization

5. CD in Peru has been largely demand driven, and influenced to some extent by the availability of external funding, but generally aligned with priorities identified through IMF surveillance. IMF staff did not produce a CSN for Peru during the evaluation period.

6. In terms of the CD areas, most IMF CD during the evaluation period, was provided by FAD. FAD's CD to Peru has spanned a broad range of topics (Figure 3). In the macro-fiscal area, missions advised on the design and implementation of fiscal rules, including the definition of the structural balance; on reforming the distribution of natural resource revenues among and within different levels of government; and on improving the identification and management of fiscal risks. In the tax policy area, TA was provided on a number of proposed tax reforms, in particular of the corporate income tax, the simplified regime for small taxpayers, the taxation of Special Economic Zones (SEZs), and subnational property taxes.

7. The bulk of FAD's TA has gone into supporting institution-strengthening in PFM and revenue administration. TA in the PFM area has been based on the Fiscal Transparency Evaluation<sup>2</sup> and PIMA diagnostics, carried out in 2015 and 2017, respectively. These identified a number of weaknesses in the budget preparation, execution, and reporting; in cash management; and in the public investment management system, especially at the subnational level. Through missions, the placement of a LTX, and a number of STX assignments, FAD advised on the whole range of PFM reforms needed to address these weaknesses, in particular on improving the medium-term budget framework (MTBF). It also piloted in Peru the first mission on governance and anti-corruption measures.

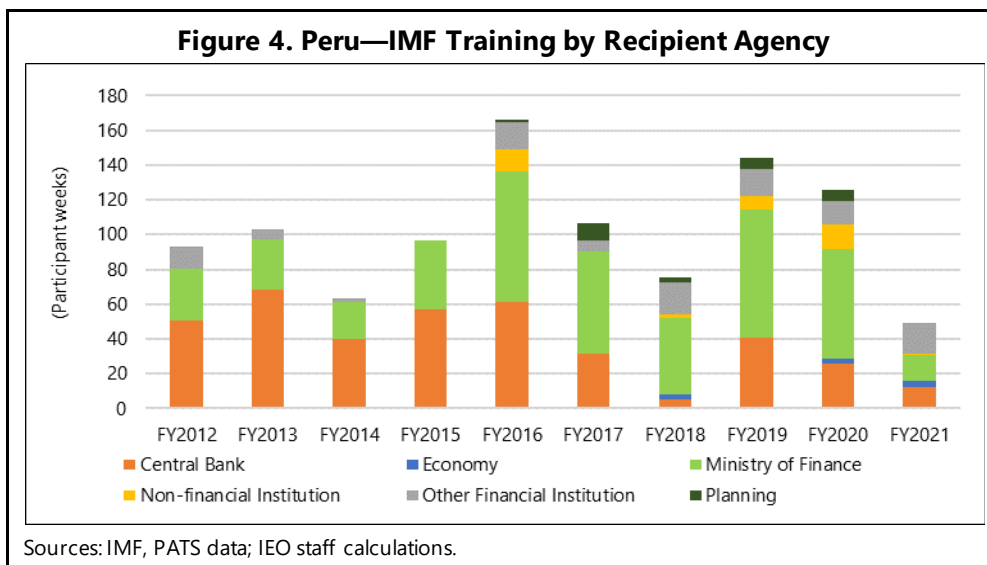
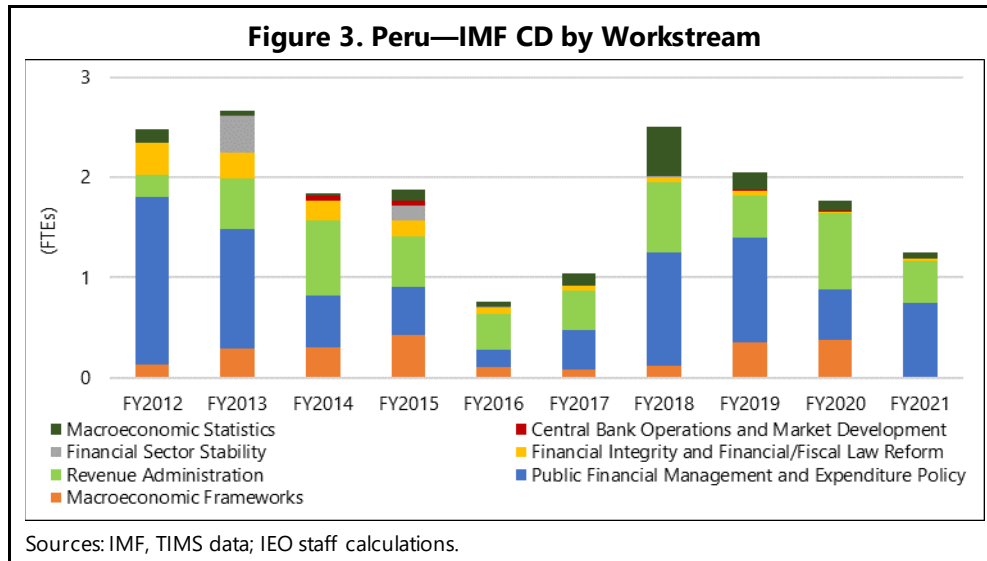
8. In the tax and customs administration area, FAD has had a long-standing engagement with the National Revenue Authority (*Superintendencia Nacional de Administracion Tributaria, SUNAT*), although the intensity of the involvement has varied over the period, partly reflecting attitudes of *SUNAT's* frequently changing leadership. FAD's assistance has focused in particular on: the development of a risk-based compliance control strategy; the use of electronic invoices in the control of VAT compliance; the utilization of data from the exchange of information with other tax administrations under the OECD's BEPS project; and the modernization of customs clearance procedures.

9. MCM's CD engagement consisted mainly of assistance to the Superintendency for Securities (*Superintendencia del Mercado de Valores*) to strengthen the supervision of capital markets, and it ended in 2015. The Central Bank of Peru is among the leaders in terms of institutional capacity in the LAC region and has not requested TA from the Fund in the last decade. Staff from the Central Bank represented, however, the largest group of recipients of IMF training in the earlier part of the period (Figure 4).

10. The LEG Department's assistance to Peru concentrated on AML issues, focusing in particular on combating illegal capital flows through the securities market. STA has provided TA to Peru in several areas, including advanced ones like the development of quarterly sectoral national accounts and housing price indices. It has also provided training to nearly 100 Peruvian officials through multi-country courses.

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<sup>2</sup> IMF (2015).



11. As mentioned above, CD to Peru has been largely demand-driven. Officials interviewed expressed appreciation for the assistance provided, in particular by FAD and STA in their respective areas of expertise. They regarded the Fund as the “first port of call” for CD in those areas, and praised the technical quality of the advice provided, even if they found it on a few occasions too focused on only first-best solutions, especially as regards policy issues. They were also generally appreciative of the timeliness of the Fund’s responses to their requests, especially in the earlier part of the last decade.

12. Peru did not fall into the priority categories for CD outlined in WHD’s Regional Strategy Notes for FY2017–2021, namely program status, low capacity, or systemic importance. Nevertheless, the staff has been very responsive to the authorities’ requests for CD, because of

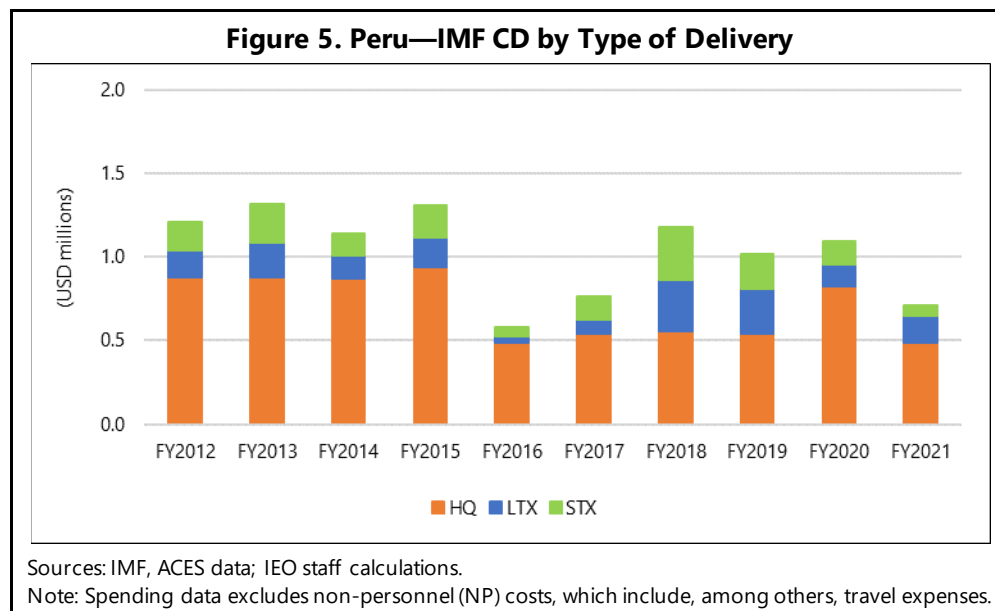
the country's sustained record of good macro-economic management and still significant needs for macroeconomically relevant structural fiscal reforms, and for improvements in statistics.

13. CD has been generally well-aligned with the policy and institutional reform priorities identified in surveillance. Current and former WHD mission chiefs interviewed said that the analysis and recommendations of TA reports, and more generally the significant expertise accumulated in FAD on policy and institutional fiscal reform issues in Peru, helped enrich the relevance and usefulness of their own dialogue with the authorities. The senior resident representative posted in Lima until 2015 also played a role in promoting good alignment of CD and surveillance for the country.

14. The significant CD involvement of the Fund with Peru also owes to the fact that it received substantial external support from SECO in the form of two substantial multi-year and multisectoral loans during the evaluation period which supported CD in fiscal areas and statistics. This is discussed further in section C below.

## B. Delivery

15. CD delivery in Peru has involved a mix of HQ staff-led missions, use of STX and LTX, and country-specific workshops (Figure 5). HQ missions have been used mainly for policy-focused CD, diagnostics of institutional reform needs, and periodic reviews of progress under the multi-year projects in the PFM, revenue administration, and statistical areas. Stand-alone LTX and STX assignments have been used primarily for CD under such projects.



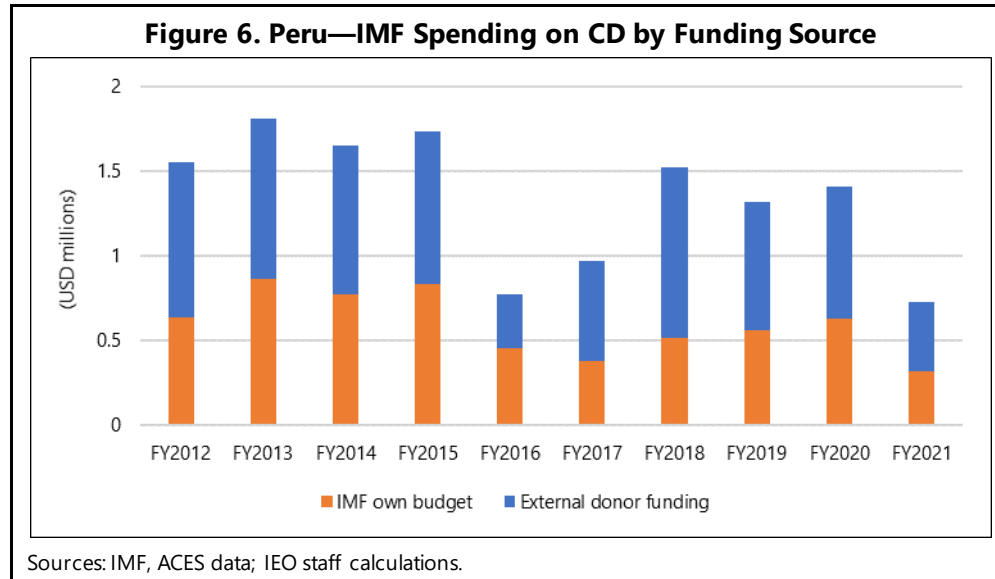
16. The authorities interviewed for this evaluation were generally satisfied with the technical quality of the assistance provided. They also considered the delivery of CD under the multi-year projects as generally well-timed, but some suggested that they would have liked greater follow-

up on some HQ-led missions. A few thought that follow-up was adversely affected by the closing of the resident representative office in Lima, since the incumbent had been active in monitoring the implementation of main CD recommendations and conveying to HQ information on it, as well as on emerging CD needs.

17. CD continued during the pandemic in the fiscal and statistical areas, mainly through remote missions and workshops involving staff and outside experts. The effectiveness of such remote engagements was facilitated by the fact that the staff and experts involved had already well-established connections with the technical staff of *SUNAT*, the Ministry of Finance, and other relevant institutions. Participation of Peruvian officials in remote and on-line training also continued in 2020 at a level broadly in line with the average of the evaluation period (see Figure 4 above).

### C. Partnership, Coordination, and Dissemination

18. External sources have accounted for a large share of funding of the IMF's CD to Peru. The SECO has been a major partner, funding two successive programs that encompassed projects in the PFM, revenue administration, and some statistical areas during 2012–2020. Funding has also been received from the AML/CFT fund and from the Natural Resources Thematic Trust Fund (Figure 6). The authorities interviewed expressed special appreciation for the support of SECO in funding the important CD programs mentioned above.



19. Reflecting the demand-driven nature of CD to Peru, the authorities have been basically in charge of deciding from which potential provider to request assistance for specific CD needs. Their perception of comparative advantages of each institution in each subject area has been the main driver of such decisions. Officials interviewed for the evaluation stressed that they viewed the IMF as providing the greatest expertise in its core fiscal and statistical areas. They tended to

rely more on the World Bank and the IDB for assistance on expenditure policy issues and in strengthening subnational governments' capacities and cooperated with the OECD on base erosion and profit shifting (BEPS), and with the Interamerican Center for Tax Administration (CIAT) for the training of officials in revenue administration.

20. Coordination with other CD providers has been largely left to WHD's and CDD's initiative. The resident representative played an active role in this respect while the office was located in Lima. Following the relocation of the office to Paraguay, HQ staff has utilized various informal channels for exchange of information with other multilateral and bilateral providers, to minimize risks of duplication and conflicting advice and on occasions to promote cooperation (e.g., in the TADAT diagnostic and in the TA on AML).

21. Only one out of more than 40 TA reports for Peru has been published so far (Annex I). When asked about the reasons for not consenting to the publication of most TA reports, some of the officials interviewed adduced as a reason the specialized technical nature of the reports, which, in their view, would make them of limited interest to the general public. Other authorities said that they feared that parts of the reports which analyzed policy or institutional weaknesses could be used by the opposition and the media for political purposes. For their part, some of CDD staff feared that insisting on publication could adversely affect candor in the dialogue with the authorities.

#### **D. Effectiveness and Impact**

22. The record of effectiveness and impact of CD to Peru is mixed. As regards one-off advice on policy issues, it appears to have provided valued inputs in some macro-fiscal reforms, in particular the design and implementation of fiscal rules and the fiscal responsibility framework, and in the analysis of fiscal risks. But the effectiveness of FAD's advice on tax policy issues has been hindered by political weaknesses that derailed the authorities tax reform efforts, and in some cases (e.g., the advice on SEZs) by differences of views between the staff and the authorities. Effectiveness has been on balance greater in the more programmatic institution-strengthening-oriented CD engagements under the SECO funding umbrella, although political instability, and the related changes in key counterparts, especially in the last few years, appear to have also taken a toll in this area, by slowing progress in the achievement of some project objectives and outcomes.

23. Most of the 20 projects in the RBM system have been given ratings for objectives and outcomes (Figure AI.1; Annex I). The RBM scores are largely consistent with the findings of a 2020 external evaluation of SECO-funded TA.<sup>3</sup> This found that most milestones agreed under the revenue administration project were partially or largely achieved; it scored the project relatively highly in terms of relevance and efficiency, less so in terms of effectiveness, impact, and sustainability. The main achievements of the assistance to *SUNAT* were considered to be its

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<sup>3</sup> Dev Tech (2020).

contributions to the development and implementation of a risk-based tax compliance control model, and of a VAT control model based on electronic invoices; and to the modernization of the customs control strategy.

24. The same evaluation scored somewhat higher the PFM component of the SECO project, noting that the objectives of better integration of the budget with the medium-term fiscal framework, improved risk analysis and reporting, and more effective cash management had been largely achieved, while that of improving the coverage and conformity of the fiscal accounts with international accounting standards had been only partially achieved. It rated the project relatively highly in terms of relevance, effectiveness, and efficiency; less so in terms of impact and sustainability. The evaluation scored even more positively the STA project on sectoral national accounts, judging most of its objectives to have been fully or largely achieved.

### **III. OVERALL ASSESSMENT**

25. Over the last decade, Peru has received more CD than could have been expected given its relatively well-developed institutions, non-program status, and non-systemic nature. This has reflected both demand and supply factors, namely high demand on the part of the authorities, fueled by their appreciation for the technical expertise of the Fund staff and its wide-ranging knowledge of best international practices; eagerness by the staff in WHD and CDDs to meet such demand, given the strong macroeconomic management record of the country, and its need for further policy and institutional reforms; and the availability of significant external funding.

26. The composition of CD has been generally well-aligned with the reform priorities identified in surveillance, although some policy differences, especially regarding exchange rate management, may have contributed to the lack of demand for assistance in the monetary policy area. Demand for assistance in less traditional areas, such as environmental and inequality issues, has been limited so far, but might increase going forward, given the likely agenda of the newly elected government. The demand for training has been evolving, reflecting increasing capacities in recipient institutions, away from basic courses and towards more specialized topics, and seminars/workshops that offer greater opportunities for peer-to-peer learning.

27. CD delivery would have benefited from greater follow-up on policy-oriented missions, which was adversely affected, especially in the second half of the period, by frequent changes in counterparts, by the closing of the resident representative office, and possibly by the lack of a RCDC for the South America region. Follow-up missions might have helped increase the traction of CD advice, including by facilitating increased specificity of the advice provided and its adaptation to the Peruvian context. The delivery of CD under the SECO-funded projects benefited from a more programmatic approach, and from the use of a LTX posted in Lima for part of the period for the PFM project. Going forward, CD engagement should emphasize the benefits of a medium-term framework for any assistance on both policy reforms and further institution strengthening, with agreed objectives, milestones, and periodic reviews of progress

towards them. The preparation of a CSN, fully discussed and agreed with the authorities, would be helpful in this respect.

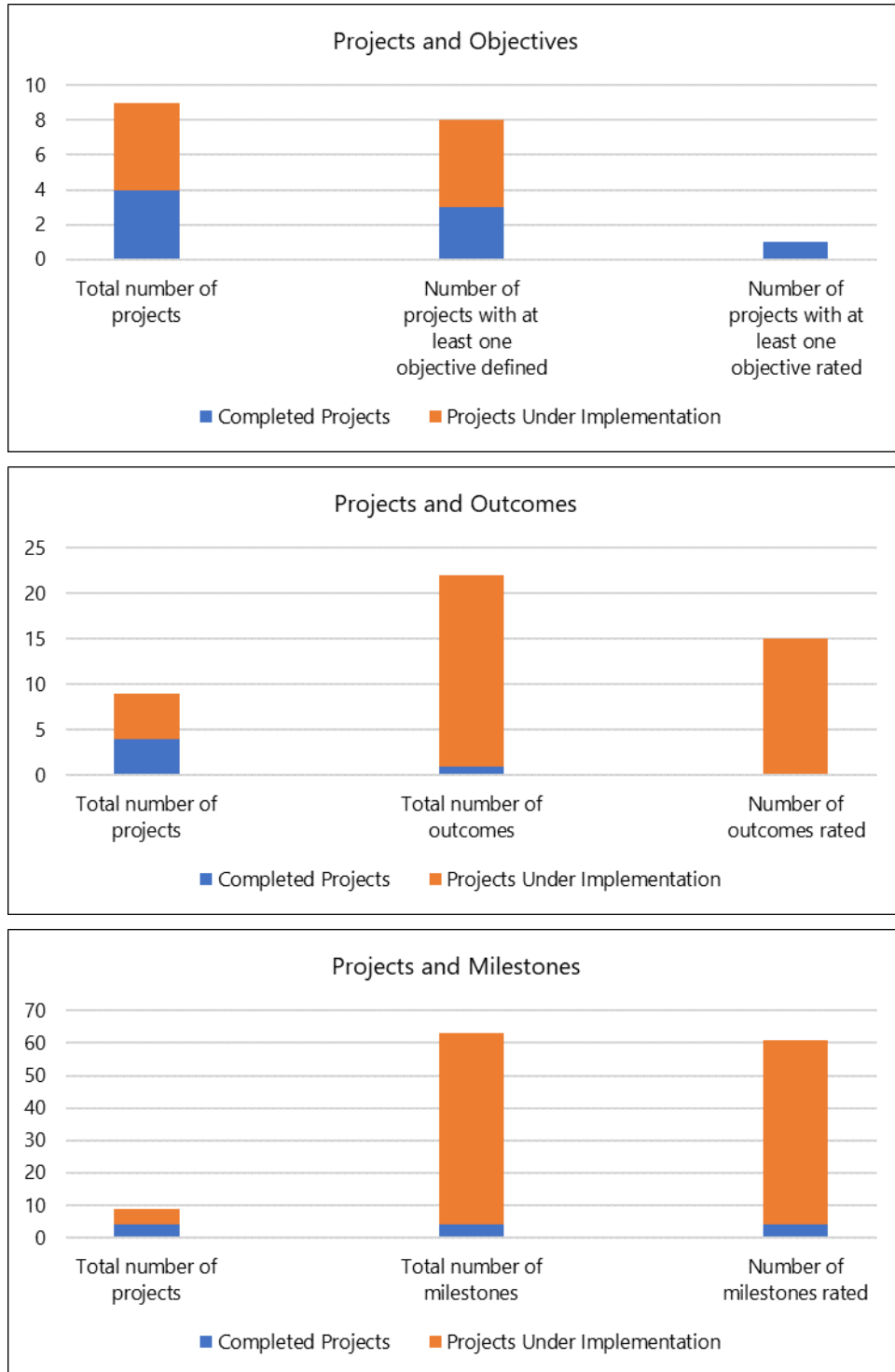
28. Given the authorities' preference for separate engagements with different CD providers, coordination during the evaluation period has been mostly informal and episodic. It appears to have focused primarily on exchanges of information about respective ongoing CD engagements with the country, with a view to minimizing duplication of efforts and conflicting advice, rather than exploiting potential synergies. There may be some scope for increasing the regularity and frequency of such exchanges, and for cross-participation in selected missions going forward, particularly in the tax policy and some -PFM areas.

29. There is clearly scope for increasing the transparency of CD activities in Peru, by publishing more TA reports. This would help highlight the contribution of CD activities to the significant improvements in fiscal institutions and in economic statistics that have taken place over the last decade. Arguably, greater transparency of the granular policy advice provided in TA might also have helped increase the traction of both TA and surveillance recommendations.

30. As mentioned in the previous section, the record of CD to Peru in the last decade in terms of effectiveness and impact is mixed. This seems to be less attributable to the relevance and quality of the advice provided than to the political environment in the country, characterized by weak support for the government in Congress, which prevented the passing of some proposed policy reforms, and by frequent changes in the leadership of the Ministry of Finance, the Revenue Authority, and other relevant institutions, which slowed progress on some institutional reforms supported by the CD. Internal divisions within the Executive (e.g., frictions between the Ministry of Finance and *SUNAT*) may have also contributed to such slowness.

ANNEX I. CD ACTIVITIES FOR PERU

**Figure AI.1. Peru—Results Based Management Data on Projects, Objectives, Outcomes, and Milestones**



Sources: IMF, RBM data; IEO staff calculations.

Year	FAD	ICD	LEG	MCM	RES	STA	Others	Total
2012	12	0	7	0	0	2	2	23
2013	22	2	5	4	0	1	0	34
2014	18	1	3	2	0	0	0	24
2015	16	1	3	2	0	1	0	23
2016	9	1	2	0	0	1	0	13
2017	13	0	1	0	0	3	0	17
2018	17	0	0	0	0	6	0	23
2019	15	0	0	0	0	5	0	20
2020	12	0	0	0	0	3	0	15
<b>Total</b>	<b>134</b>	<b>5</b>	<b>21</b>	<b>8</b>	<b>0</b>	<b>22</b>	<b>2</b>	<b>192</b>

Sources: IMF, TIMS data; IEO staff calculations.

Host institution	CDD	CD topic/workstream	Start date	End date
Ministry of Finance	FAD	Regional Resident Treasury Advisor	1/30/2011	1/29/2012
Ministry of Finance	FAD	Extension of Regional Resident Treasury Advisor	1/30/2012	1/29/2013
Ministry of Finance	FAD	Extension of Regional Resident Treasury Advisor	4/30/2013	7/30/2013
Ministry of Finance	FAD	SECO Public Financial Management Long Term Advisor	6/2/2017	6/1/2018
Ministry of Finance	FAD	Public Financial Management Long Term Advisor Extension	6/2/2018	6/1/2019

Source: IMF, Fiscal Affairs Department.

	FAD	MCM	STA	LEG	FAD/LEG	Total	Of which		
							Available within IMF	Available but confidential	Published
2012	6	0	0	0	0	6	5	0	0
2013	0	2	0	0	0	2	0	0	0
2014	5	1	0	0	0	6	5	1	0
2015	4	1	0	0	0	5	3	1	1
2016	2	0	1	0	0	3	3	0	0
2017	3	0	3	0	0	6	5	0	1
2018	1	0	4	0	0	5	0	0	0
2019	2	0	4	0	1	7	2	0	0
2020	1	0	1	0	0	2	2	0	0
<b>Total</b>	<b>24</b>	<b>4</b>	<b>13</b>	<b>0</b>	<b>1</b>	<b>42</b>	<b>25</b>	<b>2</b>	<b>2</b>

Source: IMF, Institutional Repository.

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