

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PERU

PROGRAM TO SUPPORT FISCAL AND ECONOMIC RECOVERY IN PERU

(PE-L1267)

LOAN PROPOSAL

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ABBREVIATIONS

CCAFSP	Comité de Coordinación del Sector de la Administración Financiera del Sector Público [Public Sector Financial Management Coordination Committee]
CIAT	Inter-American Center of Tax Administrations
DGPIP	Dirección General de Política de Ingresos Públicos [Public Revenue Policy Department]
DGPMAD	Dirección General de Política Macroeconómica y Descentralización Fiscal [Macroeconomic Policy and Fiscal Decentralization Department]
DGPMI	Dirección General de Programación Multianual de Inversión [Multiyear Investment Programming Department]
DGTP	Dirección General del Tesoro Público [Public Treasury Department]
FATF	Financial Action Task Force
IAPM	Informe de Actualización de Proyecciones Macroeconómicas [Macroeconomic Forecasts Update Report]
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rate
MEF	Ministry of Economy and Finance
MIMP	Ministry for Women and Vulnerable Populations
MMM	Multiyear Macroeconomic Framework
NFPS	Nonfinancial public sector
OECD	Organisation for Economic Co-operation and Development
OSCE	Organismo Supervisor de Contrataciones del Estado [Government Procurement Supervisory Body]
OVE	Office of Evaluation and Oversight]
PEIP	Special public investment projects
PIA	Initial institutional budget
PIM	Amended institutional budget
PNCP	Plan Nacional de Competitividad y Productividad [National Competitiveness and Productivity Plan]
PNIP	Plan Nacional de Infraestructura para la Competitividad [National Infrastructure Plan for Competitiveness]
SIAF	Sistema Integrado de Administración Financiera [Integrated Financial Management System]
SIAF-RP	Sistema Integrado de Administración Financiera de los Recursos Públicos [Integrated Financial Management System for Public Resources]
SIAF-SP	Sistema Integrado de Administración Financiera del Sector Público [Public Sector Integrated Financial Management System]
SUNAT	Superintendencia Nacional de Administración Tributaria [National Superintendency of Tax Administration]

PROGRAM SUMMARY

PERU

PROGRAM TO SUPPORT PROGRAM TO SUPPORT FISCAL AND ECONOMIC RECOVERY IN PERU (PE-L1267)

Financial Terms and Conditions				
Borrower:			Flexible Financing Facility^(a)	
Republic of Peru			Amortization period:	20 years
Executing agency:			Drawdown period:	3 years
Ministry of Economy and Finance, through the Public Treasury Department			Grace period:	(b)
Source	Amount (US\$)	%	Interest rate:	LIBOR-based ^(c)
IDB (Ordinary Capital):	500,000,000	100	Front-end fee:	50 basis points
			Standby fee:	(d)
			Inspection and supervision fee:	(d)
			Weighted average life:	12.75 years
Total:	500,000,000	100	Approval currency:	U.S. dollar
Program at a Glance				
<p>Program objective/description. The program's general objective is to improve the sustainability of fiscal management in support of the economic recovery program. Its specific objectives are to increase: (i) tax revenue, while preserving companies' liquidity; (ii) public investment, while maintaining expenditure levels that will facilitate economic and fiscal recovery; and (iii) the effectiveness of public spending.</p> <p>This program is the first of two operations under the programmatic policy-based loan modality, to consist of two contractually independent but technically linked loans, with the deferred drawdown option.</p>				
<p>Special contractual conditions precedent to the sole disbursement of the financing. The disbursement of loan proceeds, upon the request of the borrower, will be subject to fulfillment of the policy reform measures described in the program components, and in accordance with the policy matrix (Annex II), the policy letter, and other conditions established in the loan contract (paragraph 3.3).</p>				
Exceptions to Bank policies: None.				
Strategic Alignment				
Challenges:^(e)	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input type="checkbox"/>	
Crosscutting themes^(f):	GE <input checked="" type="checkbox"/> and DI <input type="checkbox"/>	CC <input checked="" type="checkbox"/> and ES <input type="checkbox"/>	IC <input checked="" type="checkbox"/>	

(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

(c) In keeping with document FN-729 (Strategy and Operational Readiness for the Execution of the LIBOR Transition for the IDB Balance Sheet) and document CF-257-1 (Base Rate Replacement for Sovereign Guaranteed LIBOR-based Loans), this loan will be subject to the SOFR-based interest rate, upon notification to the borrower by the Bank, pursuant to the provisions of the loan contract.

(d) The standby fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.

(e) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

(f) GE (Gender Equality) and DI (Diversity); CC (Climate Change) and ES (Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1. Prepandemic period

- 1.1 **Economic context.** Between 2005 and 2019, Peru achieved robust, stable economic growth averaging 5.2% annually in real terms,¹ above the 3.2% regional average.² During that period, Peru consolidated its fiscal discipline, posting a deficit of 2.7% and debt of 27% of gross domestic product (GDP), which was less than half the regional average (75.4%) for 2019 ([World Economic Outlook, 2020](#)). This yielded savings of approximately 2.4% of GDP for the fiscal stabilization fund, and was the result of an effective institutional framework comprising two main components: (i) fiscal rules involving deficit, debt, and expenditure controls, to which the government successfully adhered;³ and (ii) a medium-term fiscal framework establishing an expectation of and commitment to sustainability.
- 1.2 **Fiscal context.** Despite the strengths of the fiscal responsibility framework, between 2014 and 2019 the government's tax revenue shrank 3.43 percentage points of GDP. The average tax collection in this period was 19% of GDP, one of the lowest in Latin America and the Caribbean, where the average was 25% of GDP. In 2015, revenue fell 2.3 percentage points, mainly due to direct taxes,⁴ and in subsequent years, revenue continued to decrease, falling to 18% of GDP in 2017. Starting in 2018, this downward trend reversed, and revenue returned to 19% of GDP (up 1.1 percentage points). This was due to the increased collection of general sales tax and to the collection of direct taxes, which were boosted by the accelerated growth in 2018.
- 1.3 In the same 2014-2019 period, Peru adjusted its level of public expenditure to offset the drop in tax revenue. Total expenditure shrank from 22% in 2014 to 20% of GDP in 2019. The largest adjustment took place between 2014 and 2016, as the result of reduced spending in the categories of gross capital formation and goods and services. Capital expenditure dropped 1.4 percentage points. Beginning in 2017, both capital and current expenditure appeared to be relatively stable.
- 1.4 From 2014 to 2019, with the 3.43 percentage point drop in revenue and the mere 2 percentage-point reduction in expenditure, the country posted successive, yet moderate deficits, driving debt up from 20.6% of GDP in 2014 to 27% in 2019. Even so, Peru was still positioned as one of the countries in the region with the lowest debt as a percentage of GDP, along with Paraguay. Therefore, it had the necessary headroom to finance countercyclical policies without jeopardizing the sustainability of its public finances.⁵

¹ 2005-2013: 6.57% and 2014-2019: 3% ([International Monetary Fund \(IMF\), 2021](#)).

² [IMF, 2020](#).

³ [Mendoza, 2021](#).

⁴ Income tax collections shrank from 7% of GDP in 2014 to 5.7% of GDP in 2015, due to reduced rates and the economic slowdown.

⁵ Fiscal Council, 2020. Analysis of the legislative decree approving the temporary and exceptional suspension of the fiscal rules for the nonfinancial public sector for fiscal years 2020 and 2021 and establishing other provisions.

2. Postpandemic period

- 1.5 In 2020, thanks to its stable fiscal situation and strict adherence to the accountability framework, Peru was able to implement a substantial package of measures to address the health and economic crisis caused by COVID-19 (2020). At 20.3% of GDP, this package was one of the largest in the region,⁶ and included the following measures: (i) tax relief and stimulation of public spending for 7.2% of GDP (2.6% and 4.6%, respectively); (ii) an injection of liquidity backed by government guarantees (10.8%); and (iii) private savings liquidity (2.3%). To implement the package, Peru suspended its fiscal rules for 2020-2021⁷ and published the [Multiyear Macroeconomic Framework \(MMM\) 2021-2024](#), which provides for gradual convergence to the fiscal rule limits over the medium term.⁸
- 1.6 In 2020, economic growth contracted by 11.1% of GDP due to the pandemic. However, the IMF projects that the Peruvian economy will grow 8.5% in 2021,⁹ more than double the rate forecast for the region (4.1%), but still not enough to offset the 2020 decline. To tackle the crisis, the Government of Peru increased nonfinancial public sector (NFPS) spending from 20.1% of GDP in 2019 to 25% in 2020, not only to finance the fiscal measures that were implemented but also to address gaps in public service delivery brought to light by the crisis. As a result, public investment was replaced by current expenditure, though both posted increases in late 2020.¹⁰
- 1.7 Given the lower level of economic activity and the tax relief measures, tax revenue fell 10.5% in real terms, from 19.9% of GDP in 2019 to 18% of GDP in 2020. Revenue from the goods and services tax (IGV) also shrank 14.5%, as a result of the decreased economic activity and imports, and the postponement of tax payments. Furthermore, income tax revenue dropped 14.9% in 2020 (Inter-American Center of Tax Administrations (CIAT), 2021),¹¹ due to: (i) lower monthly payments; (ii) less regularization of companies and individuals; and (iii) deterioration of employment and income. Nontax revenue was affected by the drops in social security contributions, payments made to acquire or use public assets, and royalties.
- 1.8 With the lower tax revenue and higher public expenditure, the fiscal deficit jumped from 1.6% of GDP in 2019 to 8.9% in 2020. The measures adopted were financed by using fiscal assets and issuing debt. Financing requirements increased from 4.2% of GDP in 2019 to 9.2% in 2020. Debt climbed from 27.1% of GDP in 2019 to 35.4% in 2020, the highest rate posted by the country since 2005 but still the second lowest in the region.¹²

⁶ Advanced, emerging, and low-income economies deploy an average of 24%, 6%, and less than 2% of GDP on fiscal measures, respectively ([IMF](#)).

⁷ [Legislative Decree 1457-2020](#).

⁸ Deficit converging to 1% of GDP in 2025 and debt converging to 30% of GDP in 2040 ([MMM](#)).

⁹ The Ministry of Economy and Finance estimates 10% in the MMM ([IMF, 02/2021](#)).

¹⁰ Investment 2010-2013: 5.8%; 2014-2016: 5.4%; and 2017-2020: 4.7% of GDP ([Central Reserve Bank of Peru](#)).

¹¹ [Revenue report COVID-19 2020 \(CIAT, April 2021\)](#).

¹² [Peru: 2021 Article IV Report \(IMF\)](#).

- 1.9 In this context, the main problem to be addressed is the return to fiscal sustainability, which deteriorated because of the COVID-19 pandemic.¹³ This operation will help mitigate the following specific problems: (i) low tax revenue; (ii) low levels of public investment;¹⁴ and (iii) lack of effectiveness in spending management. The following aspects are associated with these problems:
- 1.10 **Revenue.** Peru's tax revenue finances more than 60% of the government budget, but as noted above, the country's tax take was already one of the lowest in the region before the pandemic. Therefore, Peru must take advantage of every opportunity to improve its tax collection efficiency and increase the State's capacity to effectively handle the demands of the population and the neediest sectors as the country undergoes the worst health crisis of its history.
- 1.11 The following specific problems/gaps were identified: (i) in 2020, companies' incomes dropped significantly, but they continued to incur fixed operating costs and/or expenses;¹⁵ (ii) the property tax basis was, in general, much lower than real estate market values;¹⁶ (iii) financial information for tax control is exchanged with other jurisdictions by request, which complicates compliance monitoring;¹⁷ and (iv) since the information needed to identify and register beneficial owners is unavailable, it is difficult to identify money- and asset-laundering offenses in compliance with the recommendations of the Financial Action Task Force (FATF).
- 1.12 **Expenditure.** Public sector financial management plays a key role in public resource allocation and use. The countries of Latin America have made significant progress on improving the institutional, operational, and technological frameworks of their public sector financial management systems, since the governments have sought to enhance the coverage, reliability, and timeliness of financial data. They have also made significant progress on streamlining procedures and implementing more sophisticated models and technologies in national treasuries, debt management offices, accounting departments, and budget and procurement agencies ([Pimenta and Pessoa, 2016](#)).
- 1.13 Annually, Peru spends approximately 4.9% and 5% of GDP on capital expenditures and goods and services, respectively, more than the regional averages (around 4.6% and 4% of GDP, respectively). According to [Izquierdo, Pessino, and Vulentin \(2018\)](#), goods and services and investment present the greatest opportunities for enhancing the efficiency and effectiveness of management tools, which is the focus of the main activities planned under this operation.
- 1.14 The following specific problems/gaps were identified: (i) difficulty executing highly complex, expensive projects, due to inefficient budget execution processes;¹⁸ (ii) the criteria for allocating investment resources to the regional governments do not

¹³ For 2022, additional financing resources of around 3.58% of GDP will be needed ([Central Reserve Bank of Peru](#)).

¹⁴ [Central Reserve Bank of Peru](#).

¹⁵ [Deloitte, 2020](#).

¹⁶ In the districts of Metropolitan Lima (58% of total subnational tax revenue), properties are undervalued by an average of 250% ([Central Reserve Bank of Peru](#)).

¹⁷ All told, there are 3,300 Peruvian citizen accounts worth US\$3.5 billion in tax havens ([National Superintendency of Tax Administration \(SUNAT\)](#)).

¹⁸ A total of S/16.8 billion has been allocated to suspended works ([General Accounting Office, 2019](#)).

appropriately account for territorial and socioeconomic differences; (iii) insufficient proactive action with regard to more ecoefficient public procurement, since the tools for managing spending on goods and services do not include incentives to encourage higher efficiency. Although approximately 1.45 million public servants use materials and energy in their activities, only 3% of public institutions report their ecoefficiency ratios;¹⁹ (iv) only 30% of all procedures awarded and 21% of the total amount transacted in Peru's public procurement market went to women-led companies;^{20, 21} and (v) timely information for managing expenses is limited, since the itemized expense records generated by the 3,500 executing agencies' client systems are not consolidated centrally.²² Furthermore, there are no specific budget classifiers to tag and track allocations related to climate change or gender.²³

- 1.15 **Internal and external validity.** Recent evaluations show that to a large extent the tax take depends on the institutional strengthening of the tax administrations, specifically their organizational structures, processes, and support tools. Of particular importance are: (i) improving access to and the quality of the available information;²⁴ (ii) allowing access to national and international banking system data;²⁵ (iii) implementing data-intensive inspection models;²⁶ and (iv) simplifying procedures to facilitate tax compliance.²⁷ Several tax administrations in Latin America have strengthened these aspects, notably Brazil and Uruguay.²⁸

¹⁹ Ministry of the Environment, 2019.

²⁰ Diagnostic assessment of the situation of women suppliers in government procurement processes (Government Procurement Supervisory Body (OSCE), 2021).

²¹ A survey of potential suppliers identified the limited access to timely information on opportunities and participation procedures and the lack of training on public procurement as the main barriers (GRADE, 2020).

²² [IMF, 2020](#).

²³ Construction of an operational gender classifier that will make it possible to link policy objectives to the budget process is pending. In that regard, the Multisector Strategic Plan for Gender Equality, approved through Supreme Decree 002-2020 of March 2020 of the Ministry for Women and Vulnerable Populations (MIMP), establishes, in numbered paragraph 5, point 3.5, that information on public spending and investment in gender equality will be regularly obtained from the classification system to be developed by the MIMP with technical assistance from the Ministry of Economy and Finance. Approval of the conceptual framework sets the foundations for regulations, and acts as a trigger for the second stage, which includes implementation of the operational gender classifier through use of a new integrated financial management system for public resources (SIAF-RP).

²⁴ Tax evasion rates are up to eight times higher when the tax administration does not use automated tools to verify taxpayers' sources of income (Slemrod et al., 2015; Pomeranz, 2015; Kleven et al., 2011).

²⁵ Langenmayr (2017) shows that access to foreign bank information is a necessary condition for reducing tax evasion by offshoring. The study shows that access to international information combined with the opportunity for legal entities to self-regulate has a positive impact on the tax take. Slemrod et al., 2017, demonstrate that bank records can be key to reducing tax evasion by microenterprises and small businesses.

²⁶ The availability of information supports compliance monitoring of companies in Spain (Almunia and López Rodríguez, 2016).

²⁷ This may lead to increases in payment rates of up to four percentage points (Hallsworth et al., 2014).

²⁸ [Project completion report 1783/OC-UR](#). Barreix and Zambrano, 2018. Electronic Invoicing in Latin America (IDB).

- 1.16 On the spending side, empirical evidence supports the need for strong fiscal institutions to consolidate a climate that fosters fiscal sustainability.²⁹ Studies have shown that the fiscal deficit improves with the implementation of spending limit laws and fiscal rules.³⁰ Also of note along these same lines are findings on how budget transparency and government accountability principles contribute to lower spending, public debt, and budget deficit levels.³¹ Arenas de Mesa (2016) summarizes evidence showing that management, transparency, and fiscal responsibility help strengthen the fiscal institutional framework, one of the four dimensions of public finance that promote fiscal sustainability. Moreover, in terms of operational efficiency, the literature shows that standardizing and simplifying operational procedures, as well as reducing the number and complexity of transactions, are good treasury management practices (Babatz, 2013; Gupta et al., 2017; Miller and Hadley, 2016; Varea and Arosteguiberry, 2015). With regard to impact evaluations, Humphrey et al., 2012 show that for the United States Federal Reserve, changing from physical to electronic payments substantially reduced the cost of processing payments, by approximately 70%.
- 1.17 **Reform summary and rationale.** The COVID-19 pandemic has had a significant impact on the economy and fiscal accounts (paragraphs 1.6-1.8), and this program is designed to promote Peru's economic recovery and help create the conditions for resuming the path of fiscal sustainability. In this first operation of the programmatic series, the Government of Peru and the Bank agree on a number of complementary policy measures designed to raise public revenue (maintaining tax relief while improving control of tax evasion and increasing subnational governments' revenues) and improve expenditure management (more flexible public investment,³² ecoefficient procurement, and integrated financial management). The second operation of the series focuses on new measures to increase tax revenue and implement the improvements in public spending management efficiency. In the first operation, 87.5% of the measures included in the policy matrix are approvals of the legal regulations that will make the program objective viable. In the second operation of the programmatic series, 82.3% of the measures are for implementing and evaluating the outcomes of these policies, and the rest (17.7%), for developing new policies to achieve the objective of the programmatic series.
- 1.18 **Pending challenges.** The logic of the programmatic series is based on a combination of measures to increase public revenue, which, together with more

²⁹ Poterba, James M., and Jürgen von Hagen. *Fiscal Institutions and Fiscal Performance*. University of Chicago Press, 1999, and Alesina, A., et al. *Budget institutions and fiscal performance in Latin America*. *Journal of Development Economics* 59.2 (1999): 253-273.

³⁰ (a) Kopits, G.F. (2001). *Fiscal Rules: Useful Policy Framework or Unnecessary Ornament?* IMF Working Papers WP/01/145; (b) Alesina, A., R. Hausmann, R. Hommer, and E. Stelin (1996). *Budget institutions and fiscal performance in Latin America*. National Bureau of Economic Research. Working Papers Series 5586; and (c) Poterba, J. (1994). *State Responses to Fiscal Crises: The Effects of Budgetary Institutions and Politics*. *Journal of Political Economy* 102:799-821.

³¹ (a) Kirchgaessner, G. (2001), *The effects of fiscal institutions on public finance: a survey of the empirical evidence*, CESifo Working Papers, 617; (b) Abiad, A. and T. Baig (2005). *Underlying Factors Driving Fiscal Effort in Emerging Market Economies*. IMF Working Paper WP/05/106; and (c) Benito, B. and F. Bastida (2009), *Budget Transparency, Fiscal Performance, and Political Turnout: An International Approach*. *Public Administration Review*, 69: 403-417.

³² Peru's investment growth multiplier is estimated to be 1.4%. [Opportunities for Stronger and Sustainable Postpandemic Growth \(IDB, 2021\)](#).

effective spending, will promote the gradual convergence towards the fiscal rule limits, and thereby contribute to fiscal sustainability, predictable spending, and the transparent management of public finances. Once this programmatic series has been completed, Peru's most significant pending medium- and long-term challenge to fiscal consolidation will be the further adoption of measures to create more fiscal headroom for addressing the needs of the most vulnerable populations. The technical dialogue with the national authorities must be continued, with technical assistance as necessary, in order to support the design of measures to keep Peru moving down the path of economic and fiscal recovery.

- 1.19 **Bank experience in the country and sector.** This program forms part of the Bank's ongoing work with Peru to strengthen fiscal management. From 2014 to 2020, the Bank supported several loan and technical-cooperation operations that led to improvements in spending and revenue management.³³ These operations also supported the design of the reforms considered for this program. Particularly noteworthy are the fiscal management studies carried out to improve the spending and investment processes ([diagnostic assessment of the integrated financial management system for the public sector \(SIAF-SP\)](#)), and the conceptual model of the new financial management system (SIAF-RP). Of note with regard to tax administration are the efforts to [increase tax transparency](#) and implement the automatic exchange of information for fiscal purposes (TADAT-2017). The designs and lessons learned of many recent Bank experiences in the sector were also considered, as follows: with regard to the macrofiscal framework, operations in Paraguay ([4667/OC-PR](#)), El Salvador ([4542/OC-ES](#)), and Mexico ([3201/OC-ME](#) and [3676/OC-ME](#)); with regard to tax policy, operations in Argentina ([4569/OC-AR](#)), Colombia ([3284/OC-CO](#)) and the Dominican Republic ([3110/OC-DR](#)); with regard to tax administration, operations in Ecuador ([3325/OC-EC](#)) and Peru ([3214/OC-PE](#)); with regard to improving expenditure management, operations in: Guatemala ([2050/OC-GU](#)) and Nicaragua ([2422/BL-NI](#)); with regard to financial and tax transparency, operations in: Argentina ([4244/OC-AR](#) and [4796/OC-AR](#)) and Paraguay ([4866/OC-PR](#) and [5244/OC-PR](#)); and with regard to strengthening fiscal sustainability, operations in El Salvador ([4807/OC-ES](#)) and Chile ([5059/OC-CH](#)).
- 1.20 **Lessons learned.** In general, this program takes into account the Bank's lessons learned on the need to design fiscal programs based on a comprehensive, holistic perspective, and to coordinate appropriate responses to promote growth.³⁴ The Office of Evaluation and Oversight (OVE) assessment also highlights the need to find synergies and complementarity among policy reforms and actions to strengthen tax administration,³⁵ and demonstrates the importance of having regulatory frameworks in place to support the sustainability of the interventions and reforms to be enacted in any modernization. The first programmatic operation will establish the regulatory framework for all of the proposed measures, which the second programmatic operation will then support via institutional measures, through the operations mentioned below in paragraph 1.21.

³³ Operations [2445/OC-PE](#), [1482/OC-PE](#), [2703/OC-PE](#), [ATN/OC-16895-PE](#), and [ATN/OC-17627-PE](#).

³⁴ [Fiscal Policy and Management Sector Framework Document](#).

³⁵ Comparative evaluation: Review of Bank Support to Tax Policy and Administration, 2007-2016 (OVE-IDB, 2017).

- 1.21 **Complementarity with other Bank operations.** This operation is complemented by several investment projects currently being executed to strengthen public finance. Specifically, it coordinates with the following operations: (i) Project to Boost Efficiency in Public Investment and Public Procurement (operation [4428/OC-PE](#)), approved in 2017; (ii) Improving Tax and Customs Revenue Collection Services through Digital Transformation (operation [4725/OC-PE](#)), approved in 2018; and (iii) Project to Improve the Financial Administration of the Public Sector through Digital Transformation (currently being prepared); this last project includes implementation of a new integrated financial managed system for public resources (SIAF-RP), whose conceptual framework was financed with funds from technical-cooperation operation [ATN/OC-17627-PE](#), approved in 2019. In general, these operations are designed to support improvements in public resource management, while helping to speed up economic and fiscal recovery, which was deteriorated by the health crisis. The operation also complements the Reform Program to Support Economic Recovery and Competitiveness (operation [5203/OC-PE](#)), designed to foster the country's economic recovery by improving the business climate and through innovation and entrepreneurship.
- 1.22 **Coordination with other donors.** This operation seeks to complement the actions of diverse donors providing support for strengthening public spending management. The Swiss Agency for Development and Cooperation has been providing technical assistance to the Ministry of Economy and Finance, especially for the treasury and accounting systems. The United States Agency for International Development provides assistance to the Ministry of Economy and Finance and the OSCE on public procurement. The support is coordinated through the technical secretariat of the Public Sector Financial Management Coordination Committee (CCAFSP).
- 1.23 **Strategic alignment.** The program is consistent with the Second Update to the Institutional Strategy (document AB-3190-2) and aligns with the development challenge of productivity and innovation, through the use of technology to improve the efficiency and efficacy of the public sector. It also aligns with the crosscutting themes of: (i) gender equality, through support for actions meant to increase the participation of women-led companies in Peru's public procurement market; it supports implementation of the new conceptual framework for financial administration, which includes an update to the budget classifiers to tag gender-related entries, which will improve monitoring and evaluation of the outcomes of the budget programs; (ii) institutional capacity and the rule of law, by improving the public sector's capacity to manage its budget; and (iii) climate change. According to the [multilateral development banks' joint methodology for climate finance](#), an estimated 12.5% of funds will result in climate financing, since matrix measures 4.5 and 4.7 encourage the efficient use of energy and materials at public institutions (ecoefficiency) and contribute to the inclusion of a budget classifier to take expenditures with a climate impact, respectively. These resources contribute to the IDB Group target of increasing financing for climate-change-related projects to 30% of all yearly approvals. The program will also contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12), through the following indicators: (i) agencies with strengthened digital technology and managerial capacity; and (ii) agencies with strengthened transparency and integrity practices. Furthermore, it is aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2) and is consistent with the following sector

framework documents: (i) Fiscal Policy and Management (document GN-2831-8), with regard to increased efficiency in the use of public resources; (ii) Climate Change (document GN-2835-8), through inclusion of climate considerations in fiscal management; and (iii) Gender and Diversity (document GN-2800-8), by fostering gender equality and women's empowerment through increased economic opportunities for women. The operation is consistent with the priority lines of action established in the Update to the Gender Action Plan for Operations 2020-2021 (document [GN-2531-19](#)) with regard to including the gender perspective in the public administration budgets, and to supporting women's participation in the public sector procurement market. The project aligns with the IDB Group Country Strategy with Peru 2017-2021 (document GN-2889), through the objective of strengthening public management. Lastly, the operation has been included in the update to Annex III of the 2021 Operational Program Report (document GN-3034-2).

B. Objectives, components, and cost

- 1.24 The general objective of the program is to improve the sustainability of fiscal management in support of the economic recovery program. The specific objectives are to increase: (i) tax revenue, while preserving companies' liquidity; (ii) public investment, while maintaining expenditure levels that will allow for economic and fiscal recovery; and (iii) the effectiveness of public spending.
- 1.25 **Component 1. Macroeconomic framework.** Maintain an appropriate macroeconomic context consistent with program objectives as established in the policy matrix (Annex II), and with the [policy letter](#) guidelines.
- 1.26 **Component 2. Safeguarding the macrofiscal framework.** This component aims to provide support for the fiscal measures established by the government to combat the pandemic, as follows:
- a. The first operation of the programmatic series recognizes that the legal regulation³⁶ establishing the economic performance and debt rules for the NFPS³⁷ for 2022 has been approved and published in the El Peruano Official Gazette to provide support for the country's economic recovery and fiscal sustainability (policy condition 2.1).³⁸ It also recognizes the approval and publication in the El Peruano Official Gazette of the Multiyear Macroeconomic Framework 2022-2025, which is adapted to the legal regulation establishing the fiscal rules applicable for 2022 and presents a path towards the objectives of Law on the Responsibility and Transparency of the NFPS (policy condition 2.2).
 - b. The triggers for the second operation under this component are that: (i) the legal regulation establishing the path of convergence to the limits established in the Law on the Responsibility and Transparency of the NFPS, which will guide development of the budget for 2023 and thereafter, has been approved (trigger 2.1); and (ii) the MMM for 2023 on has been approved and published

³⁶ The following are understood to be legal regulations: bills, legislative decrees, supreme decrees, emergency decrees, ministerial resolutions, executive resolutions, etc.

³⁷ The rule on the spending level is subject to the provisions of the Framework Law on the Responsibility and Fiscal Transparency of the Nonfinancial Public Sector (Legislative Decree 1276).

³⁸ The return to the path of the fiscal rule limits is considered to be a trigger for the second programmatic operation.

in the El Peruano Official Gazette, in line with the legal regulation approved to establish the path of convergence to the parameters established in the Law on the Responsibility and Transparency of the NFPS (trigger 2.2).

1.27 **Component 3. Strengthening tax policy and administration.** Improve the tax collection capacity, relief for companies, and the transparency of the tax system, as follows:

- a. The first operation of this component of the programmatic series recognizes the approval and publication in the El Peruano Official Gazette of the legal regulation allowing carryover of net losses recorded by legal entities in 2020 (policy condition 3.1). It also recognizes the approval and publication in the El Peruano Official Gazette of the legal regulation allowing faster depreciation of assets, including: (i) buildings and structures; and (ii) machinery, equipment, and high-tech, natural gas, or electric land transportation vehicles (policy condition 3.2); and the approval and publication in the El Peruano Official Gazette of the legal regulation on updating property values for property tax purposes (policy condition 3.3). It also recognizes the approval and publication in the El Peruano Official Gazette of the regulation on lifting and controlling banking secrecy through financial institutions providing SUNAT with data (policy condition 3.4); and the approval and publication in the El Peruano Official Gazette of the legal regulation on the automatic exchange of financial information for fiscal control purposes, as agreed at the Multilateral Convention on Mutual Administrative Assistance in Tax Matters and according to the standards of procedure and security agreed upon with the Organisation for Economic Co-operation and Development (OECD) Global Forum (Common Reporting Standard) (policy condition 3.5). The component also recognizes the approval and publication in the El Peruano Official Gazette of the legal regulation for implementing the beneficial owner standards as agreed upon with the Global Forum and following FATF recommendations (policy condition 3.6).
- b. The triggers for the second operation under this component are that: (i) a proposal for implementing a mechanism to collect general sales tax and income tax on digital services in domestic and crossborder transactions has been prepared (trigger 3.1); (ii) a proposal for modifying the simplified income tax regimes (trigger 3.2) has been prepared; (iii) property values have been updated in the municipal tax collection management system (trigger 3.3); (iv) SUNAT has started receiving information from financial institutions on their clients' banking transactions, and the effects of the measure on oversight are starting to be evaluated (trigger 3.4); (v) SUNAT has started to automatically receive financial information from other jurisdictions, and the measures' effects on compliance monitoring are starting to be evaluated (trigger 3.5); and (vi) information on beneficial owners has started to be updated in the property registry and progress on implementation is being evaluated (trigger 3.6).

1.28 **Component 4. Improving expenditure management.** This component seeks to improve the efficiency and effectiveness of expenditure management, as follows:

- a. The first operation of this component of the programmatic series recognizes the approval and publication in the El Peruano Official Gazette of the legal regulation to establish a new model for executing public investments through

Special Public Investment Projects (PEIP). Under this model, measures will be implemented to facilitate project execution, help dynamize economic activity, and ensure effective public service delivery to benefit the population (policy condition 4.1). The component also recognizes the approval and publication in the El Peruano Official Gazette of the legal regulation for establishing a methodology that will make it possible to allocate investment funds to regional governments based on equity and territorial compensation criteria (policy condition 4.2). Furthermore, it recognizes the approval and publication on the Perú Compras public procurement portal of the legal regulation for approval of standardized procurement requirement certificates, which is an enabling condition for adhering to the environmental sustainability principle of the Law on Public Procurement (policy condition 4.3). It recognizes the approval and publication on the Government Procurement Supervisory Body portal of a legal regulation on training, identification of women-led companies, and business roundtables for the inclusion of women-led companies in the public procurement market (policy condition 4.4); as well as the approval and publication on the Ministry of the Environment's portal of the legal regulation establishing provisions for managing ecoefficiency in public administration agencies, understood to be an ongoing, continual process to optimize the institutions' environmental and economic performance, and to continually improve public services, by helping to reduce carbon emissions associated with the use of materials and electricity (policy condition 4.5). It also recognizes the approval and publication on the Ministry of Economy and Finance portal of the legal regulation with the general cost accounting guidelines that will help strengthen transparency, execution of public funds, and public sector agencies' fulfillment of their institutional objectives, as well as analysis, evaluation, and decision-making in public management (policy condition 4.6). The program recognizes that the Public Sector Financial Management Coordination Committee has approved, on the record, the new conceptual framework for the six country systems that comprise the Public Sector Financial Management System – AFSP (public budget, cash management, accounting, public borrowing, procurement, and multiyear programming and investment management) and fiscal management of human resources (policy condition 4.7). The new conceptual framework includes budgetary classifiers to tag funds associated with gender and climate change.

- b. The trigger mechanisms for the second operation under this component are that: (i) at least one project has been approved in the PEIP modality (trigger 4.1); (ii) investment resources have been allocated to the regional governments based on equity and territorial-compensation criteria (trigger 4.2) and their results are being evaluated; (iii) the proposed new Law on Public Procurement has been sent to the Congress of the Republic (trigger 4.3); (iv) the approved actions have been implemented and the increased participation of women in the public procurement market is being monitored based on the indicators that measure the procedures awarded and total amount transacted (trigger 4.4); (v) the provisions for managing ecoefficiency have been implemented, including a digital platform for reporting the results of the public management ecoefficiency measures, and the multisector sustainable public procurement committee has been set up (trigger 4.5); (vi) the cost centers have been identified and codified for accounting purposes

(trigger 4.6); and (vii) the operational model and rules of use for the seven public sector financial management systems are being implemented (trigger 4.7).

- 1.29 All of the policy measures included in this operation are entirely aimed at supporting recovery of the country's fiscal and economic indicators, which deteriorated due to the health crisis. The program took into account the efforts that the Government of Peru has been making since the beginning of the crisis to stem its negative effects on the country's population and economy. These policies are helping Peru overcome the health crisis, and come out of it even stronger.
- 1.30 The operation includes notable novelties: (i) Peru is the first country in the region to establish the [obligation of financial institutions to report](#), to the tax administration, information on all the liability accounts (current and other) with balances (average or closing) of more than the equivalent of approximately US\$10,000. Furthermore, Peru is one of the first countries in Latin America and the Caribbean to exchange nonresidents' financial information with other jurisdictions that have signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters;³⁹ (ii) the use of special projects that will be prepared and executed quickly; and (iii) Peru will be one of the few countries in the region to have a third-generation integrated financial management system.⁴⁰
- 1.31 **Beneficiaries.** The beneficiaries include: (i) the Government of Peru, which will have more resources to promote the post-COVID-19 economic recovery; (ii) the citizens of Peru, who will be able to access more public works and services as a result of more equitable spending on investment; and (iii) companies, regardless of sector, that will benefit from facilities for meeting their tax obligations.

C. Key results indicators

- 1.32 **Outcomes.** Achievement of the general objective will be measured through the decrease in the fiscal deficit. Achievement of the specific objectives will be measured through: (i) increase in general government tax revenue/GDP; (ii) increase in public investment/GDP; (iii) decrease in public spending; and (iv) decrease in the difference between the amended institutional budget (PIM) and the initial institutional budget (PIA).
- 1.33 **Economic analysis.** Based on the OVE recommendations made in the 2011 Evaluability Review of Bank Projects⁴¹ and on the results of the review of evaluation practices and standards for policy-based lending conducted by the Evaluation Cooperation Group (made up of the independent evaluation offices of the multilateral

³⁹ [Measures implemented to ensure the transparency of the tax system and adhere to international commitments undertaken with the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes \(Ministry of Economy and Finance, 2021\).](#)

⁴⁰ [SIAF generations](#): (i) cash management/accounting; (ii) preparation, commitment/accrual, accounting, debt, investment, indicators; and (iii) outcomes, payroll, asset management, procurement, auditing, and interoperability with all of the country's other systems.

⁴¹ Document RE-397-1: "Currently, [the] Economic Analysis section is computed as the maximum between the [cost-benefit analysis] and the [cost-effectiveness analysis]. Yet neither a [cost-benefit analysis] nor a [cost-effectiveness analysis] is applicable to [policy-based loans]."

development banks),⁴² set forth in paragraph 1.3 of document GN-2489-5 (Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non Sovereign Guaranteed Operations), which indicates, among other aspects, that it is not necessary to include an analysis of efficiency in the use of financial resources,⁴³ it was decided that an economic analysis would not be performed for this type of loan, as reported to the Bank's Board of Executive Directors. Accordingly, this loan operation does not include an economic analysis, and thus none was used for the purposes of determining the program's development effectiveness matrix evaluability score.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation is a programmatic policy-based loan to reactivate the economy and accelerate growth. This loan is the first of two technically linked but independently financed operations, in compliance with document CS-3633-2, "Policy-based Loans: Guidelines for Preparation and Implementation." The program also follows the guidelines of the Proposal to Establish a Set of Contingent Lending Instruments of the IDB (document GN-2667-2). This structure and instrument are justified because they: (i) promote ongoing policy dialogue with the country on fiscal sustainability; and (ii) facilitate monitoring of the reform implementation strategy, since some of the reforms are complex to implement, long-term, and require dedicated coordination among government agencies. Further, the instrument is also flexible enough to be adaptable to new knowledge that may be acquired during execution of the agreed-upon measures.
- 2.2 This series will use the deferred drawdown option⁴⁴ to more effectively address the uncertainty of the post pandemic economic recovery and the increased volatility expected in developing countries' access to capital markets, which could generate unexpected financing needs for the treasury. The use of this tool, which acts as a guarantee, is fully consistent with the Government of Peru's debt management policy, characterized by the precautionary diversification of financing sources. This gives the country financing at sustainable costs, especially during times of regional and international financial volatility.
- 2.3 **Dimensioning of the operation.** This first operation is for US\$500 million, to be financed with the Bank's Ordinary Capital resources.⁴⁵ This amount will be disbursed in a single tranche and is justified by the country's broad need for fiscal resources. It is not directly related to the costs of the reforms, in accordance with section (b) of paragraph 3.27 of document CS-3633-2. This operation accounts for 4.06% of the

⁴² Good Practice Standards for the Evaluation of Public Sector Operations. Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition. February 2012.

⁴³ According to the Evaluation Cooperation Group, policy-based loans should be evaluated on their relevance, effectiveness, and sustainability. Efficiency was not included as a criterion, since policy-based loan amounts are tied to the country's financing needs, independent of the project's benefits.

⁴⁴ With a disbursement period of up to three years (document GN-2667-2).

⁴⁵ The second operation is provisionally set for 2022. It will be prepared in line with the dialogue with the country's authorities and the programmatic policy-based loan modality and deferred drawdown option.

nonfinancial public sector's gross financing needs for 2021, and 7.10% of the multilateral financing.

B. Environmental and social risks

- 2.4 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (Operational Policy OP-703), this program does not require the ex ante classification of impacts. The operation supports the definition of policies, regulations, management tools, and other institutional strengthening actions, and therefore no significant negative direct socioenvironmental effects are anticipated.

C. Fiduciary risks

- 2.5 No fiduciary risks were identified. If the country so requires, funds for this operation will go directly into the treasury account to cover the federal government's financing needs, for which the executing agency has the appropriate financial management instruments and control systems.

D. Other risks and key issues

- 2.6 **Political climate.** The risk that the recent change in authorities could lead to changes in the sector priorities, jeopardizing fulfillment of the second operation policy conditions, was identified as medium-high. This risk is partially mitigated since the policy measures are part of the fiscal modernization strategy that Peru has been implementing for several years now, as well as part of the Bank's operational program in execution (operations 4428/OC-PE, 4428/OC-PE-1, 4428/OC-PE-2, 4725/OC-PE, ATN/OC-16895-PE, and ATN/OC-17627). Furthermore, the Bank team will continue supporting progress on the second operation triggers, to steer the processes and ensure they will serve to help the new administration achieve its objectives. The program will also foster high-level technical dialogue to underscore the importance of achieving the key reform milestones, publicize the progress made, and agree on the next steps to be taken.
- 2.7 **Economic and financial climate.** There is a medium-high risk that the pandemic will linger on or get worse in Peru, which could negatively affect achievement of the expected project outcomes since the impacts of the pandemic would harm the country's economic recovery and fiscal performance. To mitigate this risk, the Bank team will provide technical assistance for designing the measures included as triggers for the second programmatic operation, and will engage in high-level technical dialogue to underscore the importance of achieving the key reform milestones, raising awareness of the progress made, and deciding the next steps.
- 2.8 **Sustainability.** All of the policy measures included in the program are components of the commitment to fiscal consolidation that Peru has been implementing for several years now and that the Bank has supported through various loan and technical-cooperation operations, with different governments. These measures are the result of a sustained, progressive effort to adopt best practices: (i) a fiscal responsibility framework, with [fiscal rules](#) that have helped mitigate the procyclicality of public spending, protect investment, and reduce public debt; (ii) increased tax transparency, which has involved a number of [measures and the adoption of international commitments](#); and (iii) commitment to increased spending effectiveness through implementation of improvements in the management of the regulatory framework, processes, and [systems](#).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower is the Republic of Peru and the executing agency is the Ministry of Economy and Finance, through the Public Treasury Department (DGTP). The DGTP is responsible for the operation's negotiations, as well as the program's financial aspects. It is also in charge of coordinating with the institutions responsible for implementing the planned reforms, verifying the proposed policy conditions, and delivering monitoring reports and evidence of achievement of the program's policy conditions.
- 3.2 **Strategic coordination.** The deputy minister of the Treasury will be in charge of strategic coordination, and the Macroeconomic Policy and Fiscal Decentralization Department will perform the technical analysis and coordinate and hold meetings with the various government agencies⁴⁶ in charge of adopting the measures. It will also monitor the measures included in the policy matrix and promote enforcement thereof, participate in program evaluation, and appropriately address the risks, among other actions.
- 3.3 **Special contractual conditions precedent to the sole disbursement of the financing. Disbursement of loan proceeds upon the borrower's request is subject to fulfillment of the policy reform commitments described in the program components and set forth in the policy matrix (Annex II) and the [policy letter](#), in addition to other conditions set forth in the loan contract.**

B. Summary of arrangements for monitoring results

- 3.4 **Monitoring.** Given the nature of the operation, monitoring will center on: (i) verifying fulfillment of the first operation policy actions, as detailed in the policy matrix (Annex II) and [means of verification matrix](#); and (ii) monitoring implementation of the indicative policy actions for the second operation. Once the disbursement has been made, the executing agency will be responsible for: (i) sending the Bank a semiannual report on implementation of the indicative policy actions for the second operation; and (ii) collecting information on the performance indicators needed to evaluate the program results according to the [monitoring and evaluation plan](#).
- 3.5 **Evaluation.** As per the OP-1242-5 guidelines, the program evaluation will be included in the project completion report to be prepared at the end of the programmatic policy-based loan series. The evaluation methodology for the program outcomes and impacts will be reflexive, before and after, to assess the impacts of the institutional reforms made through regulatory changes and the updates to the macroeconomic forecasts supported by the program ([monitoring and evaluation plan](#)).

⁴⁶ SUNAT, OSCE, Perú Compras, Ministry of the Environment, and the Ministry of Housing, Construction, and Sanitation.

IV. POLICY LETTER

- 4.1 The Bank has agreed, with the Government of Peru, on the macroeconomic and sector policies included in the [policy letter](#) to be submitted by the Ministry of Economy and Finance. The policy letter describes the main components of the government's strategy for this program and reaffirms its commitment to implement the agreed-upon activities.

Development Effectiveness Matrix		
Summary		PE-L1267
I. Corporate and Country Priorities		
Section 1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Issues	-Productivity and Innovation -Gender Equality and Diversity -Climate Change -Institutional Capacity and the Rule of Law	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Agencies with strengthened digital technology and managerial capacity (#) -Agencies with strengthened transparency and integrity practices (#)	
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2889	Improve public management
Country Program Results Matrix	GN-3034-2	The intervention is included in the 2021 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.7
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.2
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		8.3
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		4.3
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium High
Environmental & social risk classification		B.13
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary	Yes	Statistics National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Evaluability Assessment Note:

This project corresponds to the first of two operations under the same PBP. The specific objectives are to increase: (i) tax collection while preserving the liquidity of companies; (ii) public investment maintaining spending levels that allow for economic and fiscal recovery; and (iii) the effectiveness of public spending. The achievement of these objectives will contribute to the overall objective of strengthening the sustainability of fiscal management in support of the economic recovery program. The diagnosis clearly expresses the need to strengthen fiscal sustainability in a context of scarcity due to the consequences of the pandemic. This operation will help to mitigate the following specific problems: (i) low tax collection; (ii) low levels of public investment; and (iii) insufficient effectiveness in the management of expenditure.

The Results Matrix presents appropriate indicators (SMART) to measure the achievement of specific objectives. The project appropriately addresses the monitoring requirements that are presented in the PME. The PME proposes a before and after evaluation for all results and impact indicators.

The operation is medium high risk. The main risks identified are those related to the political environment (high) and to the economic-financial environment (medium-high). As measures to mitigate the political risk, the operation includes relevant policies that are part of a concerted fiscal modernization reform that has been under implementation for multiple years. To mitigate the fact that the economic crisis prevents the achievement of specific objectives, the Bank's team will provide a technical assistance plan for the design of the second operation's trigger measures.

POLICY MATRIX

Objectives: The program's general objective is to improve the sustainability of fiscal management in support of the economic recovery program. Its specific objectives are to increase: (i) tax revenue, while preserving companies' liquidity; (ii) public investment, while maintaining expenditure levels that will facilitate economic and fiscal recovery; and (iii) the effectiveness of public spending.

Components/ Policy objectives	Policy conditions Programmatic operation I	Status of fulfillment of conditions	Policy actions Programmatic operation II
Component 1. Macroeconomic framework			
Macroeconomic stability	1.1 Maintenance of an appropriate macroeconomic context consistent with program objectives	Fulfilled	1.1 Maintenance of an appropriate macroeconomic context consistent with program objectives
Component 2. Safeguarding the macrofiscal framework			
Support the fiscal measures established by the government to combat the pandemic	2.1 The legal regulation establishing the economic performance and debt rules for the nonfinancial public sector for 2022, with the purpose of continuing to support the country's economic recovery and fiscal sustainability, has been approved and published in the El Peruano Official Gazette. ¹	Fulfilled (2021, third quarter)	2.1 The legal regulation establishing the path towards convergence to the limits established in the Law on the Responsibility and Transparency of the nonfinancial public sector (NFPS), which will steer formulation of the budget for 2023 and thereafter, has been approved.
	2.2 The Multiannual Macroeconomic Framework (MMM) 2022-2025, adapted to the legal regulation that establishes the fiscal rules applicable for 2022 and indicating a path towards achieving the objectives of the Law on the Responsibility and Transparency of the NFPS, has been approved and published in the El Peruano Official Gazette.	Fulfilled (2021, third quarter)	2.2 The MMM for 2023 and thereafter has been approved and published in the El Peruano Official Gazette, in line with the legal regulation passed to establish the path to convergence to the parameters set forth in the Law on the Responsibility and Transparency of the NFPS.
Component 3. Strengthening tax policy and administration			
Improve the country's collection capacity, relief for companies, and the transparency of the tax system	3.1 The legal regulation approved to allow carryover of the net losses recorded by legal entities in 2020 has been published in the El Peruano Official Gazette.	Fulfilled (2020, fourth quarter)	3.1 A proposal has been drawn up for implementing a mechanism to collect general sales tax and income tax on electronic services in domestic and crossborder transactions.
	3.2 The legal regulation allowing accelerated depreciation of assets, including: (i) buildings and structures; and (ii) machinery, equipment, and high-tech, natural gas, or electric overland transportation vehicles has been published in the El Peruano Official Gazette.	Fulfilled (2020, fourth quarter)	3.2 A proposal has been drawn up for modifying the simplified income tax regimes.

¹ The rule on the level of spending is subject to the provisions of the Framework Law on the Responsibility and Fiscal Transparency of the NFPS (Legislative Decree 1276).

	3.3 The approved legal regulation on updating property values for the purposes of calculating property taxes has been published in the El Peruano Official Gazette.	Fulfilled (2020, fourth quarter)	3.3 The property values have been updated in the municipal tax collection management system.
	3.4 The legal regulation approved for lifting and controlling banking secrecy through financial institutions providing SUNAT with information has been published in the El Peruano Official Gazette.	Fulfilled (2021, first quarter)	3.4 SUNAT has started to receive information from the financial institutions on their clients' banking transactions and the effects of the measure on compliance monitoring are starting to be evaluated.
	3.5 The legal regulation approved for the automatic exchange of financial information for the purposes of fiscal control as agreed in the Administrative Convention on Mutual Assistance among Jurisdictions and the standards of procedure and security (Common Reporting Standard) undertaken with the Global Forum and the OECD has been published in the El Peruano Official Gazette.	Fulfilled (2021, first quarter)	3.5 SUNAT has started to automatically exchange financial information from other jurisdictions, and the effects of this measure on compliance monitoring are starting to be evaluated.
	3.6 The legal regulation approved for implementing the beneficial owner standards as agreed upon with the Global Forum and according to FATF recommendations has been published in the El Peruano Official Gazette.	Fulfilled (2021, first quarter)	3.6 The information on the beneficial owner records has started to be updated in the property records, and progress on implementation is being evaluated.
Component 4. Improving public expenditure management			
Improve the efficiency and effectiveness of expenditure management	4.1 The legal regulation to establish a new model for executing public investments through Special Public Investment Projects (PEIP), which will implement measures to facilitate project execution, help dynamize economic activity, and ensure the effective provision of public services to benefit the population, has been approved and published in the El Peruano Official Gazette.	Fulfilled (2020, second quarter)	4.1 At least one project in the PEIP modality has been approved.
	4.2 The legal regulation to establish a methodology that will make it possible to allocate investment funds to regional governments based on equity and territorial compensation has been approved and published in the El Peruano Official Gazette.	Fulfilled (2021, second quarter)	4.2 Investment resources have been allocated to the regional governments based on equity and territorial compensation criteria, and the results of its implementation are being evaluated.
	4.3 The legal regulation for approval of standardized procurement requirement certificates, which is an enabling condition for adhering to the environmental sustainability principle of the Law on Public Procurement, has been approved and published on the Perú Compras website.	Fulfilled (2020, third quarter)	4.3 The draft of the new Law on Public Procurement has been sent to the Congress of the Republic.
	4.4 The legal regulation with training activities, identification of women-led companies, and business roundtables for including women-led companies in the public procurement market has been approved and published on the OSCE website.	Fulfilled (2021, second quarter)	4.4 The approved actions have been implemented, and the increased participation of women in the public procurement market is being monitored, based on the indicators of procedures awarded and total amount transacted, currently 30% and 21%, respectively.

	4.5 The legal regulation establishing the provisions for managing ecoefficiency in public administration entities, understood as an ongoing, continuous process to optimize the institutions' environmental and economic performance and continuously improve public services by helping to reduce carbon emissions associated with the consumption of materials and electricity, has been approved and published on the Ministry of Environment's website.	Fulfilled (2021, third quarter)	4.5 The provisions for managing ecoefficiency have been implemented. Specifically: <ul style="list-style-type: none"> • a digital platform for reporting the results of ecoefficiency measures on public management has been implemented; and • a multisector committee on sustainable public procurement has been set up.
	4.6 The legal regulation with the general cost accounting guidelines that will help improve transparency, the execution of public funds, fulfillment of the public sector agencies' institutional objectives, as well as analysis, evaluation, and decision-making in public management, has been approved and published on the Ministry of Economy and Finance's website.	Fulfilled (2nd quarter 2021)	4.6 The cost centers have been identified and codified for accounting purposes.
	4.7 The Public Sector Financial Management Coordination Committee (CCAFSP) has approved, on the record, acceptance of the new conceptual model on the six country systems that comprise the Public Sector Financial Management System – AFSP (i.e. public budget, cash management, accounting, public borrowing, procurement, and multiyear programming and investment management) and fiscal management of human resources, including budget classifiers to tag gender- and climate change-related funds.	Fulfilled (2nd quarter 2021)	4.7 The operational model and rules of use of the six systems involved in public sector financial management are being implemented.

RESULTS MATRIX

PROGRAM OBJECTIVE:	The specific objectives of the program are to increase: (i) tax revenue, while preserving companies' liquidity; (ii) public investment, while maintaining expenditure levels that will facilitate economic and fiscal recovery; and (iii) the effectiveness of public spending. Achieving these objectives will contribute to the program's general objective of improving the sustainability of fiscal management in support of the economic recovery program.
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GENERAL DEVELOPMENT OBJECTIVE

Indicator	Unit of measure	Baseline	Baseline year	Target 2023	Means of verification	Comments
General development objective: Improve the sustainability of fiscal management in support of the economic recovery program						
Fiscal deficit/GDP	%	4.3	2020 ¹	2.7	Macroeconomic Forecasts Update Report (IAPM) – Ministry of Economy and Finance (MEF)	Calculation method: Deficit/GDP Baseline 4.3% Calculated as a simple average of the years 2018-2020 Deficit (2018) = SL\$16.948 billion Deficit (2019) = SL\$12.391 billion Deficit (2020) = SL\$63.749 billion GDP (2018) = SL\$740.817 billion GDP (2019) = SL\$770.524 billion GDP (2020) = SL\$715.709 billion Target source (2023): Multiyear Macroeconomic Framework (MM) 2022-2025 The evaluation will be reflexive (before and after comparison).

¹ The impact and outcome indicators were affected by the crisis caused by the pandemic in 2020. To better dimension the progress to be achieved through the program, all baselines will be the average for that indicator from 2018 to 2020. These averages were measured in 2020.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measure	Baseline	Baseline year	Target 2023	Means of verification	Comments
Specific objective 1. Increase tax revenue while preserving companies' liquidity						
Indicator 1: Increased tax revenue/GDP						
Tax revenue/GDP	%	14.2	2020	15.6	IAPM	Calculation method: Tax revenue/GDP Baseline: 14.2% Calculated as a simple average of the years 2018-2020 Tax revenue (2018) = SL\$107.358 billion Tax revenue (2019) = SL\$113.857 billion Tax revenue (2020) = SL\$95.595 billion GDP (2018) = SL\$740.817 billion GDP (2020) = SL\$715.709 billion Target source (2023): MMM 2022-2025 The evaluation will be reflexive (before and after comparison).
Specific objective 2. Increase public investment while maintaining expenditure levels that will facilitate economic and fiscal recovery						
Indicator 2: Increase in public investment/GDP						
Public investment/GDP	%	4.6	2020	5.1	IAPM	Calculation method: Public investment/GDP Baseline: 4.6% Calculated as a simple average of the years 2018-2020 Public investment = SL\$35.333 billion Public investment = SL\$35.023 billion Public investment = SL\$32.237 billion GDP (2018) = SL\$740.817 billion GDP (2019) = SL\$770.524 billion GDP (2020) = SL\$715.709 billion Target source (2023): MMM 2022-2025 The evaluation will be reflexive (before and after comparison).

Indicator	Unit of measure	Baseline	Baseline year	Target 2023	Means of verification	Comments
Specific objective 3 - Increase spending effectiveness						
Indicator 3: Decrease in nonfinancial public sector (NFPS) spending/GDP						
NFPS spending/GDP	%	21.7	2020	21.0	IAPM	Calculation method: NFPS spending/GDP Baseline: 21.7% Calculated as a simple average of the years 2018-2020 NFPS spending (2018) = SL\$149.212 billion NFPS spending (2019) = SL\$154.388 billion NFPS spending (2020) = SL\$177.385 billion GDP (2018) = SL\$740.817 billion GDP (2019) = SL\$770.524 billion GDP (2020) = SL\$715.709 billion Target source (2023): MMM 2022-2025 The evaluation will be reflexive (before and after comparison).
Indicator 4: Narrowing the difference between the amended institutional budget (PIM) and the initial institutional budget (PIA)						
[(PIM/PIA)-1]	%	18	2020	15	Monitoring of budget execution (friendly consultation)	Calculation method: PIM/PIA Baseline: 18% Calculated as a simple average of the years 2018-2020 PIM (2018) = SL\$187.5 billion PIM (2019) = SL\$188.6 billion PIM (2020) = SL\$217.2 billion PIA (2018) = SL\$157.2 billion PIA (2019) = SL\$168.1 billion PIA (2020) = SL\$177.3 billion The evaluation will be reflexive (before and after comparison).

OUTPUTS

Indicators	Unit of measure	Baseline year	Baseline	Target 2022	Means of verification	Responsible institution
Component 2. Safeguarding the macrofiscal framework						
2.1 The legal regulation establishing the economic performance and debt rules for the NFPS for 2022, with the purpose of continuing to support the country's economic recovery and fiscal sustainability, has been approved and published in the El Peruano Official Gazette. ²	Approved regulation	2021	0	1	El Peruano Official Gazette - Emergency Decree 079 of 14 August 2021	MEF - Macroeconomic Policy and Fiscal Decentralization Department (DGPMAD)
2.2 The Multiannual Macroeconomic Framework 2022-2025, adapted to the legal regulation that establishes the fiscal rules applicable for 2022 and indicating a path towards achieving the objectives of the Law on the Responsibility and Transparency of the NFPS, has been approved and published in the El Peruano Official Gazette.	Published report	2021	0	1	El Peruano Official Gazette – MMM 2022-2025 published in special offprint on 27 August 2021	MEF - DGPMAD
Component 3. Strengthening policy and tax administration						
3.1 The legal regulation allowing carryover of the net losses recorded by legal entities in the year 2020 has been approved and published in the El Peruano Official Gazette.	Approved regulation	2020	0	1	El Peruano Official Gazette Legislative Decree 1481 of 7 May 2020	MEF - Public Revenue Policy Department (DGPIP)
3.2 The legal regulation allowing accelerated depreciation of assets, including: (i) buildings and structures; and (ii) machinery, equipment, and high-tech, natural gas, or electric overland transportation vehicles, has been approved and published in the El Peruano Official Gazette.	Approved regulation	2020	0	1	El Peruano Official Gazette Law 31107 of 31 December 2020	MEF - DGPIP
3.3 The legal regulation on updating property values for the purposes of calculating property taxes has been approved and published in the El Peruano Official Gazette.	Approved regulation	2020	0	1	El Peruano Official Gazette Ministerial Resolution 270-2020-Vivienda of 30 October 2020	Ministry of Housing, Construction, and Sanitation
3.4 The legal regulation on lifting and controlling banking secrecy through financial institutions providing National Superintendency of Tax Administration (SUNAT) with information has been approved and published in the El Peruano Official Gazette.	Approved regulation	2021	0	1	El Peruano Official Gazette Executive Order 430-2020-EF published on 31 December 2020 and its Regulations published on 3 January 2021	MEF - DGPIP

² The rule on the level of spending is subject to the provisions of the Framework Law on the Responsibility and Fiscal Transparency of the Nonfinancial Public Sector (Legislative Decree 1276).

Indicators	Unit of measure	Baseline year	Baseline	Target 2022	Means of verification	Responsible institution
3.5 The legal regulation on the automatic exchange of financial information for the purposes of fiscal control as agreed in the Multilateral Convention on Mutual Administrative Assistance in Tax Matters and the standards of procedure and security (Common Reporting Standard) undertaken with the Global Forum and the Organisation for Economic Co-operation (OECD) has been approved and published in the El Peruano Official Gazette.	Approved regulation	2021	0	1	El Peruano Official Gazette Executive Order 190-2020-EF published on 16 July 2020.	MEF - DGPIIP
3.6 The legal regulations on implementing the beneficial owner standards as agreed upon with the Global Forum and according to the Financial Action Task Force (FATF) recommendations has been approved and published in the El Peruano Official Gazette.	Approved regulation	2021	0	1	El Peruano Official Gazette Legislative Decree 1372 published 1 August 2018 and Executive Order 003-2019-EF published 8 January 2019	MEF - DGPIIP
Component 4. Improving public expenditure management						
4.1 The legal regulation to establish a new model for executing public investments through Special Public Investment Projects (PEIP), which will implement measures to facilitate project execution, to help spur economic activity and ensure effective public service delivery to benefit the population, has been approved and published in the El Peruano Official Gazette.	Approved regulation	2020	0	1	El Peruano Official Gazette Emergency Decree 021-2020 published 23 January 2020 and Directorial Resolution 009-2020-EF/63.01 published 5 November 2020	MEF - Multiyear Investment Programming Department (DGPMI)
4.2 The legal regulation to establish a methodology that will make it possible to allocate investment funds to regional governments based on equity and territorial compensation criteria has been approved and published in the El Peruano Official Gazette.	Approved regulation	2021	0	1	El Peruano Official Gazette Executive Order 084-2021-EF published 24 April 2021	MEF - DGPMI
4.3 The legal regulation for approval of standardized procurement requirement certificates, which is an enabling condition for adherence to the environmental sustainability principle of the Law on Public Procurement has been approved and published on the Perú Compras website.	Approved regulation	2020	0	1	Perú Compras website Departmental Resolution 069-2020 of 14 July 2020	Perú Compras
4.4 The legal regulation with training activities, identification of women-led companies, and business roundtables for including women-led companies in the public procurement market has been approved and published on the website of the	Approved regulation	2021	0	1	OSCE website Resolution 089-2021-OSCE-PRE of 9 June 2021	OSCE

Indicators	Unit of measure	Baseline year	Baseline	Target 2022	Means of verification	Responsible institution
Government Office of Evaluation and Oversight (OSCE).						
4.5 The legal regulation establishing the provisions for managing ecoefficiency in public administration institutions, understood as an ongoing, continuous process to optimize the institutions' environmental and economic performance and continuously improve public services by helping reduce carbon emissions associated with the consumption of materials and electricity, has been approved and published on the website of the Ministry of Environment (MINAM).	Approved regulation	2021	0	1	El Peruano Official Gazette Executive Order 016-2021-MINAM published 24 July 2021 and published on the MINAM website	MINAM
4.6 The legal regulation with the general cost accounting guidelines that will help improve transparency, the execution of public funds, fulfillment of the public sector agencies' institutional objectives, as well as analysis, evaluation, and decision-making in public management, has been approved and published on the MEF website.	Approved regulation	2021	0	1	El Peruano Official Gazette Directorial Resolution 019-2020-EF/51.01 published 3 November 2020 and published on the MEF website	MEF - Public Accounting Department (DGCP)
4.7 Certificate of acceptance of the new conceptual model for the six country systems that comprise the Public Sector Financial Management System – AFSP (i.e. public budget, cash management, accounting, public borrowing, procurement, and multiyear programming and investment management) and fiscal management of human resources, including budget classifiers to tag gender- and climate change-related funds.	Signed certificate	2021	0	1	Minutes of the second ordinary meeting of the Public Sector Financial Management Coordination Committee (CCAFSP) approving the SIAF-RP conceptual model	MEF - CCAFSP

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/21

Peru. Loan ____/OC-PE to the Republic of Peru
Program to Support Fiscal and Economic
Recovery in Peru

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Peru, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Program to Support Fiscal and Economic Recovery in Peru. Such financing will be for the amount of up to US\$500,000,000 from the resources of the Bank's Ordinary Capital and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on ____ 2021)