

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PERU**

**PROJECT FOR THE INTEGRATION AND MODERNIZATION OF THE  
TAX AND CUSTOMS ADMINISTRATIONS**

**(PE-0223)**

**LOAN PROPOSAL**

This document was prepared by the project team consisting of: Gonzalo Afcha (RE3/SC3), Project Team Leader; Mauricio Silva (RE3/SC3); Marcio Cracel (RE3/SC3); Fernando Cuenin (RE3/SC3); Alberto Barreix (INT/ITD); Manuel Márquez (INT/ITD); Jorge Lamas (RE3/SO3); Kevin McTigue (LEG); José Baião (INT/ITD); Michael O'Donnell (COF/CPE); and Patricia Sadeghi (RE3/SC3).

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## **BASIC SOCIOECONOMIC DATA**

For basic socioeconomic data, including public debt information, please refer to the following address:

<http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata>

## **INFORMATION AVAILABLE IN THE TECHNICAL FILES**

### **Preparation:**

1. Evaluation report on institutional capacity (SECI), ROS-DAU, April 2003.
2. Consultant's report: "Strategic considerations for the merger", Jose Mauro Brusa, February 2003.
3. Consultant's report: "Modernization strategy in the human resource management area – SUNAT", Pablo Santamaría, May 2003.
4. Selected tax policy and administration topics, Fiscal Affairs Department, IMF, September 2002.
5. Review of Bank programs to support the Peruvian tax administration, SUNAT and Customs, 1990-2000.
6. Technical-cooperation project completion reports, ATN/SF-3777-PE, 820/OC-PE, and loan 1050/OC-PE.
7. Institutional plan, SUNAT.
8. Annual operating plan for 2003, SUNAT.
9. Economic analysis: Methodology note and findings

### **Execution:**

1. Cost table by activity and spending category
2. Program execution schedule
3. Summary terms of reference for contracting consultants
4. Program technical fiches: breakdown of objectives, justification and description by activity
5. Format for program progress reports

## ABBREVIATIONS

AOP	Annual operating plan
CESI	Committee on Environment and Social Impact
CIAT	Centro Interamericano de Administraciones Tributarias [Inter-American Center of Tax Administrations]
IATA	Instituto de Administración Tributaria y Aduanera [Tax Administration and Customs Institute]
MEF	Ministerio de Economía y Finanzas [Ministry of Economic Affairs and Finance]
PCR	Project completion report
PCU	Program coordination unit
RUC	Registro Único de Contribuyentes [taxpayer master file]
SIAF	Sistema Integrado de Administración Financiera [integrated financial information system]
SIF	Sistema Integrado de Fiscalización [integrated auditing system]
SIGAD	Sistema Informático de Gestión Aduanera [customs management information system]
SUNAT	Superintendencia Nacional de Administración Tributaria [Office of the National Superintendent of the Tax Administration ]



# PERU

## IDB LOANS

APPROVED AS OF AUGUST 31, 2003

	US\$Thousand	Percent
<b>TOTAL APPROVED</b>	<b>6,137,966</b>	
DISBURSED	5,310,921	86.52 %
UNDISBURSED BALANCE	827,045	13.47 %
CANCELATIONS	999,020	16.27 %
PRINCIPAL COLLECTED	2,303,152	37.52 %
<b>APPROVED BY FUND</b>		
ORDINARY CAPITAL	5,498,793	89.58 %
FUND FOR SPECIAL OPERATIONS	418,130	6.81 %
OTHER FUNDS	221,043	3.60 %
<b>OUTSTANDING DEBT BALANCE</b>	<b>3,007,769</b>	
ORDINARY CAPITAL	2,919,333	97.05 %
FUND FOR SPECIAL OPERATIONS	88,396	2.93 %
OTHER FUNDS	39	0.00 %
<b>APPROVED BY SECTOR</b>		
AGRICULTURE AND FISHERY	533,066	8.68 %
INDUSTRY, TOURISM, SCIENCE AND TECHNOLOGY	646,518	10.53 %
ENERGY	280,051	4.56 %
TRANSPORTATION AND COMMUNICATIONS	1,042,607	16.98 %
EDUCATION	196,566	3.20 %
HEALTH AND SANITATION	316,114	5.15 %
ENVIRONMENT	5,000	0.08 %
URBAN DEVELOPMENT	132,372	2.15 %
SOCIAL INVESTMENT AND MICROENTERPRISE	645,416	10.51 %
REFORM AND PUBLIC SECTOR MODERNIZATION	2,054,070	33.46 %
EXPORT FINANCING	176,756	2.87 %
PREINVESTMENT AND OTHER	109,431	1.78 %

\* Net of cancellations with monetary adjustments and export financing loan collections.



**Inter-American Development Bank**  
Regional Operations Support Office  
Operational Information Unit

## Peru

### Tentative Lending Program

#### 2003

Project Number	Project Name	IDB US\$ Millions	Status
<a href="#">PE0220</a>	Institutional Support of the Congress	7.0	APPROVED
* <a href="#">PE0216</a>	Grana y Montero ("G&M") Partial Credit Risk Guarantee	10.0	APPROVED
<a href="#">PE0218</a>	Support to the Housing Sector Program	60.0	APPROVED
* <a href="#">PE0222</a>	Camisea Project	75.0	APPROVED
* <a href="#">PE0235</a>	Red Vial	18.0	APPROVED
<a href="#">PE0223</a>	Strengthening and Modernization Tax System Administration	8.8	
<a href="#">PE0187</a>	Urban Transport in Lima	45.0	
<a href="#">PE0239</a>	Competitiveness Reform Program	300.0	
<b>Total - A : 8 Projects</b>		<b>523.8</b>	
<b>TOTAL 2003 : 8 Projects</b>		<b>523.8</b>	

#### 2004

Project Number	Project Name	IDB US\$ Millions	Status
<a href="#">PE0241</a>	Youth Training Program	18.0	
<a href="#">PE0203</a>	Science and Technology Program	25.0	
<a href="#">PE0251</a>	Support Program for Forestry Concessions	2.0	
<a href="#">PE0234</a>	Program of Support Services to the Rural Markets	15.0	
<a href="#">PE0142</a>	Sanitation Sector Devel. Support Prog.ii	50.0	
<a href="#">PE0240</a>	Democratic Consolidation of Citizen Security	10.0	
<a href="#">PE0236</a>	Support to Departmental Highway Decentralization	50.0	
<a href="#">PE0247</a>	Human Capital Development Program	N/A	
<b>Total - A : 8 Projects</b>		<b>170.0</b>	
<a href="#">PE0242</a>	Public Transportation in Midium-Size Cities	40.0	
<a href="#">PE0250</a>	Rural Financial Market Development	20.0	
<a href="#">PE0213</a>	Urban Renewal of Downtown Lima	39.0	
<b>Total - B : 3 Projects</b>		<b>99.0</b>	
<b>TOTAL - 2004 : 11 Projects</b>		<b>269.0</b>	

**Total Private Sector 2003 - 2004**      **103.0**  
**Total Regular Program 2003 - 2004**      **689.8**

\* Private Sector Project





# PERU

## STATUS OF LOANS IN EXECUTION AS OF AUGUST 31, 2003

(Amount in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROYECTS	AMOUNT APPROVED*	AMOUNT DISBURSED	% DISBURSED
<b><u>REGULAR PROGRAM</u></b>				
Before 1997	1	100,000	89,466	89.47 %
1997 - 1998	5	577,100	285,698	49.51 %
1999 - 2000	4	132,408	23,676	17.88 %
2001 - 2002	7	561,300	220,328	39.25 %
2003	2	67,000	0	0.00 %
<b>TOTAL</b>	<b>19</b>	<b>\$1,437,808</b>	<b>\$619,168</b>	<b>43.06 %</b>

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\* Net of cancellations. Excludes export financing loans.

# PROJECT FOR THE INTEGRATION AND MODERNIZATION OF THE TAX AND CUSTOMS ADMINISTRATIONS

(PE-0223)

## EXECUTIVE SUMMARY

<b>Borrower and guarantor:</b>	Republic of Peru	
<b>Executing agency:</b>	Superintendencia Nacional de Administración Tributaria (SUNAT) [Office of the National Superintendent of the Tax Administration]	
<b>Amount and source:</b>	IDB (OC):	US\$ 8.86 million
	Local:	US\$ 4.27 million
	Total:	US\$13.13 million
<b>Financial terms and conditions:</b>	Amortization period:	20 years
	Disbursement period:	3.5 years
	Grace period:	3.5 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	U.S. dollar. Single Currency Facility
<b>Objectives:</b>	<p>The general objective of the program is to provide initial support for the Office of the National Superintendent of the Tax Administration in leading the complex process of merging the internal revenue and customs administrations that began in 2002. By strengthening its administrative management and modernizing its operating processes, the groundwork will be laid for an integrated tax administration, which will help to steadily improve tax revenues and facilitate foreign trade operations.</p> <p>The specific objectives are to: (a) build up the institution's management capacity, optimizing its administrative processes and developing integrated systems in cross-cutting management areas; (b) tighten control over compliance with tax obligations and modernize the customs clearance process; (c) adapt the technology infrastructure to information management and the growing complexity of taxation processes; (d) assist taxpayers in complying with their tax obligations and streamline customs control; (e) improve the horizontal</p>	

equity of the tax system through actions to reduce evasion and lend greater transparency to the tax administration's processes and decisions; and (f) build up the capacity to identify needs and guide actions for institutional and technological modernization.

**Description:**

The program has been designed as part of SUNAT's institutional plan and the opinions of exporters and importers on the quality and effectiveness of customs services have been taken into account. The program is structured into three components:

- a. **Institutionalization of the integrated tax administration.** The activities in this component are intended to facilitate the merger from the organizational, administrative, legal, financial, human resources and communications standpoints, in order to improve the coordination of the administration's activities and achieve economies of scale.
- b. **Optimization of tax administration processes and control of foreign trade.** The activities in this component are intended to modernize and optimize the processes of tax collection, control, auditing and services for taxpayers and importers and exporters, keeping in mind the functional specialization of the customs and internal revenue processes.
- c. **Modernization of the information and communications systems.** The activities in this component will modernize SUNAT's existing technological infrastructure by upgrading its information systems and integrating its computer and telecommunications infrastructure.

**The Bank's country and sector strategy:**

The Bank's strategy for Peru, approved in September 2002, is based on the overriding objective of a sustained and sustainable reduction in poverty. The strategy paper identifies the following specific objectives for achieving this goal: (a) boosting the productivity and competitiveness of the economy; (b) improving the effectiveness of social policy; and (c) creating a modern and efficient State in the service of the people. The present operation will contribute to modernization of the State.

The Bank's strategy in this last area is intended to support the reform and strengthening of institutions which, like SUNAT, play a key role in the functioning of the country's public sector. The proposed operation will help to improve the performance of the tax administration, which will result in a more predictable profile of government finances. Obtaining more balanced fiscal results will boost the government's capacity to carry out policies for reducing poverty and improving the quality of life.

**Coordination with other official development institutions:**

Consultations and coordination with the IMF team took place while the program was being prepared. Given the nature and urgency of the program to facilitate the unification, the IMF's Fiscal Affairs Department in a document "Selected Topics on Tax Policy and Administration" (September 2002) suggests the need for special technical and financial support for SUNAT to the Peruvian authorities, stressing the urgent need to speed up the program to modernize and strengthen the tax administration (see paragraph 1.50).

**Environmental and social review:**

Given the nature of the activities to be financed, no direct environmental or social impact is anticipated. Profile II was approved by CESI at its meeting on 20 March 2003, without comment.

**Benefits:**

The program has the potential to help firm up the balance in the public accounts and hence to maintain and consolidate macroeconomic stability as a necessary condition for actions and reforms to modernize government institutions, reduce social inequity and promote growth.

The priority actions and investments included in the program will support SUNAT in bringing about the merger and laying the groundwork for a more efficient and effective integrated tax administration. Efficiency will be seen in better use of resources and a reduction in the costs of corporate support services, while effectiveness will be linked to better tax and customs control and higher quality services for taxpayers and importers and exporters.

**Risks:**

The main risk is associated with the direct, firm and continuous political support that is needed for this institutional reform. These factors, which condition the environment, also have a marked impact on the institutional stability and continuity that is required to lead the unification process and institutionalize the integrated tax administration. Peru's economic authorities have been offering firm support for the reform and when the project was being prepared they confirmed their direct commitment to the process. Also, institutional leadership has remained stable since September 2001. However, with an eye to events that could take place in the medium term, the program will finance the preparation of draft legislation that grants the institution greater independence and promotes greater stability in SUNAT's technical teams, to prevent changes in leadership from adversely affecting institutional management capacity.

In the technical area, one of the greatest risks is the potential loss in efficiency of the customs system, since customs activities are generally given lower priority compared to the demand for actions to manage internal revenue. To forestall this risk, the program includes a series of specific actions to build up foreign trade control processes.

**Special contractual clauses:**

The conditions precedent to the first disbursement include:

- a. Signature of an agreement between the Ministry of Economic Affairs and Finance and SUNAT, for the transfer of financial resources for the program (see paragraph 3.1).
- b. Establishment of the program coordination unit (see paragraph 3.5)
- c. Approval by the Bank of the annual operating plan (AOP) for year one (see paragraph 3.10).
- d. Signature of the agreement between SUNAT and the specialized agency (see paragraph 3.18).

SUNAT has prepared drafts of the agreements and has a preliminary version of the AOP for year one. Since SUNAT has already made a start on some of the program's activities, progress has been made in institutional and administrative arrangements to ensure it can be implemented on schedule.

**Poverty-targeting and social sector classification:**

This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704) (see paragraph 4.19).

**Exceptions to Bank policy:**

None.

**Procurement:**

The thresholds above which international competitive bidding will be required are: US\$250,000 for goods and related services and US\$200,000 for consulting services. These limits are justified considering that in similar projects in the country, external bidders only show interest when the amounts exceed these levels. Procurements below these limits will be based on domestic legislation. To assist the program coordination unit in the processes of contracting, supervising and paying individual consultants, SUNAT has asked to contract CIAT to act as specialized agency. Such a contract complies with all the criteria established in the Procurement Manual (GS-403) for making an exception to the international competitive bidding procedure established in Bank policies. CIAT

will apply the Bank's policies for contracting individual consulting services to be financed from the loan proceeds.

## **I. FRAME OF REFERENCE**

### **A. Introduction**

- 1.1 In July 2002, the government ordered that SUNAT and the Office of the National Superintendent of Customs (Customs) be merged into a single tax collection agency, in which SUNAT would be the incorporating body. The merger, like all institutional reforms, involves risks and opportunities. The process has begun and SUNAT has been operating as an integrated entity since January. The Bank has been supporting this process in preparation for the operation proposed here, assisting the new SUNAT in its efforts to minimize the risks of unification and laying the technical and institutional groundwork to maximize the benefits of an integrated tax administration.

### **B. Macroeconomic picture**

- 1.2 From the macroeconomic standpoint, the main imbalance in recent years has been associated with the increase in the fiscal deficit, which grew by an average of 2.9 percent of GDP between 1998 and 2001. This situation was linked to the reduction in tax revenues that followed on the introduction of exemptions, elimination of the tax on net assets and the weakening of the tax administration. Coupled with a less dynamic economy, these factors meant that tax pressure fell from 14.1 percent of GDP in 1997 to 12.3 percent in 2001.
- 1.3 Given this trend in revenues and the threat that its continuation would pose on the fiscal horizon, the authorities are undertaking a reform program that will place public finances on a sustainable footing in the medium term. Under the economic program agreed upon with the IMF, the government is implementing a tax reform program, which is receiving support from the Bank through loan 1412/OC-PE. Approved in June 2002, the objectives of this program include reducing distortions in the tax system and reversing the marked deterioration in tax revenues in recent years. The program expects that the recovery in tax revenues will be sustained by changes in the tax regime and the adoption of administrative measures to facilitate tax collection.<sup>1</sup>
- 1.4 The recovery in tax revenues since July has been noteworthy. Collections in the second half of 2002 are up by 11.3 percent in real terms compared to the same period in 2001. Between January and April 2003, which coincides with the start of unification of the two agencies, internal and customs revenues were 17.6 percent and 9.2 percent higher in real terms than in the same period in the preceding year. This recovery reflects a more dynamic economy (GDP grew by 4.8 percent in 2002), growth in imports, the adoption of tax and administrative measures under the tax reform program, and stepped up auditing and collections by SUNAT.

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<sup>1</sup> The government's efforts to broaden the tax base include adoption of tax withholding, a system of export taxes, taxes on fuel sales and enforced collection from government suppliers.

- 1.5 The performance of the tax administration will be a key element in supporting and sustaining higher revenues, as established in the tax reform program. Accordingly, the government has planned to strengthen and modernize it, asking the Bank for the necessary technical and financial support.

**C. The Peruvian tax administration: Institutional performance (1990-2002)**

- 1.6 In the early 1990s, Peru introduced a sweeping reform of the tax system, reducing the number of taxes from 70 to four, with moderate rates and relatively broad bases. The reform was accompanied by changes in the collection agencies, replacing the weak Directorate General of Taxation and the Directorate General of Customs with SUNAT and the Office of the National Superintendent of Customs (Customs), respectively. SUNAT was made responsible for managing the collection and auditing of internal revenues, while Customs was responsible for administering the customs regimes and operations, and collecting the duties levied on foreign trade. Both entities were established as decentralized public institutions and given considerable operational, technical, administrative and financial autonomy. The reform of the tax regime and its management increased tax pressure from 5.4 percent of GDP in 1990 to 14.1 percent in 1997.

**1. The Office of the National Superintendent of the Tax Administration (SUNAT)**

- 1.7 Initially, SUNAT's actions were directed to designing an adequate roll of taxpayers and efficient collection systems, with a view to organizing and consolidating the work of the tax administration. Until 1997, its actions in the area of collections focused on the taxpayer master file, the tax current account, and control over tax declaration and payment obligations, particularly of large taxpayers. Auditing focused mainly on programs to audit self-declared operations and large-scale controls of the obligation to issue and record receipts. SUNAT performed successfully in that period and it became one of the best administrations in Latin America. The Bank supported SUNAT during that period through technical-cooperation projects to support the tax administration(ATN/SF-3777-PE) and to strengthen SUNAT, stage two, (ATN/JF-4703-PE), approved in 1991 and 1994, respectively.
- 1.8 In 1998 and with Bank support, SUNAT undertook stage three of the strengthening program (loan 1050/OC-PE), chiefly intended to bolster the audit function. Despite the efforts made under the program, starting in 1998, taxpayer perception of risk lessened as a result of internal and external factors that affected SUNAT's performance. During the 2000 election campaign, SUNAT was the butt of criticism for discretionary application of its collection mechanisms, which affected its public image. Also, the instability created by a continuous succession of superintendents<sup>2</sup>

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<sup>2</sup> SUNAT had five national superintendents in the 12 months prior to the time the current government took office.



also contributed to the slowdown in institutional development and made it impossible to complete the program to modernize the tax audit system. Since September 2001, SUNAT has resumed its efforts to revitalize its institutional development. In the short term, its actions focused on improving the transparency and equity of collection operations, leading to a gradual and significant improvement in the institution's public image.<sup>3</sup> Its medium-term institutional actions are giving priority to information systems and auditing.

## **2. The Office of the National Superintendent of Customs (Customs)**

- 1.9 Customs launched a modernization and reform process in 1991 to turn itself into an efficient organization in controlling foreign trade and customs duties, facilitating its operations with users. The Bank supported this process through a loan to adjust the trade sector (665/OC-PE) and a loan to modernize customs (820/OC-PE) approved in 1991 and 1994, respectively. These operations provided major support for the process. Modernization turned Customs into an agency that was effective, efficient and prepared. Based on the results, the customs authorities launched a quality certification program under ISO 9000. The process was completed satisfactorily and Customs obtained quality certification for a series of its operating procedures. With these actions, Peruvian Customs achieved international recognition. The reforms in the 1990s allowed it to become autonomous, automate its operations, and work to higher standards of professionalism.
- 1.10 At the end of the last decade, Customs began to face new challenges associated with globalization, technological change, free trade agreements and the new scenario introduced by the adoption of the WTO Valuation Agreement (GATT Value Agreement). These challenges were compounded by the proliferation of free zones in areas close to the borders and the large increase in customs control over nonfiscal aspects in trade transactions, which are very important for public health, safety and well-being and environmental protection. The combination of these factors highlighted the urgent need to modernize operating and auditing procedures in Customs and to update its software and hardware and communications platforms.
- 1.11 The appearance of these challenges coincided with a period in which Customs began to suffer from financial constraints. In the last five years, customs revenues declined as a consequence of freer trade and a slower economy,<sup>4</sup> and consequently, its operating income was affected. In 1997-2002, it had to cope with growth of close to 33 percent in the number of customs clearances, with a reduced operating budget. Spending by Customs over the period shrank by 26 percent, expressed in current dollars. Although there were improvements in its efficiency that led to lower current expenditures, the bulk of the cutbacks is explained by a drastic

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<sup>3</sup> The survey published by Grupo Apoyo in July 2002 ranks SUNAT as the institution with the best credibility and effectiveness in the country.

<sup>4</sup> The lower revenues were not linked to administrative factors, since the effective collection rate remained at the same level as in previous years, at about 30 percent.

reduction in capital expenditures (in the last two years, virtually no investments were made). As for recurrent expenses, the cutbacks resulted in the loss of close to 90 percent of part-time employees over the last five years. The financial constraints led to a gradual aging of the technological infrastructure and affected the entity's capacity to keep up with technological change, innovations in trade practices and changes in the operating methods used by taxpayers.

### **3. Toward a new integrated tax administration: The merger of SUNAT and Customs**

- 1.12 Under Supreme Decree No. 061-2002-PCM of 11 July 2002, the Peruvian government ordered that SUNAT and Customs be merged into a single tax administration agency. The process, in which SUNAT will incorporate Customs, forms part of a more ambitious process for modernization of the State, which began with Law 27658 of January 2002.<sup>5</sup> That law, which seeks to raise efficiency levels, calls for the integration of similar functions and mandates in the organizational structure of government agencies.
- 1.13 The technical rational that supported the government's decision to unify the agencies was mainly based on: (a) the growing importance of economic transactions abroad which, in turn, makes it necessary to take an overall view of taxpayers' economic activities; and (b) the potential for benefiting from economies of scale in areas and functions that are common to the collection agencies, freeing up funds to finance investments to support the entity's operations, which will allow for more effective tax control and better service for taxpayers.
- 1.14 The first argument supporting the government's decision is linked to the lessons learned from international experience in integrated tax administrations. The Latin American countries, including Peru, are gradually opening up their economies to foreign trade flows, whose results are translating into a significant increase in the number and volume of trade transactions. In this context, the agencies responsible for controlling foreign trade are obtaining less revenue from tariffs, which have been reduced, but there has been a marked increase in revenues from the VAT and specific excise taxes. Also, facilitating and streamlining trade has often led to a gradual reduction in customs controls at borders, making it necessary to modernize and strengthen the mechanisms for post-audits of taxpayers, adjusting techniques and procedures to new developments and the increased complexity of economic transactions, such as the case of mechanisms to control transfer prices.
- 1.15 As a result of globalization and the larger view of economic events, an all-encompassing approach needs to be taken to taxpayers and to compliance with their fiscal obligations. Integrated control of tax obligations means tapping the synergies between the information generated by the systems of the two entities and stepping

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<sup>5</sup> The Bank is supporting the program to modernize the Peruvian government, through the program for modernization and decentralization of the State (loan 1437/OC-PE).

up audits to heighten the perception of the risk entailed in tax evasion. These objectives can be achieved more easily if a single entity is in charge of the tax administration.

- 1.16 A number of countries in the Americas, including Argentina, Brazil, Canada, Mexico, Guatemala, Colombia, Honduras and Venezuela, have opted to merge their internal revenue and customs services, as the business processes of those agencies have converged. International experience suggests that the tendency to unify the collection agencies is stronger in cases in which the VAT on imports is highly important in tax revenues and in cases in which control of other taxes depends on VAT declarations. This situation can be illustrated by the experience of Canada's Customs and Revenue Agency—one of the most successful cases—whose unification was ordered immediately after the VAT was introduced as the centerpiece of the tax system.
- 1.17 The second technical argument is related to medium- and long-term financing of the tax administration's operations and investments and to efficiency in the use of resources. The rule for financing customs operations by using a percentage of customs revenues is not sustainable in the long term, given the tariff reductions planned by the government as part of the objectives of freer trade. Based on international experience with integrated tax administrations, the Peruvian government expects that the merger will lead to greater efficiency and, thanks to the savings that will accrue from integrating common administrative services, the standardization and centralization of the existing technological infrastructure, and the consequent freeing up of human and material resources, that it will be possible to strengthen the core business areas and assign more funds to solve the problem of low investments in the customs service in recent years.
- 1.18 The unification of the tax collection agencies being carried out by the Peruvian authorities is chiefly intended to modernize tax administration processes by integrating administrative, operational, and financial functions into a unified organizational structure that will make it more efficient, consistent and effective in its mission to increase tax revenues and control and facilitate foreign trade.<sup>6</sup>

#### **D. The new SUNAT: Institutional plan and progress in the merger**

- 1.19 The new SUNAT is taking a synergetic approach to the unification process, trying to incorporate the strengths and best practices of Customs into its own practices and organizational culture. As a result, in addition to modifying and optimizing Customs processes, it will also adjust SUNAT's processes to achieve a single, consistent and harmonious model. This synergistic approach has three objectives that identify a direct beneficiary for each of them: (a) tighter tax and customs

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<sup>6</sup> The IMF report "Selected Topics in Tax Policy and Administration" of September 2002 states the following in relation to the tax administration: "The mission fully supports the evaluation made by the authorities of the situation and the measures that were adopted to achieve adequate unification."

control, which directly benefits the State and society as a whole; (b) reduction in costs, which directly benefits SUNAT's management possibilities; and (c) better services, which benefits the taxpayer.

- 1.20 This approach forms part of SUNAT's institutional plan. The plan includes: (a) a strategic plan whose action plans are intended to ensure the success of the unification; (b) the projects plan which contains projects to improve control and auditing of internal taxes and foreign trade; and (c) annual management plans.
- 1.21 The process of planning the merger began by establishing a high level committee, composed of officials from the two agencies, to coordinate the actions needed to enable the new SUNAT to operate in an integrated manner as of January 2003. In parallel, the main processes were reviewed, both in the support units and in the operating and business areas of internal revenue and customs. These actions and the SUNAT planning process in general have benefited from technical contributions by the project team and the consultants who supported preparation of this operation.
- 1.22 SUNAT's strategy and plan also benefited from other countries' experiences with integrating tax administrations and incorporated some key features of those experiences: (a) the complex, continuous and long-term nature of the process of combining two agencies with different areas of business, administrative cultures, and management models; (b) the adoption of common support bodies to promote coordination and obtain economies of scale; (c) emphasis on centralized planning and the separation of the specialized revenue and customs functions; (d) adoption of a single, powerful database to make common use of information and greater stress on investments in technology to integrate the collections and auditing processes; and (e) stress on training as a means of overcoming cultural resistance to change. In January 2003, with support from the Bank, SUNAT held an international seminar to review headway in the integration of tax administrations and validate its strategic and outputs plans.
- 1.23 The committee's work and the planning activities led to the drafting of new regulations to govern organization and functions, which were subsequently approved by Cabinet. These regulations define the transitional structure to be adopted by the agency, stressing: (a) the unification of the administrative support, information technology, human resource management and legal areas; and (b) the functional separation of the operations of the business units. Under these regulations, the new executive officers were appointed in January, coinciding with the start of operation of the new SUNAT.

**E. Future challenges for the development of an integrated tax administration**

- 1.24 From a birdseye view, the new SUNAT<sup>7</sup> faces major challenges for its future development which do not stem solely from the process of institutional integration, but which also involve the urgent need to modernize the main processes of tax administration and control of foreign trade. Specifically, in the first stage, these challenges mainly involve:
- a. Minimizing the institutional risks and the loss of revenue that could be a consequence of the institutional unification, ensuring an orderly transition that is not traumatic.
  - b. Maximizing the benefits of a single tax administration by promoting its capacity for institutional management, strengthening its tax collection and audit systems, and modernizing the customs service, so that the administration will have the tools and technical capacity to interact with a growing number of operations and taxpayers as a result of the greater dynamism of the economy.
  - c. Laying the groundwork to provide the organization with the capacity to regularly update its technical and operational areas, enabling it to successfully cope with the changes in taxpayer operations that are largely the result of the new trade practices and ongoing technological progress.

**F. Program strategy: The SUNAT plan and opportunities for technical and institutional modernization**

- 1.25 The program has been structured around the priorities of SUNAT's institutional plan, particularly the outputs plan, which was developed in parallel to the proposed operation. The SUNAT plan provides for the gradual development of an integrated administration, based on the lessons learned from international experience. This approach means that integration will not be total at the outset and that some functions or operating areas will work in parallel for a given time. Also, in the first phase, the plan is based on actions to unify the corporate support services and promote improvements in the central processes of the functional or business areas, taking advantage of the opportunity that the unification offers for technical and administrative modernization of the institution.
- 1.26 As for the first set of actions, the program, consistent with the SUNAT plan, identifies the need for common horizontal support services for the two business areas, in order to promote coordination and, above all, to achieve economies of scale. Combined services will be provided in the legal, human resources, financial administration and goods and services areas.

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<sup>7</sup> Given the reality of the merger, the term SUNAT is used to refer to both institutions—SUNAT and Customs—from this point on.

- 1.27 With regard to the improvement and modernization of the central processes in the functional or business areas, the program will complement the efforts made under earlier operations financed by the Bank, by formulating a comprehensive investment program that ensures the sustainable development of the new tax administration. The investments should allow for optimization of existing operational applications in the fields of tax collection, control and auditing, and the renewal and updating of the computer and communications infrastructure. The idea is to raise the perception of the risk involved in evasion and to cope with the increase in the number of transactions and taxpayers that goes hand-in-hand with growth in the economy.
- 1.28 One critical factor that the program will address is the prioritization of investments. In other words, the modernization activities it includes need to be reflected in a program that establishes investment priorities, since the entities that are being integrated suffered from a sharp reduction in investments in the last five years that robbed them of the capacity to respond to the growing demand for their actions as a result of the increase in the number of taxpayers and the number of foreign trade operations.<sup>8</sup>
- 1.29 **Corporate support services.** The old SUNAT and Customs had corporate support services structured on the basis of their specific functional needs (particularly the administrative systems). As a result, the design of the services and the practices and procedures followed present differences that need to be resolved gradually under the SUNAT plan. For unification of the systems, the first step is to include the best institutional practices of Customs in the new SUNAT systems. Also, to provide consistency and coherence for the new unified services for human resources, finance and goods and services, the plan includes a systematic vision of their design that covers the rules, principles, processes, methods and techniques that regulate those services. The interventions are described below, while the relevant information for the financial and human resource management systems is presented in Box I-1.

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<sup>8</sup> Between 1998 and 2002, the number of taxpayers increased by 27 percent and foreign trade operations by 33 percent. SUNAT's capital expenditures declined from US\$14.6 million between 1992 and 1997, to US\$8.9 million in 1998-2002. Comparatively, capital spending by Customs fell from an annual average of US\$15.4 million to US\$1.4 million.

**Box I-1**  
**SUNAT-Customs**  
**Financial and Human Resource Management**

**Financial and goods and services administration systems**

Prior to the merger, these systems were already very homogeneous as a result of the compulsory use of standardized rules for public agencies in the areas of accounting, finance and procurement. The greatest difference was in the field of administrative practices, since Customs is more decentralized than SUNAT, given the nature of its operations and the territorial distribution of its regional and border offices.

There were also differences in the management of assets belonging to or in the custody of the agencies, and in internal practices and rules for the disposal of goods. Immediately after the union, SUNAT's systems were adopted for the accounting, financial and procurements area, while the functions of the administration of assets and the disposal of goods remain separate, until such time as new uniform procedures can be designed.

**Human resources management systems**

SUNAT and Customs had systems to manage the selection, induction, development and retirement of personnel. These systems were adjusted to the different functional requirements and based on detailed regulations. Application of these administrative systems by SUNAT and Customs allowed for orderly management of human resources and a high degree of staff professionalization. Prior to the merger, SUNAT had 3,896 employees, 68 percent of whom were professionals, while Customs had 2,542 employees, 69 percent of whom were professionals.

Both systems stressed the processes of selection, contracting and induction of personnel, following open and highly competitive procedures. However, the processes were guided by different strategies. While SUNAT only recruited recent university graduates, Customs preferred to contract experienced professionals. Although the personnel development systems of SUNAT and Customs stressed specialized training, they did not include a clear promotions policy or guidelines for functional mobilization. The subsystems for dismissal for unsatisfactory performance were based on different codes of ethics and penalties.

As for computer applications, the agencies only had applications for staffing, checking attendance and personnel records. These applications are developed in different tools and the information is not integrated into the same data base.

- 1.30 **Financial and goods and services administration.** The merger of administrative functions in these areas has highlighted the urgent need to renew the computer tools that support management, since the increase in the volume of operations and transactions and the larger number of users outstrips the service and processing capacity of SUNAT's existing tools. Renewal of these obsolete tools is more than an operational requirement. It is an opportunity to integrate the systems for treasury, budgeting and accounting with the procurement system, to provide support that will improve and organize the agency's administrative management.
- 1.31 **Human resources.** From the standpoint of strategy, one key factor for facilitating the integration of different administrative cultures (tax and customs) is the unification of their human resource administration systems. The merger of those systems will require the ratification or definition of the policies and principles that will guide the new unified system. It will also be necessary to issue new regulations and establish compatible procedures to facilitate orderly and effective management. These efforts should be complemented by the development of new computer applications to automate and integrate the personnel management systems, facilitating registration, access control, evaluation, payment, and training plans, to begin with.
- 1.32 **Legal and regulatory area.** Before the merger of SUNAT and Customs, SUNAT's relations with taxpayers were established and regulated by the Tax Code and Custom's relations with importers and exporters by the General Customs Act.

- 1.33 The integrated agency's institutional plan provides the option of maintaining differentiated procedures for the treatment of customs and internal revenue practices over the short term, and will gradually move toward harmonization and standardization of the rules. Given the objective of a one-stop window and a stronger institutional image, there needs to be a fairly rapid move towards making tax rules and procedures compatible and harmonized, since discrepancies will be visible immediately after the merger, such as the treatment of interest on tax liabilities<sup>9</sup> and the description and treatment of administrative offences.<sup>10</sup> The integration of the two administrations into a single entity should be reflected in a higher degree of centralization of regulatory capacity, since it is that capacity that will make it possible in the medium and long terms to tap the synergies of the merger for tax collection purposes and better services for taxpayers and users.
- 1.34 **Management planning and control.** SUNAT and Customs developed their management planning and control systems with Bank support in the early part of the last decade.<sup>11</sup> After the merger was decided upon, the SUNAT system was adopted, which has some shortcomings that need to be resolved: (a) the lack of a planning process with a suitable system to prioritize projects, which stands in the way of identifying the main needs for improvements in the operating areas; (b) the budgeting process is not integrated expeditiously into the planning process, which means that an adequate cost-benefit analysis cannot be performed; and (c) planning is not sufficiently linked to institutional management indicators and therefore it is difficult to evaluate the results of projects. Also, the merger requires actions to surmount the operational difficulties that stem from the integration of the two planning units, and to complement the methodologies and indicators by adjusting the management planning and control model to the new roles of the integrated tax administration.
- 1.35 **Central processes in the business areas and technological support infrastructure.** SUNAT's plan views the merger as an opportunity to optimize central processes in the business areas and modernize the technological infrastructure that supports them. The actions included in the plan are intended to surmount the operational and technological limitations that existed in SUNAT and Customs before the merger.
- 1.36 In the case of internal revenue, auditing and collections do not have the necessary effectiveness or coverage owing to a series of technical limitations that prevent the

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<sup>9</sup> While SUNAT capitalizes interest on arrears annually under the Tax Code, Customs applies a simple interest rate to debts.

<sup>10</sup> Application by the new SUNAT of different laws governing administrative offences—the Criminal Law in respect of Taxation on the one hand and the Law on Customs Violations on the other—can also be a source of inconsistency in institutional relations with taxpayers and users of foreign trade services.

<sup>11</sup> The institutional practice of preparing annual operating plans based on the strategic plan has been reinforced by the legal requirement to sign annual management agreements with the Ministry of Economic Affairs and Finance (MEF).



- administration from interacting with large numbers of taxpayers. These limitations are: (a) most of the collection and taxpayer audit systems have reached the end of their useful life and need to be replaced; (b) applications have serious problems with scalability, integrity and performance because of the different technologies and architectures they use; (c) decentralization of operating systems and databanks makes it expensive to administer the computer infrastructure and maintain the applications; and (d) the administration has difficulties in processing, managing and debugging the information obtained, which stands in the way of subsequent auditing, debt control and collections.
- 1.37 The administration and control of foreign trade has the following limitations; (a) in customs inspection, the controls applied have not undergone significant innovations in recent years and are becoming less effective, making their redesign necessary; (b) the improvements in mechanisms for control of the electronic customs clearance system have not yet been completed, undermining the effectiveness of Customs work; (c) there is no adequate risk management system; work is only done with a very limited series of indicators, risk profiles are not established, and the technological support for physical control (valuation) is not adequate; (d) the weaknesses mentioned in (a), (b) and (c) make it impossible to expeditiously assign and/or combine the different types of controls (concurrent and a posteriori), reducing their effectiveness; (e) the database on prices is limited, standing in the way of adequate valuation; and (f) the customs control posts and mobile units that combat smuggling do not have adequate and modern logistical tools to carry out their functions.
- 1.38 In addition, both administrations have problems relating to software and hardware and communications standards to support their operations, since they are out of date when compared to market technologies. A summary of the main problems regarding the architecture of the applications and the information and communications infrastructure is given in Box I-2.

**Box I-2**  
**Architecture of Information Applications and Infrastructure (SUNAT and Customs)**  
**Main Problems**

*With regard to the communications platform:*

- Higher cost of procuring telecommunications services which stands in the way of economies of scale.
- Difficulty in formulating and implementing security and contingency plans.
- Difficult access to resources in both communications systems.
- Higher administration and management costs in both communications platforms.

*With regard to the platform of servers and office equipment:*

- Higher procurement and maintenance costs for servers and office equipment which stands in the way of economies of scale.
- Difficult access to the information in the servers.
- Difficulty in formulating and implementing security and contingency plans.
- Higher administration and management costs for the servers and office equipment.

*With regard to applications:*

- The applications support specific business processes in the different platforms and are not properly integrated.
- There is limited capacity to reuse codes and scalability, which increases the costs of system maintenance and development.
- Some applications demand on-line access to centralized and decentralized databases, which results in slow response times.

*With regard to the logical design of the data:*

- There is no single, integrated data model. The designs of the applications have generally created their own models for the business aspect they support, which stands in the way of obtaining an overview of the institution's data and functions.
- The data models cannot easily incorporate changes in business processes.

*With regard to the physical design of the data:*

- The referential integrity of the data is normally administered by the applications themselves and, in some cases, through physical implementation by the entities (such as codes), which creates potential problems with the quality of the data.
- There are different databases for each business aspect that is supported, on account of the logical design.
- The decentralized databases, which are updated with new files, create potential problems with the quality and timeliness of the information in the operating systems, which limits the development of applications geared to the Internet and business intelligence, etc.

- 1.39 The plan establishes that a key element for SUNAT in moving toward integration is to establish a common, centralized information and telecommunications infrastructure to allow for the integration of operating applications and facilitate better use of the information by the business areas. This integration is needed because taxpayers should be viewed as economic agents whose operations and decisions have consequences that affect the different types of taxes, including customs duties and internal revenues. The capture of information in a single body and the existence of a shared database is not an end in itself, but a tool for improving control and assisting taxpayers in complying with their tax obligations.
- 1.40 In addition, the strategy assumes that this integration will constitute a medium for supporting the review and modernization of information applications and operating procedures, incorporating new elements that will allow the benefits of an integrated tax administration to be drawn on.
- 1.41 The technological vision that will guide implementation of this strategy, includes: (a) the adoption of a master model for institutional data; (b) centralization of the databases; (c) development of applications using web technology in a layered model; (d) establishment of a secure and high-performance infrastructure;

(e) implementation of a single web portal; and (f) adoption of standardized methods for systems development and project management.

**G. The Bank's country and sector strategy**

- 1.42 The Bank's strategy for Peru, approved in September 2002, is based on the prime objective of a sustained and sustainable reduction in poverty. The strategy paper identifies the following specific objectives for achieving this goal: (a) boosting the productivity and competitiveness of the economy; (b) improving the effectiveness of social policy; and (c) creating a modern and efficient State in the service of the people. The present operation will contribute to modernization of the State.
- 1.43 The Bank's strategy in this last area is intended to support the reform and strengthening of institutions which, like SUNAT, play a key role in the functioning of the country's public sector. The proposed operation will help to improve the performance of the tax administration, which will result in a more predictable profile of government finances. Obtaining more balanced fiscal results will boost the government's capacity to carry out policies for reducing poverty and improving the quality of life.
- 1.44 **The Bank and Peru's tax administration.** The Bank has supported Peru's tax administration under five operations—three with SUNAT and two with Customs. The first operations for both SUNAT and Customs were designed to address the most urgent problems in establishing the legal, institutional and operational foundations to develop the tax and customs administrations. Once the institutional weaknesses had been overcome, the Bank supported a second group of operations intended to revise and consolidate the progress made in the earlier operations, strengthening the human resource management and training systems and the basic systems for tax collection, control and auditing, and promoting the automation of operational processes and the establishment of an information and communications infrastructure. The third operation for SUNAT focused on modernization of the auditing system by incorporating qualitative improvements for the application of a second tier auditing model. The Bank also approved a third operation for Customs in 1999, to support its compliance with ISO 9000 but the government decided not to execute this operation with Bank resources.
- 1.45 The first SUNAT and Customs operations were approved in 1991 and the second operations for institutional support were approved in 1994. Although the financing provided under these operations accounted for just 8 percent and 5 percent, respectively, of the total investments made by SUNAT and Customs in the period 1991-1997, the programs supported by the Bank had the virtue of establishing a basic structure that made it possible to obtain and guide institutional investments. Evaluations were performed by independent consultants at the end of the programs. Their reports conclude that the programs were successful and their objectives were fully achieved, allowing SUNAT and Customs to become highly professionalized, prepared and effective institutions.

- 1.46 The third SUNAT operation was approved in 1997. The preliminary version of the project completion report (PCR) notes that the program components were virtually all implemented, although with considerable delay. The PCR also mentions that the objectives were partly achieved, since to make full use of the integrated auditing system that was developed under the program it would be necessary to have better quality information and specialized training for auditors—actions that were not included in the program. Last, one factor that is not reflected in the evaluations is the institutional and political context in which the programs were carried out. While the first and second SUNAT and Customs programs took place in period of marked institutional stability, the political and institutional context for the third SUNAT operation was less favorable.
- 1.47 **Lessons learned from the Bank's experience.** The development of the tax and customs administrations in Peru over the last decade was a gradual and orderly process of institutional consolidation. Some lessons can be learned from the Bank's experience in operations to support this part of the country's administration. First, the Bank's support has followed clearly identifiable and interrelated stages: (a) establishment of the institutional foundation; (b) development of the basic management tools, through modernization and automation of the operating processes; (c) introduction of quality criteria into the processes and qualitative improvement in the operating systems. The efforts in these stages were based on: (a) clear identification and definition of the administration's systems and operating processes; (b) significant intervention in the area of human resources and training; and (c) key investments in the field of information technology. Second, from the standpoint of financing, the Bank's contribution accounted for only a small percentage of the investments made by SUNAT and Customs over the last decade. The Bank's contribution through these operations is valued because it provided the tax and customs authorities with more information and options for the adoption of institutional policies and permitted them to design basic investment programs that have served as guides for prioritizing the larger investments made by them. Last, a review of the operations to support the Peruvian tax administration indicates that programs are more successful in a stable institutional environment.
- 1.48 The Bank's experience in operations to support tax administrations in other Latin American countries<sup>12</sup> indicates that program development and achievement of the objectives is facilitated by the following: (a) the existence of a strategy of consistent change, with realistic, measurable and sustainable performance indicators; (b) close coordination, participation and cooperation with the beneficiaries in the design stage, stressing the definition of the objectives and intermediate benchmarks of the program; (c) the need for comprehensive programs that address the main operating processes of the administration; (d) 'gradual' programs which, more than referring to a sequential order of activities, refers to the intensity with which programs should be carried out; and (e) the need to build capacity for regular technical and

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<sup>12</sup> The Bank has financed 51 programs of this kind in 21 Latin American countries over the last decade.

operational updating of the administration. These experiences have been drawn on in the preparation of the proposed operation.

- 1.49 **The Bank's contribution through the present operation.** The proposed operation highlights the Bank's consistent and timely support for the institutional development of Peru's tax administration. Through the design and subsequent financing of a priority package of actions and investments, the idea is to maintain the results achieved in the last decade and lay the groundwork for developing the new integrated administration. When the program was being prepared, the administration received assistance in prioritizing actions to guide the unification process and technical support for its institutional strategy, in the form of contact with international experiences and progress in the merger of administrations and the exchange of ideas with consultants and the members of the project team.
- 1.50 Consultations and coordination with the IMF team were carried out while the program was being prepared. Given the nature and urgency of the program to facilitate the merger, the IMF's Fiscal Affairs Department in a document "Selected Topics on Tax Policy and Administration" (September 2002) suggests the need for special technical and financial support for SUNAT to the Peruvian authorities, stressing the urgent need to speed up implementation of this program to support the strengthening of the tax administration.

## **II. THE PROGRAM**

### **A. Objectives**

#### **1. General objective**

- 2.1 The general objective of the program is to provide initial support for Peru's Office of the National Superintendent of the Tax Administration (SUNAT) in leading the complex process of merging the internal revenue and customs administrations that began in 2002. By strengthening its administrative management and modernizing its operating processes, the groundwork will be laid for an integrated tax administration, which will help to steadily improve tax revenues and facilitate foreign trade operations.

#### **2. Specific objectives**

- 2.2 The specific objectives of the program are to:
- a. Build up the institution's management capacity, optimizing its administrative processes and developing integrated systems in cross-cutting management areas (planning and financial, human resources and goods and services administration);
  - b. Tighten control over compliance with tax obligations by strengthening the main processes carried out by the tax administration, with special stress on auditing and collections;
  - c. Modernize customs clearance processes, facilitating foreign trade through the introduction of simpler and more effective measures for the control of merchandise;
  - d. Adapt the existing technology infrastructure to information management needs and the growing complexity of taxation processes, considering the requirements for efficient management of databases, software and communications;
  - e. Improve the quality and quantity of services for taxpayers and importers and exporters, facilitating compliance with their tax obligations and streamlining customs controls;
  - f. Improve the horizontal equity of the tax system through greater transparency in the tax administration's processes and decisions, and take steps to narrow the gap between what taxpayers actually declare and what they should declare on the basis of their financial capacity; and

- g. Build up the capacity to identify needs for institutional and technological modernization and design and carry out the necessary innovations.

## **B. Program components**

- 2.3 The program is divided into three components: (a) institutionalization of the integrated tax administration; (b) optimization of the processes of tax administration and control over foreign trade; and (c) modernization of the information and communications systems. The program has been designed as part of the comprehensive institutional development plan drawn up by SUNAT.

### **1. Institutionalization of the integrated tax administration (US\$1.9 million)**

- 2.4 The activities in this component are designed to facilitate the unification process in its organizational, administrative, financial, human resources, legal and communications aspects. Apart from drafting the regulations necessary for the operation of the collection agency, the actions are designed to provide horizontal and common support services for internal revenue and customs management, achieving economies of scale and closer coordination of the administration's activities.
- 2.5 To that end, the program includes activities to facilitate harmonization of existing rules, while developing and implementing master institutional management systems in the areas of planning and management control, human resources and the administration of goods and services. The systems will cover the series of rules, principles, processes, methods and techniques for each of the management areas.
- 2.6 In the area of **legal rules**, the program includes activities to revise the rules and regulations governing the country's tax and customs administration, adjusting the existing legal framework to make it compatible with the institutional arrangement arising from the merger. It also includes activities to unify the regulatory capacity of the tax administration and strengthen its legal actions in the enforced collection process. Toward the end of the program, legislation will be drafted to provide the new tax administration with greater technical and institutional autonomy.
- 2.7 Implementation of each of the management systems will involve the following activities: (a) review of the rules and processes; (b) design of the model for the new system; (c) updating and adjustment of the rules and processes; (d) preparation of manuals of procedures; (e) development of documented information applications to provide support, with their operating and maintenance manuals; and (f) training for personnel in the new procedures and applications.
- 2.8 **System of planning, management control and organizational structure.** Includes implementation of a system for planning and control of management by results, which contains indicators to monitor activities and institutional performance. The system will give timely signals and early warnings about

- problems in the agency, facilitating the adoption of corrective measures. Actions to adjust and develop the recently-approved organizational and operating structure have been included, based on the results of the control system and the redesign of the basic processes that take place in the revenue and customs business areas.
- 2.9 Complementarily, support will be provided for activities to strengthen the internal control system, through specialized training programs that will also be geared to the adjustment of guides for internal control with regard to identification of the control environment, risk evaluation and control, information and monitoring activities.
- 2.10 **Financial and goods and services administration system.** The activities in this component will support the establishment of a system based on the operating requirements for the integration of the budgeting, accounting, treasury, asset administration and procurements processes, while also making administrative management information available for control and decision making.
- 2.11 **Human resource management system.** Includes priority activities to facilitate the transition from the current management systems to a single, comprehensive system to govern recruitment, selection, performance evaluation, promotions, incentives, transfers and dismissals of SUNAT personnel. The authorities will also be supported in preparing alternative strategies to harmonize salary structures. The computer applications will automate and integrate personnel management subsystems, facilitating operations for registration, access control, evaluation, payments and training plans, to begin with.
- 2.12 The new human resource system will also be supported by training. The priority activities will unify the processes for initial training or induction and training to facilitate the gradual mobility of personnel between the business structures, helping them to overcome cultural resistance to institutional change. Workshops will be held on ethics and integration as a way of building a new organizational culture.
- 2.13 Last, activities are included for the design and implementation of an internal institutional communications policy, for the purpose of obtaining employee support for the administration's mission, strategies and plans. Specification of the objectives pursued and description of the stages and means involved will be an essential part of this policy to facilitate institutional integration.
- 2.14 **Application of program funds.** The funds to develop and implement the activities planned for this component will primarily be earmarked for consulting services to review regulations and processes, design the models for the management systems and support their implementation, procure computer applications and design and implement the initial stages of the training and information programs.



## **2. Optimization of the main processes of tax administration and control of foreign trade (US\$6 million)**

- 2.15 This component will optimize the processes of collection, control, auditing and services for taxpayers and importers and exporters, keeping in mind the functional specialization of the customs and revenue processes. Adjustment and modernization of these processes will be supported by specific programs for employee education and technical training.
- 2.16 **Tax collection.** The actions to optimize systems will stress the tasks of registering taxpayers, presentation and payment of declarations and control of tax debts. Specifically, the program will:
- a. Modernize the taxpayer master file system by redesigning existing processes for data capture and updating, making an integrated system available for the control of tax and foreign trade obligations. The new system will use the taxpayer master file number (RUC) as the main identifier of taxpayers in both business areas and will allow taxpayers to do business over the Internet.
  - b. Develop and introduce an integrated collection system for internal revenues and customs duties that standardizes procedures, allowing for more efficient and timely management in the control and collection of taxes owing. The new system will also make it possible to reduce the cost of bank tax collection services.
  - c. Establish mechanisms for the control of tax information, through the provision of technological and regulatory support and the start-up of an operating structure responsible for assuring the quality of tax information. These actions will allow the potential of the auditing system developed under the SUNAT III program to be tapped, bringing benefits for the integrated tax administration.
  - d. Develop and implement adjustments to the rules, procedures and systems for the authorization and control of tax payment receipts.
  - e. Centralize, integrate and modernize the tax revenue accounting system. This automated system, which will be interfaced with the tax operating systems, will facilitate the reporting and financial administration of tax funds (collections and refunds) and of assets (sale, claims, enforced collection, splitting).
- 2.17 **Customs control and foreign trade facilitation.** The program will include other activities to modernize the customs function, which have been prioritized on the basis of the administration's technical needs and users' opinions regarding the quality and effectiveness of customs services. The program's activities will be aimed at bringing the service closer to users, simplifying procedures and introducing new international standards into customs operations. In particular, the actions will involve:

- a. The introduction of a master clearance system for customs. The system will unify and standardize the common aspects of the different customs regimes to give them identical operational and documentary treatment, which will simplify clearance processes and facilitate their management for customs and taxpayers.
- b. The redesign and improvement of the customs management information system (SIGAD). As a complement to the master clearance system, the redesign of this computer application will turn SIGAD into an integrated, modular system that can incorporate new functions without losing its effectiveness as a control, while improving its efficiency in handling operations.
- c. The electronic integration of operations with other government agencies involved in foreign trade. Electronic protocols will be defined and implemented to include the authorizations and interventions of other agencies with responsibilities for controlling foreign trade as part of the computerized master clearance system. The direct benefits of this activity will be an improvement in processing times, with a reduction in costs, and in the processes of control by customs and the rest of the administration, by making them more transparent.
- d. The consolidation of the quality system in customs, which will make it possible to renew ISO 9000 (2000 version) certification for clearance, document control and audits. Experience after obtaining ISO certification has demonstrated its utility in two main aspects: transparency of procedures and their sustainability over time. The regular renewal of quality certification including the changes that will be introduced with the redesign of processes and the information system, will be maintained under the program, since the qualification process will require the agency to make a systematic effort to bring technical and operational aspects up to international standards.
- e. The implementation of a risk analysis system in the customs service. This system for selective control based on the objective risks that a foreign trade operation could present will include a definition of an organizational structure and working procedures, determination of business profiles, and the design or procurement of tools for using the information. The system will achieve greater efficiency in audits by targeting actions to probable cases of fraud and will lessen the need for physical control, lowering costs and making commercial transactions less burdensome for taxpayers.
- f. The establishment of a database on the value of goods traded in foreign trade, to be kept up to date. This activity complements the technical cooperation being provided by the Bank for the new SUNAT under the program on customs measures to facilitate business (ATN/MT-7080-RG). The tax administration will be provided with a tool for transparently detecting, in due time and form, changes in value (which determines the taxable base) and applying the pertinent tax regulations and penalties, improving the effectiveness of controls.

- g. The strengthening of customs intelligence mechanisms and exchanges of information and provision of some of the equipment and infrastructure needed to prevent and reduce smuggling and administer the warehouses where seized merchandise is stored more efficiently. Support will be provided for the conclusion of cooperation agreements and working methods will be established to identify the *modus operandi* and the individuals involved in customs violations. Fixed and mobile means of communications will be provided and the infrastructure of the warehouses will be improved. These activities are expected to tighten measures to control smuggling and reduce cases of fraud.
- 2.18 **Post-control and post-audits.** The program will improve post-control and post-audits by supporting the integrated auditing system (SIF), centralized planning of comprehensive audits and introduction of control and audit centers.
- 2.19 Specifically, the program's actions will be aimed at:
- a. Strengthening planning and coordination capacity for internal and foreign trade taxation audits, integrating verification processes to take better advantage of synergies (information, best auditing practices and procedures and staff experiences). To complement these efforts, a master system will be established for control, monitoring and evaluation of post-audits.
  - b. Designing a detailed strategy for integrating taxpayer audits with customs postclearance control in secondary zones. Given the high complementarity of ex post practices in the business areas, integrated methodologies and procedures will be designed to create a higher perception of the risk of smuggling and tax evasion. A pilot project will be undertaken to implement the strategy.
  - c. Consolidating and expanding the use of the SIF as a basic model for tax auditing, by revising and completing the information currently available through the optimization of data capture systems and including customs variables for risk analysis. By developing this tool, the process of selecting cases to be audited will be more precise, making for more effective audit interventions.
  - d. Consolidating and optimizing the national data base by including information on foreign trade, external sources and SUNAT's existing systems, in addition to business intelligence tools and systems, as support for operational, tactical and strategic decisions. This effort is crucial for improving the efficiency of the SIF.
  - e. Planning and implementing control and audit centers to facilitate interaction between taxpayers and the tax administration when making payments or corrections to their tax declarations. The operation of these centers will support the strategy for expanding the scope of audits to cover medium and small taxpayers. Also, it is hoped that their operation will help to improve the quality of taxpayers' declarations and, hence, the quality of tax information.

- 2.20 **General and technical training.** To complement the efforts to improve and optimize systems, this component will include the design and execution of a comprehensive training program on policies, processes, rules and technology for implementing and handling the new processes and systems.
- 2.21 Technical training activities will mainly focus on the following areas: (a) training for auditors (needed to make the most of the SIF); (b) specialized auditing in selected sectors of the economy; (c) customs valuation and classification of goods; (d) risk management and analysis in foreign trade operations; and (e) application of auditing tools for ex post audits and integrated audits.
- 2.22 **Application of program funds.** Program funds will be used to finance: (a) consulting services to review operating processes and to develop and adapt computer applications using web technology on a three-layered platform; (b) procurement of software (including licenses); (c) equipment to support controls of foreign trade; (d) rehabilitation of infrastructure; and (e) development of methodologies, design of training programs and delivery of the first training sessions.

### **3. Modernization of the information and communications systems (US\$4.1 million)**

- 2.23 The activities in this component will adapt SUNAT's existing technological infrastructure to enable it to manage information and the growing complexity of tax processes and foreign trade control. Information systems will be modernized and the computer and telecommunications infrastructure will be integrated, as provided in the new SUNAT's information development plan. The main activities will be to:
- a. Lead the process of migration from a decentralized client-server arrangement to a three-layered architecture to make the most of communications facilities and web technology, maintaining the integrity of the central databases without adversely affecting the efficiency of the decentralized operating units. The communications infrastructure and data processing and storage capacity will also be strengthened.
  - b. Define and implement a master institutional model for data which, in turn, is the starting point for the design of future business applications. The logical and physical features of the different operational databases that support existing applications will also be integrated.<sup>13</sup> The integrated databases will be centralized in servers to support all the operational applications.
  - c. Adopt policies and specific standards for information security. Backup mechanisms will also be provided to ensure that critical services are available in

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<sup>13</sup> There are currently 251 databases (centralized and decentralized) in production and 42 different databanks.

the event of contingencies in the system as a result of centralization of the databases.

- d. Establish policies, standards and methodologies for systems development and for the control and management of information projects. The policy will ensure that all projects are carefully planned, suitably organized and, above all, efficiently monitored and controlled. The methodologies will clearly define the stages, deliverables, and areas participating in the process. They will have mechanisms to promote participation by end users and ensure quality in each stage.
  - e. Make more tools available to promote cooperative work, the automation of administrative processes and higher productivity. Tools such as a help desk will be considered.
  - f. Implement a single web portal, with high levels of security, that will increase the range and quality of the services provided by the administration and permit transactions and processes to be conducted over the Internet, benefiting external (taxpayers and importers and exporters) and internal users.
- 2.24 By the end of the program, it is expected that the tax administration will have made significant progress in the migration to the new information and communications architecture, the adoption of a centralized database with decentralized access, systems that can process large volumes of information with shorter response times and lower maintenance costs, and applications that will allow for better functionality and integration.
- 2.25 **Application of program funds.** The funds will be used to finance: (a) consulting services to design the strategies to unify the data model, implement the new applications architecture, formulate security policies and standards, code and adapt the new programs and design the corporate portal; (b) the purchase of servers and licenses, work stations and tools to support software development; (c) training in methodologies for systems development, management of information processes and use of the help desk; and (d) installation of security mechanisms.

### **C. Cost and financing**

- 2.26 The program will cost a total of US\$13.13 million, with the Bank financing US\$8.86 million from the Ordinary Capital. The government, through SUNAT, will contribute a local counterpart of US\$4.27 million. The program's resources represent close to 6.5 percent of the new SUNAT's annual budget (about US\$198 million). The costs will be distributed as shown in the following table:

**Table II-1**  
**Cost table (in US\$ thousands)**

Category	Investment			Total			%
	Consulting	Training	Equipment	IDB/OC	Local	Total	
<b>1. Administration</b>	<b>571.5</b>	<b>0.0</b>	<b>0.0</b>	<b>307.5</b>	<b>264.0</b>	<b>571.5</b>	4.35
1.1 Coordination	319.5	0.0	0.0	127.5	192.0	319.5	
1.2 Administration	252.0	0.0	0.0	180.0	72.0	252.0	
<b>2. Direct costs</b>	<b>3,838.6</b>	<b>991.4</b>	<b>7,212.6</b>	<b>8,217.5</b>	<b>3,825.3</b>	<b>12,042.8</b>	<b>91.72</b>
2.1 Institutional support tax administration	951.5	132.9	826.0	1,694.4	216.2	1,910.6	14.55
2.1.1 Unification, planning and organization model	279.5	27.7	0.0	249.0	58.2	307.2	
2.1.2 Management and HR development model	519.0	50.0	354.0	863.7	59.5	923.2	
2.1.3 Integrated admin. and finance model	71.5	55.2	472.0	500.2	98.5	598.7	
2.1.4 Legislation	81.5	0.0	0.0	81.5	0.0	81.5	
<b>2.2 Optimization of main processes</b>	<b>2,302.6</b>	<b>625.5</b>	<b>3,098.2</b>	<b>4,261.0</b>	<b>1,765.3</b>	<b>6,026.3</b>	<b>46.00</b>
2.2.1 Collections	614.3	65.5	472.0	594.8	557.0	1,151.8	
2.2.2 Customs control and trade facilitation	1,057.3	181.5	1,858.7	2,369.3	728.2	3,097.5	
2.2.3 Post-control and post-audits	450.5	18.5	767.5	756.4	480.1	1,236.5	
2.2.4 General and technical training	180.5	360.0	0.0	540.5	0.0	540.5	
<b>2.3 Modernization of the information system</b>	<b>584.5</b>	<b>233.0</b>	<b>3,288.4</b>	<b>2,262.1</b>	<b>1,843.8</b>	<b>4,105.9</b>	<b>31.27</b>
2.3.1 Centralization and integration of infrastructure	491.2	93.0	2,739.0	1,786.0	1,537.2	3,323.2	
2.3.2 Single portal	93.3	60.0	389.4	476.1	66.6	542.7	
2.3.3 Method for system development and mgmt.	0.0	80.0	160.0	0.0	240.0	240.0	
<b>3. Concurrent costs</b>				<b>122.0</b>	<b>0.0</b>	<b>122.0</b>	<b>0.93</b>
3.1 Auditing				42.0	0.0	42.0	
3.2 Monitoring and evaluation				80.0	0.0	80.0	
<b>Subtotal</b>				<b>8,647.0</b>	<b>4,089.3</b>	<b>12,736.3</b>	<b>97.00</b>
<b>Unallocated</b>				<b>123.9</b>	<b>82.1</b>	<b>206.0</b>	<b>1.57</b>
Contingencies				123.9	82.1	206.0	
<b>Financial costs</b>				<b>88.6</b>	<b>99.0</b>	<b>187.6</b>	<b>1.43</b>
Credit fee				0.0	99.0	99.0	
I&S				88.6	0.0	88.6	
<b>Total</b>				<b>8,859.5</b>	<b>4,270.4</b>	<b>13,129.9</b>	<b>100.0</b>
<b>Percentages</b>				<b>67.47</b>	<b>32.53</b>	<b>100.0</b>	

Note: The borrower will pay the interest directly to the Bank

## **D. Bank conditions and financing**

2.27 The Bank financing of US\$8,859,500 will come from the Ordinary Capital. The following table shows the terms and conditions of the loan:

**Table II-2**  
**Terms and conditions of the loan**

Source of funds:	Ordinary Capital
Amount:	US\$8,859,500
Terms:	
Amortization:	20 years
Execution:	36 months
Disbursement:	42 months
Interest rate:	Variable
Inspection and supervision:	1%
Credit fee:	0.75% on the undisbursed balance
Currency:	US dollar, Single Currency Facility

### III. PROGRAM EXECUTION

#### A. Borrower and executing agency

- 3.1 The borrower will be the Republic of Peru and SUNAT will execute the program. The loan proceeds will be transferred to SUNAT under an agreement **whose signature will be a condition precedent to the first disbursement.**
- 3.2 SUNAT's new structure is a national administration headed by a national superintendent and two deputy superintendents, one for internal revenue and one for customs. Its operations are carried out through: (a) line bodies, which include the national bureaus that report to the deputy superintendents; and (b) support bodies, which are the national bureaus that provide corporate support services.

#### B. Organization for execution

- 3.3 SUNAT will have a board of directors, a steering committee and a coordination unit to carry out the program. It will appoint one of the deputy superintendents to be executive director of the program, who will act as liaison with the Bank and be responsible for general supervision of compliance with the operation's activities.
- 3.4 The steering committee will be responsible for: (a) formulation and/or approval of strategies, policies and changes in project execution; (b) review and approval of project organization and any changes that are necessary during implementation; (c) appointment and supervision of the coordinator of the program coordination unit (PCU); and (d) review and approval of program progress reports. The committee will be composed of the national superintendent, the deputy superintendents, the general coordinator of the PCU and the national bureau managers whose work is related to the three components.
- 3.5 The PCU will ensure the coordination and consistency of all project activities and will answer to the Bank for its adequate administration and execution. Its basic organization will include a general coordinator, a specialist in financial administration and a specialist in programming and monitoring project activities. It will also have the services of two technical advisors, one to support execution of component 1 (institutionalization of the integrated tax administration) and the other for component 2 (optimization of the main tax administration processes and control of foreign trade). The advisor for component 2 will also assist the general coordinator in program management. **Establishment of the PCU will be a condition precedent to the first disbursement.**
- 3.6 The PCU will be responsible for: (a) coordinating, revising and presenting the annual operating plans (AOPs) and the semiannual, midterm and final reports to the steering committee for approval, in addition to any other reports requested by the Bank during the program; (b) processing the procurements and contracts requested



by the working groups and, when necessary, remitting them to the Bank for its nonobjection; (c) preparing and presenting disbursement requests and justifications of the use of funds, to the Bank's satisfaction, and the semiannual reports on the use of the revolving fund; (d) preparing and remitting the semiannual progress reports to the Bank; (e) developing and implementing suitable accounting, financial and internal auditing systems for managing the program's funds, that can be linked to SUNAT's accounting and financial system; (f) maintaining suitable files of supporting documentation on the procurement and contracting processes and on disbursement requests; and (g) preparing and presenting the annual financial statements of the program to the Bank, duly certified by eligible external auditors.

### C. Execution

- 3.7 Technical responsibility for execution of the different program activities will be borne by work teams under the direction of a bureau manager (in accordance with Table III-1), who will be assisted by an activity coordinator. The activity coordinators will have specialized knowledge of the line of business (internal revenue or foreign trade) for which they are responsible and will be assigned to the program full time. The other members of the teams will be the consultants financed under the program and SUNAT employees with the necessary technical capacity, many of whom helped to prepare the program.
- 3.8 These teams will have the following main functions: (a) to prepare the AOPs for each activity and submit them for review and approval; (b) to supervise technical execution of the services contracted or the goods procured and certify that they were received in accordance with the specifications as a prerequisite for processing payment; (c) to provide guidance and clarifications for the suppliers of services or goods with respect to technical details; (d) to participate in the groups that evaluate bids for procurements for their activity; (e) to prepare detailed reports on progress in the AOP and management of the related risks; and (f) to provide support for the internal audit system for their activity.
- 3.9 The program will be executed following the AOPs, which are based on the plans of action prepared for the components and activities, adjusted to the real pace of execution. When the program was being prepared, preliminary action plans were drawn up identifying the specific objectives of each component, outputs, activities, and summary terms of reference and the respective budgets, distinguishing between the local counterpart and Bank financing.
- 3.10 The AOPs will contain: (a) the activities to be carried out and the goals to be achieved each year; (b) the investments and expenditures to be made and the sources of financing; and (c) the units and employees responsible for compliance with the goals. The draft AOP for year one has been reviewed by the project team and **its approval will be a condition precedent to the first disbursement.**

**Table III-1**  
**Units responsible for program execution**

<b>Component</b>	<b>Activity</b>	<b>Unit responsible</b>
Institutionalization of the integrated tax administration	<ul style="list-style-type: none"> <li>• Planning, management control and organizational structure</li> <li>• Human resources/information and training</li> <li>• Financial administration of goods and services</li> <li>• Regulations</li> </ul>	<ul style="list-style-type: none"> <li>• National Planning Bureau</li> <li>• National Human Resources Bureau/IATA</li> <li>• National Administration Bureau</li> <li>• National Legal Bureau.</li> </ul>
Optimization of tax administration and foreign trade control processes	<ul style="list-style-type: none"> <li>• Collections</li> <li>• Customs control and foreign trade facilitation</li> <li>• Post-control and post-audits</li> <li>• General and technical training</li> </ul>	<ul style="list-style-type: none"> <li>• National Tax Compliance Bureau</li> <li>• National Customs Collection Audit and Management Bureau</li> <li>• National Tax Compliance Bureau</li> <li>• Tax Administration and Customs Institute (IATA)</li> </ul>
Modernization of the information and communications systems	<ul style="list-style-type: none"> <li>• Information and telecommunications systems</li> <li>• Single portal</li> <li>• Specific policies and standards for information security and system development methodologies</li> </ul>	<ul style="list-style-type: none"> <li>• National Information Systems Bureau</li> </ul>

**D. Workshop to launch the program**

- 3.11 Once the operation is approved, a seminar will be held to launch the program, attended by SUNAT authorities, the PCU, SUNAT's work teams and Bank staff, to review the AOP for the first year and coordinate the activities it contains.

**E. Program supervision and monitoring**

- 3.12 The program will be supervised by the Bank's Country Office, with the support of the project team, based on the information contained in the AOPs, the semiannual physical progress reports and the annual financial reports received from the PCU. SUNAT, through the PCU, will begin presenting semiannual reports to the Bank after the loan is declared eligible. The reports will describe progress in the AOP and propose actions to ensure satisfactory execution. The reports for the second half of each year will be presented to the Bank together with the AOP for the following year. The Bank will agree on the format of the reports with SUNAT and a proposal is already available in the technical files.
- 3.13 Starting at the end of the first year of the project, annual project monitoring meetings will be held by the Bank and SUNAT to agree on the AOP for the following year and examine the results of the past year's work. The meetings will also review progress in compliance with the indicators in the program's logical

framework (Annex III-1) and evaluate the performance of the specialized agency mentioned in paragraph 3.18.

- 3.14 A midterm and a final evaluation financed with loan proceeds will also be conducted for project supervision and monitoring, based on the indicators and physical goals established in the logical framework. The baseline for those indicators is available and SUNAT's Planning Bureau has made the technical and administrative arrangements to compile the information and generate the indicators regularly. Joint meetings will be held by the executing agency and the Bank to study the results of these evaluations.
- 3.15 The midterm evaluation will cover progress in implementation and the technical quality of the following aspects: (a) organizational structure; (b) management and control systems; (c) human resources and financial administration systems; (d) legal and regulatory framework; (e) communications and training plan; (f) master taxpayer roll; (g) integrated auditing and collections systems; (h) national database; (i) consolidated customs clearance; (j) risk analysis system; (k) ISO 9000 certification; (l) information and communications platforms; (m) single portal; and (n) standards for the development of applications. It will also cover compliance with the goals for certain selected indicators in the logical framework (end of 2004) (see Annex III-3).
- 3.16 The final evaluation will focus on: (a) verifying the degree of compliance with the indicators for the program and the different components; (b) taking stock of the successes and shortcomings of program design and execution and its effectiveness in working toward the country's development objectives; and (c) recommending corrective or monitoring measures for future programs of this kind.

## **F. Procurement**

- 3.17 Procurement of goods and services and consulting services financed with loan proceeds will be carried out in accordance with Bank procedures. International competitive bidding will be used for procurements of US\$250,000 equivalent and over and local procedures will be used for lesser amounts, provided they do not conflict with Bank policies (see Annex III-2). For consulting services, international competitive bidding will be used for contracts estimated to be worth US\$200,000 and over. In all other cases the Bank procedures included in Annex C of the Loan Contract will be followed.
- 3.18 To assist the PCU in the contracting, supervision and payment of individual consultants, SUNAT has asked to contract the Inter-American Center of Tax Administrations (CIAT) to act as specialized agency, pursuant to the terms of reference agreed upon with the Bank. To facilitate the provision of this technical support, CIAT will channel its actions through the long-term advisor for component 2. CIAT will be paid a total of US\$180,000 for its services, divided into six equal semiannual payments to be made at the end of each six-month period. The

agreement to be signed by SUNAT and CIAT will be submitted to the Bank for prior approval. **Evidence that the agreement has been signed will be a condition precedent to the first disbursement.**

- 3.19 Contracting CIAT complies with all the criteria established in the Procurement Manual (GS-403) for making an exception to the international competitive bidding procedure established in Bank policies. CIAT has extensive experience in activities of this kind with government entities in the region. In the case of Peru, the center has performed satisfactorily as specialized agency in three earlier programs (technical-cooperation programs SUNAT I and II [ATN/SF-3777-PE and ATN/JF-4703-PE] and stage III of the program to strengthen SUNAT [loan 1050/OC-PE]), demonstrating its capacity to facilitate project execution (effective and efficient contracting mechanism and administration mechanism similar to the Bank's).
- 3.20 CIAT's technical and institutional experience and track record have been described in documents previously presented in support of different Bank operations. CIAT has ample capacity and uses a multidisciplinary approach to present a selection of the best consultants available in the area to the authorities. Another advantage it offers is that it maintains permanent contact with the tax administrations of different countries, which boosts its technical capacity to monitor the activities in which it has participated. This is a very significant factor since the field of tax administration is a difficult one, which demands constant technical attention and revision of processes, methods and technologies.

#### **G. Execution schedule and disbursement timetable**

- 3.21 The estimated disbursement period for the loan is three years counted from the date on which the loan contract comes into effect. This period is deemed sufficient to carry out the planned technical assistance activities and to tender and contract program activities and execute them, given SUNAT's execution capacity and the availability of the local contribution.
- 3.22 The disbursement schedule is summarized in the following table:

**Table III-2**  
**Annual program disbursements**  
(in US\$ millions)

Source	Year 1	Year 2	Year 3	Year 4	Total
IDB	2.16	4.10	2.00	0.60	8.86
Local	1.71	1.70	0.50	0.36	4.27
<b>Total</b>	<b>3.87</b>	<b>5.80</b>	<b>2.50</b>	<b>0.96</b>	<b>13.13</b>
Percentage	29.5	44.2	19.0	7.3	100.0

#### **H. Cost recognition and retroactive financing**

- 3.23 SUNAT has asked the Bank to recognize up to US\$800,000 from the local counterpart for expenditures related to program components incurred in the 18 months before the loan is approved. It has also asked to have US\$200,000 recognized from the loan as retroactive financing for consulting services to design the program and for activities carried out under its components, contracted within the 12 months before the loan is approved.
- 3.24 Provided it can be demonstrated that procedures substantially similar to those of the Bank have been followed, it is recommended that the expenditures be recognized from the local counterpart. The Bank's Country Office will review the documentation prior to final approval of the retroactive financing.

#### **I. Disbursements and revolving fund**

- 3.25 A revolving fund will be established of up to 5 percent of the loan proceeds for the purpose of making program disbursements. The PCU will present semiannual reports on the status of the fund within 60 days after the end of each period.
- 3.26 Based on the recommendations made in the evaluation of institutional capacity performed by ROS/DAU, the ex ante method will be used to review disbursements. At the request of the executing agency, that same method will also be used to review contracts for goods and services.

#### **J. External auditing**

- 3.27 The program's external auditing will be performed by a firm of independent auditors acceptable to the Bank. The audits will be carried out in accordance with terms of reference approved in advance by the Bank (documents AF-400 and AF-500). The firm will be selected and contracted following the Bank's standard bid process for auditors (document AF-200). The costs of the audits have been included in the cost of the program and will be financed from loan proceeds. The firm will be contracted by the executing agency for a minimum of three years, subject to a termination clause for unsatisfactory performance in the Bank's opinion. The program's financial statements will be presented within 120 days after the close of the fiscal year.

#### **K. Ex post evaluation**

- 3.28 No ex post evaluation has been planned, since the final evaluation will include an analysis of the project results and review compliance with its development indicators. However, the information compiled for the annual follow-up meetings and the midterm and final evaluations will include indicators that could be used for an ex post evaluation should the Bank decide to perform one.

## **IV. FEASIBILITY, BENEFITS AND RISKS**

### **A. Institutional feasibility**

- 4.1 The merger of SUNAT and Customs is one of the greatest challenges in the process of reform of the tax administration being undertaken by the Peruvian government. During the 1990s, both SUNAT and Customs undertook processes to professionalize their human resources and modernize their operating systems and procedures.
- 4.2 The know-how and experience gained by both institutions, coupled with their autonomous management, which continues to be maintained after the unification was decided upon and begun, are basic elements that favor the achievement of the institutional objectives of the new tax administration. Keeping the functional or business units separate offers some assurance that past progress and technical advances will be preserved, improved and optimized with the support to be received under the proposed program.
- 4.3 As for institutional capacity on the technical operations level, the activities included in the program are compatible with the tasks that need to be carried out by SUNAT's different units and their content and scope has been designed with extensive participation by and active consultation with the officials who will be in charge of executing the components in the different bureaus, directorates and line units. This experience has showcased the technical quality and commitment of the team, creating a favorable opinion of the capacity of the managers to lead and monitor program activities. Use of this participative approach has also ensured that the profiles and professional training of the experts will be compatible with program requirements, which will minimize their learning curve and the time it takes them to adapt to program mechanics. The approach has also created the necessary sense of ownership of the program and its technical content, which will facilitate its acceptance and implementation.
- 4.4 As for the capacity to administer the program, the project team asked ROS/DAU to evaluate SUNAT's institutional capacity under the framework of the Action Plan approved by the Bank's Board of Executive Directors (GN-2221). The evaluation covered an analysis of activities programming, administrative organization, personnel administration, administration of goods and services, financial administration, and internal and external control.
- 4.5 The evaluation establishes that SUNAT has public administration instruments and institutional capacity that can be used for adequate administration of the proposed project. The evaluation identifies needs for improvements in administrative practices, particularly in the area of internal control, and recommends that the installed capacity of the entity be used in the administration of goods and services and financial administration for project execution. Opportunities to improve

administrative practices have been included in component 1 to support the institutionalization of the integrated tax administration.

- 4.6 Considering the conclusions regarding the technical operating capacity to carry out modernization and strengthening activities and the capacity for administrative management of the program discussed in the preceding paragraphs, it can be concluded that the program's institutional feasibility is adequate.

## **B. Economic feasibility**

- 4.7 The Bank's country strategy stresses the importance of strengthening macroeconomic stability as a necessary condition for successfully implementing any reform to boost the productivity of the economy, reduce social inequity and modernize the State.<sup>14</sup>

- 4.8 If that stability is to be achieved, it will be necessary to obtain a primary public sector surplus of 1.2 percent of GDP by 2007, which is compatible with an annual increase in tax revenues of 0.4 percent of GDP.<sup>15</sup> These goals will be difficult to achieve unless the efficiency and effectiveness of the tax administration improve. The merger of SUNAT and Customs can work in that direction, provided it is accompanied by a series of measures to minimize certain risks associated with the process and/or to magnify the opportunities offered by an integrated administration. Otherwise, it is very likely that in the absence of such measures, the administration may encounter difficulties that have an adverse impact on revenues, at least in the short to medium terms, as has been in case in other Latin American countries, when the integration was not accompanied by comprehensive strategies to strengthen the business areas of tax collection and control of foreign trade.<sup>16</sup>

- 4.9 The risks of not attaining the goals established for revenues are greater if consideration is given to the fact that as a result of the low levels of investment since 1997, Customs' collection capacity is limited. Furthermore, the integration of Customs with a stronger institution like SUNAT will not automatically solve Customs' problems. Therefore, compliance with the revenue goals established by the authorities may be difficult in the absence of the measures proposed by the program to boost the technical and institutional capacity of the tax administration. To fully tap the benefits of the unification, a series of investments is required to optimize the joint use of existing resources. This is the approach that guides the program, while attempting to minimize the risks inherent in the integration process.

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<sup>14</sup> See IDB (2002), Country Strategy with Peru, Regional Operations Department 3, August 2002.

<sup>15</sup> See IDB (2003), Programming Mission Report, Regional Operations Department 3, March 2003.

<sup>16</sup> In 1993, Colombia attempted to merge the National Tax Directorate and the National Customs Directorate. However, a series of problems arose that made it necessary to reverse the process: (a) loss of the coercive apparatus intended to combat the problem of smuggling; (b) loss of control over goods on their arrival; (c) loss of information. See *Revista de Administración Tributaria*, CIAT/AEA/IEF, January 2001.

- 4.10 Although the proposed operation has the potential to help bring about a significant increase in tax revenues, looked at conservatively, the program will enable the tax administration to comply with the goals established by the authorities. Despite the differences in approach, the two positions coincide in that this operation will help to consolidate the country's macroeconomic stability, thereby avoiding the costs associated with an economic crisis. Further, and no less importantly, the proposed actions will reduce tax evasion, which will improve the horizontal equity of the tax system. These are clearly the main socioeconomic benefits of the program and they are closely linked to strengthening the administration's capacity to exert greater tax control.
- 4.11 Based on the categories in SUNAT's institutional plan, which were described in paragraph 1.19, **additional benefits** can be identified for the State/SUNAT and society as a whole. They are associated with better service for taxpayers, greater efficiency in administrative management as a result of the merger, better use of technological resources and the adoption of auditing and collection practices that were not applied previously (specific "collection-by-management" activities). The cost-benefit analysis, whose results are described below, has only considered the **additional benefits** in evaluating the marginal contribution of these actions to returns on the investment.
- 4.12 First, "the collection by management" activities in the areas of auditing and debt collection will permit the unified institution to obtain additional revenues of more than US\$13 million a year, starting in the second year of the program (Line C1, Table IV-1).
- 4.13 Integration of the information infrastructure will make it unnecessary to purchase the new equipment and technology that Customs needed (for security and contingencies), generating one-time savings of close of US\$2.4 million (line C2, Table IV-1). Also, when the entire investment has been made (year two), annual communications costs will be reduced by more than US\$500,000 (line C3, Table IV-1) as a result of beefing up SUNAT's equipment and redefining communications routes between the different servers.
- 4.14 Starting in the third year of the program, annual savings in administrative costs of close to US\$90,000 will be obtained (line C4, Table IV-1) as a result of: (a) the adoption of new computerized processes that will reduce the unit costs of tax collection (fewer forms, papers, etc.); and (b) better storage capacity in regional customs warehouses which will save the cost of shipping goods to Lima from those posts.
- 4.15 The unification will allow more efficient use to be made of human resources. Since no dismissals are planned, this will not be reflected in SUNAT's financial equation (unlike the benefits mentioned in the preceding paragraphs). However, starting in the second year, annual gains in productivity of close to US\$2 million are expected (line I4, Table IV-1).



- 4.16 Paying taxes over the Internet will generate savings for taxpayers who use the service of an estimated US\$200,000 a year, as a result of savings in time and transportation costs, since they do not have to travel to service centers (line I6, Table IV-1). Also, the better selection of channels for the passage of goods and streamlined customs formalities will reduce the waiting time for goods at customs and therefore will lower storage costs. This benefit will be an estimated US\$800,000 a year starting in the second year of the operation (line I5, Table IV-1).

**Table IV-1**  
**Economic analysis**  
**Breakdown of the incremental costs and benefits of the program**  
**(in US\$ thousands)**

Costs and benefits/period	2003	2004	2005	2006	2007
<b>1. From the standpoint of the state</b>					
<b>A. Total costs</b>	<b>3,860</b>	<b>7,330</b>	<b>3,510</b>	<b>1,040</b>	<b>1,040</b>
A.1. Investment	2,800	5,780	2,360	0	0
A.2. Operating and maintenance	530	980	1,020	1,020	1,020
A.3. Taxes	500	440	50	20	20
A.4. Other	20	120	70	0	0
<b>B. Total costs net of taxes</b>	<b>3,360</b>	<b>6,880</b>	<b>3,460</b>	<b>1,020</b>	<b>1,020</b>
<b>C. Benefits</b>	<b>2</b>	<b>15,040</b>	<b>14,340</b>	<b>13,940</b>	<b>14,050</b>
C.1. Increase in revenues	0	12,910	13,090	13,240	13,350
Internal revenues	0	10,440	10,590	10,710	10,800
Customs duties	0	2,470	2,500	2,530	2,550
C.2. Savings in infrastructure and equipment	0	1,700	600	50	50
C.3. Savings in communications	0	420	570	570	570
C.4. Savings in administrative costs	2	10	90	90	90
<b>D. Net financial benefit in current value</b>	<b>-3,350</b>	<b>8,160</b>	<b>10,880</b>	<b>12,910</b>	<b>13,030</b>
<b>E. Net financial benefit in present value*</b>	<b>-3,350</b>	<b>7,280</b>	<b>8,680</b>	<b>9,190</b>	<b>8,280</b>
<b>F. Accrued net financial benefit in present value *</b>	<b>-3,350</b>	<b>3,930</b>	<b>12,610</b>	<b>21,800</b>	<b>30,080</b>
<b>2. From the standpoint of society</b>					
<b>G. Total costs</b>	<b>3,860</b>	<b>7,330</b>	<b>3,510</b>	<b>1,040</b>	<b>1,040</b>
<b>H. Total costs net of taxes</b>	<b>3,360</b>	<b>6,880</b>	<b>3,460</b>	<b>1,020</b>	<b>1,020</b>
<b>I. Benefits</b>	<b>880</b>	<b>5,010</b>	<b>4,420</b>	<b>3,900</b>	<b>4,080</b>
I.1. Savings in administrative costs	2	10	90	90	90
I.2. Savings in infrastructure and equipment	0	1,700	600	50	50
I.3. Savings in communications	0	420	570	570	570
I.4. Increase in labor productivity	660	1,880	2,150	2,170	2,330
I.5. Savings in storage costs for importers	0	780	790	800	820
I.6. Savings in transaction costs for taxpayers	220	220	230	230	230
<b>J. Net economic benefit in current value</b>	<b>-2,470</b>	<b>-1,870</b>	<b>960</b>	<b>2,880</b>	<b>3,060</b>
<b>K. Net benefit for society in present value*</b>	<b>-2,470</b>	<b>-1,670</b>	<b>770</b>	<b>2,050</b>	<b>1,940</b>
<b>L. Accrued net economic benefit in present value*</b>	<b>-2,470</b>	<b>-4,140</b>	<b>-3,380</b>	<b>-1,330</b>	<b>620</b>

\* A discount rate of 12% was used.

**Source:** IDB, based on data provided by SUNAT and MEF.

**Note 1:** The increase in revenues is considered a transfer from the private sector to the State, and therefore is not a cost or a benefit for society as a whole.

- 4.17 The general results show that starting in year two of execution, the program will generate financial income that far outstrips the costs (lines E and F, Table IV-1), while from the standpoint of society, benefits will accrue starting in year three (line K, Table IV-1). During the period 2003-2007, the program will bring a net benefit for the State-SUNAT of US\$30 million (line F, Table IV-1), and for society the net benefit will be about US\$600,000 (line L, Table IV-1).

**C. Environmental and social impact and mitigation measures**

- 4.18 Given the nature of the activities to be financed, no direct environmental or social impact is anticipated. Profile II was reviewed by CESI at its meeting on 20 March 2003.
- 4.19 This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704).

**D. Benefits**

- 4.20 This program has the potential to help shore up the balance in the public accounts and therefore to maintain and consolidate macroeconomic stability, which is a necessary condition for actions and reforms intended to modernize government institutions, reduce social inequities and promote economic activity.
- 4.21 Through the priority actions and investments included in the program, SUNAT's efforts in the unification process will be supported and the groundwork will be laid for developing an integrated tax administration that will be more efficient and effective in carrying out its mission. Efficiency will be reflected in better use of resources and less expensive corporate support services, while effectiveness will be reflected in better tax and customs control and higher quality services for taxpayers and importers and exporters.
- 4.22 The economic analysis indicates that even leaving aside the impact on collections, the operation is beneficial to society as a whole, thanks to better allocation of resources by the administration and gains in efficiency for taxpayers and foreign trade users.
- 4.23 This operation will help tap the potential for obtaining revenues and delivering services of an integrated tax administration, improving the management of tax revenues over the medium term, which will make public sector financing more predictable and improve the horizontal equity of the tax system.

**E. Risks**

- 4.24 The risks identified in this operation are shown in the column of the logical framework headed "Assumptions". In view of its significance, it is worth noting that the main risk is associated with the direct, firm and continuous political support

that this institutional reform requires. These factors, which condition the environment, also have a marked influence on the institutional stability and continuity that is required to lead the unification process and institutionalize the integrated tax administration. Political interference that limits technical and institutional independence, and the instability associated with frequent changes in the entity's authorities, such as those that took place at the end of the last decade, are factors that condition the impact of the operation. Peru's economic authorities have been offering firm support for the reform and when the project was being prepared they confirmed their direct commitment to the process. Also, institutional leadership has remained stable since September 2001. However, with an eye to events that could take place in the medium term, the program will finance the preparation of draft legislation that grants the institution greater independence and promotes greater stability in SUNAT's technical teams, to prevent changes in leadership from adversely affecting institutional management capacity.

- 4.25 International experience with unification of the tax and customs administrations suggests that one of the greatest risks in the technical area lies in the probable loss of efficiency of the customs systems, since generally this function is given lower priority than the actions targeted to internal revenue. To avoid this risk, the program includes actions to modernize the processes that are common to both systems and plans a series of specific activities to fortify the processes of control over foreign trade by shoring up Custom's institutional achievements and helping to improve its operational and managerial efficiency.
- 4.26 Another potential risk is linked to the human resistance to change inherent in an institutional integration process in which there could be a loss of status and functional identity. Although the integration process has not encountered difficulties in the initial stages, under the component to support the institutionalization of the integrated tax administration, the program defines a series of activities in the area of human resources, information and training to prevent resistance from jeopardizing the process.

**LOGICAL FRAMEWORK**  
**PROJECT FOR THE INTEGRATION AND MODERNIZATION OF THE TAX AND CUSTOMS ADMINISTRATIONS**  
**(PE-0223)**

Description	Indicators	Means of Verification	Assumptions
<b>Objective</b>			
1. To contribute to a sustained increase in tax revenues and to facilitate foreign trade operations.	<p>1.1 The government's revenue goals are achieved. (Goals contained in the agreements with the IMF and the IDB's fiscal reform program PE-211. Tax revenues in 2006 equivalent to 13.1% of GDP.)</p> <p>1.2 Duties from foreign trade operations are compatible with the medium-term projections of the government's program. (Balance of payment estimates agreed on with the IMF. In 2006, duties on exports and imports equivalent to 12% of GDP and 10.3% of GDP, respectively.)</p>	<p>1.1 SUNAT tax collection reports and government financial statements by SIAF (integrated financial administration system).</p> <p>1.2 Reports on foreign trade (Central Bank), exports and imports of goods and services.</p>	<p>Political support for the institutional reform is maintained.</p> <p>Macroeconomic stability is maintained. The economy grows at a rate that is compatible with the medium-term estimates (IMF agreement).</p> <p>Changes in tax policy in accordance with the fiscal reform program (PE-0211).</p> <p>Trade policy continues to maintain the current degree of economic openness.</p>
<b>Purpose</b>			
2. SUNAT operates in an integrated manner, applying modern, optimized processes for tax administration and control of foreign trade exterior.	<p>By the end of the program:</p> <p>2.1 Integrated corporate services <i>Indicator:</i> Corporate services operate under a single management (there is no duplication of functions). <i>Indicator:</i> Support staff out of total staff is reduced from 31% in 2002 to 21% in 2006.</p>	<p>2.1 Project completion reports.</p>	<p>Continuity in economic policy.</p>

Description	Indicators	Means of Verification	Assumptions
	<p>2.2. Better interaction between the administration and taxpayers, reduction in the time spent by taxpayers on customs and tax formalities.</p> <p><i>Indicators:</i></p> <ul style="list-style-type: none"> <li>• Waiting time per transaction falls from 14 minutes in 2002 to 10 minutes in 2006.</li> <li>• Number of clients served at the Taxpayer Service Centers rise from 1.9 million (2002) to 3.8 million (2006).</li> <li>• Average customs clearance time falls from 20 hours in 2003 to 8 hour in 2006 (weighted average for exports and imports).</li> </ul>	<p>2.2.1 Financial reports by SUNAT and Customs (2001) and financial reports by the unified SUNAT (2003-2006).</p> <p>2.2.2 SUNAT management indicators.</p>	<p>Political support for institutional reform.</p>
	<p>2.3 Increase in the efficiency and effectiveness of control of tax and foreign trade obligations.</p> <p><i>Indicators:</i></p> <ul style="list-style-type: none"> <li>• Tax revenues through “collection-by-management” activities increases by at least 12% in the period 2002-2006.</li> <li>• Increase in coverage of tax audits: (i) the number of audits rises from 6,047 (2002) to 7,060 (2006); (ii) the number of general verifications rises from 15,526 in 2002 to 17,170 in 2006; (iii) the number of inductive verifications rises from an estimated 26,968 in 2003 to 35,800 in 2006.</li> <li>• The number of post-audits in foreign trade operations rises from 1,059 (2002) to 1,686 in 2006. The percentage of incidents detected rises from 70% to 75%.</li> <li>• Arrears in the general regime fall from 13.2% in 2002 to 9.5% in 2006.</li> </ul>		<p>Continued and firm support from the executive branch during the program.</p>

Description	Indicators	Means of Verification	Assumptions
<b>Components</b>			
3.1 Corporate support services unified and operating efficiently	<p>By the end of the program:</p> <p>3.1.1 New organization and operating structure implemented.</p> <p><i>Indicator:</i> New regulations governing organization and functions and a new manual on organization and functions, which include the adjustments made on the basis of the annual evaluations and the new definitions of processes and functions in the business areas.</p> <p>3.1.2 Master systems for the following, fully functional:</p> <p><b>Management planning and control</b></p> <p><i>Indicator:</i> Annual operating plans are reflected in the budget. Annual management evaluations of each operating unit.</p> <p><b>Human resources</b></p> <p><i>Indicators:</i> Single wage scale, career path, new rules for personnel management in effect, annual results-based performance evaluations, computerized system in operation.</p> <p><b>Integrated financial management and goods and services system</b></p> <p><i>Indicator:</i> Unified budget, financial administration system is integrated with the procurement system, including computer applications, procedures and rules.</p> <p>3.1.3 Legal and regulatory framework compatible with the operation of an integrated administration.</p> <p><i>Indicator:</i> Rules and regulations issued. Draft legislation to confer greater independence on SUNAT.</p> <p>3.1.4 Communications and training plan implemented.</p> <p><i>Indicator:</i> 120 workshops on ethics and integration held during the program. All employees in management areas receive training.</p>	3.1 Program progress reports. Final evaluation report.	

Description	Indicators	Means of Verification	Assumptions
<p>3.2. Tax administration and foreign trade control processes optimized</p>	<p>By the end of the program, the following systems are operating:</p> <ul style="list-style-type: none"> <li>• <b>Master taxpayer roll (RUC) modernized</b> <i>Indicator:</i> the RUC is used as the main taxpayer identifier in both business areas. At least 35% of RUC transactions are made over the Internet (baseline in 2002 is 0%).</li> <li>• <b>Integrated auditing system</b> <i>Indicator:</i> By the end of the program, 88% of tax audits are selected, controlled and evaluated through the integrated auditing system (baseline in 2002 is 80%).</li> <li>• <b>National database</b> <i>Indicator:</i> 100% of foreign trade information is integrated and updated in the national database (50% coverage in 2002).</li> <li>• <b>Integrated tax collection system</b> <i>Indicator:</i> By the end of the program, the cost of bank tax collection (per declaration) is reduced by 15% over the cost in 2002.</li> <li>• <b>Mechanisms for data quality management</b> <i>Indicator:</i> Rules, procedures and computer applications for support implemented.</li> <li>• <b>Pre-enforcement collection</b> <i>Indicators:</i> Ratio between the number of taxpayers who pay during the pre-enforcement process vs. total taxpayers subject to enforced collection rises from 27% (2002) to 40% (2006).</li> <li>• <b>Automated customs clearance</b> <i>Indicator:</i> 100% of the customs regimes are integrated into the system.</li> <li>• <b>SIGAD redesigned and implemented</b> <i>Indicator:</i> System 100% designed in integrated modules.</li> <li>• <b>Agencies integrated electronically with SUNAT</b> <i>Indicator:</i> At least 50% of the agencies involved in customs clearance interact with SUNAT.</li> </ul>	<p>3.2 Progress reports. Final evaluation report.</p>	

Description	Indicators	Means of Verification	Assumptions
	<ul style="list-style-type: none"> <li>• <b>ISO 9000 certification renewed</b> <i>Indicator:</i> Certification issued by the competent agency.</li> <li>• <b>Integrated customs risk system</b> <i>Indicator:</i> The percentage of concurrent control (red channel) increases from 14% (2002) to 19% (2006). The percentage of control in the orange channel rises from 6% to 10% in the same period.</li> </ul>		
3.3. Standardized and modernized technology infrastructure is providing effective support for integrated management of the tax administration	<ul style="list-style-type: none"> <li>• <b>Integrated information and communications system</b> <i>Indicator:</i> Consolidated computer center in operation. Reduction in communications costs of about US\$500,000 compared to 2002. Consolidated computer center in operation. Three-layered information platform introduced.</li> <li>• <b>Single portal implemented</b> <i>Indicator:</i> Ratio of virtual transactions out of transactions that could be conducted virtually rises from 12% in 2003 to 45% in 2006.</li> <li>• <b>Standards and methodologies for systems development and information management projects</b> <i>Indicator:</i> 100% of information projects are designed on the basis of institutional methodologies and standards and are formulated in the same development tool.</li> </ul>	3.3 Program progress reports. Final evaluation report.	
<b>4. Activities</b>	See the detailed table on activities per component.		<p>Management teams respond to the requirements for program implementation.</p> <p>Resistance to institutional change is overcome.</p> <p>SUNAT's budget is adequate. Counterpart funds and loan proceeds are available when needed.</p> <p>Internal policy decision to promote proposed changes.</p>



## PROCUREMENT PLAN

Main program procurements	Financing		Procurement method	Pre- Qualific.	Tentative date	Status
	IDB (%)	Local (%)				
1.Equipment, hardware and software						
Software for human resources US\$354,000	85	15	ICB	No	1 sem. 2005	Awarded
Software for financial administration US\$472,000	85	15	ICB	No	1 sem. 2004	
Equipment for the control and audit centers (PCs, fax, photocopiers) US\$500,000	38	62	LCB	No	1 sem. 2004	
Units and mobile equipment for customs control, US\$500,000	85	15	ICB	No	2 sem. 2003	
Equipment for customs warehouses (scales, forklifts, other) US\$236,000	85	15	LCB	No	2 sem. 2003	
Software to track enforced collections US\$118,000	85	15	LCB	No	2 sem. 2003	
Robot for the pre-enforcement system US\$350,000	0	100	LCB	No	2 sem. 2004	
Server and client licenses for DataStage XE US\$118,000	85	15	LCB	No	2 sem. 2003	
1 server for web applications US\$35,000	0	100	LCB	No	2 sem. 2003	
200 portable computers US\$177,000	85	15	LCB	No	2 sem. 2003	
Communications software US\$70,000	85	15	LCB	No	2 sem. 2003	
Communications interface US\$60,000	85	15	LCB	No	2 sem. 2003	
Software for risk management (includes consulting services) US\$200,000	86	14	LCB	No	1 sem. 2004	
Servers/backup system US\$800,000	0	100	LCB	No	1 sem. 2003	
100 licenses for Java (IDE) US\$170,000	85	15	LCB	No	1 sem. 2005	
Warehouse facilities US\$350,000	85	15	ICB	No	2 sem. 2004	
2 dominions with 8 processors (includes contingencies) US\$470,000	85	15	ICB	No	2 sem. 2004	
2 servers for RISC applications, 64 bits US\$280,000	85	15	ICB	No	2 sem. 2005	
5 communications links (includes backup) US\$40,000	0	100	LCB	No	2 sem. 2003	
2 radio links with repeater station US\$24,000	0	100	LCB	No	2 sem. 2003	
20 provincial radio link points US\$160,000	85	15	LCB	No	2 sem. 2003	
1 tool to develop the web portal US\$300,000	85	15	ICB	No	2 sem. 2003	
Tools to design web presentations US\$10,000	85	15	PS	No	2 sem. 2004	
Modeling tool US\$150,000	0	100	LCB	No	2 sem. 2003	
Tool for management of information projects US\$10,000	0	100	PS	No	1 sem. 2004	
2. Infrastructure						
Infrastructure for the control and audit centers US\$110,000	0	100	PS	No	1 sem. 2004	
Rehabilitation of infrastructure for 20 customs inspection posts US\$230,000	85	15	LCB	No	1 sem. 2004	
3. Consulting services						
a. Individual consultants						
2 long-term consultants for 36 months each						
95 months of international consulting services and						
360 months of local consulting services (US\$3.8 million)	84	16	DC	No	2 sem. 2003	
b. Business consulting						
Design of portals US\$47,000	85	15	LCB	No	1 sem. 2004	
Notes: ICB – international competitive bidding; LCB – local competitive bidding; PS – price shopping; DC – direct contracting without competition						

## PROGRESS INDICATORS FOR THE MIDTERM EVALUATION

### Quantitative Progress Indicators

Indicator	Unit	2002	2004
Percentage of support staff out of all personnel	Percentage	31%	27%
Waiting time for transactions and advisory services	Minutes	14,0	12,0
Number of people assisted at the taxpayer service centers	Number of cases (in millions)	1,9	2,9
Number of audits:			
Audits	No. of interventions	6.047	6.405
General verifications	No. of interventions	14.832	15.570
Inductive verifications (large scale)	No. of interventions	26.968	29.665
Post-audits, foreign trade	No. of cases	1.059	1.353
Percentage of RUC transactions using the Internet	Percentage	0%	16%
Percentage of savings in bank commissions compared to 2002	Percentage		11%
Percentage of payment prior to enforced collection out of all payments	Percentage	27%	32%
Percentage of concurrent control Red Channel 1/	Percentage	14,13%	16,25%
Percentage of concurrent control. Orange Channel 1/	Percentage	6,31%	7,89%
Integration workshops a year	Number		40
Ratio of virtual transactions/total transactions	Percentage		15%

1/ Maritime customs at Callao

### Progress indicators per component (end of 2004)

Component	Area of intervention	Verification indicators
1	Administrative organization	Survey of processes for defining the new organizational structure concluded.
1	Management planning and control	Methodologies for planning and control of management by results designed and approved.
1	Human resources	Subsystems for hiring and personnel development designed and approved (including technical specifications).
1	Financial administration	Computer applications for the financial administration system developed and implemented.
1	Regulations and laws	Review of the regulations concluded. Aspects that require harmonization fully identified.
1	Internal control – training	Training program in internal control carried out.
2	Tax audits	Four control and audit centers in operation.
2	Training in auditing	Training programs in auditing designed. Initial courses given.
2	Integrated audits	Pilot program for joint audits developed and evaluated. New auditing model designed.
2	Pre-enforced collection	Rules and procedures for pre-enforced collection approved and being fully applied.
2	Customs management system	SIGAD redesigned and implemented.
2	Risk analysis system	Risk analysis system developed and implemented.
2	Customs quality certification	ISO 9000 certification renewed.
3	Modernization of the information and communications system	Integrated communications platform. Savings in communications costs verified.
3	Modernization of the information and communications system	Strategy to centralize the information systems and operations databases defined. New architecture of computer applications designed and approved.