

**VENEZUELA: TECHNICAL-COOPERATION LOAN
MODERNIZATION OF THE SERVICIO NACIONAL INTEGRADO DE
ADMINISTRACIÓN TRIBUTARIA (SENIAT) [NATIONAL INTEGRATED
TAX ADMINISTRATION SERVICE]**

(VE-0104)

EXECUTIVE SUMMARY

**BORROWER AND
GUARANTOR:** Government of the Republic of Venezuela

EXECUTING AGENCY: Ministry of Finance through the Servicio Nacional Integrado de Administración Tributaria (SENIAT) [Integrated National Tax Administration Service]

AMOUNT AND SOURCE: IDB: US\$10.5 million (OC)
Local counterpart funding: US\$10.5 million
Total: US\$21.0 million

**FINANCIAL
TERMS AND
CONDITIONS:** Amortization period: 20 years
Disbursement period: 36 months
Interest rate: variable
Inspection and supervision: 1%
Credit fee: 0.75%

OBJECTIVES: The general program objective is to help the Government of Venezuela to modernize its tax administration systems, procedures and facilities in order to improve efficiency and facilitate taxpayer compliance with their tax obligations.

DESCRIPTION: Tax administration is the responsibility of SENIAT, the product of a merger of the Internal Revenue and Customs Services. The activities planned to achieve the program objectives are grouped in the following four components: (i) Customs, accounting for most of the financing which will be used to reform the customs law and prepare regulations, the revamping of operating procedures, development and implementation of an information system and the procurement of computer equipment for the system and the refurbishing of customhouses in poor physical condition; (ii) Internal Revenue Service, focusing on the consolidation of progress achieved under the previous program by extending the information system and new operating procedures nationwide and on strengthening those areas exhibiting the greatest weaknesses at the end of the previous phase; (iii) Training and human resources, for the reorganization of the Centro de

Executive Summary

Page 2 of 3

Estudios Fiscales (CEF) [Fiscal Studies Center] to improve the technical expertise of SENIAT personnel; and (iv) Institutional strengthening, for the dissemination of information to taxpayers on measures and procedures to facilitate tax compliance and improve the image of the SENIAT.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environment Committee, at its meeting of May 28, 1996, classified this as a Category II operation.

BENEFITS:

Expected program benefits are as follows: (i) effective integration of the tax administration system through a more efficient use of human and physical resources; (ii) consolidation of achievements made under the previous phase in order to reduce the cost of tax compliance by facilitating and offering incentives for voluntary taxpayer compliance; (iii) facilitation of foreign trade, with an ensuing reduction in operating costs and a boost in international competitiveness; and (iv) reduction in the estimated tax evasion rate and boost in tax revenues.

RISKS:

The main risk lies in system transfer problems encountered in certain areas during the course of the previous phase attributable, in part, to the organization and strengthening of the SENIAT. In an endeavor to mitigate this risk, a series of operating committees will be set up as a means of ensuring involvement by SENIAT personnel in program activities.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The Bank's strategy for Venezuela for the period 1996-1997 has three objectives, namely: (i) to promote macroeconomic stability at the national level; (ii) to reduce inequities and alleviate poverty; and (iii) to boost the productivity in the area of nonpetroleum products. Achieving stability as well as the other two objectives requires the inclusion of projects and other measures to improve efficiency in the public sector as a necessary condition for development of the private sector. The proposed program is consistent with this strategy in that it will not only generate government revenue by boosting efficiency, but should also help reduce inequities.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

The executing agency will be required to furnish evidence of compliance with the following special conditions prior to the disbursement of program funding: (i) the Centro Interamericano de Administradores Tributarios (CIAT) [Inter-American Center for Tax Administrators] has been hired for the

internal revenue components and training activities; (ii) new automated procedures for control of payments made through banks and their reconciliation with the amounts received by the National Revenue Service; (iii) appointment of a national program coordinator and a technical coordinator; and (iv) approval of Venezuelan Customs System (SAVE) regulations governing its use by economic agents (paragraph 3.32).

**OTHER CONTRACTUAL
CONDITIONS:**

Other contractual conditions include: (i) the appointment of operating committee members with appropriate technical qualifications (3.11); and (ii) the submission of inception, progress and final reports for review by the Steering Committee and approval by the Bank (3.22).

**PROCUREMENT OF
GOODS AND
SERVICES:**

The executing agency has requested an extension of its contract with the CIAT as the specialized agency in charge of the technical management of internal revenue and training activities. The organization's technical advantages, combined with the advantages of continuity, justify the use of direct contracting with CIAT without competition as established in Bank policy in cases where comparative technical and/or institutional advantages exist.

The proceeds of the loan will not be used to finance works and computer equipment valued at over US\$350,000 will be procured by international competitive bidding, with procurement in smaller amounts being done in accordance with local legislation.

**CONVENTIONAL
PROCEDURE:**

The provisions of Part III, Section 2(a), of the Regulations of the Board of Executive Directors require that this operation be presented to the Committee of the Whole for consideration since it was not included in the country paper approved by the Board of Executive Directors.

NOTE: The contract for the loan to finance the technical-cooperation funding in question has been negotiated with the borrower and is available to the Directors for perusal.

I. FRAME OF REFERENCE

A. Macroeconomic conditions in Venezuela

- 1.1 The Venezuelan economy is still largely dependent on oil revenues despite a 70% plunge in real per capita income from oil resources since the mid 1970's. The lack of a policy designed to temper these enormous losses of income has triggered a progressive weakening of the country's economy and institutions, along with a sharp drop in investments. In social terms, the doubling of the size of the population living below the poverty line speaks for itself.
- 1.2 Since taking office in 1994, the current administration has had to deal with the worst banking crisis in the nation's recent history, in the wake of which its macroeconomic policy has featured the use of restrictive administrative measures, including exchange controls, fixed exchange rates, and controls on interest rates and the price of selected products. However, the combination of this policy and certain adjustment measures has proven ineffective in reducing the imbalances, and maintaining an unrealistic exchange rate produced even larger losses, pushing inflation to 57%, the highest level in the region.
- 1.3 On April 15, 1996, President Caldera announced an economic stabilization plan calling for a 450% rise in the price of gasoline, a 4% increase in the luxury and wholesale goods and services tax (ICSVM), the lifting of controls on interest and exchange rates and a reduction of the fiscal deficit to 2% of gross domestic product (GDP). The impact of these austerity measures is to be cushioned by social development programs. The government is about to sign a letter of intent with the International Monetary Fund (IMF), and both the IDB and the World Bank are firmly committed to supporting this program. The proposed technical-cooperation project could be an important part of this support in view of its goal of strengthening and modernizing the nation's tax authority which should, in turn, help the Venezuelan government to attain the targets agreed on.

B. Tax system

- 1.4 Venezuelan government revenues are derived from taxes. A distinction has traditionally been made between oil revenues and revenue from other taxes. Oil revenues are generated by taxes on oil income and royalties, which accounted for 47.7% of current revenues and 7.7% of GDP for the year 1995. The remainder comes from nonoil revenues, accounting for 8.4% of GDP and surpassing oil revenues for the first time. The main nonoil components of tax revenues are the luxury and wholesale goods and services tax (ICSVM), the income tax, customs duties and special-purpose excise taxes (on liquor, cigarettes, petroleum products, the stamps,

etc.). Table 1 shows trends in central government revenue over the past few years.

Table 1. Central government revenue as a % of GDP, 1990-1995						
Item	1990	1991	1992	1993	1994	1995
Total revenue	23.4	23.3	17.5	16.7	17.2	16.1
Current revenue	23.4	23.3	17.5	16.5	17.2	16.1
Oil sector	18.7	18.3	11.7	9.9	8.4	7.7
Income tax	13.8	13.6	8.2	6.7	5.1	4.4
Oil royalties	4.9	4.7	3.5	3.2	3.3	3.3
Nonoil sector	4.8	5.0	5.7	6.6	8.8	8.4
Taxes	4.2	4.7	5.2	6.3	8.6	8.3
Income tax	1.7	1.6	1.5	2.1	2.3	2.3
Value added tax (VAT/ICSVM) 1/				0.7	2.0	3.5
Taxes on international trade	1.4	2.0	2.0	1.8	1.6	1.5
Tax on bank debits					1.3	
Liquor	0.3	0.4	0.3	0.4	0.2	0.2
Cigarettes	0.2	0.3	0.3	0.3	0.3	0.3
Petroleum products	0.3	0.2	0.7	0.6	0.4	0.3
Stamp taxes	0.2	0.4	0.3	0.2	0.1	0.1
Other taxes	0.1		0.1	0.2	0.3	0.1
Other current revenue	0.6	0.3	0.5	0.3	0.2	0.1
Capital revenue				0.2		
1/ Excluding estimated tax rebates pending for consummated exports. Sources: Central Bank of Venezuela; Central Budget Office, Integrated National Tax Administration Service (SENIAT).						

- 1.5 The following summary table shows the relative share of the oil sector in total tax revenues.

Table 2. Relative share of government revenue, 1990-1995						
Item	1990	1991	1992	1993	1994	1995
Oil sector	79.7	78.5	67.2	59.5	49.1	47.7
Income tax	58.9	58.5	47.0	40.4	29.8	27.2
Royalties	20.8	20.0	20.1	19.2	19.3	20.5
Nonoil sector	20.3	21.5	32.8	39.4	50.9	52.3

- 1.6 The luxury and wholesale goods and services tax (ICSVM) is an offshoot of the value added tax (VAT) established in 1993, which was later replaced by the ICSVM in August of 1994, maintaining the same basic tax rate of 10% while taxing certain selected goods and services at rates of 20% and 30%. There was an across-the-board hike in tax rates 2.5% in 1995. The combination of three tax rates (12.5%, 22.5% and 32.5%) with a host of exemptions only serves to complicate tax administration and presents ample opportunities for noncompliance. Tax yields in this country are among the lowest in Latin America, in terms of both as a tax-to-GDP ratio and

productivity (tax revenue as a share of GDP per percentage point of the basic tax rate), which is 0.27, compared with 0.48 in Chile and 0.41 in Colombia.

- 1.7 There is a personal as well as a corporate income tax which, together, accounted for 2.3% of GDP for 1995. Personal income tax accounts for 0.2% of GDP, an extremely low yield in light of the country's per capital income figure. This low yield can be explained by the threshold amount for the payment of taxes, tax deductions for expenses, and weaknesses in tax administration. The yield from corporate income taxes, which account for 2.1% of GDP, is diminished by the numerous tax incentives that exist.
- 1.8 Foreign trade taxes are levied on imports, with the exception of imports from Andean Group countries, and account for 1.5% of GDP. Their theoretic average rate is 14.5%, compared with an effective average rate of 10%, with this discrepancy suggesting an evasion rate equivalent to 4.5% of declared imports. Finally, government revenues produced by selective excise taxes as a whole are equivalent to 1% of GDP.
- 1.9 The problems involved in accurately measuring tax evasion are only too clear, different methods have been used to assess the magnitude of this phenomenon. The International Monetary Fund estimates tax evasion at 42%, while the Venezuelan tax authority places it at close to 58%. In any event, the existence of a high rate of tax evasion is an accepted fact, supporting the contention that, for each bolivar collected in taxes, there is most likely another bolivar in uncollected taxes.

C. Tax administration

1. Institutional framework of the SENIAT

- 1.10 The responsibility for tax administration in the Republic of Venezuela had been vested in two branches of the Ministry of Finance: the Internal Revenue Service and the Customs Service. The reorganization of the Customs Service into an independent government agency known as "Aduanas de Venezuela, Servicio Autónomo" (AVSA) [Venezuelan Customs Service] in 1993 was followed in 1994 by the formation of the Servicio Nacional Integrado de Administración Tributaria (SENIAT) [Integrated National Tax Administration Service] from a merger of AVSA and the Internal Revenue Service [Dirección General Sectorial de Rentas]. Executive Order 310 creating the SENIAT charges it with the administration of all national government taxes.
- 1.11 The SENIAT is an unincorporated independent government agency operating under the aegis of the Minister of Finance. It is headed by a national tax commissioner ("superintendente nacional tributario") and deputy national commissioner ("superintendente nacional adjunto"). The SENIAT is divided into a central level and

a regional or operational level. In addition to the commissioner and deputy commissioner, its central level consists of three offices ("gerencias generales"), i.e. a tax development, data processing and administration office, which are broken down into a number of different departments ("gerencias") which are, in turn, divided into different divisions. Its operational level consists of nine regional internal revenue service centers ("gerencias regionales de tributos internos") and 15 main customs bureaux or customhouses ("gerencias de administración principal de aduanas") operating under the authority of the national commissioner and, by his authority, the deputy commissioner. The agency's organizational structure is presented in Annex II.

- 1.12 The SENIAT was organized in an endeavor to consolidate all tax-related operations by merging the Internal Revenue Service and the Customs Service, which was already an independent agency, into a single entity. This process was fraught with shortcomings from the standpoint of both entities for a number of reasons: (i) the incorporation of Customs into the SENIAT sparked negative reactions within the customs service since it was already an independent agency while, for the Internal Revenue Service, gaining independent agency status represented a major achievement; (ii) the customs service had been the target of a series of modernization efforts, none of which had achieved any real progress; (iii) the Internal Revenue Service was in the midst of a reform and modernization process with political backing, financial assistance from the Bank under project 669/OC-VE and international advisory services; and (iv) SENIAT officials categorically gave top priority to the internal revenue area, which they considered easier to administer and more lucrative, relegating Customs to a later stage.

2. Major constraints within the SENIAT

- 1.13 The circumstances surrounding the integration process as discussed in the previous paragraph helped produce a rigid and rather lopsided organizational structure from the standpoint of relations between different levels, as illustrated by the following examples of structural imbalances: (i) the top management level consists of three offices headed by general managers ("gerencias generales"), two of which are staff offices and only one of which is tax-related; (ii) the latter office, known as the Gerencia General de Desarrollo Tributario [Tax Development Office] is the very embodiment of the inequitable treatment afforded the customs area compared with the internal revenue area, to which it is subordinated within the chain of command, which means that no proposals or demands emanating from the Customs Service are allowed to reach the management level unless they are fully endorsed by the general manager. Moreover, relations between the central and the regional or operational level are not clearly defined and there are no direct channels of communication with functional units.

- 1.14 As far as personnel matters are concerned, the main problem stems from the fact that all internal revenue and customs employees were automatically placed in positions at the SENIAT, which has hampered efforts to distinguish between workers possessing the necessary qualifications for the proper performance of their duties, workers eligible for employment subject to preliminary training and workers failing to meet the requirements for employment in the new agency. As many as 849 employees took advantage of severance packages in the form of voluntary retirement (509), statutory retirement (167), or early retirement (173) programs at a cost equal to the equivalent of US\$850,000. However, due to a shortage of funding to cover the cost of lawfully established benefits, the future of these workers is uncertain. This situation is certainly not helping either the efficiency or the image of the SENIAT and is consuming nonperforming budgetary resources. The proposed program will pave the way for the separation of these employees and press on with the screening process by providing officials with needed funding to address the rights of displaced workers under labor legislation in a timely fashion. The number of such displaced workers has been estimated at approximately 350.
- 1.15 In the internal revenue area in particular, fragmentary efforts to modernize procedures developed and approved under program 669/OC-VE and the failure to successfully transfer all expertise developed by the consulting firm retained with program funding could jeopardize the sustainability of results achieved to date. This delicate situation is due, in part, to the change in scenario engendered by the organization and strengthening of the SENIAT after the program had already been mounted. This fact is making it difficult to allocate local counterpart resources and, more importantly, their identification with the program. Moreover, the integration process has itself engendered a number of demands which have reduced the share of time and human and financial resources committed to the technical-cooperation program.
- 1.16 As far as the customs area is concerned, the lack of a clearly defined customs model and modernization plan has triggered a series of uncoordinated and inconsistent efforts to computerize existing customs procedures. As a result, the operational level is receiving mixed signals from this process of change, and heralded customs modernization efforts have lost credibility among economic agents. The Customs Service is still using the same manual operating procedures labelled as inefficient and ineffective by a number of studies.

D. Technical cooperation in the fiscal affairs area

1. Program 669/OC-VE

- 1.17 Envisioned activities under technical-cooperation program 669/OC-VE for modernization of the country's tax authority were mounted in 1993 at a cost of US\$20 million, half of which is being financed by

a Bank loan drawn on its ordinary capital. The program consists of two subprograms, one to modernize the tax administration system and the other in support of tax reform and institutional strengthening efforts at the Escuela Nacional de Administración y Hacienda Pública (ENAHF) [National School of Public Administration and Finance].

- 1.18 The contributions made by the SENIAT to boosting tax revenues and improving service quality are a matter of public knowledge and the best indicators of the program's successful outcome. Since 1993, tax yields have been up by 200% over the figure for 1990 (see Table 1), reaching new historical highs. Of course, the introduction of a value added tax in 1993, which was later replaced by the luxury and wholesale goods and services tax (ICSVM) in 1994, was a major factor in this achievement. Other important accomplishments under this program include the establishment of special taxpayer units (UCE) serving the 3,000 largest taxpayers accounting for approximately 50% of tax revenues, the updating of tax records and new agreement with the banking system for the collection of taxes and the filing of tax returns.
- 1.19 However, the slow progress in systems development and implementation due, among other things, to the very process of setting up and strengthening the SENIAT cannot be overlooked. Yet, there is a clear need to develop and consolidate a number of subsystems and extend the Venezuelan Tax Information System (SIVIT) nationwide, improve the collection system and bank control procedures, strengthen auditing and develop management controls.

2. The new technical-cooperation program

- 1.20 In May of 1995, the SENIAT national tax commissioner presented the Bank with a request for technical cooperation to strengthen and modernize its customs area, which is in need of a major effort to modernize and streamline its procedures in which the involvement of economic agents engaged in foreign trade is crucial. The technical mission conducted in August 1995 made a study of the major issues to be addressed in this operation and determined which institutional areas should be left to government officials. The SENIAT has since confirmed its previous request and added additional components to strengthen and pursue its modernization program for the internal revenue area.
- 1.21 The new program and, specifically, the modernization of the Customs Service has the broad support of not only the SENIAT and the government but the private sector as well. The government committed itself in its Letter of Intent to the IMF to continue with the reform of Tax Administration particularly in the areas of audit and management control. SENIAT has indicated that the modernization of the Customs Service is one of its priorities and support for this initiative exists within the institution. FEDECAMARAS, on behalf of the private sector, expressed its firm

support and requested the reinstatement of the Presidential Committee created by Decree 1494 and the establishment of a Consultative Council for the Customs Service with representatives from the private sector.

3. Lessons learned

- 1.22 As noted in paragraph 1.19, one of the reasons for the slow start to the present program was the time taken to establish and organize SENIAT. This lengthy process has in turn slowed the transfer of knowledge and made its scope narrower than anticipated. Operating Committees will be set up to improve the results of the new program (paragraph 3.12). One favorable aspect is the support displayed by the government in the transfer of funds to fulfill the local counterpart obligations. Under its Charter, SENIAT is given resources of its own to enable it to meet its future obligations without problem.

E. Bank experience in this sector

- 1.23 The Bank is presently financing technical assistance programs for the tax authorities of 18 countries in the region under loans or with nonreimbursable technical-cooperation funding. Its experience in this area dates back ten years, over the course of which it has assisted with over 65 programs, whose evaluations suggest that the majority of these programs have been successful, have made a major contribution to the fiscal adjustment programs mounted by the governments of these countries and have helped strengthen necessary institutions for the promotion of sustained development.
- 1.24 An analysis of the Bank's own experience in this area and that of other organizations points to the existence of a number of determining factors in the success of tax reform efforts. The main factor is government backing in applying the principle of taxpayer equality under the tax code and its passage of measures enabling the tax authority to effectively enforce this and other legislation.
- 1.25 The setting of sound, clearly defined goals is essential, and it has been noted that it is more efficient and less costly to facilitate voluntary taxpayer compliance with tax obligations than to establish broad control procedures and long lists of violations and penalties. The administration of case-specific penalty systems is complicated, costly, tedious and ineffective.

F. The Bank's country strategy

- 1.26 The Bank's strategy for Venezuela for the 1996-1997 period has three objectives, namely: (i) to promote macroeconomic stability; (ii) to reduce inequities and alleviate poverty; and (iii) to boost productivity in the area of nonoil resources. The Bank's assistance in support of macroeconomic stability includes funding

designed to narrow the financing gap under two fast-disbursing loans for the financial and social sectors. Effective stabilization and achievement of its other objectives require the inclusion of projects and other measures to improve efficiency in the public sector as a necessary condition for development of the private sector. The proposed technical-cooperation program is fully consistent with this strategy in that it should boost government revenue and will attempt to transform the target agency into one of the most efficient institutions in the public sector.

II. OBJECTIVES

A. Objectives

- 2.1 The general objective of the technical-cooperation program is to help the Venezuelan government to modernize its tax administration systems, procedures and facilities in an attempt to improve efficiency and facilitate taxpayer compliance with their tax obligations.
- 2.2 The specific program objectives are as follows:
 - a. to improve tax administration performance by boosting revenues and cutting tax and customs administration costs;
 - b. to strengthen the Centro de Estudios Fiscales [Fiscal Studies Center] as a training and skills development agency to help improve the technical expertise of SENIAT personnel;
 - c. to foster integration of the SENIAT internal revenue and customs areas;
 - d. to consolidate progress made during the course of the previous program by expanding the tax information system (SIVIT) nationwide; and
 - e. to equip the SENIAT with appropriate physical facilities and equipment to facilitate the performance of its duties and improve the quality of taxpayer services.

B. Benchmarks

- 2.3 The following series of benchmarks will be used to monitor program performance against its stated objectives. Moreover, other specific benchmarks will be developed throughout the course of the program implementation process to measure the degree of achievement of certain tangible time-adjusted targets.

- a. Passage of legislation for the restructuring of the customs system by December 31, 1996;
- b. Computer hookup of warehouses and/or stores to the Puerto Cabello, San Antonio del Táchira and La Guaira customhouse system (as a minimum) to computerize control procedures for pending imports by December 31, 1997;
- c. Implementation of preliminary and selective screening procedures for waybills (cargo manifests) at major customhouses by June 30, 1997;
- d. Improvements in customs administration should produce a 20% increase in revenues by the end of 1997 as measured by the following equation: $R_2 = R_1 + (V_2 - V_1 \times T) \times 0.2$, where R_2 represents 1997 revenues, R_1 represents 1996 revenues, V_2 and V_1 represent the CIF value of imports for 1997 and 1996, respectively, and T represents the customs tariff, which is assumed to be constant;
- e. Same-day import or clearance of over 90% of imports and exports from the time of presentation of the customs declaration form by completion of the program;
- f. Expansion of special taxpayer unit (UCE) coverage to 8,000 taxpayers accounting for at least 75% of nonoil internal tax revenue by the end of 1997;
- g. Implementation of computerized reconciliation systems for tax revenues at the national level and effective control procedures for cooperating banking institutions by December 31, 1996;
- h. Training for over 2,000 employees in the proper use of the new procedures and the computer system by the time the program is concluded;
- i. Implementation of the auditing plan for 1997, including the performance of at least 1,000 complete audits;
- j. A 25% improvement in ICSVM and income tax performance by the end of 1997, rising to 40% by the time the program is concluded;
- k. Drafting of a tax reform bill by the end of 1997 with provisions for the expansion of the tax base and the establishment of administrative procedures to strengthen tax compliance; and
- l. A 25% reduction in estimated tax evasion as established by the International Monetary Fund by the end of the program.

III. PROGRAM DESCRIPTION

A. Components

- 3.1 The program is organized around the following four components encompassing separate as well as common areas of the SENIAT to facilitate the activities planned: (i) Customs; (ii) Internal Revenue Service; (iii) training and human resources; and (iv) institutional strengthening. Annex I contains a set of tables showing the activities, outputs, benchmarks, costs and requirements associated with each of these components.

B. Activities

- 3.2 The main program activities, by component, are as follows:

1. Customs (Cost: US\$8,536,000)

- 3.3 The customs administration area has been bypassed by modernization efforts mounted at the SENIAT as a result of the circumstances discussed earlier in chapter I. It is currently being hailed as a priority area to enable it to catch up with strengthening efforts in the area of tax administration and to provide the nation with a modern, effective customs service. The cost of this component includes outlays for consulting services, computer equipment and the refurbishing of physical facilities. Funding allocated to this component will be used for the following main activities:
- a. In the regulatory area, the framing of Venezuelan customs system regulations encompassing economic agents such as carriers, warehouse operators and banks, the drafting of a new customs law and implementing regulations, and the drafting and approval of valuation regulations and procedural handbooks;
 - b. In the organizational area, in addition to the revamping of the SENIAT's organizational structure envisioned as part of the institutional strengthening, this component provides for the tracing and evaluation of a new countrywide customs map to establish the number and physical condition of its customhouses;
 - c. Activities in regard to operating procedures in this area will focus on: (i) facilitating merchandise imports while, at the same time, safeguarding the tax authorities' interests, including measurements of the percentage of customs declarations processed the same day and the average time for the completion of customs formalities; (ii) establishing effective control procedures for goods in customs transit and other operations involving shipments of in-bond goods; (iii) obtaining declarations of abandonment of merchandise on an ad hoc

basis and proceeding with its disposal in a timely fashion; (iv) facilitating exports by coordinating other agency operations and keeping inspections to a bare minimum; (v) streamlining drawback procedures without adversely affecting the verification of applicant claims; and (vi) establishing efficient, reliable procedures for temporary imports of goods for reexport without being altered and for direct or indirect processing;

- d. Activities in the audit area include the development of ex post audit procedures for customs duties and the formation of joint groups to conduct joint internal revenue and customs audits or else to coordinate audit operations to curb administrative costs and reduce pressure on taxpayers; and
- e. Needs in regard to the information system include a comprehensive work program encompassing activities ranging from modelling and configuration of the Venezuelan Computerized Customs Information System (SAVIA) to its consolidation with the internal revenue tax information system (SIVIT). Other envisioned activities include the framing and passage of legislation mandating use of the SAVIA by transactors engaged in foreign trade and the development of customs administration subsystems in line with new operating procedures and back-up and auxiliary customs administration data bases. The SAVIA will ensure all facets of customs administration from the screening of cargo manifests to the collection of duties and statistics. The SENIAT will have timely access to all necessary information for the administration of all forms of taxes. Foreign trade transactors will be hooked up to the SAVIA for the transmittal and exchange of customs information.

3.4 According to the SENIAT, conditions at its service facilities are deplorable, particularly at its customhouses. This problem is not only affecting its efficiency, but is also having an impact on the attitude of its employees, as well as the taxpaying public. Accordingly, the original request for technical-cooperation funding included the equivalent of US\$45 million to upgrade the agency's physical infrastructure. The Bank felt that this funding should not be included as part of a technical-cooperation program, offering advisory assistance for any studies that are needed. However, SENIAT officials are in the process of reviewing their spending policy for physical infrastructure and, for the time being, have decided not to take advantage of the assistance offered by the Bank.

3.5 The proposed operation includes US\$2.3 million in local counterpart funding to address the most pressing needs in this area. Activities for the upgrading of physical infrastructure are confined to the refurbishing of the following facilities: (i) the San Antonio del Táchira customhouse on the Colombian border; (ii) purchase and refurbishing of the C.A.V.N. [Venezuelan National Shipping Company]

building in Puerto Cabello, where the customhouse is currently located in a National Port Authority building in a state of near collapse; and (iii) refurbishing of the Puerto Ordaz customhouse.

2. Internal Revenue Service (Cost: US\$4,455,000)

- 3.6 The main target of the ongoing technical-cooperation program has been the internal revenue area. The assistance furnished under this program was used to set up the SENIAT as the agency in charge of the administration of taxes, to design and secure approval for its organizational structure, to develop and implement the Venezuelan tax information system (SIVIT) and to establish special taxpayer units in all regions of the country. The next step is to consolidate all these achievements, wind up the transfer of expertise and carry out a series of follow-up efforts, including the following main activities:
- a. Review of tax legislation and the tax code and performance of applicable studies for the framing of a tax reform bill consistent with government policy, including provisions for expanding tax bases;
 - b. As far as procedures are concerned, tax and customs revenue will be controlled through joint or independent audit operations and internal management control systems and procedures will be developed;
 - c. Needs in the audit area include the development of taxpayer selection procedures and criteria for tax audits, the design of audit planning procedures and the formation of specialized audit and investigation units for more complex financial and productive sectors;
 - d. Collection and enforcement work requires the development of a system for the regular expansion and updating of tax rolls, the extension of special taxpayer unit coverage to taxpayers representing at least 75% of tax revenues and the strengthening of SENIAT collection management capabilities; and
 - e. Activities in the information technology area include systems design, development and implementation efforts and procurement of necessary equipment to extend the SIVIT countrywide and, more specifically, support for system transfer, consolidation and maintenance efforts, the interfacing of audit and current account subsystems with audit operations (assessments and adjustments) triggering immediate changes in a taxpayer's tax status, the development and implementation of a management information subsystem as soon as statistical, accounting, audit and management control subsystems are operational, and the design, development and implementation of audit and assessment systems for taxes on cigarettes and liquor.

3. Training and human resources (Cost: US\$2,517,000)

3.7 This component will endeavor to set up the Centro de Estudios Fiscales (CEF) [Fiscal Studies Center] as a specialized training agency for SENIAT personnel. It also provides for courses at different levels in various subject areas for senior managers, current agency employees, new employees and economic agents forming an integral part of the Venezuelan customs system. Efforts in the human resources area will focus on career development, the funding of severance packages and retirement programs and the personnel screening process. Staff awaiting selection or individuals who fail to pass the screening tests may not take part in the training courses planned under this program.

3.8 The main program activities envisioned as part of this component are as follows:

- a. Organization of regional training offices;
- b. Tax and customs training courses for 300 new employees, management-level courses for approximately 300 participants, training and skills development courses for most of the SENIAT staff and the courses for approximately 500 trainees in the foreign trade sector (customs brokers, forwarding agents, warehouse operators, etc.);
- c. Refinement of the ongoing training plan developed under the previous technical-cooperation program (program 669/OC-VE);
- d. Screening of internal revenue and customs area personnel not yet evaluated, affecting over 1,000 workers, a third of whom may be displaced from the SENIAT;
- e. Framing and implementation of a plan for study-grants and in-service training for a total of 20 employees who, depending on the field, will make one- to two-week trips to other countries with proven methods or procedures in this area, with preference being accorded to specialists in auditing (tax as well as customs audits) and special customs regimes; and
- f. Ad hoc training in the use of new customs forms, information systems and procedures for personnel employed by customs brokers, freight forwarders, warehouses and stores.

4. Institutional strengthening (Cost: US\$3,400,000)

3.9 This component encompasses all activities entailed in strengthening the managerial expertise and image of the SENIAT which are not specifically covered under any other program component, such as advertising, publications and efforts to upgrade work environments. The main activities comprising this component are:

- a. Advertising and information activities, including: (i) the design of an advertising campaign for the promotion of voluntary tax compliance; (ii) advisory services for regular surveys of taxpayers and staff members on their perception of the SENIAT and on public awareness of tax issues; (iii) publicity for measures designed to facilitate voluntary taxpayer compliance with their tax obligations; (iv) dissemination of information on and explanations of new customs procedures; and (v) the design of campaigns for the promotion of tax education and public tax awareness; and
- b. Procurement of necessary furnishings and equipment to improve environmental conditions in the work place.

C. Program implementation

- 3.10 The borrower is the Republic of Venezuela. The executing agency will be the Ministry of Finance, through the SENIAT. The SENIAT Steering Committee headed by the national tax commissioner and including the deputy commissioner, all national-level managers, the national coordinator and the technical coordinator will monitor and evaluate program performance, reporting to the national tax commissioner as its top authority. The committee will hold monthly meetings to deal with program monitoring and evaluation responsibilities, but may hold other meetings if considered appropriate by the national commissioner.
- 3.11 Local counterpart. The SENIAT will appoint a national program coordinator and designate one or more individuals as local counterparts to work with the consultants in the design and implementation of program activities and with members of operating committees.
- 3.12 The operating committees are designed to ensure maximum involvement by SENIAT personnel in institutional modernization efforts. They will be comprised of consultants, counterpart experts and staff members designated by top SENIAT officials for each program component and subcomponent. They will be responsible for: (i) developing work plans for their respective area and helping to fit these plans into the master work plan for each implementation period; (ii) conducting program activities; and (iii) submitting proposals concerned with their specific areas of responsibility for discussion by the Steering Committee.
- 3.13 General support. The SENIAT will provide needed general support and furnish office space and facilities for research and systems development work, office equipment, local transportation and per diems for agency personnel, as well as communications and publications services.

D. Procurement of goods and services

- 3.14 The cost of the bidding on envisioned works will not be financed out of the proceeds of the IDB loan. Procurement of goods and services will be done in accordance with procedures established in Annex B to the loan contract. The use of international competitive bidding will be mandatory for procurement of goods valued at over US\$350,000 since experience with similar projects in this country has shown that this seems to be the threshold for attracting foreign bidders. Procurement for lesser amounts will be done in accordance with local legislation. Accordingly, procurement of computer equipment valued at under US\$350,000 will be done through limited local bidding under Venezuelan legislation, which provides for the issuance of direct invitations to five firms and requires the participation of a minimum of three bidders for the bidding process to be valid.
- 3.15 Implementation of the activities described in the previous section will be supported by local and international consulting services. Four long-term international consultants and 28 short-term consultants will be hired under the program in accordance with the terms of reference presented in Annex VI, and several instructors for a period of up to 15 months. Another 25 to 30 local consultants will be retained during the first 20 months of program implementation to shore up the data processing office, and they will subsequently be offered permanent positions within the SENIAT structure. It also provides for three local experts in human resource management and career development.
- 3.16 The SENIAT has requested clearance to hire directly without a competition the Centro Interamericano de Administradores Tributarios (CIAT) [Inter-American Center for Tax Administrators] for technical management of internal revenue tax administration and training activities to ensure continuity with the previous program approach (program 669/OC-VE). Bank policy allows consulting firms to be hired directly without a competition in cases where there is a comparative technical or institutional advantage to be gained. The CIAT will be paid approximately US\$230,000 for these services.
- 3.17 The CIAT enjoys a comparative technical as well as institutional advantage over other agencies or firms. Its technical advantage lies in: (i) its unquestionably superior capabilities and experience in the area of tax administration compared with other agencies or firms; (ii) its access to consultants and professionals unavailable to other organizations; (iii) its ability to effectively coordinate the work of several individual experts and draw up consolidated reports, dealing with several countries if necessary; and (iv) the fact that, in general, the work it has done for the Bank under similar projects has been consistently rated as "good," "very good" or "excellent." The specific institutional advantages of the CIAT stem from: (i) its smooth working relationship with the program beneficiary; (ii) its ability to

offer ongoing support after the conclusion of a given project for services requiring further fine-tuning and maintenance; (iii) its ability to assist borrowers in the administration and fulfillment of covenants established in their loan contracts; (iv) its ability to expedite project implementation and the disbursement of funding; and (v) its ability to offer an efficient administrative support system providing quality control in performing the consulting work.

- 3.18 Activities in the customs area will be supported by individual consultants (one long-term consultant and several short-term consultants for a total of up to 48 months). The customs administration expert will be selected through an international competitive call for proposals, with all other international and local consultants being selected through a local competitive call for proposals.
- 3.19 Bank loan proceeds will be used to finance procurement of computer hardware and software to expand the SIVIT to the national level and to install the SAVIA customs systems in all offices where justified by the work load and for at least 35. The new equipment will allow the SIVIT to be set up at eight regional internal revenue service centers and will expand special taxpayer units at 80 work stations. Part of this equipment will also be used for the computerization of administrative procedures associated with customs operations. Procurement of furnishings and equipment will be used for the refurbishing of facilities serving the public. A procurement plan is presented in Annex I, with an itemized list of equipment furnished in Annex V.
- 3.20 The SENIAT has already initiated a number of efforts to modernize the customs area. Consulting services and equipment procurement costs chargeable to the customs component incurred in accordance with Bank procedures after May 1, 1996, would be recognized for purposes of the local contribution or reimbursed out of the financing as specified in paragraph 3.30.

E. Environmental impact

- 3.21 The May 28, 1996, meeting of the Environment Committee classified the proposed program as a Category II operation and recommended that its regulatory activities include a review of regulations governing imports of farm chemicals, biological products, culture media and hazardous wastes (the Basel Agreement), as well as animal and plant health legislation. The terms of reference for consulting services will provide for the performance of this work as part of the program implementation process.

F. Program monitoring and reporting

- 3.22 The national coordinator will be required to present the Steering Committee with an inception report, quarterly progress reports and a final report. These reports, to be drawn up on the basis of the

following guidelines, will be presented for Bank approval upon their preliminary approval by the Steering Committee.

1. Inception report

- 3.23 The inception report is due within 60 days after the technical program coordinator is hired. The report will contain a master plan and detailed work program, along with a work schedule for the first six months of project implementation. It will also include benchmarks against which performance indicators can be compared to measure progress.

2. Progress reports

- 3.24 Progress reports are due within 15 days of the end of each four-month implementation period. These reports will include measurements of performance indicators insofar as is possible and an evaluation of work performed by consultants during the period in question, as well as a work program and a set of indicators for the next four-month period.

3. Final report

- 3.25 The final report is due within one month of the close of the program implementation period, summing up all activities conducted and outputs produced in furtherance of its stated objectives.
- 3.26 The executing agency will furnish the Bank with financial reports for each twelve-month period in which it has incurred allowable program costs. These reports are due within 90 days of the end of each year of program implementation and are to be audited by an independent auditing firm acceptable to the Bank in accordance with procedures agreed on.
- 3.27 Basic responsibility for general program supervision will be the responsibility of the project team composed of personnel attached to technical and operating units and the Bank's Country Office in Venezuela. In discharging this responsibility, the project team will conduct technical administration missions at six-month intervals throughout the program and perform mid-term evaluations at the end of each year of the program, followed by a final evaluation upon conclusion of the program, as specified in Section V below.

G. Aggregate program cost and financing

- 3.28 The estimated aggregate cost of this operation is US\$21 million. The Bank will contribute US\$10.5 million in financing drawn on the ordinary capital. The Venezuelan government will furnish the equivalent of US\$10.5 million in local funding. A summary of the main budget items is given below.

BUDGET BY COMPONENT AND AREA			
CATEGORY	IDB	GOVERNMENT	TOTAL
1. CUSTOMS			8,536,000
Consulting services	1,542,000	379,000	
Equipment	3,500,000	805,000	
Refurbishing of physical facilities		2,310,000	
2. INTERNAL REVENUE SERVICE			4,455,000
Consulting services	1,180,000	180,000	
Equipment	1,000,000	2,095,000	
3. TRAINING AND HUMAN RESOURCES			2,517,000
Training	787,000	530,000	
Screening program	1,200,000		
4. INSTITUTIONAL STRENGTHENING			3,400,000
Publications		500,000	
Advertising		1,500,000	
Furniture and equipment		1,400,000	
CONTINGENCIES AND AMOUNTS NOT APPROPRIATED	1,291,000	801,000	2,092,000
TOTAL	10,500,000	10,500,000	21,000,000

H. Disbursements

- 3.29 The Bank's contribution will be in the form of a loan drawn on the ordinary capital and disbursed in U.S. dollars or the equivalent in foreign exchange. The borrower will furnish the equivalent of US\$10,500,000 according to an established schedule. Disbursements would be made over a period of not more than three years.
- 3.30 The proceeds of the loan will be disbursed at the government's request and deposited in a single account designated specifically for such purpose. A revolving fund may be set up in an amount equivalent to a maximum of 10% of the Bank's contribution, to be replenished as receipts for outlays are submitted by the SENIAT. The Bank may allocate up to 5% of its financing for reimbursement of expenses in connection with program activities prior to approval of the program provided they are incurred after May 1, 1996 and comply with procedures substantially similar to those established in the loan contract.

- 3.31 The Bank loan will be subject to the following financial conditions:

Amortization period:	20 years
Disbursement period:	3 years
Interest rate:	Variable
Credit fee:	0.75%
Inspection and supervision fee:	1.0%

I. Conditions precedent to disbursement

- 3.32 The Venezuelan government will be required to furnish evidence of compliance with the following special conditions prior to disbursement of program funding: (i) the CIAT has been hired for technical management of internal revenue area and training activities; (ii) installation of an automated procedure for spot audits of payments made through bank and reconciliation with amounts received by Revenue Service; (iii) appointment of a national program coordinator and recruitment of a technical coordinator; and (iv) passage of Venezuelan Customs System (SAVE) regulations governing its use by economic agents.

IV. BENEFITS AND RISKS

- 4.1 The program should produce the following major benefits for the tax authority (SENIAT) as well as for taxpayers: (i) effective integration of customs and internal revenue tax administration processes engendering a more efficient use of human and physical resources; (ii) consolidation of achievements under the previous phase designed to reduce the cost of tax compliance by facilitating and offering incentives for voluntary taxpayer compliance; (iii) facilitation of foreign trade with an ensuing reduction in operating costs and boost in international competitiveness; and (iv) reduction in the estimated tax evasion and an increase in tax revenues.
- 4.2 Successful achievement of the program objectives will depend, in part, on the institutional and political support and the degree of involvement and commitment on the part of the target agency and its employees, in preparing proposals and implementing recommendations in a timely manner. Both the government and the areas of the private sector involved with export trade have expressed their support for the technical-cooperation program and the modernization of the customs system. A series of operating committees consisting of staff members from each area of work and outside consultants will be set up as a means of ensuring the active involvement of SENIAT personnel in the program activities.

V. EVALUATION

- 5.1 The Bank will conduct two mid-term and one final evaluation in conjunction with the executing agency. The main sources of information for these evaluations are regular program reports approved by the Steering Committee and the Bank and sample field audits. If findings of any evaluation are less than satisfactory, the evaluators will recommend necessary technical measures to extend the program, including consideration of subsequent operations in cases where circumstances warrant such a measure.
- 5.2 Program evaluations will not only take into account the implementation of program activities per se, but will focus mainly on their impact on the attainment of its objectives. Accordingly, the values of the indicators discussed in section II above will be established for periods coinciding with the reporting periods for program progress reports. Mid-term evaluations will determine whether program funding has been properly used in furtherance of its stated objectives. Should the findings not be satisfactory, the evaluators will recommend necessary adjustments to ensure the achievement of program objectives.

SENIAT MODERNIZATION PROGRAM (VE-0104)
LOGICAL FRAMEWORK

OBJECTIVES/COMPONENTS	ACTIVITIES	OUTPUTS	INDICATORS 1/
Objective: To modernize tax administration systems, procedures and facilities in order to improve efficiency and facilitate compliance with tax laws.			
<p>Customs area</p> <p>Improve Customs Service efficiency and facilitate trade.</p>	<p>Drafting of a new customs law and customs system regulations; revamping of the SENIAT organizational structure.</p> <p>Streamlining of operating procedures (import/export, transit, inspection, etc.)</p> <p>Development and implementation of the Venezuelan computerized customs information system.</p> <p>Upgrading of the physical facilities of customhouses in San Antonio del Táchira, Puerto Cabello and Puerto Ordaz.</p>	<ul style="list-style-type: none"> - General customs law and implementing regulations; better integration with the internal revenue area. - Reduction in the turn-around time and cost of customs formalities, boost in revenues, reduction in the evasion rate and boost in voluntary taxpayer compliance. 	<ul style="list-style-type: none"> - Passage of a customs system reorganization act (12/31/96) - Customs clearance of 90% of merchandise within a 24-hour - Printouts of abandoned merchandise at two-week intervals. - Control of 100% of goods imported on foreign trade within 30 days of cut-off date. - 20% boost in the share of revenues from customs duties. - Acceptance of works with the approval of the Controller General.
<p>Internal revenue area</p> <p>Ensure sustainability of results achieved under the modernization program.</p> <p>Improve tax administration efficiency and facilitate compliance with tax obligations.</p>	<p>Framing of tax reform proposals.</p> <p>Implementation of all SIVIT modules nationwide and development of management control, statistics and auditing subsystems.</p> <p>Strengthening of audit procedures and integration with customs auditing operations.</p>	<p>Delivery of tax reform bills and an amended tax code to the Venezuelan government.</p> <p>Design, development and implementation of auditing and payment systems for special taxes.</p> <p>Facilitation of tax compliance.</p> <p>Effective auditing and high-quality service to taxpayers accounting for the majority of tax revenues.</p>	<ul style="list-style-type: none"> - Coverage of 8,000 special audits or the equivalent of 75% of total revenues. - Production of tax information with 97% reliability level. - Boost in tax revenues to 2% of GDP. - Reduction in taxpayer delinquency under 2% (for the ICSVM) and for the income tax).

In addition to the indicators in this column, paragraph 2.3 of the plan of operations (pages 8 and 9) show other tentative indicators.

OBJECTIVES/COMPONENTS	ACTIVITIES	OUTPUTS	INDICATORS 1/
g and human resources: rengthen the CEF (Fiscal Center) as a training LLs development agency. improve the technical se of SENIAT personnel. include the personnel ng process.	Organization of the CEF and regional training offices. Training courses for SENIAT personnel and workers in private enterprises engaged in foreign trade. Assistance with screening personnel.	- Availability of a specialized training center serving the SENIAT. - Improvements in service quality and management efficiency. - Incorporation of transactors engaged in foreign trade into the new customs model. Employ only individuals who meet objective requirements and are committed to the institution's objectives.	- Assignment of 15 experts to headquarters and 9 experts to regional offices. - Offer 6 courses for new emp (300 participants), 5 courses managers (300 participants) a training services under the c training plan (3,500 particip - Offer 2 courses for custom and personnel employed by bro firms, forwarders and warehou stores. - Payment of benefits to pers failing to pass performance t positions at the SENIAT.
itional strengthening properly equip the SENIAT litate the performance duties and improve the of taxpayer services.	Advertising campaigns to publicize measures designed to facilitate taxpayer compliance and promote tax awareness. Procurement of furniture and equipment needed to perform its duties.	Improve the image of the SENIAT and disseminate information on measures and procedures facilitating voluntary taxpayer compliance with tax obligations. Improve employee working conditions and the quality of taxpayer services.	Favorable opinion of the proce process issued by the Control General's Office.

SENIAT MODERNIZATION PROGRAM (VE-0104)
TABLE OF INPUTS - COSTS - TIME FRAME

ACTIVITIES, BY COMPONENT	REQUIREMENTS	COST (US\$)	DURATION	CONSULTANTS (MONTHS)
Customs		8,528,000	30 months	
<p>draft and adopt Venezuelan customs system regulations.</p> <p>draft a proposed customs law and implementing regulations.</p> <p>review and strengthen the SENIAT organizational structure.</p> <p>implement more efficient, trade-facilitating operating procedures.</p> <p>develop and implement an information system interfacing with the internal revenue tax information system.</p> <p>furnish S. Antonio Táchira, Puerto Cabello and Puerto Ordaz customhouse facilities.</p>	<p>Customs administration expert, short-term experts (legislation, customs valuation, rules of origin, auditing, customs classification).</p> <p>Computer experts and procurement of hardware and software.</p>			<p>7</p> <p>45</p>
Internal Revenue Service		4,455,000	30 months	
<p>draft tax legislation and the internal revenue code.</p> <p>strengthen auditing operations.</p> <p>improve the reliability of tax information and reduce delinquency level.</p>	<p>Expert in tax administration</p> <p>Expert in auditing</p> <p>Computer expert</p> <p>Short-term experts</p> <p>Computer experts and procurement of hardware and software.</p>			<p>3</p> <p>1</p> <p>1</p> <p>4</p> <p>30</p>

aining and human resources		2,422,000	30 months	
rganize the Fiscal Studies Center (CEF) as a pecialized training agency for SENIAT personnel.	Training center specialist and experts in monitoring and evaluation, information and documentation centers, curriculum building, education technology and information systems.			4
clude the personnel screening process.	Local consultants in human resources and career planning.			5
nduct training courses for SENIAT employees and rkers in private enterprises engaged in foreign ade.	Local and international instructors.			2
stitutional strengthening		3,400,000	30 months	
sign and conduct advertising campaigns to promote luntary tax compliance and tax awareness.	Expert in tax promotion. Bidding and contract awards for refurbishing work.			
ocure necessary furniture and equipment.	Purchase of the C.A.V.N. [Venezuelan National Shipping Company] building; bidding and contract awards for remodelling work.			

) = International; (L) = Local

PROCUREMENT PLAN (VE-0104)

MAJOR PROGRAM PROCUREMENT ITEMS	FINANCING (%)		METHOD 2/	PREQUALIFICATION	APPROXIMATE PUBLICATION
	IDB	LOCAL			SEMESTER/
Printing services: Internal revenue and training to be contracted out to CIAT (paragraph 3.16): US\$1,636,000 Customs area: Customs administration expert (270,000) Six short-term consultants (averaging four months each): 240,000	100%		Direct contracting without competition		2/96
	100%		IPCP		2/96
	100%		LPCP		1 and 2/97
Computer hardware and software: Internal revenue area: US\$3,095,000. Per items in Annex IV Item 1: 200,000 Item 2: 165,000 Item 3: 1,980,000 Item 4: 250,000 Item 5: 100,000 Item 6: 400,000	33%	67%	LCB LCB ICB LCB LCB ICB	n/a n/a NO n/a n/a NO	1/97 2/97 1997-98 1 and 2/97 2/97 1/97 and 1/98
Customs area (SAVIA): US\$4,305,000. Per items in Annex IV Item 1: 1,550,000 Item 2: 640,000 Item 3: 120,000 Item 4: 250,000 Item 5: 410,000 Item 6: 300,000 Item 7: Permanent fixtures 300,000 Equipment tax 180,000	81.3%	18.7%	ICB ICB LCB LCB ICB LCB LCB	NO NO n/a n/a NO n/a n/a	1997 and 1/98 1998 1/97 1/98 2/97 and 1/98 1998 2/97 2/97 and 1998
N. building in Puerto Cabello. Cost: US\$965,000 ure and equipment. Cost: US\$1,400,000		100%	Direct purchase	n/a	2/96
		100%	Decision pending	n/a	1997-98

2/ IPCP = International public call for proposals; LPCP = Local public call for proposals; ICB = International competitive bidding; LCB = Local competitive bidding

ITEMIZED BUDGET CONSOLIDATED BY CATEGORY

A) ITEMIZED BUDGET BY CATEGORY

CATEGORY	IDB	LOCAL	TOTAL
2.0 CONSULTING SERVICES	3,693,000	379,000	4,072,000
2.1 Compensation:			
INTERNATIONAL CONSULTANTS			
a. Long-term:			
Tax administration expert (30 x US\$9,000)	270,000		
Customs administration expert (30xUS\$9,000)	270,000		
Computer expert (18xUS\$8,000)	144,000		
Auditing experts (18xUS\$8,000)	144,000		
b. Short-term:			
Customs expert for regular evaluations	110,000		
Training center specialist (roving) (12xUS\$7,000)	84,000		
Computer expert (supervisor) for the customs area (8xUS\$7,000)	56,000		
Tax legislation expert (roving, 10 months x US\$7,000)	70,000		
Short-term experts:			
Internal Revenue Service (45xUS\$6,000)	270,000		
Customs (40xUS\$6,000)	240,000		
Training (14xUS\$6,000)	84,000		
Instructors (15xUS\$6,000)	90,000		
LOCAL CONSULTANTS:			
Local computer experts for the Internal Revenue Service (12x20xUS\$1,200) (12x10xUS\$1,200)	288,000	144,000	
Local computer experts for the Customs Service (15x20xUS\$1,200) (15x10xUS\$1,200)	360,000	180,000	
Human resource management expert (18xUS\$1,500)	27,000		
Career development expert (18xUS\$2,000)	36,000		
Instructors (24xUS\$1,500)	36,000		
2.3 Other consulting costs			
Per diems: (144xUS\$5,000)	720,000		
Travel: 65 x US\$1,000	65,000		
Organization expenses: 4xUS\$25,000	100,000		
Overhead (14% of 1,636,000)	229,000		
Procurement agency (3% of 1,828,000)		55,000	
3.0 TRAINING	225,000	530,000	755,000
3.3 Study grants	50,000		
local travel			
in-service training	95,000	75,000	
3.5 Teaching materials	80,000	15,000	
3.9 CEF personnel		440,000	

ANNEX II

Page 2 of 2

CATEGORY	IDB	LOCAL	TOTAL
5. FINANCE CHARGES	105,000	90,000	195,000
5.1 Inspection and supervision fee (1%)	105,000		
5.2 Credit fee (0.75%)		90,000	
6.0 GENERAL SUPPORT	4,500,000	4,500,000	9,000,000
6.1 Premises		200,000	
6.2 Furniture and supplies		1,400,000	
6.3 Equipment	4,500,000	2,900,000	
7.0 PUBLICATIONS AND ADVERTISING			2,000,000
7.2 Publications		500,000	
7.5 Advertising campaigns and information activities		1,500,000	
96. DIRECT CONTRIBUTION		2,310,000	2,310,000
96.1 Purchase of Puerto Cabello building		920,000	
96.2 Refurbishing of customhouse facilities in:			
- Puerto Cabello		560,000	
- San Antonio del Táchira		830,000	
97. SPECIAL PROGRAMS			1,200,000
97.1 Personnel screening process	1,200,000		
98. CONTINGENCIES	777,000	691,000	1,468,000
TOTAL	10,500,00	10,500,000	21,000,000

Consolidated budget (US\$)			
ITEMS	IDB	GOVERNMENT	TOTAL
2. Consulting services	3,693,000	379,000	4,072,000
3. Training	130,000	530,000	660,000
5. Financing expenses	105,000	90,000	195,000
6. General support			9,000,000
6.2 Furnishings and equipment		1,400,000	
6.3 Computer hardware	4,500,000	2,900,000	
6.9 Miscellaneous		200,000	
7. Publications/ advertising		2,000,000	2,000,000
96. Direct contribution: facilities		2,310,000	2,310,000
97. Special programs	1,200,000		1,200,000
98. Contingencies	872,000	691,000	1,563,000
TOTAL	10,500,000	10,500,000	21,000,000

PROPOSED RESOLUTION

VENEZUELA. TECHNICAL COOPERATION LOAN FOR THE MODERNIZATION OF THE
SERVICIO NACIONAL INTEGRADO DE ADMINISTRACION TRIBUTARIA - SENIAT

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreements as may be necessary with the Republic of Venezuela and to adopt such other measures as may be pertinent for the execution of the program of technical cooperation described in Document PR-____, the objective of which is the modernization of the Servicio Nacional Integrado de Administracion Tributaria - SENIAT

2. That up to the sum of US\$10,500,000, or its equivalent in other convertible currencies, is authorized for the purposes of this resolution, chargeable to the Ordinary Capital Resources of the Bank.

3. That the above-mentioned sum shall be provided on a reimbursable basis, in accordance with the respective conditions which shall be set forth in the agreement to be signed for this operation.