

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

## **PERU**

# **TAX AND CUSTOMS MANAGEMENT CONSOLIDATION PROJECTS**

**(PE-L1130)**

## **LOAN PROPOSAL**

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ELECTRONIC LINKS	
<b>REQUIRED</b>	
1. Project Annual Work Plan (AWP) – 18 months	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38751458">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38751458</a>
2. Monitoring and Evaluation Plan	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38745798">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38745798</a>
3. Initial Project Procurement Plan	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38751457">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38751457</a>
<b>OPTIONAL</b>	
1. Profile Study of the National Public Investment System (SNIP) – SUNAT Confidential document*	
2. Profile Study of the National Public Investment System (SNIP) – MEF Confidential document*	
3. Project Risk Management	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38750807">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38750807</a>
4. Economic Analysis Confidential document*	
5. Itemized Budget	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38745814">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38745814</a>
6. Program Execution Plan (PEP)	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38772048">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38772048</a>
7. Multiyear Macroeconomic Framework (MMF) in force	<a href="http://www.mef.gob.pe">http://www.mef.gob.pe</a>
8. MEF calculation methodology report	<a href="http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38771736">http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38771736</a>

(\*) At the request of the borrowing country, the information contained in this document will not be disclosed. The non-disclosure of this information is in accordance with the “country-specific information” exception in paragraph 4.1 i of the Bank’s Access to Information Policy.

## ABBREVIATIONS

AEO	Authorized economic operator
AWP	Annual work plan
CBM	Coordinated Border Management
COFOPRI	Organismo de Formalización de la Propiedad Informal [Informal Property Formalization Agency]
DGPIP	Dirección General de Política de Ingresos Públicos [Public Income Policy Bureau]
DUCPS	Dirrección Unidad de Coordinación de Préstamos Sectoriales [Sector Loan Coordination Unit Office]
IGV	Impuesto General a las Ventas [General sales tax]
IMF	International Monetary Fund
INSI	Intendencia Nacional de Sistemas de Información [National Information Systems Department]
IT	Information technology
LAC	Latin America and the Caribbean
MEF	Ministry of Economy and Finance
MEPECOS	Medianos y pequeños contribuyentes [Small and medium-sized taxpayers]
MMF	Multiyear macroeconomic framework
NSRTM	Nuevo Sistema de Recaudación Tributaria Municipal [New Municipal Tax Collection System]
OGTI	Oficina General de Tecnologías de Información [General Information Technology Office]
OSCE	Organismo Supervisor de Contrataciones del Estado [Government Procurement Oversight Authority]
POM	Project Operating Manual
PRICOS	Principales contribuyentes [main taxpayers]
RER	Régimen Especial de Renta [Special Income System]
RUS	Régimen Único Simplificado [Simplified Single System]
SIAF-GL	Sistema Integrado de Administración Financiera para Gobiernos Locales [Integrated Financial Management System for Local Governments]
SNIP	Sistema Nacional de Inversión Pública [National Public Investment System]
SUNAT	Superintendencia Nacional de Aduanas y de Administración Tributaria [National Tax and Customs Administration Authority]

## PROJECT SUMMARY

### PERU TAX AND CUSTOMS MANAGEMENT CONSOLIDATION PROJECTS (PE-L1130)

Financial Terms and Conditions					
<b>Borrower:</b> Republic of Peru  <b>Executing agency:</b> National Tax and Customs Administration Authority (SUNAT)			<b>Flexible Financing Facility (FFF)*</b>		
			<b>Amortization period:</b>		8.5 years
			<b>Original WAL:</b>		7.33 years**
			<b>Disbursement period:</b>		6 years
<b>Source</b>	<b>Amount (US\$ million)</b>	<b>%</b>	<b>Grace period:</b>		6.5 years
			<b>Inspection and supervision fee:</b>		***
<b>IDB (Ordinary Capital)</b>	15.00	21	<b>Interest rate:</b>		LIBOR-based
<b>Local</b>	58.03	79	<b>Credit fee:</b>		***
<b>Total</b>	<b>73.03</b>		<b>Currency:</b>		U.S. dollars from the Ordinary Capital
Project at a Glance					
<b>Project objectives.</b> The general objective of the project is to increase general government's structural income, measured as a percentage of gross domestic product (GDP).					
The specific objectives are: (i) to make checks on taxpayers' compliance at the national level more effective; and (ii) adequate management of public income policy, with an emphasis on municipal tax receipts (see paragraph 1.24).					
<b>Special contractual conditions precedent to the first disbursement:</b> Evidence must be submitted to the Bank's satisfaction that: (i) a project coordinator has been hired and/or appointed, for both SUNAT activities and Ministry of Economy and Finance (MEF) activities; (ii) an agreement has been signed for the transfer of funds between the MEF and SUNAT; and (iii) the project operating manual has been approved (see paragraph 3.8).					
<b>Exceptions to Bank policies:</b> None.					
<b>Project qualifies as:</b>		SEQ [ ]	PTI [ ]	Sector [ ]	Geographic [ ]
					Headcount [ ]

\* Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, and currency and interest rate conversions. When considering such requests, the Bank will take market conditions into account, along with operational and risk-management considerations.

\*\* The weighted average life (WAL) may be shorter, depending on the actual signature date of the loan contract.

\*\*\* The credit fee and inspection and supervision fee will be established by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the corresponding policies.

## I. DESCRIPTION AND RESULTS MONITORING

### A. Background, challenges, and rationale

- 1.1 Since 1990 Peru has aimed for macroeconomic stability, which contributed to its achieving the highest growth rates and lowest inflation rates of the seven largest Latin American and Caribbean countries (LAC-7) between 2000 and 2012.<sup>1</sup> Macroeconomic policy was a cornerstone of this achievement, based on prudent countercyclical management, allowing the stock of public debt as a percentage of gross domestic product (GDP) to be cut from 44.3% in 2004 to 19.7% in 2012. This helped earn the country an investment grade rating from the main international ratings agencies.
- 1.2 As regards taxation, in the early 1990s Peru introduced sweeping tax reform, lowering and simplifying taxes, setting moderate rates and having a broad tax base. In the area of tax and customs administration, the Tax and Customs Directorates were reformed, initially to give them functional, technical, and administrative autonomy, and to help raise professional standards in the tax collection and customs control functions. The two entities were merged in 2002 to create the Superintendencia Nacional de Administración Tributaria [National Tax Administration Authority] (SUNAT),<sup>2</sup> and the new body was also given the task of collecting social security contributions.
- 1.3 These tax and customs administration policy measures helped increase the general government tax burden (including social contributions, non-tax revenue collected by SUNAT, and municipal taxes)<sup>3</sup> from 11.7% to 18% of GDP between 1990 and 2010. Despite this increase, this indicator was still 2.5 percentage points below the Latin American and Caribbean average in 2010, and below the average for countries with similar income levels to Peru.<sup>4</sup> Additionally, the tax burden is highly centralized: in 2010, 98% of general government income was collected by central government, while just 2% was collected by local governments.
- 1.4 Central government tax policy is the responsibility of the Public Income Policy Bureau (DGPIP), which reports to the Office of the Deputy Minister for the Economy at the Ministry of Economy and Finance (MEF). In this context, the DGPIP has been taking the lead from the central government on municipal taxation, which is a key issue in the decentralization process, as it encourages a closer match between municipal income and expenses. However, the absence of a body taking full responsibility for operational aspects has led to insufficient attention being paid to them.<sup>5</sup> Thus, the DGPIP will take responsibility for the technical coordination of

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<sup>1</sup> Source: World Economic Outlook statistics, International Monetary Fund.

<sup>2</sup> It was renamed the Superintendencia Nacional de Aduanas y de Administración Tributaria [National Tax and Customs Administration Authority] in 2011.

<sup>3</sup> General government includes regional and local governments as well as the central government.

<sup>4</sup> IDB, based on information from the countries' tax administrations.

<sup>5</sup> In the medium term the DGPIP should concentrate on tax policy and the task of coordination and operational support with the municipios should be assigned to another MEF unit.

the Municipal Tax Collection System, developed by the MEF's General Information Technology Office (OGTI) to support administration of local governments' own revenues.

- 1.5 In December 2011 a law was passed strengthening SUNAT's autonomy. Among other things, this gave the superintendent a stable five-year term as the institution's maximum authority. This is a key reform given the rapid turnover in superintendents in the previous five years, which hindered consolidation of reforms to improve institutional management.
- 1.6 **Rationale.** The Government of Peru set a target of increasing structural income as a percentage of GDP<sup>6</sup> without reforming the tax system, with the aim of using the increased revenues to extend the scope of social programs and reduce poverty, in a framework of fiscal equilibrium. This target addresses improvements to tax and customs administration and policy at the level of central and local governments. Thus, SUNAT and the MEF's Public Income Policy Bureau (DGPIP) have requested the Bank's support on structuring an operation to help increase general government's structural income as a percentage of GDP.
- 1.7 With the Bank's technical assistance the two institutions have prepared the respective preinvestment studies, in line with Peru's National Public Investment System (SNIP) guidelines. These studies are being supported with technical input from Bank specialists and a technical cooperation operation on support for the development of studies geared to improving SUNAT integrated services and the services of the MEF's DGPIP (ATN/AT-13539-PE).
- 1.8 The SUNAT preinvestment study identified the central problem to be limited effectiveness in overseeing the universe of taxpayers managed at the national level.<sup>7</sup> This affects these taxpayers' perception of risk, hampering efforts to reduce tax avoidance and evasion, in particular, which currently stands at approximately 10% of GDP for the two main taxes collected by SUNAT.<sup>8</sup> In turn, these levels of evasion constrain efforts to increase central government's structural income as a percentage of GDP.
- 1.9 The causes of this problem include, first, the limited checks made on taxpayers' filing and payment obligations. Indeed, there is no single centralized database in which to consult a taxpayer's tax balance, referred to as a tax account.<sup>9</sup> This is due to the tax debt's being calculated and monitored by four different systems,

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<sup>6</sup> The target of the [current Multiyear Macroeconomic Framework](#) envisages an increase in general government structural income from 20.3% of GDP in 2012 to 21.8% in 2016. As explained in the MEF's calculation methodology ([optional electronic link 8](#)), structural income isolates transitory and/or cyclical components of the public finances related to the effects of the economic cycle and key price fluctuations.

<sup>7</sup> The managed taxpayers are foreign trade users and taxpayers for domestic taxes.

<sup>8</sup> Corresponding to 3% of GDP in 2012 for the General Sales Tax (IGV), which is equivalent to the value added tax in Peru; and 7% of GDP for 2008-2010 for income tax.

<sup>9</sup> A number of LAC countries use the tax account approach, including Argentina, Brazil, Chile, Colombia, and Mexico.

depending on its origin (internal taxes or customs duties), size of the taxpayer (main taxpayers—PRICOS; or small and medium-sized taxpayers—MEPECOS); and the status of the debt (debt balances or documents issued for debt collection). These four systems are not interconnected, and in the case of MEPECOS, the calculation of the tax liability and corrections to balances are not automated, which increases errors and delays in obtaining the information.<sup>10</sup> Additionally, the coverage of control of the current systems includes the main taxpayers and 10% of the small and medium-sized taxpayers (General System and Special Income System — RER),<sup>11</sup> and that number can be increased. This limits SUNAT's capacity to check compliance with tax and customs obligations.

- 1.10 Second, in the case of internal taxes, and for taxpayers who fail to file their tax returns and pay their taxes, SUNAT carries out inducement activities to settle their obligations.<sup>12</sup> However, there is no inductive management system, which leads to a series of inefficiencies in contacts with taxpayers: the channels of contact (online, telephone, in person) are not coordinated, there is no centralization of contact information, and inducement activities do not take into account each taxpayer's tax profile. In turn, the lack of a tax account means that inducement measures tend to be ill-timed and, ultimately, ineffective as the balances owed have to be checked by hand due to the errors they contain.
- 1.11 Third, although auditing applies certain risk criteria, SUNAT lacks a comprehensive risk-management model. This prevents it from obtaining maximum benefit from its checks. Shortcomings include: (i) evasion risk is profiled independently for tax and customs obligations, leading to separate inspection of the same taxpayer; (ii) information sources, such as reports or past inspections, are not used properly; (iii) SUNAT does not apply uniform categorization of compliance risks; (iv) there is a general lack of awareness of risk analysis methods, information sources and their availability; and (v) there is no tax account, and the deficiencies in inductive management prevent adequate risk management, leading to ill-timed and inefficient tax inspections. Thus, in 2011 and 2012 the noncompliance detection rate in tax inspections averaged 53%, which is low relative to international experience.<sup>13</sup>
- 1.12 In the specific case of customs, Peru aims to implement Coordinated Border Management based on good practices at the most advanced customs authorities and

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<sup>10</sup> In some cases the information is obtained once a month and there is no automatic offsetting of credit and debt balances from previous periods.

<sup>11</sup> MEPECOS (small and medium-sized taxpayers) include taxpayers in the general system, the special income system (RER), the simplified single system (RUS), and self-employed workers. The first three groups are business taxpayers, in decreasing order of size of taxpayer.

<sup>12</sup> Inducement activities: set of systematic initiatives by the tax administration to persuade (without imposing legal sanctions) taxpayers in arrears to settle their outstanding tax debt.

<sup>13</sup> According to the World Bank (2013) the average for five developing countries (Croatia, Moldova, Montenegro, Paraguay, and the Dominican Republic) is 78%.

under the technical auspices of the World Customs Organization.<sup>14</sup> To this end, it is necessary to update the regulatory framework; improve information interoperability and risk management to coordinate with other bodies (foreign trade, national police, etc.); strengthen the logistics chain through the development of the Authorized Economic Operator (AEO);<sup>15</sup> and address deficiencies in control processes, focusing on equipping customs better: SUNAT is estimated to have less than 30% of the equipment it needs for nonintrusive inspection and tracing, and this situation is worse at the customs in the interior of the country. The number of surveillance vessels for monitoring its coasts and inland waterways is also insufficient. This shortage of equipment prevents effective control of smuggling, which was estimated to be valued at US\$548 million in 2012 (8% of the tax revenue from imports).<sup>16</sup>

- 1.13 Lastly, it suffers from limitations regarding information systems and equipment, which are inadequate to meet the institution's growing internal and external demands efficiently. This is due to obsolete computer hardware; out-of-date software applications developed using multiple programming languages; and inadequate incident management processes, which are reactive, uncoordinated, and respond to users inefficiently. Thus, National Information Systems Department (INSI) support requests, measured in terms of user support requests and requests to solve database problems, have risen six-fold from 85 to 520 per day over the last decade. Also, the number of hours the internal tax and customs systems are unavailable each year is relatively high (averaging more than 10 hours), generating delays for taxpayers that translate into economic losses.
- 1.14 For its part, the MEF's preinvestment study identified the core problem to be the DGPIP's limited capacity to manage public income policy, with an emphasis on municipal tax receipts. Indeed, the DGPIP presents limitations in terms of effective fulfillment of other functions relating principally to its organizational structure, its document management system, staff capabilities, and tools for monitoring public income, at both the central and local government levels. Additionally, as of 2013 DGPIP took on responsibility for supporting local governments' collection of their own revenues, but has not been given sufficient resources and capacities to fulfill this mandate.
- 1.15 The causes of the constraints on the DGPIP's ability to fulfill its functions have been identified as: (i) its organizational structure, which has not been adapted to the competencies established in the MEF's March 2011 organizational reform, in

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<sup>14</sup> Coordinated Border Management consists of a series of national, binational, regional, and global standards, which combined and based on risk management, address the need for effective control and reduce the costs of trade, supported by early and high quality information, modern inspection processes and techniques, leading edge technology, infrastructure and nonintrusive equipment.

<sup>15</sup> The AEO allows SUNAT to reduce auditing resources by authorizing reliable, formal operators; meanwhile, operators benefit from the lower cost of customs processing, which makes them more competitive.

<sup>16</sup> Source: Public Investment Project (PIP) SUNAT, based on SUNAT customs information.

particular as regards its new responsibilities for international matters and municipal taxation; (ii) it lacks a dedicated document management system that includes a digital archive, inter-linking with data from related entities (such as SUNAT and the tax tribunal), or tools for case follow-up; thus, as of February 2014, 73% of DGPIP cases had not received a response in over 30 days; (iii) there are gaps in DGPIP officials' capacities as regards sector analysis, particularly in international, subnational, and financial sector taxation; and (iv) the DGPIP suffers from an equipment deficit: 92% of its computers are approaching the end of their useful life, and it lacks applications for tax analysis and microsimulation, together with access to specialized databases and publications.

- 1.16 In the case of municipal taxes, the main taxes collected by local governments, in order of importance, are land tax, property sales tax, and vehicle tax.<sup>17</sup> The rates and bases for these taxes are defined at the central government level, while local governments handle tax administration. Although there are 1,838 local governments in Peru, own revenue is only relevant in urban areas. Thus, although 13.5% of local governments, accounting for 67% of the population, classified by the MEF as Type A principal cities (40) and Type B principal cities (209) accounted for 76% and 20%, of municipal tax receipts, respectively, in 2012.<sup>18</sup>
- 1.17 Local government tax revenues in Peru are low: between 2002 and 2011 they stood at around 2% of total revenues and 0.3% of GDP. In particular, land tax, which in 2012 represented 60% of municipal taxes, or 0.18% of GDP, generates a tax burden in Peru that is half the Latin American and Caribbean average (0.36% of GDP) and barely 8% of the average for developed countries (2.12% of GDP).<sup>19</sup> These values could be raised by improving management, particularly in the Type B principal cities, where barely 15% of the debt notices issued are collected.<sup>20</sup>
- 1.18 In this framework, as part of the development of the Integrated Financial Management System for Local Governments (SIAF-GL), in 2003 the MEF's General Information Technology Office (OGTI) began developing an information system to automate the municipal tax administration process. The starting point for this system was updating the land register, allowing municipios to improve the information available on their tax base. In turn, automation of the tax administration process improves the quality of the data on each taxpayer's tax liability, thus helping make collection more efficient. Thus, for 52 municipios in which the Municipal Tax Collection System was operational between 2010 and 2012,

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<sup>17</sup> Local governments also collect their own excises and non-tax income for the provision of local services (security, street cleaning, parks and gardens, traffic fines).

<sup>18</sup> The classification by size of local government forms part of the Municipal Management Incentives Plan, created in 2010 by the MEF, which grants monetary transfers to local governments based on their meeting targets for improving municipal management, including targets for land tax receipts. Type A principal cities have larger populations than Type B cities. See Annex 1 of Supreme Decree 002-2010-EF.

<sup>19</sup> Source: Sepúlveda and Martínez-Vázquez (2009).

<sup>20</sup> Source: DGPIP (2014). Information for 2012: covers 81% of the local governments in this group. For type A principal cities, 73% of amounts due are collected (covers 83% of the local governments in this group).

municipal income grew at an average annual rate of 21%, compared with 14% for local governments as a whole.

- 1.19 Notwithstanding the merits of the system, it has a number of limitations which the current operation seeks to overcome: (i) it is not interconnected with the MEF, which prevents monitoring of municipal tax collection; (ii) it was developed in an obsolete programming language that will cease to be supported in 2015; (iii) it does not include all the municipal taxation processes;<sup>21</sup> (iv) it does not interface with other IT applications, which constrains tax collection efficiency and data verification;<sup>22</sup> and (v) it has been managed by the MEF's OGTI only, which has no staff specializing in municipal taxation, without the involvement of the DGPIP, due to the lack of clarity over functional responsibility in this area.<sup>23</sup> These issues, identified in the MEF's preinvestment study, are undermining local governments' ability to collect their own revenues. They also limit the DGPIP's effectiveness at designing and promoting public revenue policies, and its relevance as the body responsible for supervising tax collection. Moreover, in conjunction with the issues identified as affecting SUNAT, it restricts the Government of Peru's capacity to increase structural income, not just for central government but for general government as well. Thus, SUNAT and the MEF's DGPIP identify this operation as providing key support for increasing structural income.
- 1.20 The project's beneficiaries are: (i) Peru's taxpayers, whose tax and customs obligations will be made easier to comply with thanks to the master account and improved telematic services; (ii) SUNAT officials, who will have better tools, equipment, and systems to work with; (iii) local governments targeted by the project, which will have better tax collection systems; (iv) DGPIP officials, who will have better capacities, processes, and tools to fulfill their functions; and (v) the general public, which will receive more public goods and services thanks to increased structural income.
- 1.21 **Bank support.** Since the reform of SUNAT in 1991, the Bank has been supporting the institution continuously with satisfactory results through technical cooperation operations and investment loans in tax and customs administration. The most recent loan was the Project for the Integration and Modernization of the Tax and Customs Administrations (loan 1482/OC-PE), execution of which concluded in April 2012. Its purpose was to help the process of integrating the tax and customs administration that had begun in 2003. The main lesson learned from this loan was the importance of giving SUNAT autonomy and having stability in its top

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<sup>21</sup> Among other things, it lacks a taxpayer guidance and support module and business intelligence.

<sup>22</sup> The key interfaces are those for sending and receiving payments via banks, through the Municipal Management Incentives Plan website; and for validation of the information reported by municipalities in the SIAF.

<sup>23</sup> The latter has produced a weak strategic vision in the system's implementation, which has responded to demand from municipios without taking their collection potential into account. Thus, in some cases the OGTI has installed the Municipal Tax Collection System in rural local governments with very low tax potential, which social cost/benefit analysis shows not to be profitable.

management, in order to consolidate reforms to improve institutional management; this was achieved with the Law to Strengthen SUNAT passed in December 2011 (see paragraph 1.5). In turn, this operation complements the previous loan, which was centered on institutionalizing the merger of customs and internal revenue, by financing outputs in tax and customs administration aligned with recent international good practices in the field. Lastly, as an input to the formulation of this program, technical cooperation operation ATN/AT-13539-PE (see paragraph 1.7) is being executed, the execution plan for which has been taken as a precedent for this operation.

- 1.22 It is worth noting that the Bank has a long track record of support for tax and customs administration and policy in the region, and is currently providing technical assistance in several of the region's countries, fostering the exchange of good practice on topics similar to those to be financed by this operation. This operation also has the support and technical assistance of the International Monetary Fund (IMF), which has been conducting specific diagnostic assessments of SUNAT and accompanying the Bank on preparatory missions. This operation is being formulated jointly (double booking) by the Fiscal and Municipal Management Division (IFD/FMM) and Integration and Trade Sector (INT/TIU).
- 1.23 **Strategic alignment.** This operation is aligned with the sector priorities agreed by the Bank and the country in the Bank's Country Strategy with Peru (2012-2016) (document GN-2668), to improve public management by strengthening internal revenue generating capacity. This operation is also aligned with the Institutions for Growth and Social Welfare sector priority, envisaged in the report for the Ninth General Increase in the Resources of the Bank (document AB-2764), through a more effective tax system; with the lending program associated with supporting regional cooperation and integration, through national subsidiarity (document GN-2733), supporting the development of Coordinated Border Management in Peru, which implies multinational coordination with peer institutions in other countries; and contributes to achieving the regional target for the ratio of actual to potential tax incomes through a more effective tax system.

## **B. Objectives, components, and cost**

- 1.24 The general objective of the project is to increase general government's structural income, measured as a percentage of GDP. The specific objectives are: (i) more effective checks on compliance by taxpayers at the national level; and (ii) proper management of the public income policy, with an emphasis on municipal tax receipts. The program consists of the following components:
- 1.25 **Component 1. More effective tax and customs controls on taxpayers at the national level (US\$59.8 million).** This aims to enhance the effectiveness of tax and customs controls and implement computer systems addressing SUNAT's internal and external demands. To this end the following activities will be financed.
- 1.26 **Implementation of a master taxpayer and foreign trade user account system.** This entails the design and development of the master account for all taxpayers and

foreign trade users. It is based on a computer application that will identify and administer operations that are relevant to the calculation of tax liabilities centrally (operations by taxpayers, foreign trade users or SUNAT) in order to monitor tax and customs debts. It will provide up-to-date individual balances (on demand) of tax and customs obligations, credit balances, and other credits, and information on procedures that may have affected these balances. The development and implementation of the business rules engine (applicable to each of the 12 business processes that affect these balances)<sup>24</sup> for the registration of transactions on the account for the relevant item, query interfaces, and reports will be financed:

- 1.27 **Implementation of an inductive management system.** This includes the design and development of an inductive management support tool applying customer relationship management tools, seeking to reduce the gap between tax returns, payments, and settlement of tax debts. Inducement will take place before and after a particular tax liability falls due, and continue until it is settled. The loan will finance the procurement and implementation of a customer relationship management tool for inducement of taxpayers or foreign trade users,<sup>25</sup> using the channels of communication best suited to their profile (online, telephone, in person), and enabling results to be monitored based on large-scale, automated, centralized procedures. This will include loyalty programs to incentivize good behavior by taxpayers and quality control over the inducement service provided.
- 1.28 **Implementation of a comprehensive risk management system.** This includes the development of the tax and customs compliance risk management model, to optimize the control and facilitation strategies. This model will be based on good practices in Organization for Economic Cooperation and Development (OECD) countries and international standards on risk management. It will cover: (i) risk management principles, working framework, and process, clearly stating the approach, internal organization, and responsibilities in each of the stages of risk management (identification, analysis, prioritization, treatment, and evaluation); and (ii) a computer platform, including the procurement of a data warehouse concentrating useful information for the exploration and identification of risks in a single location; business intelligence data models, so that reports can be obtained that identify taxpayers' behavior from taxpayer profiles in the master account; data mining model administrator, taxpayer selection analytic models; selection rules manager; and data quality management tools.
- 1.29 **Coordinated Border Management (CBM).** This will consist of the design and implementation of the components of a CBM strategy, geared to improving customs control and facilitating trade and passenger flows. Consulting services will be financed to establish the pillars of the strategy: (i) CBM protocol and

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<sup>24</sup> Taxpayer registration, filing and payment of internal taxes and customs, modification of return data, tax offsetting, recognition of payment in error, refund, inspection, enforced collection, determination of infringements, division, appeals procedures, and inductive management.

<sup>25</sup> This will cover small and medium-sized taxpayers (MEPECOS) liable to general sales tax (IGV), the general system, the special income system (RER), and the simplified single system (RUS).

implementation plan; (ii) mapping and adjustment of processes to apply the CBM; (iii) identification of risks for border control; (iv) review of authorized economic operator (AEO) standards aiming to broaden their advantages; (v) training of the AEO validation teams; (vi) identification of requirements and design of a computer platform for AEO management; and (vii) design and support for development of a strategy of AEO mutual recognition. To ensure the necessary level of equipment for CBM, nonintrusive inspection equipment will be purchased (X-ray inspection, trace detection, chemical identification, contraband detection kits), and the surveillance vessels needed to monitor the coast and inland waterways.

- 1.30 **Improving SUNAT's computer architecture.** The aim is to modernize SUNAT's computer management in order to respond to transaction demand and expected growth, optimizing coordination with functional areas, developing systems with capacity for scalability, and consistent, high-quality information and processes. The systems corresponding to the database platform and ongoing high availability solutions will be updated, acquiring: services, operating system and platform licenses, telecommunications equipment, telephone exchanges, and videoconferencing equipment. Additionally, it will finance the design and implementation of a predictive monitoring center (physical infrastructure, servers, panels, platform licenses) that will supervise IT performance from the end user's perspective, taking preventive and/or corrective action to stabilize service quality.
- 1.31 **Component 2. Enhancing the management of the public income policy with an emphasis on municipal tax receipts (US\$9.6 million).** The purpose is to achieve adequate management of public income policy, with emphasis on municipal tax receipts. The following activities will be financed:
- 1.32 **Improving the management of the DGPIP.** Goods and services geared to building the DGPIP's tax policy management capacity, in particular supporting municipal tax receipts. This includes: (i) a proposal for the administrative reorganization of DGPIP in order to strengthen its municipal and international taxation functions; (ii) developing a DGPIP document management system geared to improving process flows in order to make case handling more complete and efficient; (iii) design and development of a training plan for DGPIP officials that includes sector analysis and international, subnational, and financial sector taxation; and (iv) procurement of computer equipment, tax analysis and microsimulation applications, and specialized databases and publications.
- 1.33 **Creating a New Municipal Tax Collection System (NSRTM).** This consists of the design and development of the NSRTM in a modern programming language and on a web platform allowing the automation of the main tax management processes, and interfacing with the computer systems of the MEF (SIAF-GL and the municipal incentives plan) and other State agencies. The NSRTM will include the main municipal taxation processes, including a business intelligence system that allows the MEF to monitor the municipalities' management indicators. The DGPIP will lead the functional design, in coordination with OGTI on the technology aspects.

- 1.34 The modules of the full NSRTM tax administration process will be implemented in a sample of 50 type A and B municipalities, prioritized based on criteria including: revenue potential (revenue/debits issued); size; agreement with Informal Property Formalization Agency (COFOPRI) for land registration; technology and connectivity equipment; and lack of automation of municipal tax collection processes.<sup>26</sup>
- 1.35 Additionally, the NSRTM will have a collection information module linked to the MEF's DGPIP. This will be installed in the 249 type A and B municipalities, which account for 96% of municipal collection. A business intelligence system on collection for these principal cities will be implemented in the MEF. This will ensure full, timely, and reliable information is available for fiscal projections and tax policy proposals.
- 1.36 The NSRTM will be designed and developed in accordance with project management good practices. The development team and requirements in terms of servers, hardware, software, and services will be financed. Post-production support, consisting of optimization of the system to make enhancements and/or respond to problems detected; training users in various processes, system tools and maintenance; helpdesk services, giving a single point of contact, control, follow-up, and resolution of technical and functional events that users may come across; quality assurance services, to supervise timely and appropriate compliance with the workplan for the design and development of the NSRTM; and change management service for both MEF users and the target municipios, aiming to facilitate acceptance and adaptation to the new system.
- 1.37 **Economic analysis.** The results of the operation's cost-benefit analysis show its effects to be positive, with an expected net present value of US\$101 million and a confidence level of 99% that the net present value will be greater than or equal to zero (see [optional electronic link 4](#)). The analysis of sensitivity and risk confirms the high level of reliability of the estimated positive return.

**C. Key indicators in the project results framework**

- 1.38 Table 1 lists the most relevant indicators for expected outcome impacts (see Annex II—Results Matrix).

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<sup>26</sup> This absence is more prevalent in type B principal cities.

**Table 1. Key indicators in the Results Matrix**

Indicator	Project-end targets
• Percentage of taxpayers undergoing checks on their tax liability	100
• Annual growth in the number of interventions with an impact on the outcomes of customs checks (percent)	8
• Reduction in annual hours downtime of online system.	2 hours
• Annual percentage growth of land tax collection in type A and B principal cities.	12.5

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 **Source of financing and costs.** The estimated cost is US\$73 million, of which US\$15 million will be financed from the Bank's Ordinary Capital resources and US\$58 million will be provided by the local counterpart. Table 2 summarizes the estimated costs and their breakdown by category of expenditure and source of financing.

**Table 2. Costs (in US\$ thousands)**

Categories	Bank	Local contribution	Total	%
1. More effective tax and customs controls on taxpayers at the national level	11,900	47,900	59,800	82.0
2. Enhancing the management of the public income policy with an emphasis on municipal tax receipts	2,901	6,689	9,590	13.1
3. Operation administration	149	2,870	3,019	4.0
4. Operation evaluation	43	440	483	0.7
5. Auditing	7	134	141	0.2
<b>TOTAL</b>	<b>15,000</b>	<b>58,033</b>	<b>73,033</b>	<b>100</b>

- 2.2 Table 3 shows the estimated disbursement schedule. This is expanded upon in the itemized budget (see [optional electronic link 5](#)):

**Table 3. Estimated annual disbursement schedule (in US\$ thousands)**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total
<b>TOTAL</b>	15,620	19,520	27,975	6,346	2,559	1,013	<b>73,033</b>
<b>%</b>	21	26	38	9	4	1	<b>100</b>

**B. Environmental and social safeguard risks**

- 2.3 The project includes systems and institutional enhancement activities and consequently has no associated environmental or social risks. Based on the Environment and Safeguards Compliance Policy (OP-703) and the Safeguards Policy Filter Report, this is classified as a category C operation.

**C. Fiduciary and nonfiduciary risks**

- 2.4 The risk classification for the project is medium-high, according to the risk management workshop analysis conducted in Lima in November 2013, which applied the Bank's methodology and in which officials from SUNAT and the DGPIP took part (see [optional electronic link 3](#)), and the findings set forth in the Fiduciary Agreements and Requirements (see Annex III). The issues identified as being high risk are: (i) delay in execution of the SUNAT component due to changes in institutional priorities. As mitigation measures, the products and activities included in the project will be validated in the periodic review of the Institutional Strategic Plan and there will be joint monitoring of execution by the Bank and the IMF; and (ii) resistance to change from the MEF's General Information Technology Office (OGTI) preventing effective implementation of the New Municipal Tax Collection System (NSRTM). As mitigation measures, the OGTI team is being included in the coordination of information technology aspects of the system, and OGTI staff will be given training on maintenance of the NSRTM.
- 2.5 The topics identified as being medium risk include resistance to change in SUNAT's user areas, which may hinder implementation of the proposed computer applications. Therefore, change management activities will be included as part of the development of the proposed systems. SUNAT will handle procurement and financial administration for Component 1 and the MEF's Sector Loan Coordination Unit Office (DUCPS) will perform this role for Component 2. As both entities have experience leading the administrative and fiduciary coordination of recent projects,<sup>27</sup> the fiduciary risk can be classified as medium.
- 2.6 Both SUNAT and the MEF undertake to ensure the sustainability of the investments financed by this operation. This is reflected in the planned operation and maintenance costs beyond the operation's execution horizon, included in the economic analysis and the corresponding preinvestment documents drawn up following SNIP guidelines (see [optional electronic links 1](#) and [2](#)). SUNAT will also use its own funds to supplement the training and technical assistance its staff needs in order to make effective use of the outputs due to be financed in Component 1. Lastly, with respect to Component 2, depending on the results of the implementation of the NSRTM, its operation is expected to be rolled out to the remainder of the principal cities, an activity which may include the Bank's support.

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<sup>27</sup> In particular, loan 1482/OC-PE, for which execution was completed in 2012, in the case of SUNAT. In particular, loans 2445/OC-PE and 2703/OC-PE, currently in execution, in the case of the MEF Sector Loan Coordination Unit.

### **III. PROJECT MANAGEMENT AND IMPLEMENTATION PLAN**

#### **A. Summary of implementation arrangements**

- 3.1 The borrower will be the Republic of Peru. The project executing agency will be SUNAT, which will be in charge of execution of Component 1. The MEF, through the DUCPS in the Public Treasury and Debt Directorate (DGETP), will be in charge of executing Component 2, with technical coordination being led by the DGPIIP, with technical support from the OGTI on IT matters.
- 3.2 The functions of SUNAT, the DUCPS, and the DGPIIP will be specified in the project operating manual (POM), but will include at least:
- a. In the case of SUNAT: (i) planning the execution of SUNAT's activities, including the relevant annual work plan (AWP); (ii) preparation and implementation of the procurement plan and procurements handled by SUNAT; (iii) supervision of progress on execution of the activities corresponding to SUNAT; (iv) evaluation of the execution of the activities for which SUNAT is responsible; (v) handling aspects of financial management and procurement in the activities for which SUNAT is responsible; (vi) administration of the financial resources corresponding to SUNAT, in coordination with the MEF-DUCPS, and preparation of disbursement requests; (vii) channeling to the MEF-DUCPS of the funds necessary for the execution of the MEF component, by means of fund transfers; (viii) preparation of the financial statements on activities corresponding to SUNAT, consolidation of project financial statements, and hiring and supervision of project audits; (ix) maintaining the document archives on execution activities corresponding to SUNAT; and (x) approval of the SUNAT project operating manual and approval of a consolidated POM for the project, in coordination with the MEF-DUCPS.
  - b. In the case of the DUCPS: (i) handling financial management and procurement aspects of the activities for which the MEF is responsible; (ii) administration of the funds allocated to the MEF and preparation of disbursement requests based on the nature of the intervention, for consolidation by SUNAT; (iii) preparation and implementation of the AWP, including the procurement plan and procurements corresponding to the MEF; (iv) preparation of financial statements on the activities for which the MEF is responsible, and their timely submission to SUNAT for consolidation and subsequent forwarding to the Bank; (v) maintaining the document archives for the activities for which the MEF handles execution; and (vi) approving the POM with respect to the MEF.
  - c. In the case of DGPIIP: (i) planning execution of the activities corresponding to the MEF, in coordination with the DUCPS, including the corresponding AWP; (ii) preparation of terms of reference and technical specifications for MEF procurements in coordination with the DUCPS; (iii) technical

supervision of execution of MEF activities and technical approval of those activities; and (iv) evaluation of the execution of activities corresponding to the MEF. The OGTI will provide technical support on the IT aspects of these activities.

- 3.3 To fulfill their functions, SUNAT and the MEF will hire and/or appoint coordinators for their respective activities. They will also hire and a group of qualified experts. As well as those stipulated in the project operating manual, these will include at a minimum: (i) technical coordinators; (ii) accounting specialists; and (iii) procurement specialists.
- 3.4 **Disbursements.** Disbursements will be made based on the project's actual liquidity needs (program of expenditures). SUNAT will submit a disbursement request, prepared in coordination with the DUCPS, to the Bank, along with a program of expenditures, for AWP activities by SUNAT and the MEF over the following 180 days. Documentation verifying at least 80% of the disbursement will be submitted in the subsequent request. The project's initial financial plan, which will reflect the disbursement schedule for the entire project, will be submitted to the Bank and may be updated annually. Supporting documentation on expenditures will be subject to ex post review by Bank staff and/or consultants, and by the external auditors. Reports will be issued on each ex post review visit. Expenditures not considered eligible by the Bank will be reimbursed by SUNAT or the DUCPS, as applicable.
- 3.5 **Project Operating Manual.** Standards for execution will be described in the POM, which will be prepared by SUNAT in coordination with the MEF in accordance with terms agreed upon with the Bank, and on the understanding that any modification to the POM will require the Bank's written approval.
- 3.6 **Procurement of works, goods and services.** The procurement policies set forth in the Policies for the Procurement of Goods and Works Financed by the Bank (document GN-2349-9) and Policies for the Selection and Contracting of Consultants Financed by the Bank (GN-2350-9) will govern this operation. The procurement plan contains a breakdown of the procurements to be carried out during the project's first 18 months of execution, and includes: (i) the contracts for the required works, goods, nonconsulting services, and consulting services; (ii) the methods proposed for the contracting of works, goods, and nonconsulting services and for selecting consultants; and (iii) the procedures that the Bank applies for procurement review. Once the project has begun, the remaining procurements can be identified and should be included in the procurement plan. Considering the project's dynamics and the risk assigned to it, the borrower will update the procurement plan semiannually, or when changes are made. The current version of the procurement plans will be available in the Bank's Procurement Plan Execution System (SEPA) and on the website of the Government Procurement Oversight Authority (OSCE).

- 3.7 **Audits.** Within 120 days after the close of the executing agency's fiscal year SUNAT, in coordination with the MEF's DUCPS, will submit the project's annual audited financial statements to the Bank. The last of the project's audited financial statements will be submitted within 120 days after the date stipulated for the last disbursement of the loan. The external audit will be done by independent auditors acceptable to the Bank, in accordance with the Bank's requirements and on the basis of previously approved terms of reference.
- 3.8 **Special contractual conditions precedent to the first disbursement will be submission of evidence to the Bank's satisfaction that: (i) a project coordinator has been hired and/or appointed, for both SUNAT activities and MEF activities; (ii) an agreement has been signed for the transfer of funds between the MEF and SUNAT; and (iii) the project operating manual has been approved.**
- B. Summary of agreements for monitoring results**
- 3.9 **Monitoring and evaluation plan.** SUNAT and the MEF-DUCPS will prepare their corresponding semiannual progress reports during project execution; SUNAT will then consolidate those reports and submit them to the Bank within 60 days of the end of each six-month period. The reports will discuss, for the period under review, the progress made, the problems encountered, and how they are being addressed. In addition, 30 days before the close of each fiscal year, both SUNAT and the MEF will submit an AWP for the Bank's approval, in accordance with previously agreed guidelines.
- 3.10 Midterm and final evaluations<sup>28</sup> will be carried out on both SUNAT and MEF activities. These will include an ex post cost-benefit analysis. This will be compared with the economic analysis accompanying the project's design to verify its return. The indicators for the project's specific objectives will also be measured.

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<sup>28</sup> The final evaluation refers to the ex post evaluation envisaged in the framework of the SNIP.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	Lending to support regional cooperation and integration.		
Regional Development Goals	Ratio of actual to potential tax revenue.		
Bank Output Contribution (as defined in Results Framework of IDB-9)	(i) Public financial systems implemented or upgraded (budget, treasury, accounting, debt, and revenues), and (ii) Number of cross border and transnational projects supported (infrastructure and customs, etc.).		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix	GN-2668	Increase the tax burden.	
Country Program Results Matrix	GN-2576	The intervention is included in the 2014 Country Program Document.	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Evaluable	Weight	Maximum Score
	8.4		10
3. Evidence-based Assessment & Solution	9.1	33.33%	10
3.1 Program Diagnosis	2.4		
3.2 Proposed Interventions or Solutions	4.0		
3.3 Results Matrix Quality	2.7		
4. Ex ante Economic Analysis	10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0		
4.2 Identified and Quantified Benefits	1.5		
4.3 Identified and Quantified Costs	1.5		
4.4 Reasonable Assumptions	1.5		
4.5 Sensitivity Analysis	1.5		
5. Monitoring and Evaluation	6.1	33.33%	10
5.1 Monitoring Mechanisms	1.5		
5.2 Evaluation Plan	4.6		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Medium		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	C		
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/PDP Criteria)	Yes	Financial Management: i) Budget, ii) Treasury, iii) Accounting and Reporting, and iv) External Control.	
Non-Fiduciary	Yes	Monitoring and Evaluation National System.	
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

The Project is Evaluable.

Since the 1990s, Peru has been professionalizing tax and customs administration. In 2002, the National Superintendence of Tax Administration (SUNAT) was created. Although the "tax burden" rose 6.3 percentage points of GDP between 1990 and 2010, the evidence suggests that the tax burden is less than both the average for Latin America as the average for countries with similar incomes. The central problem in the tax area is associated with the limited effectiveness to control the universe of taxpayers, which prevents the reduction of tax avoidance and evasion, which stands at about 10% of GDP for the two main taxes collected by the SUNAT. The POD identified as causes: (i) the limited control of the declaration and payment obligations; (ii) the limited coverage of the systems; (iii) induction actions are untimely and ineffective; and (iv) SUNAT does not have a comprehensive risk management model.

Regarding customs, it is necessary to modernize the regulatory framework, improve information interoperability and risk management, strengthen the logistics chain; and address gaps in the control processes in order to have coordinated border management. The entity at the central level that is responsible for supporting municipal tax administration has limited management capacity. Finally, the evidence suggests that local tax revenues are low, partly due to the limitations of their management systems.

The proposed operation is consistent with this diagnosis. The project proposes the funding for two components: (i) Improvement of tax and customs control effectiveness at the national level, and (ii) Improvement of public revenue management policy, with emphasis on municipal tax revenues. The Results Matrix has a clear logic. A Cost Benefit analysis is included. The monitoring and evaluation plan proposes an ex-post cost benefit analysis.

## RESULTS MATRIX

<b>General objective:</b>	Increase general government's structural income, measured as a percentage of GDP.				
General objective indicator (impact)	Baseline	Intermediate target	Final target	Means of verification	Comments
General government structural income/GDP	21.2% (2013)	21.8% (2016)	21.9% (2020)	Multiyear Macroeconomic Framework (MMF) – MEF	The final target will be updated based on the 2017 MMF <sup>1</sup>

<b>Specific objectives:</b>	Make checks on taxpayers' compliance at the national level more effective; and have adequate management of the public income policy, with an emphasis on municipal tax receipts.				
Specific objective indicators (outcomes)	Baseline	Intermediate target	Final target	Means of verification	Comments
1. Percentage of taxpayers undergoing checks on their tax liability <sup>2</sup>	30% (2012)	51% (2016)	100% (2018)	National Tax Enforcement Office (INCT) reports	This indicator refers to business taxpayers.
2. Ratio of inspections finding noncompliance <sup>3</sup> (audits plus verifications)	69.5% (2012)	72% (2016)	74% (2018)	INCT	Comprehensive risk management is expected to improve this indicator
3. Annual growth in the number of interventions with an impact on the outcomes of customs checks (percentage) <sup>4</sup>	3.9% (2013) <sup>5</sup>	6% (2016)	8% (2018)	Statistics of the National Anti-Smuggling and Customs Inspection Office (INPCFA)	Better customs equipment is expected to improve this indicator
4. Reduction in annual hours downtime of online tax filing system (PDT) <sup>6</sup>	12 hours 21' (2012)	4 hours (2016)	2 hours (2018)	National Information Systems Department (INSI) reports	Improved SUNAT information architecture is expected to improve this indicator
5. Annual percentage growth of land tax collection in type A and B principal cities.	11.5% (2012) <sup>7</sup>		12.5% (2020)	Office of the Comptroller General of the Republic (CGR) – MEF reports	Implementation of the NSRTM is expected to improve this indicator
6. Percentage of files that have no response 30 days after receipt	74% (2014)	20% (2017)	10% (2020)	DGPIP Management reports	The targets for this indicator are expected to be met through the activities to improve DGPIP management

<sup>1</sup> The MMF's structural income projections are triennial. As explained in the MEF's calculation methodology, the structural income estimate isolates transitory and/or cyclical components of the public finances related to the effects of the economic cycle and key price fluctuations affecting the public budget.

<sup>2</sup> Tax liability checks: processes carried out on information sent to SUNAT via the master account and inductive management.

<sup>3</sup> Noncompliant refers to substantive or formal omissions. Comprehensive risk management is expected to improve the noncompliance detection rate of inspections.

<sup>4</sup> Refers to SUNAT measures to prevent and combat illicit customs activities inbound, outbound, or at customs regarding goods, vehicles and persons (extraordinary actions under the General Customs Law).

<sup>5</sup> 2007-2013 average annual growth rate.

<sup>6</sup> PDT: Programa de Declaración Telemática (online tax returns program). Refers to the system for filing and sending sworn tax returns.

<sup>7</sup> 2007-2012 average annual growth rate. Source: DGPIP – MEF, based on information from the Comptroller General of the Republic.

Component	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Target	Unit of measure
1.1 Master account system designed and implemented	0				1			1	System
1.2 Inductive management system (CRM) designed and implemented	0			1				1	System
1.3 Risk management system designed and implemented	0				1			1	System
1.4 Coordinated Border Management (CBM) model designed	0		1					1	Model
1.5 New nonintrusive equipment procured and in operation <sup>8</sup>	0		18	44				62	Nonintrusive equipment
1.6 New vessels for water-borne operations purchased and in operation	0			5				5	Vessels for water-borne operations
1.7 Server platforms for databases and continuous high-availability solutions purchased	0		1	1				2	Platform
1.8 Predictive monitoring center implemented	0			1				1	Center
2.1 New Municipal Tax Collection System designed and implemented in 50 local governments	0					40	10	50	Local government
2.2 Web application implemented at type A and B principal cities	0					249		249	Local government
2.3 DGPIP organizational proposal implemented	0	1						1	Organizational proposal
2.4 DGPIP document management system implemented	0			1				1	Document management system
2.5 DGPIP officials trained on sector taxation matters	0	56	56	56	56	56		280	Staff trained
2.6 Computer hardware procured	0	35						35	Computer hardware
2.7 Tax application procured	0		1					1	Tax application
2.8 Databases procured	0		6					6	Database

<sup>8</sup> Tailored to Coordinated Border Management.

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

**Country:** Peru  
**Project number:** PE-L1130  
**Name:** Tax and Customs Management Consolidation Projects  
**Executing agency:** National Tax and Customs Administration Authority (SUNAT)  
**Prepared by:** Ariel Rodríguez and Fernando Glasman

### **I. EXECUTIVE SUMMARY**

- 1.1 The country's financial management systems are effective and reliable. The Public Expenditure and Financial Accountability (PEFA) study, which is a tool for diagnosing how advanced public management is, conducted nationally in 2009, identified some opportunities for improvement in the quality and timeliness of the country's budgetary control, and its internal and external control systems, which need to be upgraded in order to make them more efficient. With regard to the country procurement system, at present no country procurement procedures are being used for loans financed by international lending organizations. However, document GN-2538-11, Acceptance of Partial Use of the Country Procurement System in Argentina, Bolivia, Costa Rica, El Salvador, Jamaica, Panama, Paraguay, and Peru, approved the use of Peru's public procurement system's reverse auction and electronic catalogues for framework agreements subsystems.

### **II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT**

- 2.1 The project executing agency will be SUNAT, which will be in charge of execution of Component 1. The MEF, through the Sector Loan Coordination Unit Office (DUCPS), will be in charge of executing Component 2.
- 2.2 The executing agency's fiduciary situation was evaluated based on the risk assessment exercise, with the participation of SUNAT and the MEF-DGPIP, meetings with key personnel from each of these bodies, and meetings with the project team. It should be noted that between them, SUNAT and the DUCPS are currently executing 11 Bank operations, including technical cooperation and loan operations.

### **III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS**

- 3.1 As a result of the risk assessment exercise conducted during the design phase following the project risk management (PRM) methodology, the fiduciary risk, as

regards both financial management and procurement, was found to be medium. (See the Project Risk Management Matrix annex – operational electronic link 3). Considerations for the special conditions of the loan contract are as follows:

1. Special contractual conditions precedent to the first disbursement: (i) a project coordinator has been hired and/or appointed, for both SUNAT activities and MEF activities; (ii) an agreement has been signed for the transfer of funds between the MEF and SUNAT; and (iii) the project operating manual (POM) has been approved;
2. Exchange rate for rendering accounts: the exchange rate will be the monetization rate;
3. Annual audited financial statements, with specific terms of reference;
4. As a condition for the presentation of bids or proposals and/or for awarding contracts, it will not be necessary for bidders or consultants: (i) to be registered in Peru; (ii) to have a representative in Peru; or (iii) to be associated or hold subcontracts with Peruvian suppliers, contractors, or consultants.
5. Calls for tenders, bidding documents, reports on the opening of bids, calls for expressions of interest, and the summary of reports on bid evaluations and proposals for all goods, nonconsulting services, and consulting services, as the case may be, will be posted on the website of the Government Procurement Oversight Authority (OSCE) in a manner acceptable to the Bank.
6. A difference between the amount of the qualified bids and the reference value will not be considered cause for automatically voiding the bidding process unless, after investigating the reasons behind the cost difference, it is determined to the Bank's satisfaction that the reference value is correct and in line with real conditions.
7. The borrower will publish the procurement plan in the Procurement Plan Execution System (SEPA), updating it at least semiannually or as required by the Bank to reflect the actual needs of project implementation and the progress made.

#### **IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION**

- 4.1 The fiduciary agreements and requirements on procurements establish the provisions that apply for the execution of all procurement planned for the project.
- 4.2 The executing agency will be responsible for executing procurement in Component 1, and the MEF will be responsible for executing procurement in Component 2.
  - 1. Procurement execution**
- 4.3 Procurement will be carried out in accordance with documents GN-2349-9 and GN-2350-9.

- a. **Procurement of works, goods, and nonconsulting services:** Contracts for works, goods, and nonconsulting services<sup>1</sup> generated by the project and subject to international competitive bidding (ICB) will be carried out using the standard bidding documents (SBDs) issued by the Bank. Bids subject to national competitive bidding (NCB) will be carried out using national bidding documents agreed with the Bank (or satisfactory to the Bank if not yet agreed to). The review of the technical specifications for procurement during the preparation of procurement processes will be the responsibility of the project's sector specialist.
- b. **Selection and contracting of consultants:** Consulting service contracts for the project will be carried out using the standard request for proposals (RFP) issued by the Bank or agreed upon with the Bank, regardless of the amount of the contract (or satisfactory to the Bank if it has not been yet agreed to). The review of the terms of reference for contracting consulting services is the responsibility of the project's sector specialist.
  - b.1 **Selection of individual consultants:** Individual consultants are selected on the basis of their qualifications for the assignment, through a comparison of the qualifications of at least three candidates. When so required by the circumstances, advertisements may be published in the local or international press.

## 2. Table of thresholds (US\$ thousands)

Works			Goods <sup>2</sup>			Consulting services	
International competitive bidding	National competitive bidding	Shopping	International competitive bidding	National competitive bidding	Shopping	International publicity - consultants	Shortlist 100% national
≥ 3,000,000	< 3,000,000 and ≥ 250,000	< 250,000	≥ 250,000	< 250,000 and ≥ 50,000	< 50,000	≥ 200,000	< 350,000

- 4.4 The thresholds for ex ante review are determined according to the type of risk that procurement represents for the project; this risk has been determined to be medium. Below are the thresholds that will be considered for ex ante review when processes are carried out by the executing agency.

<sup>1</sup> According to the IDB procurement policy, nonconsulting services are treated as goods.

<sup>2</sup> Includes nonconsulting services.

Thresholds for ex ante review <sup>3</sup>			
Works	Goods <sup>4</sup>	Consulting Firms	Individual consultants
Contracts for US\$3,000,000 or more and all direct contracting	Contracts for US\$250,000 or more and all direct contracting	Contracts for US\$200,000 or more and all single-source selection	Single-source selection only

- 4.5 The thresholds that will be considered for ex ante review when the processes are carried out by the MEF are:

Thresholds for ex ante review <sup>5</sup>			
Works	Goods <sup>6</sup>	Consulting Firms Services	Individual consultants
Contracts for US\$3,000,000 or more and all direct contracting	Contracts for US\$500,000 or more and all direct contracting	Contracts for US\$500,000 or more and all single-source selection	Single-source selection only

- c. **Domestic preference:** Does not apply.
- 3. Initial procurement plan** (see IDBDocs#[38771695](#) and itemized procurement plan see IDBDocs# [38771695](#))
- 4. Procurement supervision**
- 4.6 Given the project's medium level of risk in fiduciary matters, at least one inspection visit per year will be considered. In establishing the supervision arrangement, the executing agency's and the MEF's capacity and knowledge of the Bank's procurement procedures were taken into account. The ex post reviews will be annual, covering a sample of contracts based on professional criteria and conducted by Bank staff, consultants, and/or external auditors.
- 5. Records and files**
- 4.7 The files are to be kept in the offices of SUNAT and the MEF as applicable under conditions ensuring the security and integrity of the documentation.

<sup>3</sup> During the course of project execution, the Bank may routinely modify the thresholds for ex ante review if it determines that the fiduciary context of the executing agency and/or of the country has changed. In that case, the Bank will communicate that decision to the executing agency, which will then reflect the new conditions of execution in the procurement plan.

<sup>4</sup> Includes nonconsulting services.

<sup>5</sup> During the course of project execution, the Bank may routinely modify the thresholds for ex ante review if it determines that the fiduciary context of the executing agency and/or of the country has changed. In that case, the Bank will communicate that decision to the executing agency, which will then reflect the new conditions of execution in the procurement plan.

<sup>6</sup> Includes nonconsulting services.

## **V. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS**

### **1. Programming and budget**

- 5.1 Annual programming and the budget will be prepared in accordance with the provisions of the Public Budget Bureau (DGPP) of the Ministry of Economy and Finance (MEF). The Public Investment Bureau, in coordination with the General Planning, Investments, and Budgets Bureau, will formulate the project's annual budget on the basis of the project disbursement schedule, and will identify and agree on priorities for external financing under the given project. The budget will be managed through the Integrated Financial Management System (SIAF). The budget allocated to the project will be approved by the MEF and by the Congress of the Republic, and will be reported to the Bank annually. It will be reflected in the SIAF, and the activities committed to under the project will be carried out. The executing agency will have budgetary autonomy to execute the project.

### **2. Accounting and information systems**

- 5.2 Accounting and reporting during project execution will use the SIAF's project implementation module, which offers transparency and specific budget execution controls. This module is equipped to record the project's accounting information and issue the financial reports; it is also used for disbursement requests, exchange rate control, project financial statements, inter alia, in accordance with the Bank's requirements. A cash basis accounting system will be used, in line with international accounting standards and the directives issued by the Public Accounting Department (DNCP).
- 5.3 Financial statements will be required for the purposes of project supervision, and will include: statement of funds received and disbursements made, statement of cumulative investments and the notes to these financial statements, report on the reasonableness of procurement processes, supporting documents for expenditures, and evaluation of the internal control system. These reports will be submitted annually.

### **3. Disbursements and cash flow**

- 5.4 The project will use the country's treasury system in accordance with the directives of the Public Treasury and Debt Directorate (DGETP). Expenditures are subject to the budgetary and financial execution process. Data related to their formalization under the legal rules applicable to each stage (commitment, accrual, drawing, and payment) will be recorded in the SIAF project execution module. The country's treasury system does not yet have an entire master account system, so separate accounts are used.
- 5.5 Disbursements will be made in accordance with the project's actual liquidity needs (financial plans or cash flow). SUNAT will submit disbursement requests to the Bank, along with a schedule of expenditures by annual work plan activity (or binding commitments) for the next 180 days, which will include both its own expenditure and that to be processed by the Sector Loan Coordination Unit Office

- (DUCPS). The DUCPS will prepare the itemization of the expenditures of Component 2 and send them to SUNAT for inclusion in the disbursement request to be submitted. Documentation verifying at least 80% of the consolidated disbursement amount will be included in the subsequent request, through the statements on expenditures and investments.
- 5.6 SUNAT will deliver to the Bank the project's initial financial plan, which should contain the disbursement schedule for the duration of the project and may be updated periodically. SUNAT will open a bank account at Banco de la Nación del Perú exclusively for the use of the IDB's funds.
- 5.7 Supporting documentation on expenditures will be subject to ex post review by the external auditors.
- 5.8 The exchange rate will be the monetization rate, understood as the exchange rate on the day U.S. dollars are converted to soles.
- 5.9 Expenditures not considered eligible by the Bank will be reimbursed by the local counterpart contribution or with other resources, depending on the nature of the ineligibility.

#### **4. Internal control and internal audit**

- 5.10 The control environment, control activities, communication and information, and the monitoring of the activities of the executing agency are governed by the country's regulations, which are based on the National Control System Law.
- 5.11 The internal audit function resides with the Internal Audit Office (OCI), whose staff comes under the Comptroller General of the Republic (CGR). Although the scope of the OCI's work does not usually encompass the project level, it will receive copies of the external audit reports through the government audit system (SAGU), designed by the CGR, by means of which inspections may be performed depending on time and resource availability.
- 5.12 SUNAT will be required to include the principal internal control processes in the project operating manual in order to ensure that controls are working effectively.

#### **5. External control and reports**

- 5.13 The CGR, as the governing body of the national control system, subcontracts external project auditing to independent audit firms considered eligible by the Bank. Independent audit firms acceptable to the Bank are evaluated periodically by the Bank to ensure their high quality.
- 5.14 The CGR authorizes SUNAT to select and hire the independent audit firm in accordance with Bank policies, and for the entire project execution period, including extensions of the final disbursement period. Financial statements will present information consolidated from both components.
- 5.15 Due to the complexity of the project and the execution structure it will be necessary to:

- 5.16 Select a level I or II independent audit firm to audit the project according to international auditing standards and the terms of reference that will be prepared in due course.
- 5.17 The cost of the external audits, which has been estimated at US\$180,000 for the five year period, will be covered by the loan proceeds and own resources.

## 6. Financial supervision plan

Supervision activity	Supervision plan			
	Nature and scope	Frequency	Party responsible	
			Bank	Third party
OPERATIONAL	Project progress review	Annual	Fiduciary and technical team	-
	Portfolio review with the executing agency and the MEF	Semiannual	Fiduciary and technical team	MEF
FINANCIAL	Ex post review of disbursements	Semiannual		External auditor
	Financial audit	Annual	Fiduciary team	External auditor
	Review of disbursement requests and attached reports	2/3 times a year	Fiduciary team	-
	Inspection visit / analysis of the executing agency's internal controls and control environment	Annual	Fiduciary team	-
COMPLIANCE	Annual allocation of budgetary resources required for project implementation	Annual	Fiduciary team	Executing agency
	Delivery of financial statements	Annual	Fiduciary and technical team	External auditor/ Executing agency
	Conditions precedent to the first disbursement	Once	Fiduciary and technical team	-

## 7. Execution mechanism

- 5.18 An administrative-financial execution structure centralized through SUNAT is required and will be responsible for formulating the budget on an annual basis, for both the local and the IDB contributions. SUNAT will be responsible for processing disbursements and submitting supporting documentation for the use of funds to the Bank. These processes will be clearly defined in the project operating manual.
- 5.19 Payments to suppliers will be made independently by SUNAT and the DUCPS depending on the party that made the procurement. In the case of payments made with Bank financing, the MEF will receive a transfer of funds from SUNAT as described below.

- 5.20 SUNAT will submit disbursement requests to the Bank, along with a schedule of expenditures by annual work plan activity (or binding commitments) for the next 180 days, which will include both its own expenditure and that to be processed by the DUCPS.

**8. Other financial management agreements and requirements**

- 5.21 Due to the nature and complexity of the project, SUNAT and the MEF will need to have a follow-up and monitoring system for project activities in general and for each project component. In addition, the staff responsible for the project's fiduciary management should have broad experience in public administration and in the management of projects financed by multilateral agencies.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_\_/14

Peru. Loan \_\_\_\_/OC-PE to the Republic of Peru  
Tax and Customs Management Consolidation Projects

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Peru, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program of tax and customs management consolidation projects. Such financing will be for an amount of up to US\$15,000,000 from the Ordinary Capital resources of the Bank, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_\_ 2014)

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