



Simplified Procedure

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To: The Board of Executive Directors
From: The Secretary
Subject: Venezuela. Proposal for a loan for a program for modernization of Customs and Tax Administration

Basic Information: Borrower Bolivarian Republic of Venezuela
Amount up to US\$18.5 million
SourceSingle Currency Facility of the Ordinary Capital

Inquiries to: Mr. Marcio Cracel (extension 2714)

Remarks: This operation was included in the update of the country strategies approved by the Board of Executive Directors on 22 June 2005 (document GN-2257-10), and its amount does not exceed the ceiling established for Group A countries.

References: GN-1838-1(7/94), DR-398-5(5/03)

Other distribution: Representative in Venezuela

VENEZUELA

**PROGRAM FOR MODERNIZATION OF
CUSTOMS AND TAX ADMINISTRATION**

(VE-L1001)

LOAN PROPOSAL

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Proposed resolution

Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of loans in execution and loans approved	http://portal.iadb.org/approvals/pdfs/VEen.pdf
Tentative lending program	http://opsgs1/ABSPRJ/tentativelending.ASP?S=VE&L=EN
Information available in RE3/SC3 files	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=481740
Procurement plan/Mean of verification	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=562943
Work plan	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=482013
Operating Regulations	http://opsws3.reg.iadb.org/idbdocswebservices/getDocument.aspx?DOCNUM=481965

ABBREVIATIONS

ASYCUDA	Automated System for Customs Data
AVSA	Aduanas de Venezuela Servicio Autónomo [Venezuelan Customs Service]
AWP	Annual work plan
BCV	Central Bank of Venezuela
CESI	Committee on Environment and Social Impact
CIAT	Inter-American Center of Tax Administrations
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CONGES	Management Control System
DGSA	Dirección General Sectorial de Aduanas [Sector Office of Customs]
DGSR	Dirección General Sectorial de Rentas [Sector Office of Revenue]
FIEM	Fondo de Inversión para la Estabilización Macroeconómica [Investment Fund for Macroeconomic Stabilization]
GDP	Gross domestic product
IAE	Business assets tax
ICAS	Institutional Capacity Assessment System
ICSVM	Luxury and wholesale goods and services tax
IDM	Institutional Development Methodology
ISLR	Income tax
OC	Ordinary Capital
PCU	Program coordination unit
PROMAFE	Programa de Modernización de la Administración Financiera [Program for Modernization of Financial Management]
PSC	Program steering committee
PTC	Program technical coordinator
PTI	Poverty-targeted investment
SENIAT	Servicio Nacional Integrado de Administración Aduanera y Tributaria [National Integrated Customs and Tax Administration Service]
SEQ	Social equity enhancing
SIGECOF	Sistema Integrado de Gestión y Control de las Finanzas Públicas [Integrated Public Financial Management and Control System]
SISFIS	Sistema de selección de casos para fiscalización [audit selection system]
SIVIT	Sistema Venezolano de Información Tributaria [Venezuelan Tax Information System]
UNDP	United Nations Development Program
UNCTAD	United Nations Conference on Trade and Development
VAT	Value-added tax

PROJECT SUMMARY

VENEZUELA PROGRAM FOR MODERNIZATION OF CUSTOMS AND TAX ADMINISTRATION (VE-L1001)

Financial Terms and Conditions ¹				
Borrower: Bolivarian Republic of Venezuela Guarantor: N/A Executing agency: National Integrated Customs and Tax Administration Service (SENIAT)			Amortization period:	25 years
			Grace period:	48 months
			Disbursement period:	48 months
Source	Amount	%	Interest rate:	Variable/LIBOR
IDB (Ordinary Capital)	US\$18.5 million	50	Inspection and supervision:	0%
Local	US\$18.5 million	50	Credit fee:	0.25%
Total	US\$37.0 million	100	Currency:	U.S. dollars from the Single Currency Facility
Project at a Glance				
<p>Program objective:</p> <p>The program's primary objective is to support SENIAT in increasing nonoil domestic tax revenue through the establishment of an integrated, modern and transparent tax and customs administration.</p> <p>Special contractual conditions:</p> <p>Conditions precedent to the first disbursement:¹ (i) establishment of a program steering committee (PSC) (paragraph 3.5); (ii) establishment of a program coordination unit (PCU) via the appropriate legal instrument, and evidence that it is up and running (paragraph 3.7); (iii) signing of an agreement, the text of which shall be agreed upon previously with the Bank, between the executing agency and United Nations Development Program (UNDP), under which the UNDP is to procure works, goods and services for the program and manage the loan proceeds (paragraph 3.16); and (iv) appointment of team leaders in each of the beneficiary units involved in program execution (paragraph 3.8).</p> <p>Exceptions to Bank policies:</p> <p>See paragraph 3.17.</p> <p>SENIAT has requested direct contracting of the UNDP as procurement agent and financial manager.</p> <p>Project consistent with country strategy: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p>				

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1%, of the loan amount.*

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

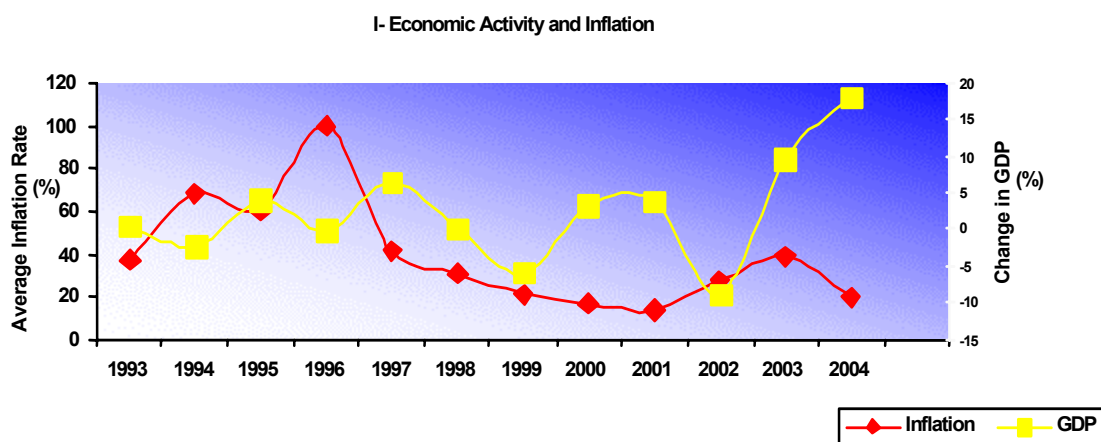
¹ A draft of the act establishing the project coordination unit and steering committee has been drawn up. The UNDP and SENIAT have already opened discussions on the terms of the contract for financial and procurement services.

Verified by CESI on: 25 February 2005					
Procurement: See paragraphs 3.16 and 3.17.					
Goods, works and related services, and consulting services will be procured in accordance with applicable Bank policies and procedures.					
Project qualifies as:	SEQ []	PTI []	Sector []	Geographic []	Headcount []

I. FRAME OF REFERENCE

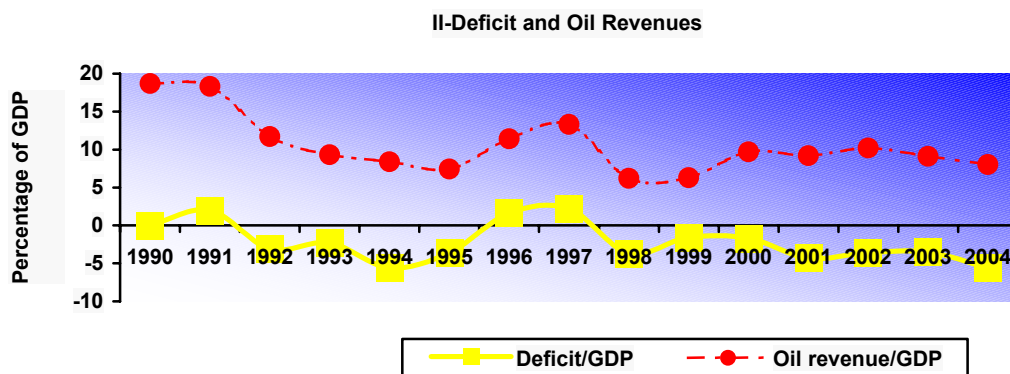
A. Socioeconomic framework

- 1.1 **Structural situation:** The economy registered moderate growth in the 1994-2004 period, with marked recessions in 1999 and 2002. During this period, GDP grew by an annual average of 2.5%, while average annual inflation² was 39.6% in a volatile environment, peaking at nearly 100% in 1997 and reaching a low of 13% in 2002. This adversely affected the economy's job creation capacity, and unemployment tripled over the period despite a decline in 2004.

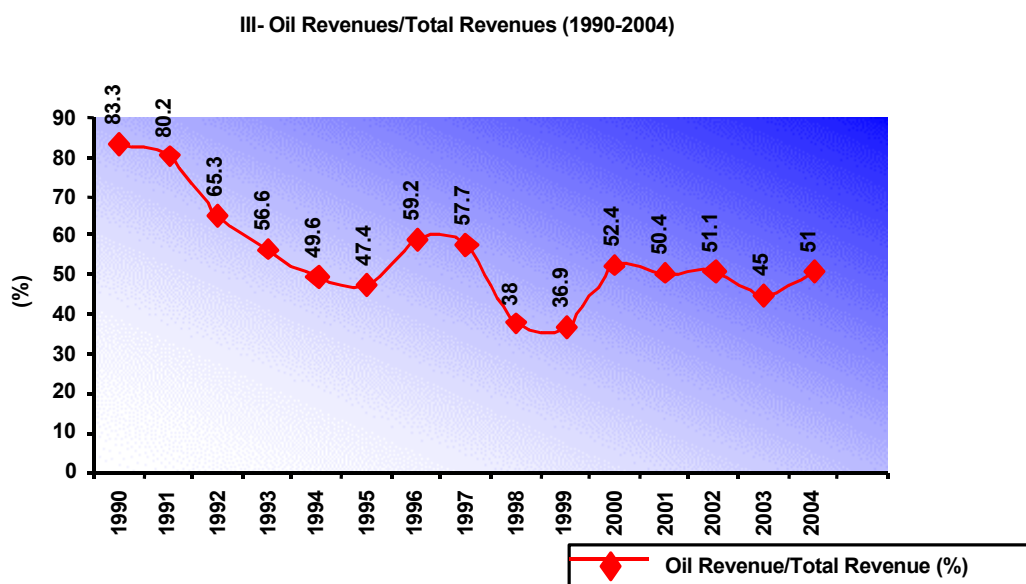


- 1.2 The volatility described above is closely linked to the economy's dependence on oil and the price fluctuations that occur in this sector. Oil GDP accounts for a quarter of overall economic activity, oil exports constitute 82% of foreign sales, and tax revenues from oil income account on average for 50% of the central government's total revenues and 9% of GDP. This dependence has provided Venezuela with a structural surplus in its balance of payments current account.
- 1.3 The fiscal deficit has been a key feature of Venezuela's economy in the last decade. Dependence on oil revenues and wide swings in the price of the Venezuelan basket have been partially responsible for these difficulties in fiscal management. The management of fiscal spending and a lack of countercyclical tools have also contributed to the deficit.

² Defined as the arithmetic average of wholesale and consumer price fluctuation.



- 1.4 Structural reform programs to reduce fiscal dependence on the oil sector began in the early 1990s. Emphasis was placed on achieving a proportional increase in nonoil tax revenues (tax reform), improving budget management (enactment of the Financial Management Act) and mitigating shocks from oil price swings (creation of the Investment Fund for Macroeconomic Stabilization, FIEM), although this last objective was not satisfactorily achieved. As Graph III shows, modification of the tax revenue structure produced positive results, with oil revenues decreasing as a proportion of total central government revenue from 80% to 51% between 1990 and 2004.



- 1.5 **Recent developments:** The economy grew by 18% in real terms in 2004, following two consecutive years of negative GDP growth. Average annual inflation was 19.2%. In the external sector, the current account ran a surplus of US\$14.2 million in 2004 due to increased revenues from oil income. At the end of the year, net

international reserves (NIR) were US\$24.2 million (equivalent to 17 months of imports).

- 1.6 With regard to the fiscal situation, the central government deficit was estimated at 2% of GDP, and gross financing needs (8.9% of GDP) were met primarily (70%) through domestic borrowing. In June 2004 public external debt rose to US\$24.161 billion (28% of GDP).
- 1.7 Nonoil revenue in 2004 rose sharply from Bs. 12.4 trillion in 2003 to Bs. 24.8 trillion in 2004. This was due to GDP growth (17.3%), to the domestic inflation rate (19.2%), and, in large part, to actions by SENIAT as part of its “Zero Evasion Plan.” This plan increased compliance and demonstrated that there is significant room for increasing tax collection. The proposed operation will help to raise revenue collection to the desired levels over time, because institutional improvements will make the measures being taken permanent.

B. The sector: Tax system and tax administration

- 1.8 **Tax system:** Currently, the tax system is composed of various domestic taxes and taxes on foreign trade. The most significant, in terms of the percentage of revenues they generate, are:
 - a. Value-added tax (VAT) was first levied in October 1993, and was replaced by the luxury and wholesale goods and services tax (ICSVM) in 1994, before being reinstated in 1999. It is estimated that net tax revenue from VAT accounted for 4.92% of GDP in 2003, making it the tax with the highest yield. This has been the case ever since it was first levied, and it is therefore the largest and most stable source of revenue in the nonoil tax system.
 - b. Income tax (ISLR) accounted for approximately 2.36% of GDP and has been the tax with the second highest yield since VAT was first levied. The income tax is a withholding tax.
 - c. The bank debit tax is a temporary tax on financial transactions that has been applied intermittently as part of the government’s policies to raise revenues. This tax yielded an estimated 1.55% of GDP in 2003.
 - d. The primary sources of customs revenues are the final import tax and customs service taxes. Revenues from these taxes were approximately 0.71% of GDP in 2003, down significantly from the previous year, as a result of the halt of import activities.
 - e. Other taxes account for a very small percentage of revenue, together bringing in only 1.15% of GDP in 2003. Of these, taxes on certain consumer products, such as petroleum products, cigarettes and liquor, yielded the highest revenues.

- 1.9 **Tax administration:** In the early 1990s the nonoil tax system and the agencies responsible for its administration began a transformation process. Important steps in this process included the July 1994 tax reform and the establishment of the National Integrated Customs and Tax Administration Service (SENIAT) in August 1994 under Decree 310.
- 1.10 SENIAT was created through the merger of two autonomous agencies: the National Tax Administration Service (SENAT), which had been established in March 1994, and the Venezuelan Customs Service (AVSA), established in May 1993. SENAT and AVSA, for their part, had been created from two Ministry of Finance offices: the Sector Office of Revenue (DGSR) and the Sector Office of Customs (DGSA), which were responsible for internal revenue and customs operations, respectively. Transferred to SENIAT, the two offices brought with them many of their staff, systems and procedures, as well as their weaknesses and problems.
- 1.11 In terms of finances, SENIAT enjoys significant autonomy over its budget. The organization is regulated in accordance with Title IV of Venezuela's Budget Act. SENIAT has a high degree of independence once its budget is passed, subject to controls and evaluations as provided by the Act.
- 1.12 SENIAT also enjoys considerable autonomy in terms of its operations and organization. It has the authority to determine its organizational structure and create, modify and eliminate administrative units and regional areas. The agency's highest authority, the National Superintendent of Customs and Taxation, has the power to establish its internal regulations and distribution of functions and responsibilities.
- 1.13 With regard to human resources, the agency's autonomy is clearly established in the Act that governs it. The Superintendent has the power to design and implement the human resources system, as well as to appoint, reassign and dismiss staff with due regard for job security for career civil servants. The Superintendent is appointed by the President of the Republic, and other staff fall into two categories: career tax officials and staff who can be freely hired and dismissed. By law, career tax officials are hired by competitive examination and enjoy job security. In the absence of special regulations for career tax officials, these employees are governed by the National Career Civil Service Act, which provides a high level of job security for civil servants and makes their dismissal very difficult. Executive and management posts are freely appointed and removed with no established selection process, nor do they enjoy job security.
- 1.14 **Current organizational structure:** The SENIAT Act provides for the organization to carry out its functions at the executive, regulatory and operational levels under the direction of the National Superintendent of Customs and Taxation, who is the agency's highest authority.

- 1.15 The executive level comprises an Executive Board that includes the Superintendent, who serves as Chair; a representative from the Ministry of Finance; a representative from the Ministry of Production and Trade; and two senior staff from SENIAT's regulatory level, appointed by the Superintendent. Currently, the heads of the Internal Revenue and Customs Offices fill these posts (see Annex I).
- 1.16 The regulatory level is composed of the Office of the Superintendent, the advisory and support offices, the National Customs Office and National Internal Revenue Office, and the Administration and Data Processing Offices. The National Customs Office has four divisions, and the National Internal Revenue Office and the administration and data processing offices have several departments each.
- 1.17 The decentralized operational level is made up of 17 major customs houses and 9 regional internal revenue offices, which report directly to their respective national offices. Under Decree 682, the activities necessary for the effective collection of domestic taxes and customs duties are carried out at the operational level, in accordance with the rules and parameters for management quality established at the regulatory level.
- 1.18 As of 23 March 2004, SENIAT had 7,659 permanent and contract staff, 1,841 of whom were assigned to the regulatory level and 5,818 to the operational level. Within the operational level, the breakdown was: 4,324 assigned to internal revenue offices and 1,841 to customs offices.
- 1.19 **Progress in the modernization process:** The Bank has supported modernization of Venezuela's tax administration through two projects.
- 1.20 A period of major reforms in the tax administration structure began in late 1993 within the framework of loan 669-OC/VE. In terms of **organization**, a strategic plan was drawn up for the Sector Office of Revenue (DGSR); SENIAT was established and proposals were formulated for the agency's organizational, executive, corporate communications and planning systems. The project also supported a series of **human resources** initiatives that were not fully implemented, such as: establishing selection methods for hiring permanent staff, and designing a human resources management system. With regard to **internal revenue**, assistance was provided in implementing VAT and the business assets tax (IAE); procedures for special taxpayers were designed and implemented, and audit mechanisms were designed and developed. With regard to **automation**, the Venezuelan Tax Information System (SIVIT) was developed and implemented; systems were introduced throughout the banking network for transmitting tax return and payment data and issuing certified copies of returns; outlines were drawn up for monitoring compliance among ordinary taxpayers and for an audit selection system (SISFIS); and the initial units of the Management Control System (CONGES) were designed and built.

- 1.21 A new phase of modernization, whose primary objective in terms of **foreign trade** was to equip the country with a modern and effective customs service, began in 1997 with support from loan 942-OC/VE. The activities in this modernization process, laid out in the agreement with the IDB, were transferred by decision of the Government of Venezuela to a project with the United Nations (UNCTAD), and the component funds repaid.³ The project made significant progress in other areas. In the **legal and regulatory** realm, a new tax code was established and the Income Tax Act and its implementing regulations were reformed. With regard to **internal revenue**, the project's target of 8,000 special taxpayers and a collection rate above 75% were exceeded. Planned **audit** programs were drawn up. In terms of **enforcement**, mechanisms were created for portfolio selection, case assignment and management oversight. Finally, in-service **training** was organized in the tax administrations of other countries.
- 1.22 The Bank's evaluations of the aforementioned programs point to satisfactory outcomes in several areas, yet their execution was hampered by: (i) weak institutional capacity and isolation of the areas involved; (ii) numerous changeovers of superintendents in short periods of time (six between 1999 and 2003); (iii) a period during which SENIAT was without a superintendent (10 months in 2002); and (iv) problems related to the budget and the availability of counterpart resources.
- 1.23 As indicated in paragraph 1.7, the combined effect of the efforts to enhance SENIAT's efficiency and the country's economic growth in 2004 led to an increase in tax collection of more than 100% in that year. This positive trend continued through the first few months of 2005, although, as indicated below, structural weaknesses are preventing it from becoming permanent.
- 1.24 **Institutional assessment:** Despite significant progress in several institutional and business areas, SENIAT has not been able to overcome its weak institutional management capacity and lack of an integrated strategic vision to coordinate and harmonize the different changes being made to its institutional plans and programs. This is the main conclusion of the joint assessment by the project team and SENIAT staff using the Institutional Development Methodology (IDM)⁴ and Institutional Capacity Assessment System (ICAS).⁵ This weakness limits implementation capacity and becomes the primary obstacle to development in business areas, inasmuch as they do not achieve the desired results despite having

³ The agreement with UNCTAD (US\$22.8 million) covered issues related to: (i) rules and procedures; (ii) infrastructure; (iii) information technology tools (ASYCUDA system); (iv) human resources; and (v) regionalization.

⁴ The IDM is a strategic planning tool, developed by the Bank to help project teams prepare institutional modernization programs, through a participatory approach involving teams from the beneficiary entities in borrowing countries.

⁵ The ICAS is an assessment system, developed by the Bank to provide project teams with a tool to identify weaknesses in the crosscutting management of beneficiary entities.

annual work plans (AWPs) and a budget allocated for their implementation. In other words, what is most needed in order to continue the recent increase in tax collection and build on the success of earlier efforts is to strengthen SENIAT as an institution by introducing fully effective and efficient systems in all processes and continuously enhancing them. The participatory exercise identified several areas that could be improved through action by the tax and customs administration itself. Below is a list of the problems identified by area: institutional management, internal revenue, foreign trade and information technology (IT).⁶

Institutional management:	
a.	Planning: Annual work plans formulated and executed in isolation, leading to a lack of coordination and to compartmentalization. An outgrowth of the limited planning culture, there is a lack of uniform methodologies, risk assessment procedures and information systems to support the execution and control of plans. The absence of a comprehensive planning, evaluation and control system automatically interconnected with the organization's other information systems has diminished the reliability, timeliness and quality of the information processed, making it impossible for the authorities to correct existing flaws or promote positive developments.
b.	Organization: The current organizational structure, roles and job descriptions are inconsistent with the functions of a modern tax administration, whose mission is to collect taxes based on voluntary compliance by the country's citizens, providing assistance and information to make compliance with tax obligations as simple as possible, while stepping up efforts to combat tax evasion. <i>Reason:</i> The static vision on which SENIAT's current organizational structure was based focused on collection to the exclusion of the other intrinsic functions of a tax administration.
c.	Financial management: Little coordination among the budget, accounting and cash management departments. Low reliability of information, as a result of unintegrated manual processes and the absence of automated support tools.
d.	Asset management: There are no records of the history and movement of fixed assets. There is no reliable and timely information on the storage and disposal of seized property. <i>Reason:</i> No effective procedures, no technology platform to manage procurement and use of manual processes not integrated with other administrative areas.
e.	Human Resources: There is no personnel management system compatible with the nature and activities of the agency. <i>Reason:</i> No human resources policy for developing job descriptions; no established civil service careers in the tax and customs field that sets conditions for hiring, promotions and retirement; no ongoing training program in areas inherent to these positions.
f.	Internal control and audit: The structure of internal control procedures is not compatible with modern, internationally accepted procedures. It does not account for environmental factors in control, risk assessment, oversight, reporting and monitoring. <i>Reason:</i> No automated methodologies, procedures or tools for compliance with international internal control and audit standards.
g.	Administrative procedures: Management is complicated for all administrative procedures, both those related to customs and taxes and those applicable to crosscutting systems. <i>Reason:</i> no procedural management model to integrate and enhance communication and control in this area.

⁶ The assessment of institutional and technological issues takes a crosscutting approach to corporate services, including internal revenue and customs. As such, the internal revenue and customs assessment focuses only on the technical aspects; since issues relating to corporate services are dealt with at a general level.

Institutional management:	
h.	Corporate image: The agency lacks a positive corporate public image. <i>Reason:</i> Failure to communicate with taxpayers, insufficient communication of accomplishments; low profile in the media and poor service quality, no awareness-raising strategies to develop a taxpaying culture.
i.	Training: Professional, administrative and technical staff are not up to date in areas important to the institution. <i>Reason:</i> no comprehensive training plan tailored to the changing needs of the customs and tax business.
j.	Business model: No business model or IT master plan providing technical direction to SENIAT. <i>Reason:</i> the existence of several computer applications, using different concepts and technological platforms, with very low levels of integration and standardization.

Internal revenue:	
a.	Tax regulations: Tax regulations have not been adapted to the new constitutional system and, as a result, are not in line with the country's current domestic and international economic policy, nor with international economic conditions in such areas as e-commerce, gaming, the informal economy, fiscal ring-fencing for the oil industry, and idle land. In terms of taxation, there is no standardization or coordination between the three levels of government. <i>Reason:</i> Implementation of Venezuela's new constitution and developments in international transactions.
b.	Transfer pricing: The agency lacks sufficient information to perform the tasks specific to this area. <i>Reason:</i> Reliable and timely information is needed to facilitate development in areas related to transfer pricing and international taxation.
c.	Estimation models: There are structural flaws in the models for estimating and projecting income, as well as for forecasting tax evasion or delinquency. <i>Reason:</i> There is no model for simulating the behavior of the domestic economy and the impact of public tax policies.
d.	Customs and tax statistics: The agency has limited ability to report reliable and timely information to internal and external decision-makers. <i>Reason:</i> No comprehensive statistical system for customs and tax information.
e.	Tax returns and payment: Difficulties capturing information from the various sources providing data to the tax system. <i>Reason:</i> Flaws in the electronic tools and procedures for filing tax returns and payments.
f.	Refunds and rebates: There are no efficient procedures or controls to ensure timely refunds, especially rebates to exporters and incorrect payments and rebates to the diplomatic corps.
g.	Enforcement: The agency has difficulties enforcing payment of domestic taxes and customs duties owed. <i>Reason:</i> No enforcement management model coordinated with the various processes carried out by the administration, nor is there a comprehensive, centralized database of amounts owed.
h.	Collection processes: No uniformity in executing processes and procedures at the operational level; collection processes with no pre-established parameters for conducting them. <i>Reason:</i> no oversight or control of collection processes at the operational level.
i.	Statistical control of collection processes: Statistical controls are not applied to collection processes and there is no previous statistical information enabling decision-making and optimization of collection processes. <i>Reason:</i> lack of continuous statistical control of process quality.
j.	Statistical control of taxpayer current account files: Collection is not efficiently reported to the appropriate authorities, preventing timely decision-making and making it difficult to plan and institute institutional policies. <i>Reason:</i> No monitoring or analysis of tax returns and payments in the taxpayer portfolio.

Internal revenue:	
k. Audits:	The productivity of the agency's audit outcomes is low. <i>Reason:</i> No audit management model that meets criteria of specialization by taxpayer category and size; no selection criteria, data sharing or risk analysis, nor automated tools to support audit activities.
l. Legal support:	The organization has had difficulties meeting its obligations to manage the administrative resources to deal with cases presented by taxpayers to the administration. <i>Reason:</i> absence of a management and control model supported by an automated system.
m. Taxpayer assistance:	Service is incomplete. <i>Reason:</i> No comprehensive taxpayer assistance model to ensure the effective, centralized resolution of the different tax requirements and procedures.
n. E-commerce:	Absence of control mechanisms for e-commerce operations. <i>Reason:</i> No relevant legislation nor specific auditing procedures or criteria; no technological tools to facilitate control of electronic transactions.
o. Infrastructure:	The service faces serious problems in performing taxation functions at the regional level. <i>Reason:</i> No suitable, fully equipped buildings or physical facilities.

Foreign trade:	
a. Legislation:	SENIAT has difficulties in clearly defining the responsibilities of its different functional units and properly following procedures. <i>Reason:</i> Outdated customs rules and regulations.
b. Customs operations:	There have been problems with customs operations. <i>Reason:</i> No effective regulations or suitable procedures, nor is there any automated tool to integrate all operations.
c. Postaudits:	Customs management faces serious shortcomings for audits and postaudits. <i>Reason:</i> No effective procedures, timely reporting, technology/equipment, qualified personnel or risk analysis methodology for audit procedures.
d. Laboratories:	Systematic analytical inspection of goods is not possible. <i>Reason:</i> No support laboratories.
e. Infrastructure:	The customs service faces serious problems in performing inspections. <i>Reason:</i> No suitable, fully equipped buildings or physical facilities.
f. Customs system:	No integrated vision for the service. <i>Reason:</i> No methodological strategy for an integrated customs and internal revenue system. This has made it impossible to obtain and exchange timely, reliable information for the control, evaluation and monitoring of importers, exporters, customs officers, and other internal and external users.

Information technology:	
a. Security:	There is no alternate center for systems to operate in the event of a disaster, nor is there minimum backup for damaged equipment and components. <i>Reason:</i> the agency does not follow international policies and standards in the area of computer security.
b. Records:	There are problems with the physical storage of processed documents, creating a high risk of, and opportunity for, damage. <i>Reason:</i> High volume of documents processed, no suitable storage facilities, and no strategy for digitizing archived documents.
c. Data integration:	The agency lacks data that would serve as input for business intelligence and decision-making systems at the operational, tactical and strategic levels. <i>Reason:</i> Data dispersed throughout the different systems and the lack of a consolidated customs and internal revenue database.
d. iSENIAT platform:	With current human resources, it has taken longer than planned to migrate SIVIT to the new iSENIAT platform. <i>Reason:</i> Shortage of human resources with the required technological qualifications to meet the deadlines for data migration.

C. Program strategy

- 1.25 The program strategy has four areas of focus: (i) assessment; (ii) execution; (iii) implementation; and (iv) outcomes.
- 1.26 **Assessment:** (a) a **methodology of full participation** by agency staff was used, in order to create a sense of ownership and reduce risks in the execution phase; and (b) the **outcomes of the two previous projects** and other **relevant international experience** were analyzed, and actions included to: (i) continue unfinished activities from previous projects that are necessary to reinforce current projects; (ii) strengthen institutional management, as there can be little progress in the agency's operations without significant improvement in support areas; and (iii) support the execution of SENIAT's other current projects with multilateral organizations (ASYCUDA/UNCTAD).
- 1.27 **Execution:** (a) a plan was drawn up that takes into account the **lessons learned** from the two previous programs and involves the same staff members who came up with solutions in project execution; (b) Together with SENIAT authorities, short-, medium- and long-term priorities were set: (i) for institutional management, the execution of a strategic plan, design of a business model and institution of a new organizational structure; (ii) for internal revenue, the creation of new models for auditing, enforcement, rebates and refunds, and taxpayer assistance; (iii) for foreign trade, the development of a new regulatory framework and system for ex post review; (iv) for information technology, the introduction of a centralized database and development support for the iSENIAT system; and (c) **Support tools for execution** (Operating Regulations, annual work plan and terms of reference) were developed that are very detailed but will not straitjacket the agency. Rather, they will serve as a guide to facilitate project execution.
- 1.28 **Implementation:** A **monitoring system** will be used to oversee subcomponent execution based on four factors: (i) time; (ii) disbursement; (iii) work progress; and (iv) degree of implementation. Information on disbursements will be supplied by the specialized agency; work progress by the coordination unit; and degree of implementation by the different areas of the agency with Bank supervision. This system will enable the Bank, SENIAT and the government to monitor execution and take measures to correct any slippage.
- 1.29 **Outcomes:** The key elements for achieving the targets set were identified as: (i) implementation of the activities financed by this project; (ii) consolidation of results from previous programs; and (iii) **institutionalization** of the measures taken by SENIAT in 2003-2004 (Zero Evasion Plan), which resulted in a significant increase in the collection of nonoil tax revenues. The necessary institutional apparatus will be achieved by building the agency's capacity for planning and results-based management. Both of these factors are priorities for the program.

D. The country's sector strategy

- 1.30 With the two previous programs and the new operation the government has requested to strengthen tax administration, Venezuela has demonstrated the effort it is making to achieve a sustainable increase in the collection of nonoil tax revenues and to reduce costs of collection and corporate support services for SENIAT.

E. The Bank's sector strategy

- 1.31 The country strategy (December 2000) and country strategy update (May 2003) establish the four areas in which the Bank and the government have agreed to take action: (i) **Social**: poverty reduction and human capital development through better access to basic social services; (ii) **Economic**: boost the productivity of nonoil resources in an effort to diversify the economy; (iii) **Institutions**: strengthen the public sector and budgetary management; and (iv) **Science and technology**: generation and use of knowledge to develop human capital and boost economic productivity. The present operation falls under the institutional area, because it supports the process of strengthening a public sector agency through the modernization of SENIAT management, so as to meet the indicator target to "Increase the central government's nonoil tax revenues."

F. Coordination with other official development agencies

- 1.32 Program preparation work was done in conjunction with the program execution office for the World Bank's PROMAFE program, to ensure that steps taken to institute the SIGECOF financial reporting system were complementary. Various meetings were held with the United Nations (UNCTAD) team, to coordinate the strategy for implementing the ASYCUDA customs data system. SENIAT and the project team met with the United Nations Development Program (UNDP), to assess UNDP's capacity to serve as the executing agency for procurement.

II. THE PROGRAM

A. Objectives and description

- 2.1 The program's primary objective is to support SENIAT in increasing nonoil domestic tax revenue through the establishment of an integrated, modern and transparent tax and customs administration.
- 2.2 The specific objectives of the proposed operation are: (a) to make the tax system more efficient by modernizing institutional management, creating an integrated vision that enhances administrative processes and strengthens crosscutting support systems; (b) to increase transparency, better monitor compliance with tax obligations and heighten awareness of the risks of tax evasion, chiefly by modernizing the principal tax administration processes, particularly those related to auditing, enforcement and monitoring of court proceedings; (c) to facilitate foreign trade operations by simplifying customs procedures, improving inspections and enhancing the capacity to prevent and combat fraud; and (d) to build technological capacity to cope with increasingly complex tax processes by upgrading the technological infrastructure.
- 2.3 The program has three components: (i) modernization of institutional management; (ii) strengthening of tax administration and foreign trade control processes; and (iii) modernization of technological infrastructure. To develop and implement these components, the program will finance a series of activities with the following resources: (i) contracting consulting firms and individual specialists; (ii) staff training; (iii) purchase of computer hardware and support equipment; and (iv) various adjustments to SENIAT's physical infrastructure, in the areas described below.

1. Modernization of institutional management (US\$6.88 million)

- 2.4 Actions under this component are aimed at establishing effective and efficient crosscutting services for internal revenue and customs management, allowing for the creation of economies of scale and better coordination among the agency's different activities. Success in achieving this outcome will be measured by the following indicators: (i) 100% of corporate support services integrated and implemented at the regulatory and operational levels; and (ii) 40% overall reduction in processing time for procurement of goods and contracting of services (from 39 to 20 days). The main actions under this component will focus on the following:
 - a. **Strategic plan:** Involves the identification, execution and internalization of a strategic plan that provides an integrated vision of the agency and the basic approach to programming short-, medium- and long-term plans.

- b. **Management planning and control:** Introduction of an integrated management planning and control system, including: (i) system design; (ii) information technology (IT) development; and (iii) implementation and training at the national level.
- c. **Organizational development:** Includes a new organizational and functional structure adapted to the nature of the taxation process, as well as the specialized functions of the customs service, based on: (i) identifying and designing job descriptions for the different positions in the internal revenue and customs services; (ii) developing legal and organizational components; (iii) technical evaluation of staff based on job profiles; (iv) setting up an Auditing Office for the Oil Sector; and (v) implementing and raising awareness of the new structure.
- d. **Financial management:** Plans for the establishment of an integrated financial management model for coordinating the administrative and financial areas, in order to provide timely information and streamline management of financial resources through: (i) analysis of the current situation; (ii) definition of the integration model; (iii) technical development of the system; (iv) nationwide implementation of the system; and (v) training on the system, rules and procedures.
- e. **Fixed asset management:** Involves implementation of the management system for real estate and movable assets, based on: (i) revising and implementing rules and procedures; (ii) analyzing and designing the management and control system; (iii) implementing transitional mechanisms; (iv) constructing the system; (v) implementing the system at the regulatory and operational levels; and (vi) extending the system to the rest of the agency.
- f. **Human resources:** Involves implementation of the integrated human resources management and control system, which includes: (i) revising and implementing rules and procedures; (ii) establishing transitional mechanisms to coordinate financial management with human resources monitoring and control; (iii) implementing the system at the regulatory level; and (iv) extending the system to the rest of the agency.
- g. **Internal control and audit:** Involves implementation of an internal audit model using modern internal control and audit practices based on risk analysis, through: (i) evaluation of the current internal control and audit situation and adjustment of the work schedule for the planned activities; (ii) educational workshops on the modern approach to internal control; (iii) development of methodologies for using the approach identified, including the development of risk analysis methodologies; (iv) development and implementation of modern internal auditing practices, including the necessary manuals; and (v) training the staff of the Internal Audit Office (OAI).

- h. **Administrative procedures:** Includes the design and implementation of a support system for the integrated management of formal procedures and processes, in order to standardize all administrative processes in the different areas and at the different levels of the organization, through: (i) an analysis of the requirements for, and implementation of, transitional mechanisms; (ii) design and construction of a new support system; and (iii) implementation at the regulatory and operational levels, as well as extension to the rest of the agency.
- i. **Public awareness:** Includes the development and implementation of a program to strengthen SENIAT's corporate image, including an evaluation of the agency's role in society and the design of an outreach strategy, including: (i) review of the current situation and design of the corporate image; (ii) development of a corporate image enhancement program; (iii) definition of an outreach and communication strategy; (iv) preparation of outreach materials and methods; (v) program implementation; and (vi) institutional relations support.
- j. **Training:** Includes the development and implementation of a comprehensive and ongoing training program, through: (i) developing a training model;⁷ (ii) putting tools in place to support the model; and (iii) implementing the model.
- k. **Business model:** Preparation of an Information Technology Master Plan, including: (i) an assessment of all current computer systems and technological infrastructure; (ii) input for developing a business model in line with the administration's needs; and (iii) an action plan to guide technology management.

2. Strengthening of tax administration and foreign trade control processes (US\$13.55 million)

- 2.5 Actions under this component seek to optimize collection, enforcement, tax control, auditing and other processes, taking into account the specialized functions of the customs and internal revenue processes, while facilitating foreign trade operations. The outcome of this component will be verified by means of the following indicators: (i) tax base broadened by 30% from 218,281 to 283,765 taxpayers; (ii) an increase in voluntary compliance from 45% to 60% with an increase in tax returns filed from 720,000 to 828,000 taxpayers; (iii) a 52% increase in the number of cases receiving assistance at the taxpayer assistance centers, from 458 to 696; and a reduction in the time taken per case from one hour to 30 minutes; (iv) a 50% increase in the number of electronic transactions from 3,594,372 to 5,391,558, and a 5% decrease in the number of corrections carried out electronically from 431,324

⁷ Includes awareness-raising on issues related to: (i) the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and building awareness among customs staff; (ii) the capacity to respond to emergencies, and contingency plans; (iii) physical and procedural requirements for handling wild fauna, animals and dangerous goods; and (iii) relationships with other organizations involved in foreign trade operations.

to 377,409; and (v) a drop in processing time from three days to one, for importers and exporters and for compliance with internal revenue obligations.

a. Internal revenue (US\$6.67 million)

2.6 The key actions under this subcomponent will target the following areas:

- a. **Tax regulations:** Promote the adaptation of legal regulations on taxation to Venezuela's new constitutional system and the new direction of the government's domestic and international economic policies as laid out in its National Economic and Social Development Plan, as well as to the conditions of international economic development, through: (i) drafting a bill to harmonize and coordinate the national legal framework on taxation; (ii) developing the legal aspects of taxation for national tax legislation; and (iii) defining and developing regulatory adjustments.
- b. **Transfer pricing:** Provide the agency with information to facilitate development in the area of transfer pricing and international taxation by: (i) designing a transfer price strategy; (ii) training staff on international best practices; and (iii) updating data held by the transfer pricing and advance pricing agreements unit by acquiring a database of comparable international information.
- c. **Estimation models:** Institute statistical/economic estimation and simulation models, in order to strengthen the tax revenue estimation model, create a model to simulate the economic impact of fiscal and tax policies, and strengthen the estimation model for tax evasion and delinquency by: (i) assessing and evaluating the simulation models currently in use; (ii) identifying the necessary methodology and technology to strengthen and implement the models; and (iii) training staff.
- d. **Customs and tax statistics:** Institute a statistical tool for the flow of reliable, timely and useful information by: (i) evaluating, identifying and establishing a comprehensive statistical system; and (ii) acquiring and implementing the necessary computing tools.
- e. **Returns and payment:** Provide the administration with the appropriate tools for data capture to ensure that information is updated in a timely manner, through the design of appropriate formats and the use of electronic tools to facilitate capture, receipt and validation, based on: (i) the identification of current processes and procedures for capturing tax returns and payment data; (ii) the design and implementation of a tax return and payment data capture system; and (iii) courses to provide training on the system.
- f. **Rebates and refunds:** Implement control mechanisms for rebates and refunds, by: (i) determining the criteria, rules and procedures for preaudits and postaudits;

(ii) identifying payment and rebate mechanisms, including assignments and offsets, electronic funds transfers, bonds and certificates; (iii) defining the procedures, responsibilities, internal control points, reports and other areas necessary for proper execution; (iv) constructing and implementing information system elements; and (v) training staff and raising awareness among taxpayers regarding rules, procedures and tools.

- g. **Enforcement:** Implement a comprehensive enforcement management model, supported by an information system, with management based on taxpayer function and category, and establish effective enforcement processes and procedures, by: (i) raising awareness of the objective, mission, vision and policies; (ii) specifying the processes and procedures in the different enforcement areas; (iii) setting requirements and developing information system modules; (iv) training enforcement agents on the new model, including processes, procedures and information systems; and (v) implementing the new model.
- h. **Collection processes:** Implement methods for monitoring the collection processes executed at the operational level, by: (i) reviewing collection processes and procedures and harmonizing them with current laws and regulations; (ii) identifying, designing and implementing oversight and control methods for processes at the operational level; (iii) training on monitoring and current account files, outstanding amounts owed, refunds and banking supervision.
- i. **Statistical control of collection processes:** Implement a statistical tool for process control by: (i) reviewing collection processes and procedures; and harmonizing them with current laws and regulations; (ii) evaluating, designing, and implementing statistical methods for monitoring and managing collection processes; (iii) training the Operations Control Division in evaluation and statistical analysis applied to the control and management of collection processes.
- j. **Statistical control of taxpayers' current account files:** Introduce a statistical collection control system by: (i) reviewing collection processes and procedures, and coordinating them with current laws and regulations; (ii) designing and implementing statistical methods for collection control; (iii) providing training in evaluation and statistical analysis to the Operations Control Division.
- k. **Auditing:** Implement an audit model that does not leave selection to the discretion of civil servants and establishes selection criteria based on cross-referencing and risk analysis, through: (i) the identification, development and implementation of regulatory and operational processes and procedures; (ii) the construction and implementation of a tax information system that enables cross-referencing with third parties, including foreign tax administrations, taxpayer

selection and audit management control; and (iii) training on the management model.

- l. **Taxpayer assistance:** Develop a comprehensive taxpayer assistance model that incorporates protections and redress for taxpayers using technological support tools and provides a way for taxpayers to effectively resolve issues and claims filed with the agency, by: (i) updating the inventory of proceedings filed by taxpayers; (ii) identifying the services to be included in the comprehensive taxpayer assistance model, both at the assistance centers and electronically; (iii) establishing a job profile for taxpayer assistance center staff; and (iv) setting requirements for technological support tools.
- m. **Legal support:** Implement a model for managing resources for administrative proceedings and other proceedings both in and out of court, which involves international intermediation and enhanced monitoring of such proceedings, through: (i) an evaluation of the current model; (ii) definition, extension and internalization of organizational factors related to administrative and judicial resources at the regulatory and operational levels; (iii) implementation of IT systems to support the new management model; (iv) provision of equipment; (v) dissemination and implementation of effective criteria for preparing official acts in tax-related matters; and (vi) development and launch of an ongoing training program.
- n. **E-commerce:** Prepare a study on the different alternatives and models used internationally to monitor e-commerce transactions, through: (i) identification of conceptual models, processes and procedures; (ii) selection of techniques and tools; and (iii) staff training.
- o. **Infrastructure and equipment:** Provide the agency with suitable facilities by building a (model) regional headquarters where the internal revenue and customs services are integrated.

b. Customs and foreign trade (US\$8.61 million)

2.7 The key actions under this subcomponent will target the following areas:

- a. **Legislation:** Develop legislation compatible with the functions of a modern customs agency that controls and facilitates foreign trade, by: (i) reviewing the existing regulations; (ii) establishing rules and regulations in line with international standards and agreements; and (iii) implementing the new rules and regulations.
- b. **Customs operations:** Assist in implementing the ASYCUDA system modules at all customs houses through: (i) their introduction at the regulatory level; (ii) dissemination and training on regulations and procedures; (iii) training on computing tools for trade agents and customs officials at 43 customs houses; and

- (iv) development of the interface for integrating ASYCUDA into the administration system to be implemented.
- c. **Postaudit:** Establish a postaudit system, based on risk analysis and technology tools for data processing, through: (i) a review of the current situation; (ii) design of methodologies for planning and audit procedures; (iii) identification of risk profiles; (iv) development of information technology for the postaudit and risk analysis module; and (v) introduction of the procedures.
 - d. **Laboratories:** Design, build and equip a pilot customs laboratory, through: (i) assessment of needs; (ii) identifying the technical model to be implemented; (iii) designing analytical inspection procedures; (iv) technical development of the laboratory IT module; (v) determining the equipment; and (vi) introducing the new procedures at a pilot customs house.
 - e. **Customs infrastructure:** Provide the agency with suitable facilities by: (i) building a (model) customs office integrated with the internal revenue service, to serve as an integration model; (ii) determining the equipment needed to combat fraud, as well as warehouses and office furniture; (iii) legal assistance in preparing information for bidders; and (iv) carrying out the necessary actions.
 - f. **Customs system:** Establish a strategy and master plan to support SENIAT in its efforts to integrate the customs systems into the institution's electronic data exchange platform, and to link them with the systems of the internal revenue service and other foreign trade organizations, through: (i) inventory and evaluation of the current systems; (ii) audit of the systems, processes and procedures; (iii) development of the conceptual model and logical design; and (iv) definition of the integration strategy.

3. Modernization of technological infrastructure (US\$7.27 million)

- 2.8 Activities under this component seek to make the current technological infrastructure compatible with information management and the growing complexity of taxation and foreign trade control processes. Success in achieving outcomes will be measured in relation to the following indicators: (i) 100% of primary systems are backed up by an alternate contingency center; (ii) 100% of systems provide automatic reporting; (iii) 100% of users who need to access the system are able to do so; and (iv) the SIVIT system is 100% migrated to the new Web-based platform. The key activities under this component will target the following areas:
- a. **Security:** Establish an alternate contingency center to prevent operations from being interrupted in the event of a main system failure, by: (i) evaluating and analyzing what solution is required; (ii) designing the solution; (iii) installing the

IT infrastructure; (iv) installing the database; (v) installing the application; and (vi) quality control.

- b. **Stocks of equipment and spare parts.** Supply the institution with the equipment, spare parts, and accessories that wear out most frequently, so that maintenance needs can be met in a timely manner.
- c. **Record keeping:** Implement an automated system for archiving digitized documents, ensuring permanent safekeeping and timely access to information, through: (i) identification of requirements; (ii) determination of the digitization process; (iii) procurement of the platform and hardware to implement the system; (iv) implementation of the file digitization process; and (v) staff training.
- d. **Data integration:** Establish a centralized database containing all information necessary for collection and auditing by: (i) gathering data and defining variables and indicators; (ii) designing and building the solution; (iii) implementing monitoring of variables and indicators; (iv) installing the database at the regulatory level; and (v) extending the database to the rest of the agency.
- e. **iSENIAT platform:** Provide support and training for the iSENIAT development team on the tools and technology needed, by contracting consultants specialized in systems analysis and programming.

B. Cost and financing

Cost Table
(in thousands of US\$)

Categories	IDB	Country	Total	%
1- Project management	1,400	1,740	3,140	8.49
1.1 Project coordination unit		1,740	1,740	4.70
1.2 Specialized agency	1,000		1,000	2.70
1.3 Project coordinator	400		400	1.09
2- Direct costs	16,535	12,919	29,454	79.61
2.1 Modernization of institutional management	2,919	3,969	6,888	18.62
2.2 Internal revenue service	2,890	3,781	6,671	18.03
2.3 Foreign trade	4,509	4,107	8,616	23.29
2.4 Modernization of technological infrastructure	6,217	1,062	7,279	19.67
3- Concurrent costs	260	0	260	0.70
3.1 External audits	60	0	60	0.16
3.2 Periodic evaluations	200	0	200	0.54
4- Unallocated costs	305	1,344	1,649	4.46
4.1 Contingencies	305	1,344	1,649	4.46
5- Financial costs	0	2,497	2,497	6.75
5.1 Interest	0	2,407	2,407	6.51
5.2 Credit fee (0.25%)	0	90	90	0.24
Total	18,500	18,500	37,000	100.00
Percent	50.00	50.00	100.00	-----

III. PROGRAM EXECUTION

A. Borrower, guarantor and executing agency

- 3.1 The borrower will be the Bolivarian Republic of Venezuela, and the executing agency the National Integrated Customs and Tax Administration Service (SENIAT). The program will benefit the entire organization, as it includes actions directed at both the National Customs Office and National Internal Revenue Office, the two administration and data processing offices, and four support offices: the Planning Office, Internal Auditing, the Center for Fiscal Studies, and the Institutional Relations and Public Relations Office.

B. Execution and management

- 3.2 The previous program had a coordination unit under the authority of the head of the Internal Revenue Office, supported by the Inter-American Center of Tax Administrations (CIAT) as the specialized agency responsible for procurements and payments with the loan proceeds. There was little or no hierarchy in the coordination unit to organize, coordinate or monitor the program activities, although this was necessary due to the limited communication among the different units, due to the existing organizational problems described above in the institutional assessment.
- 3.3 In order to execute the new program, a coordination unit will have to be set up with enough authority and autonomy to authorize contracting, payments and disbursements and to perform its coordination and monitoring functions effectively. The beneficiary entities will also have to participate more in the programming and implementation of activities.
- 3.4 The proposed program will have a three-tiered structure: (i) a strategic tier, which will include the Superintendent and program steering committee; (ii) a coordination tier, which will include a program coordination unit with support from a specialized agency; and (iii) a technical tier, which will include the technical teams for each area of the program and ad-hoc technical committees.
- 3.5 The program steering committee (PSC) will be composed of the Superintendent, in his capacity as National Project Coordinator, the heads of the National Internal Revenue Office and the National Customs Office, the two managers of the administration and data processing offices, and a program technical coordinator, who will attend committee meetings solely in an advisory capacity. The PSC will: (i) approve policies, objectives and strategies after consultation with the Bank; (ii) monitor the program generally through review and approval of the program's semiannual progress reports delivered to the Bank; (iii) resolve conflicts that may arise from coordination issues among the participating agencies; (iv) approve

- annual work plans (AWPs) and any changes thereto; and (v) approve bidding processes and the corresponding award of contracts, based on the proposals made by the respective bidding committee. **The establishment of the PSC will be a condition precedent to the first disbursement.**
- 3.6 The program coordination unit (PCU) will report directly to the Superintendent and have a program technical coordinator (PTC), to whom the Superintendent will delegate the necessary authority to coordinate program activities within SENIAT and represent the institution in all matters related to program administration. The PTC will be appointed from a short list of consultants submitted to the Superintendent with the Bank's nonobjection. The PCU will also have four technical coordinators (one for each component), who will work full-time on the program and will be appointed respectively by the heads of the National Internal Revenue Office and the National Customs Office and the managers of the administration and data processing offices. The PCU will be assisted by additional staff responsible for planning, secretarial support, and accounting and administrative tasks. The United Nations Development Program (UNDP) will be responsible for procurement and the financial management of loan proceeds, and will identify consultants and suppliers, prepare bid packages, create shortlists, hire consultants, make payments and be accountable to the PCU on its management of program resources.
- 3.7 The PCU's primary functions will be: (i) coordinating the preparation of AWPs and delivering them to the PSC for approval; (ii) working with the relevant SENIAT entities to set up the technical teams; (iii) ensuring timely allocation of funds from the loan and local counterpart contribution; (iv) performing administrative procedures with the IDB and UNDP; (v) monitoring the program, using the indicators agreed upon with the Bank, to ensure consistency with the AWPs; (vi) periodically evaluating program execution, assessing departures from plans and proposing appropriate solutions; (vii) preparing the technical and financial reports required by the Bank; (viii) establishing internal operational and financial controls for the program, including the accounting system. **The establishment of the PCU via the appropriate legal instrument, and evidence that it is up and running, will be conditions precedent to the first disbursement.**
- 3.8 Technical teams will be set up for each of the activities under the subcomponents, upon request by the program technical coordinator to the authorities of the corresponding beneficiary unit. They will have a team leader and draw staff from the different areas of SENIAT, selected according to the nature of the activity, together with the program-funded external consultants. Their responsibilities will include: (i) developing the terms of reference for consulting services and technical specifications for the procurement of goods and services. (ii) participating on selection and bid committees; (iii) overseeing consulting assignments and evaluating and implementing their outputs; performing quality control and approving the corresponding payments; and (iv) providing the input for AWP

preparation. **The appointment of team leaders in each of the beneficiary units involved in executing activities in program year one will be a condition precedent to the first disbursement.**

- 3.9 The technical committees will be composed of the technical team leaders and meet on an ad hoc basis when convened by the PTC, whenever there are technical disputes that require technical representatives from the different beneficiary units in order to resolve them.
- 3.10 **Financial management.** The Inter-American Center of Tax Administrations (CIAT) was the specialized procurement and payment agency for the previous program. The loan proceeds were deposited into its account by the Bank at SENIAT's request. CIAT periodically prepared a statement of expenditures, which the SENIAT coordination unit used to prepare disbursement requests and update program accounting.⁸
- 3.11 For the proposed program, the PCU will be responsible for authorizing spending and will exercise budgetary control over the program. The loan proceeds and the local counterpart resources for the program will be clearly identified in the SENIAT budget. The SENIAT Budget Office will include two general entries in its annual budget with the necessary program breakdown, and the required mechanisms will be instituted to ensure that the resources under those entries may only be used with authorization from the PCU. The beneficiary units will make program procurement and contracting requests through the PCU, which, after determining whether they are within the budget, will send them to UNDP for processing, including payment and accounting. The budgetary control system must enable the PCU to determine the fund balance for the processing of disbursement requests. The contracting of UNDP will be contingent upon it: (i) establishing a budget and accounting system applicable to the program; and (ii) providing training on the system to the PCU staff.
- 3.12 A revolving fund of up to 5% of the Bank loan will be established for the disbursement of program resources. The PCU will submit revolving fund statements to the Bank every six months. Based on the findings of the institutional capacity assessment during program preparation, the ex ante method for the procurement of goods and services and disbursement review will be used.
- 3.13 Program execution will be based on AWP's containing yearly targets for each activity, the corresponding budget, sources of financing and assigned responsibilities for execution. The PCU will submit a preliminary AWP to the Bank by 15 November of each year, and a final AWP once the national budget is approved, no later than 15 January of the following year. The project team has

⁸ The coordination unit did not have financial autonomy in managing local resources, and had only one line in the budget of the National Internal Revenue Office for payment of the unit's staff.

reviewed the draft AWP for program year one and draft terms of reference for the corresponding activities. Delivery of the final versions of these documents will be a condition precedent to negotiation of the program.

- 3.14 The program will have an operating manual to facilitate understanding of responsibilities and processes, and to enhance coordination. Compliance with the manual will be evaluated as part of the audits and yearly monitoring meetings, where any decisions to update the manual will be made. The draft operating manual was revised by the project team, and delivery of the final version will be a condition precedent to negotiation of the program.
- 3.15 Once the operation has been approved, there will be a workshop to launch the program with the participation of the PSC, the PCU, the technical teams, the Bank and UNDP. The workshop will examine whether the activities needed to begin execution have been completed and, if not, will determine what support may be needed to do so, for timely compliance with the conditions precedent to the first disbursement.⁹

C. Procurement

- 3.16 Goods and services, works and related services, and consulting services will be procured in accordance with applicable Bank policies and procedures in effect at the time of the analysis mission for this operation (6 to 10 December 2004).¹⁰ International competitive bidding will be required for works valued at more than the equivalent of US\$3 million, for procurement of goods or services valued at more than the equivalent of US\$350,000, and for the contracting of consulting services valued at the equivalent of US\$200,000 or above. UNDP contracting will be based on the conditions and terms of reference previously agreed on with the Bank. The agreement or contract signed between the executing agency and UNDP will be in accordance with the Contract on Cooperation and Coordination of Activities entered into between the Bank and UNDP on 14 November, as modified by addendum on 20 June 2003. Signature of the agreement between the executing agency and UNDP, under which the UNDP is to procure works, goods and services for the program and manage the loan proceeds, will be a condition precedent to the first disbursement.
- 3.17 SENIAT has requested direct contracting of the United Nations Development Program (UNDP) as procurement agent and financial manager. The project team evaluated this request in accordance with the Bank's Norms for Selection Without

⁹ These activities relate to completion of the first-year AWP and terms of reference, operating manual, progress on establishing the PCU, accounting and budget systems, contracting of the specialized agency, and first-year counterpart resources.

¹⁰ Goods and services and works and related services will be procured in accordance with schedule B to the loan contract, and consulting services in accordance with document GN-2220-10 of 10 February 2004.

Competition (Sole Sourcing) (GS-403), and determined that contracting UNDP represented a institutional comparative advantage, since UNDP meets the following criteria established in the norms: (i) It has a good working relationship with SENIAT, as it has previously managed bidding for the agency with resources from its regular budget. Its performance was rated “very good” by SENIAT (criteria 1 and 8); (ii) It is able to effectively coordinate several individual specialists and prepare specialized reports for the government and the Bank in these areas. This ability will facilitate timely compliance with the contractual conditions on delivering financial information (criteria 2 and 4); (iii) It has similar experience with Bank projects in Venezuela, and so can facilitate project implementation and disbursement of funds (criterion 5); (iv) Its proven track record in Bank-funded projects, in particular with SENIAT, will enable it, if necessary, to provide continuity of support beyond project execution (criterion 3); (v) It has access to qualified consultants, as well as effective and efficient hiring mechanisms, for the identification of qualified personnel and the contracting and payment of international consultants in foreign currency (criterion 6); and (vi) The project team’s assessment of UNDP’s capacity indicates that it has a monitoring system to assure quality control during execution of the consulting services (criterion 7). The UNDP will receive remuneration for its services to the program equal to 5% of the amounts paid with Bank financing, i.e. approximately US\$900,000. The disbursement timetable is as follows:

Disbursement Timetable

Source	2005	2006	2007	2008	2009	Total	%
IDB	3,348	5,121	5,579	3,705	747	18,500	50.00
Country	1,705	6,033	4,201	4,251	2,310	18,500	50.00
Total	5,053	11,154	9,780	7,956	3,057	37,000	100.00
Percent	13.66	30.15	26.43	21.50	8.26	100.00	---

D. Monitoring and supervision

- 3.18 The monitoring and supervision system will include: (i) an examination of technical and financial reports; (ii) annual review meetings; and (iii) a review of audit findings. The system will also include the inspection visits normally made by the Bank’s Country Offices.
- 3.19 SENIAT will regularly submit the following reports to the Bank: (i) midyear progress reports on program execution; (ii) annual evaluation reports on the year’s activities, to be reviewed by the PSC before submission to the Bank; (iii) AWP’s for the following year; and (iv) audited financial statements, together with a report on the review of the program’s internal control system.
- 3.20 The Bank will hold annual monitoring meetings, at which the outcomes for the year just ended will be evaluated, and execution plans for the following year reviewed.

Emphasis will be placed on reviewing the indicators and physical targets established in the logical framework (see the Logical Framework), the performance of the specialized agency, and, as applicable, updates to the operating manual. The baseline for logical framework indicators is available, and the PCU will be required to regularly compile information to measure the indicators, using the monitoring system mentioned in the program strategy.

- 3.21 The second-year meeting will be a midterm review, to gauge progress against the established timetable, using the information provided by the monitoring system. The fourth-year meeting will be a final evaluation. The goals of the final evaluation will be to: (i) determine the extent to which the components have been completed, and the degree to which the program indicators have been fulfilled. (ii) assess the execution plan, the limitations and problems encountered during execution, and the solutions to resolve them; and (iii) draw learn lessons learned for future programs.
- 3.22 The external audit of the program will be performed by a firm of certified public accountants acceptable to the Bank. The firm will be contracted pursuant to the bidding processes established by the Bank for contracting audit firms, and will perform its work in accordance with the Bank's audit requirements (documents AF-100 and AF-300). The financial statements audited by the company will be delivered to the Bank within 120 days after the close of the fiscal year. The cost of the external audit will be covered out of the loan proceeds.

IV. VIABILITY AND RISKS

A. Institutional viability

- 4.1 The program's institutional viability will depend on: (i) ownership of the program by the beneficiaries units; (ii) the program coordination unit's (PCU) organizational capacity to coordinate and execute program activities. and (iii) ongoing political support for the program.
- 4.2 The participatory approach used in preparing the program components laid the groundwork for the beneficiaries to have a sense of ownership. This will be strengthened during program execution, as SENIAT's line departments participate in determining the activities to be included in each year's annual work plan (AWP), and they are given responsibility for technical activities (such as quality control of consulting services).
- 4.3 The program will seek to improve coordination in four ways: (i) placing the PCU at the highest level, with a coordinator who has enough seniority and experience to negotiate on an equal footing with other authorities in the agency; (ii) making the technical teams and the ad-hoc technical committees from SENIAT line departments an integral part of project execution; (iii) a program steering committee to settle special issues; and (iv) training for the PCU on contract administration (identification, selection, contracting, monitoring and supervision of consultants), through the United Nations Development Programme (UNDP).

B. Financial viability

- 4.4 The program has the solid political support of the Government of Venezuela, as demonstrated by the inclusion in the 2005 Public Sector Borrowing Act of authorization to sign the loan contract during the current fiscal year.

C. Socioeconomic viability

- 4.5 Three types of benefits are expected from the planned program activities: (i) higher tax revenue; (ii) lower collection costs; and (iii) lower costs to taxpayers and users of the customs system in meeting their obligations.
- 4.6 **Revenue will be increased** through less tax evasion, resulting from actions under the subcomponents: (i) improved corporate image; (ii) comprehensive training program; (iii) audit model; (iv) new processes for filing tax returns; (v) enforcement management model; (vi) risk analysis and postaudit model; and (vii) a national database. A 0.1% increase would be sufficient to fully recover all planned investments under the program (approximately US\$8 million annually) over a five-year period.

- 4.7 It will also be possible to **lower collection costs** as the result of activities under the subcomponents: (i) strategic plan; (ii) planning and control system; (iii) administrative structure model; (iv) financial management system; (v) system for the management of real estate and movable assets; (vi) internal audit model; (vii) support system for the integrated management of procedures and processes; and (viii) digitization of records. A reduction of collection costs of at least 6%¹¹ (approximately US\$1.4 million per year for five years) would be sufficient to justify the investments to be made exclusively on these subcomponents.
- 4.8 Finally, it will be possible to **lower the costs to taxpayers** and users of the customs system in meeting their obligations through the planned subcomponent activities: (i) rebate and refund system; (ii) comprehensive taxpayer assistance model; (iii) taxpayer resource management model; and (iv) customs management system.

D. Environmental impact

- 4.9 In order to meet the requirements of the Committee on Environment and Social Impact (CESI), the program will include training in the following areas, as part of its “comprehensive training program” subcomponent: (i) the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) and building awareness among customs staff; (ii) the capacity to respond to emergencies, and contingency plans; (iii) physical and procedural requirements for handling wild fauna, animals and dangerous goods; (iv) relationships with other organizations involved in foreign trade operations. With regard to occupational safety and health regulations and their enforcement at SENIAT, SENIAT authorities have informed the project team that the matter is being considered at a higher level within the Venezuelan government, affecting all government institutions.

E. Benefits

- 4.10 The program is expected to help generate the following benefits: (i) increase in nonoil tax revenues as a percentage of gross domestic product; (ii) reduction in direct collection costs per unit collected; (iii) reduction in crosscutting management system operating costs per unit collected; and (iv) smoother foreign trade operations as part of a process allowing for improved control and enhanced capacities for preventing and combating fraud.
- 4.11 In summary, many of the actions planned for the program will help give public sector financing a more predictable profile, fostering a more enabling environment for investment and economic development. By broadening and updating the tax base, moreover, the program will help to enhance equity in the system.

¹¹ SENIAT technical staff anticipate a potential reduction of 14%.

F. Risks

- 4.12 The main risk of the program relates to the ongoing political support needed for institutional modernization. This factor has an influence on the institutional stability necessary for modernization of the tax administration. The Government of Venezuela has been supporting the institutional strengthening process since before preparation for this operation began, and it has initiated several modernization activities proposed as part of the program design.
- 4.13 Another risk the program faces is the natural resistance to change. This factor has been mitigated in the proposed program by a highly participatory strategy, starting at the design stage. Working groups were formed with members of the line departments and regulatory areas, who played an active role in developing the action plan for the program.
- 4.14 Use of the Institutional Capacity Assessment System (ICAS) as a tool of program preparation revealed certain operational risks: (i) inefficient use of resources due to the absence of a planning system or effective structure; (ii) poor decisions can be made, due to the shortage of reliable financial data and lack of integration among the budget, accounting and cash management departments; (iii) staff performance can be unsatisfactory, due to outdated rules and procedures; (iv) goods can be lost, or information on them may be wrong, due to ineffective asset management procedures; (v) agency staff turnover or lack of continuity; (vi) the complexity of the institutional modernization process and the mechanisms for reforming the internal revenue and customs codes and regulations; and (vii) the difficulty of fostering a taxpaying culture in the country. Efforts to minimize these risks are reflected in both the design of the program components and the logical framework indicators.
- 4.15 Analysis during program preparation revealed that the current legal framework governing customs needs to be reviewed and updated. In order for UNCTAD's Automated System for Customs Data (ASYCUDA) and other operational rules to be implemented, a new implementing act and enabling regulations are needed at the level of the executive branch and SENIAT to govern each of the different customs procedures. For this reason, the program will fund the drafting of a bill in this area. However, since the program will not fund the ASYCUDA system, a failure by the National Assembly to pass the law would not affect program implementation, though it would limit its impact.
- 4.16 Finally, there is a risk that the budgetary allocations and financial resources required during program execution will not be available on schedule. The program has solid political support of the Government of Venezuela, and in particular its Finance Ministry, inasmuch as its successful execution will provide the country with nonoil tax revenues.

PROGRAM FOR MODERNIZATION OF CUSTOMS AND TAX ADMINISTRATION (VE-L1001)
LOGICAL FRAMEWORK

Description	Indicators	Means of Verification	Assumptions
<p>Objective</p> <p>Support SENIAT in increasing nonoil domestic tax revenues</p>	<p>Two years after program end:</p> <ul style="list-style-type: none"> • Increase in nonoil domestic tax revenue as percentage of gross domestic product from 10% to 13% (US\$85.8 million -2003) • Reduction in direct collection costs per unit of tax collected from 100/2.98 (US\$7.4 billion/ US\$24.8 million) to 100/2.50. 	<ul style="list-style-type: none"> • Ministry of Finance financial statements • Central Bank of Venezuela statistics • SENIAT reporting • SENIAT external audits and financial reports 	<ul style="list-style-type: none"> • Ongoing political support for institutional reform. • Trade policy maintains the current degree of economic openness. • Macroeconomic stability is maintained and the projected rate of economic growth is achieved. • SENIAT retains the taxation authority established in the current legal framework.
<p>Purpose</p> <p>Establish an integrated, modern and transparent tax and customs administration</p>	<p>Two years after program end:</p> <ul style="list-style-type: none"> • 100% of corporate support services integrated and implemented at the regulatory and operational levels. (accounting-financial, human resources, procurement, and real estate and movable assets). • Procurement processing time shortened by 40% (from 39 to 20 days). • VAT tax base broadened by 30% (218,281 to 283,765 taxpayers). • Increase in voluntary compliance from 45% to 60% (increase in returns filed from 720,000 to 828,000). • 52% increase in visits to Taxpayer Assistance Centers (from 458 to 696). Daily taxpayer visits and average service time reduced from one hour to 30 minutes. • 50% increase in transactions processed using the system (from 3,594,372 to 5,391,558). • 5% reduction in corrections made using the system, based on the estimated number of transactions in 2011 (from 431,324 to 377,409). • Reduction in time spent by users on customs procedures and compliance with internal revenue obligations, from 3 days to 1 day. 	<ul style="list-style-type: none"> • SENIAT external audits and financial reports • SENIAT management indicators 	<ul style="list-style-type: none"> • Continuity in economic policy. • Political support for institutional reform. • Firm executive branch support during program execution.

Description	Indicators	Means of Verification	Assumptions
<p>Components Effective and efficient crosscutting systems.</p> <p>Modernization of institutional management</p>	<p>➤ Strategic plan executed and internalized. <i>In year 3, annual work plans (AWPs) prepared and evaluated as outlined in the strategic plan. Number of units (regulatory and operational) with operating plans is in line with strategic plan/Total number of existing units (27).</i></p> <p>➤ Planning and control system implemented <i>In year 3, planning system implemented and contains AWP information for all regulatory and operational units. Number of units with information available on the system/Total number of existing units.</i></p> <p>➤ Administrative organization model implemented <i>In year 4, SENIAT's new organizational structure implemented. Number of units operating with staff selected in accordance with the new structure's job profiles/Total number of units (27).</i></p> <p>➤ Integrated financial management model implemented <i>In year 3, 100% integration of the organization's financial management areas, including the regulatory and operational levels. Number of financial management units operating within the integrated system/Total number of units (27).</i></p> <p>➤ Personal and real property management system implemented <i>In year 5, 100% of all procurement, disposal and transfer transactions are automated, including the national inventory of assets. Number of units operating within the asset management system/Total number of units (27).</i></p> <p>➤ Integrated human resources management and control system implemented <i>In year 2, 100% of operations in this area will be conducted using the system. Number of units operating within the system/Total number of units (27).</i></p>	<ul style="list-style-type: none"> • Strategic plan • AWPs for each unit • Project monitoring system <ul style="list-style-type: none"> • Project monitoring system • Reports generated by the planning system <ul style="list-style-type: none"> • Project monitoring system • New organizational charts (by function, organization and position) • Resolution on SENIAT's new functional structure published in the Official Gazette • Project monitoring system • Regular reports on the financial management system <ul style="list-style-type: none"> • Project monitoring system • Asset management system report • Inventory of personal and real property <ul style="list-style-type: none"> • Project monitoring system • Rules and procedures • Human resources system reports 	<ul style="list-style-type: none"> • Management framework in line with requirements for program implementation. • Resistance to institutional change overcome. • Sufficient budgetary allocation to SENIAT. • Internal political decision to push proposed changes.

Description	Indicators	Means of Verification	Assumptions
	<p>➤ Internal audit model implemented</p> <p><i>In year 4, internal control rules and procedures 100% implemented. Number of units operating within the system/Total number of units (27).</i></p> <p>➤ Support system implemented for integrated management of formal procedures and processes (workflow)</p> <p><i>In year 3, 100% of administrative procedures and processes operating within the new system. Areas where administrative procedures and processes are incorporated into the system/Total number of areas to be incorporated (27).</i></p> <p>➤ Corporate image enhancement program implemented</p> <p><i>In year 4, information and communication strategy defined. Strategy 100% defined and implemented in the different regions of the country. Number of regions where strategy has been applied/Total number of regions (10).</i></p> <p>➤ Comprehensive training program implemented</p> <p><i>In year 4, training plan 100% implemented. Number of staff receiving training under the annual program/Total number of staff.</i></p> <p>➤ IT master plan</p> <p><i>In year 2, master plan 100% formulated and validated by the agency. Number of specific plans for business units/Total number of business areas (administration, IT, planning, public relations, institutional relations, fiscal studies, economic and tax studies, auditing, collection, customs, internal revenue, internal audit, human resources, tax law).</i></p>	<ul style="list-style-type: none"> • Project monitoring system • Internal Audit Office manuals • Internal control system reports • Project monitoring system • System reports • Procedures manuals • Project monitoring system • Information and communication strategy plan • Opinion polls • Project monitoring system • Reports on courses given in each area • Training plan defined and approved • Project monitoring system • Master plan and specific plans 	

Description	Indicators	Means of Verification	Assumptions
<p>Operational processes for internal revenue and foreign trade optimized.</p> <hr/> <p>Internal Revenue</p>	<p>➤ Comprehensive reform of the tax system</p> <p><i>In year 2, 100% of tax law instruments formulated and validated by the agency, in accordance with the new constitutional system and domestic and international economic and fiscal policy. Number of legal instruments adapted (proposals)/Total number of instruments to be adapted (11).</i></p> <p>➤ Information services available on transfer pricing and international taxation</p> <p><i>In year 4, transfer pricing database and computer analysis tool installed and staff trained. Number of staff trained/Total number of staff to be trained (5).</i></p> <p>➤ Economic estimation and simulation model.</p> <p><i>In year 2, 100% completion of estimates to measure: The impact of fiscal and tax policies; tax evasion and delinquency; revenue estimates, using the economic estimation and simulation systems. Number of revenue estimates per tax/Total number of taxes (ISRL, VAT, IDB, customs duties, minor taxes) (5).</i></p> <p>➤ Comprehensive customs and tax statistics system implemented</p> <p><i>In year 2, 100% of processes automated with the integrated statistical function. Number of taxes incorporated within the statistical system/Total number of taxes (ISRL, VAT, IDB, customs duties, minor taxes) (5).</i></p> <p>➤ New processes implemented for filing of tax returns and payments</p> <p><i>In year 2, tax return filing and payment process 100% automated. Number of taxes with automated returns and payments/Total number of taxes to be automated (ISRL, VAT, minor taxes) (3).</i></p>	<ul style="list-style-type: none"> • Project monitoring system • Proposals for adapting or creating legal instruments formulated and validated by the agency <ul style="list-style-type: none"> • Project monitoring system • Reports on transfer pricing and international taxation <ul style="list-style-type: none"> • Project monitoring system • Calculation and estimate reports completed • System manuals • Reports on simulation and construction of models based on different economic scenarios <ul style="list-style-type: none"> • Project monitoring system • Statistics system reports. <ul style="list-style-type: none"> • Project monitoring system • Quality control report on data capture for each tax • Completion of statistical reports for each tax 	<ul style="list-style-type: none"> • Management framework in line with requirements for program implementation. • Resistance to institutional change overcome. • Sufficient budgetary allocation to SENIAT. • Internal political decision to push proposed changes. • Political will to approve the new laws and regulations.

Description	Indicators	Means of Verification	Assumptions
	<p>➤ Rebate and refund procedures and systems implemented</p> <p><i>In year 3, criteria, mechanisms and information system 100% implemented for ex ante and ex post control of payments and rebates. Number of payments processed automatically per year/Average number of payments recorded in the last 3 years.</i></p> <p>➤ Comprehensive enforcement model defined and implemented</p> <p><i>In year 3, enforcement procedures and processes 100% incorporated within the new model. Number of enforcement units using the cross-referencing system/Total number of enforcement units (27).</i></p> <p>➤ Onsite tax collection supervision and control methods implemented</p> <p><i>In year 2, 100% effective implementation of supervisory and control functions provided for by law. Number of supervisory and control functions effectively implemented/Total number of functions provided for in laws and regulations (9).</i></p> <p>➤ Implementation of statistical control methods for collection processes</p> <p><i>In year 2, 100% of collection processes statistically controlled. Number of units with statistical control methods implemented/Total number of units (27).</i></p> <p>➤ Statistical control of tax revenue and taxpayers implemented</p> <p><i>In year 2, statistical control methods to monitor taxpayer behavior for each type of tax 100% implemented. Number of taxes subject to statistical control/Total number of taxes (ISRL, VAT, IDB, customs duties, minor taxes) (5).</i></p> <p>➤ Management model to improve auditing implemented</p> <p><i>In year 2, 100% of auditing activities planned and executed in accordance with the new management model. Number of auditing units using the cross-referencing system/Total number of auditing units (27).</i></p>	<ul style="list-style-type: none"> • Project monitoring system • Document containing criteria for ex ante and ex post control • Document defining payment and refund mechanisms <ul style="list-style-type: none"> • Project monitoring system • Document defining the model • Rules and procedures manuals <ul style="list-style-type: none"> • Project monitoring system • Operations control reports • Control reports • Reports on the status of methods applied <ul style="list-style-type: none"> • Project monitoring system • Statistical tool installed • Statistical reports on collection processes <ul style="list-style-type: none"> • Project monitoring system • Daily, weekly and monthly collection reports: by tax and taxpayer category <ul style="list-style-type: none"> • Project monitoring system • Document defining the model • Reports on taxpayer selection based on cross-referencing criteria 	

Description	Indicators	Means of Verification	Assumptions
	<p>➤ Comprehensive taxpayer assistance model defined and approved</p> <p><i>In year 4, 100% automation of taxpayer procedures and claims. Number of taxpayer assistance centers operating within the new comprehensive assistance model/Total number of centers (30).</i></p> <p>➤ Management model for administrative resources available to taxpayers defined and implemented</p> <p><i>In year 2, 100% of regional offices decentralized with the new management model implemented. Number of decentralized regional offices operating under the new management model/Total number of regional offices (10).</i></p> <p>➤ E-commerce audit model defined and implemented</p> <p><i>In year 4, procedures implemented in 100% of regions and e-commerce auditing 100% automated. Number of regions performing automated e-commerce auditing/Total number of regions (9).</i></p> <p>➤ Infrastructure and equipment</p> <p><i>In year 3, construction of Western Regional HQ 100% complete. Number of construction phases completed/Total number of phases (infrastructure, internal structure, partitions and dividing walls, fixtures and fittings, furniture) (5).</i></p>	<ul style="list-style-type: none"> • Project monitoring system • Document defining the model • Performance report on procedures and claims system • Project monitoring system • Document defining the model • Performance report on resource processing • Project monitoring system • Document defining the model • Audit performance reports • Project monitoring system • Work completed • Fully equipped 	
<p>Operational processes for internal revenue and foreign trade optimized.</p> <hr/> <p>Foreign trade</p>	<p>➤ Current legal framework updated</p> <p><i>In year 2, 100% of proposals for customs legal instruments formulated and validated by the agency. Number of legal instruments adapted (proposals)/Total number of instruments to be adapted (4).</i></p> <p>➤ Customs management system implemented</p> <p><i>In year 2, 100% of import, export and transit customs declarations managed and processed electronically. Average time for customs clearance in the three areas shortened from 7 days to 2 hours. Electronic interaction between organizations involved in customs clearance and SENIAT.</i></p>	<ul style="list-style-type: none"> • Project monitoring system • Draft Customs Code • Bill to reform the Customs Act • Bill to reform the general regulations implementing the Customs Act and related regulations • System progress reports. • No manual procedures for these operations • IT system data. Base value: average time for each type of action at the beginning of the project • Rules and procedures manuals 	

Description	Indicators	Means of Verification	Assumptions
	<p>➤ Postaudit system supported by risk analysis tools</p> <p><i>In year 2, at least 20% of postaudits produce positive collection results. Number of successful audits/total number of audits performed.</i></p> <p><i>Over 120 hours of training in risk analysis and postaudit techniques for 100 staff. Hours of training/total number of hours (120).</i></p> <p>➤ Model laboratory designed and pilot laboratory built</p> <p><i>In year 4, model designed and pilot laboratory built, equipped and operating. Number of phases completed/Total number of phases (infrastructure, internal structure, partitions and dividing walls, fixtures and fittings, furniture) (5).</i></p> <p>➤ Customs infrastructure adapted</p> <p><i>In year 3, design and construction of a pilot customs office. 100% of customs offices have equipment installed for warehouses, communication and nonintrusive inspection of goods. Number of phases completed/Total number of phases (infrastructure, internal structure, partitions and dividing walls, fixtures and fittings, furniture) (5).</i></p> <p>➤ Strategy for integrating the customs system developed</p> <p><i>In year 2, strategic plan for integration defined.</i></p> <p><i>Conceptual design and logical model defined and implemented. Stages in strategic plan completed/total number of stages (assessment of the situation, conceptual design, logical model, final document) (4).</i></p>	<ul style="list-style-type: none"> • Postaudit control system reports • Reports from the Center for Fiscal Studies • Project monitoring system • Work completed • Fully equipped • Project monitoring system • Work completed. • Fully equipped • Project monitoring system. • Strategic plan. • Criteria and conceptual model. 	

Description	Indicators	Means of Verification	Assumptions
<p>Technology infrastructure modernized, providing effective support to SENIAT management.</p> <hr/> <p>Modernization of technological infrastructure</p>	<p>➤ Alternate center for operational contingency</p> <p><i>In year 3, backup for 100% of main systems. Phases completed to provide system backup/Total number of phases (renovation of data center, hardware installation, database installation, installation of applications) (4).</i></p> <p>➤ Stocks of equipment and parts</p> <p><i>In year 4, replacements for 1% of hardware and 5% of spares and accessories in stock. Number of pieces of hardware purchased/Total pieces of hardware (1,500)</i></p> <p><i>Number of parts available/Total number of parts (250)</i></p> <p>➤ Digitized records system implemented</p> <p><i>In year 5, 100% of documents digitized and information available for consultation. Number of documents digitized/Total number of documents (18 million).</i></p> <p>➤ National database for auditing and collection implemented</p> <p><i>In year 4, 100% of systems automatically reporting information to the database. Number of systems reporting information/Total number of systems (ASYCUDA, SIVIT, iSENIAT, collection through banking system) (5).</i></p> <p>➤ Assistance in developing modules associated with the iSENIAT platform</p> <p><i>By year 3, SIVIT system 100% migrated to the new platform. Areas where processes have been migrated/Total number of areas to be migrated (auditing, collection, customs, internal revenue, administrative support offices) (5).</i></p>	<ul style="list-style-type: none"> • Project monitoring system. • Report on conclusion of each stage of the process <ul style="list-style-type: none"> • Project monitoring system • Reports on stock management system <ul style="list-style-type: none"> • Project monitoring system • Digitization system reports <ul style="list-style-type: none"> • Project monitoring system. • Database management system reports <ul style="list-style-type: none"> • Project monitoring system. • iSENIAT system reports 	<ul style="list-style-type: none"> • Management framework in line with requirements for program implementation. • Resistance to institutional change overcome. • Sufficient budgetary allocation for SENIAT. • Internal political decision to push proposed changes.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/05

Venezuela. Loan ____/OC-VE to the República Bolivariana de Venezuela
Program for the Modernization of the Customs and Tax Administration

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 República Bolivariana de Venezuela, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a program for the modernization of the customs and tax administration. Such financing will be for an amount of up to US\$18,500,000 from the Single Currency Facility of 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.

LEGIII/VE-497055-05
VE-L1001