

SUPPORT FOR TAX ADMINISTRATION AND POLICY MANAGEMENT

(BO-0089)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: Republic of Bolivia

EXECUTING AGENCY: National Finance and Administration Secretariat, through the Internal Revenue Bureau

BENEFICIARIES: National Finance and Administration Secretariat

AMOUNT AND SOURCE:

IDB: Local currency (FSO):	US\$1,100,000 (23%)*
FSO reimbursable:	US\$3,400,000 (67%)
Subtotal:	US\$4,500,000 (90%)
Local counterpart funding:	<u>US\$ 480,000</u> (<u>10%</u>)
Total:	US\$4,980,000 (100%)

* Nonreimbursable

TERMS AND CONDITIONS:

Amortization period (OC):	40 years
Disbursement period:	3 years
Interest rate:	1% per annum up to and including year 10, 2% thereafter
Inspection and supervision:	1%
Credit fee:	0.50%

ENVIRONMENTAL CLASSIFICATION: The Environmental Management Committee, at its meeting of February 8, 1994, classified this as a Category II operation.

OBJECTIVES: To assist the Government of Bolivia in upgrading its tax-administration management system and to lend support in the implementation of tax-policy reforms with a view to developing a high-level management structure capable of planning, carrying out, and overseeing management functions so as to make national tax collection systems more efficient.

DESCRIPTION: The project will strengthen the management system of Bolivia's Internal Revenue Bureau and other offices with responsibilities in this area. The performance of systems currently in place will be assessed - and new ones devised - for collection, auditing, and technical and legal matters; Law 843 and the overall legal framework will be examined and updated; and

proposed tax policies will be studied, along with their implications for tax administration systems.

BENEFITS:

The project will provide the Internal Revenue Bureau with an appropriate legal framework and administrative procedures and information systems suited to overseeing the broadened tax base's compliance with tax legislation. The main benefit would be more efficient tax administration both nationally and regionally, with the capacity to steadily increase the tax burden without raising rates, thereby promoting voluntary compliance by taxpayers.

RISKS:

Successful attainment of the program's objectives could be affected if staff who are trained under the program to run and oversee the systems were to leave.

**EXCEPTIONS TO
BANK POLICY:**

The executing agency has proposed hiring OPS/UNDP as the specialized agency in charge of the institutional strengthening and tax policy components (program activities 1 to 5, described in Annex 1). Since it implemented the previous operations, it will give greater continuity to the strengthening of the DGII. Given CIAT's extensive international experience in training on tax matters, the executing agency and the IMF propose that it execute this component (program activity 6, described in Annex 1), given the importance of transferring know-how to the institution's entire staff, at both the central and the regional levels, for national implementation of the tax program. In view of the foregoing, the project team supports the proposals made by the executing agency.

CONDITIONALITY:

(i) eight months after execution of the operation begins, the evaluation of Internal Revenue Bureau staff is to be complete, and any necessary measures taken to ensure proper technical skills levels; (ii) six months after execution of the operation begins, a report is to be presented on the performance indicators to be used in the management system; and (iii) 50 percent of the local staff hired under the project is to be absorbed by the Internal Revenue Bureau during the 1995 budget year, with the remainder being absorbed upon completion of the operation.

**RECOGNITION OF
PRIOR EXPENSES:**

OPS/UNDP is to advance funds in the form of bridge financing for the start-up of program activities as of December 1, 1993. At the government's request, these advances would be recognized by the Bank once the conditions precedent to the first disbursement had been met and provided that the procedures established by the Bank had been followed.

**THE BANK'S
COUNTRY STRATEGY:**

The proposed operation is consistent with the Bank's strategy in Bolivia in that it supports modernization of the State, enhances public-sector efficiency, and will reduce the fiscal deficit. The Bank has been working to strengthen and support tax administration reforms in Bolivia since 1986. The Profile I summary for this operation was approved by the Programming Committee on January 13, 1993.

I. BACKGROUND

A. Macroeconomic context

- 1.1 The deterioration of Bolivia's economy culminated with it spinning into hyperinflation in the mid-1980s. To contend with this situation, a new economic policy was adopted in 1985 with the two-fold objective of stabilizing the economy and updating the regulations governing its operation by replacing the import-substitution model (which was characterized by high levels of State intervention) with an open market economy.
- 1.2 Sustainable fiscal management was the cornerstone of the new policy. In 1986, the tax system was entirely revamped under Law 843, which amalgamated over 400 taxes into a simplified structure made up of the following six levies: (i) value-added tax, (ii) supplementary system for the value-added tax, (iii) transaction tax, (iv) presumptive income tax on property owners, (v) presumptive corporate income tax, and (vi) excise tax. The new system has had very positive results, with collections increasing in real terms by 93% in 1987, 47% in 1988, 25% in 1989, 36% in 1990, 34% in 1991, 26% in 1992, and 8.5% in 1993. Despite this headway, the tax burden remained below 10.2% of GDP in 1993 owing to the complexity of implementing the tax-administration program, given the narrow tax base and the fact that there was only limited implementation of the tax system outside the capital (mainly in Cochabamba and Santa Cruz).
- 1.3 Notwithstanding the fiscal-policy content of the new economic policy and the time that has passed since the policy was instituted, results in the public-finance area are still shaky. The gap averaged 4.5% of GDP for the period between 1989 and 1992, and preliminary figures for 1993 point to a level around 6.5% of GDP. As one consequence of this weak fiscal performance beginning with the last quarter of 1992, the country failed to meet its ESAF commitments with the IMF in February 1993, although in November 1993 the authorities and the IMF negotiated an extension to March 1994. The new agreement, which sets monthly performance targets, requires that the fiscal deficit be reduced to 3.5% of GDP in 1994 — this could be achieved by focusing efforts on spending areas, including a 1% cutback in public investment.
- 1.4 In addition to the cost-reduction measures, interest in boosting public savings with a view to sustained fiscal performance means that efforts will have to be stepped up in the revenue area. Authorities are working to improve the collection of domestic taxes (which are the responsibility of the country's Internal Revenue Bureau) by streamlining audit procedures and prosecuting tax evaders. The Customs Service, which oversees revenue collected on foreign trade, is focusing its programs on the human-resources area, seeking to hire staff based on competitive examinations, and

on the establishment of six customs areas along the country's borders, to be administered by the private sector.

B. The beneficiary and the executing agency

- 1.5 Revenue owed to the central government is collected by two agencies: the Internal Revenue Bureau [Dirección General de Impuestos Internos] and the Customs Service [Dirección de Aduanas]. Both agencies are part of the National Finance Secretariat's Revenue Office, located within the Ministry of Finance and Economic Development.
- 1.6 The Internal Revenue Bureau oversees domestic taxes, which account for 88% of all tax revenue. The bureau has a staff of around 950 employees and is functionally organized in such a way that policy and regulatory functions are separate from line operations.

C. Results of previous programs

- 1.7 The Bank has undertaken several technical-cooperation programs aimed at strengthening tax collection, a crucial tool for counteracting the destabilization caused by fiscal gaps. Given their role in helping to stabilize the economy and ensure better use of resources, these efforts should be continued. The reform process is far from over, and fiscal revenue has yet to reach levels that would ensure self-sustaining growth with human development.
- 1.8 Starting in late 1986, the Bank's programs in Bolivia (totaling US\$4,012,000 to date) have focused on strengthening the Internal Revenue Bureau. Considerable progress has been made toward implementing tax administration systems, which have received positive reviews from other international agencies (IBRD, IMF, UNDP) and which have served as an example for other countries in Latin America (see Annex II). Thanks to cofinancing from the World Bank (US\$2,515,000) and UNDP (US\$885,000), IDB programs have seen their impact magnified even further.
- 1.9 Consequently, as of the end of 1993, the Internal Revenue Bureau had (i) a functional organizational structure in place that separated policy and regulatory functions from line operations; (ii) a system of bank-based collection set up that made it possible to automatically reconcile revenue collected with amounts transferred to the bureau - participating banks forward data to the tax office on magnetic tape; (iii) computerized taxpayer-tracking systems, which trace and notify taxpayers of overdue returns, follow up on returns that contain errors or are accompanied by insufficient payment, and monitoring of payments under the presumptive income tax; (iv) state-of-the-art information technology and staff trained in its use and system maintenance; (v) tax units covering large taxpayers in the La Paz, Santa Cruz, and Cochabamba tax offices, which account for 80% of the bureau's

total revenue; and (vi) computerized systems for selecting taxpayers to be audited, e.g., self-reported operations reconciliation and VAT debit/credit reconciliation.

- 1.10 The programming and evaluation committee mission for the preceding technical-cooperation operation examined the situation in September 1993 and identified the following areas that need to be addressed in order to upgrade the tax system: (i) the bureau's management structure needs to be strengthened; (ii) support is needed for the balanced, rational development of the various administrative areas, with emphasis on audits and technical and legal matters; (iii) efforts geared toward making full use of the systems developed should be supported; (iv) coordination arrangements should be strengthened, accompanied by appropriate division of duties and responsibilities among regional tax offices, offices for large taxpayers, and the area offices; (v) new systems need to be developed; (vi) the personnel selection and evaluation system should be implemented and monitored and should serve as a tool for professional development of career staff; (vii) support should be provided for public information campaigns, specifically to make taxpayers aware of their fiscal obligations; (viii) work should continue on the development of procedures, guidelines, and the description of the functions of administrative systems; (ix) tax legislation needs to be updated; and (x) tax policy should be updated to reflect the proposals set out in the government's plan.
- 1.11 This operation was designed for execution over a three-year period, bearing in mind Bolivia's current political situation and the need to lend it support in launching a medium-term reform program aimed at improving the country's fiscal situation and producing a modern State able to ensure the sustainability of its main collection agency and source of funds. Previous Bank operations in Bolivia were carried out over periods ranging from 12 to 15 months and consisted of short-term actions having a high fiscal return. The next step is to link these systems up through intense training activity in the Internal Revenue Bureau with an eye to enhancing the audit function, a goal that will require adopting a medium-term approach rather than the shorter-term programs carried out in previous years.

D. Involvement of other agencies in the area of tax administration

- 1.12 In its work in the area of tax administration, the Government of Bolivia has received financial support from the IDB, IBRD, IMF, and UNDP that has made it possible to magnify the impact of Bank-supported activities. The various agencies, working in close cooperation, have supervised the implementation of their respective activities.
- 1.13 In October 1993, the Government of Bolivia requested technical assistance from the IMF in the area of tax policy and administration. With regard to tax policy, the IMF will finance a short-

term mission to deal with the area of direct taxation (tax on cash flow, profits on gross assets) and the system governing small taxpayers. In the area of tax administration, a resident expert was requested for a period of six months to design a short-term audit plan and assist with its implementation. Both activities will be coordinated with the present operation.

E. The request

- 1.14 The official request for further technical cooperation was made in communication SIPCI/DICOPRE 149193-2698 from the Ministry of Planning and Coordination, which indicated that the operation was related to the structural adjustment program. The Profile I summary was approved by the Programming Committee on January 13, 1993. An analysis mission visited the country in September 1993, followed by a Bolivian coordination mission to Washington - led by the Undersecretary for Tax Affairs - to discuss the technical assistance the IMF was to provide.
- 1.15 In terms of tax administration, this technical cooperation will lend support for a series of actions having a high fiscal return without creating any new taxes or raising current tax rates. With regard to tax policy, the operation will contribute to updating the legal framework and revising some existing taxes to bring them into line with the objectives and targets of the government's plan.
- 1.16 For the tax system overall, the objective will remain the same, i.e., producing a system that is made up of few taxes, is easy to administer, and is highly productive in terms of revenue. In addition, (i) taxes will not be earmarked - a practice that undermines the government's role of allocating resources for expenses; (ii) generally speaking, there will be no exemptions, since exemptions run counter to the precept that tax regulations should be applied to all, and they allow for different tax treatment for different sectors; (iii) the system will be neutral as concerns resource allocation, thus making sure that preference will not be given to specific sectors or production factors, in order to avoid swaying decisions relating to production and investment; and (iv) every effort will be made not to export taxes, by removing the tax component from export prices. Consequently, the tax system will remain much the same as it is now as far as basic taxes are concerned.

II. OBJECTIVES

A. General objective

- 2.1 The general objective of the project is to upgrade Bolivia's tax-administration management system and update tax policy with a view

to developing a high-level management structure capable of planning, carrying out, and overseeing management functions so as to make the country's tax collection systems more efficient and more effective.

B. Specific objectives

2.2 The specific objectives of the technical cooperation are:

1. To set up a management control system based on information systems, operating plans, and management audits that make it possible to evaluate results against planned objectives and goals in each area, thereby providing feedback for future programming.
2. To complete and ensure optimal use of the systems developed for the different tax administration areas.
3. To decentralize operations and enhance the efficiency of the regional tax offices with the highest levels of tax evasion, such as Santa Cruz and El Alto.
4. To revise the legal framework and devise new tools to reflect the updated tax policy as formulated in the government's plan.
5. To develop and institute a fully operational human-resources policy for personnel recruitment, selection, classification, performance evaluation, remuneration, and motivation, geared toward establishing a career path for Internal Revenue Bureau staff.
6. To set up a national training plan that would allow bureau staff to work at specific duty posts and continually update their skills using state-of-the-art training methods.
7. To meet collection targets, broaden the tax base, and reduce evasion.

III. PROGRAM DESCRIPTION

A. Activities

3.1 The activities to be carried out during program execution will focus on the following areas:

1. Strengthening of the management system in place at the Internal Revenue Bureau and area offices.

2. Evaluation of the use and development of new systems for collection, auditing, technical and legal matters, large taxpayers, human resources and training, administration, and public information.
3. Legal framework: revise the legal, tax-related, and accounting content of Law 843 with regard to the interpretation of exemptions, donations, tax obligations, and tax base, *inter alia*. Adjust timing procedures for some taxes and the procedures used for adjustments, penalties, etc.
4. Tax policy: study tax policy proposals and their impact on tax-administration systems, e.g., presumptive corporate income tax, excise tax on oil and gas sales; distribution of VAT paid by Yacimientos Petrolíferos Fiscales Bolivianos; revenue sharing; revision of transitory systems created under Law 843; expansion of the taxpayer base and revision of the simplified system. (Annex I gives a list of activities by area.)

B. Organization and execution

- 3.2 The executing agency for the program and the agency with ultimate responsibility for execution will be the National Finance and Administration Secretariat, through its Revenue Office and Internal Revenue Bureau. Within 60 days of the agreement signature date, the UNDP (OPS/UNDP) would be hired to carry out the activities described above and CIAT would be hired to execute the training program (see Annex I for details and justification for using these two agencies).
- 3.3 Recognition of expenses. The government would sign agreements with OPS/UNDP and with CIAT for execution of this program. UNDP was to advance funds in the form of bridge financing for the start-up of program activities as of December 1, 1993. At the government's request, these advances would be recognized by the Bank once the conditions precedent to the first disbursement had been met and provided that the procedures established by the Bank had been followed.
- 3.4 Organizational structure for the program. The executing agency would receive support from consultants hired for the program under the structure set up for program implementation and supervision. A programming and evaluation committee, chaired by the National Secretary of Finance or his representative, would have the following permanent members: the Undersecretary for Tax Affairs, the Director of the Internal Revenue Bureau, the National Coordinator, and the Technical Director. The committee, whose meetings would be attended by Bank technical staff, would meet at least three times: at program start-up, midway through the program to conduct a mid term evaluation, and upon program completion. The international OPS/UNDP coordinator of the IDB agreements would sit as the committee's secretary.

- 3.5 Execution period. The project would have an execution period of 30 months, reckoned from the Bank's acceptance of the conditions precedent to the first disbursement.

C. Requirements

- 3.6 UNDP would hire the following consulting services: (i) international consultants, for a total of 235 person-months, consisting of 48 person-months for strengthening the management system at the Internal Revenue Bureau and area offices, 32 person-months for evaluation of system development and utilization, 138 person-months for new systems development, 5 person-months to assist with changes in the legal framework, and 12 person-months for the area of tax policy; (ii) local consultants, for a total of 418 person-months, broken down into 66 person-months for strengthening the management system at the Internal Revenue Bureau and area offices, 65 person-months for evaluation of system development and utilization, 259 person-months for new systems development, 12 person-months for changes in the legal framework, and 16 person-months to assist with changes in tax policy.
- 3.7 For the training program, CIAT would hire international consultants for 40 person-months and local consultants for 24 person-months.
- 3.8 Local counterpart. During the execution period for the agreement, the borrower would provide the equivalent of US\$480,000 to be used for hiring local consultants and covering support-related costs as outlined in the attached budget.
- 3.9 Equipment. Resources provided under the agreement would be used to purchase computers for further decentralization in the information-technology area.
- 3.10 Reports. The specialized agencies would draw up an initial report, quarterly progress reports, and a final report, as outlined in Annex I. These reports would be submitted for consideration by the Undersecretariat, review by the programming and evaluation committee, and subsequent approval by the Bank. The Undersecretariat would submit annual financial reports within 90 days of the end of each year, and a final report within the three months following the last disbursement of resources under the operation. All reports are to be audited by an independent firm approved by the Bank.
- 3.11 Cost and financing. The total cost of the program is estimated at the equivalent of US\$4,980,000. The Bank's contribution would be US\$4.5 million and the borrower's contribution would be US\$480,000.

Budget item	Bank	Gov't.	Total
1. Tax administration component (UNDP)	3,720,170		3,720,170
1.1.1 International consultants	1,895,000		1,895,000
1.1.2 Local consultants*	1,060,000		1,060,000
1.2 Supplies and equipment	200,000		200,000
1.9 Other			
A. Internships	178,000		178,000
B. Travel and per diems	80,000		80,000
C. Overhead (10%)	307,170		307,170
2. Training component (CIAT)	485,640		485,640
2.1.1 International consultants	320,000		320,000
2.1.2 Local consultants*	96,000		96,000
2.9 Other			
Training courses	10,000		10,000
Overhead (14%)	59,640		59,640
Counterpart funding			450,000
A. Consultants		300,000	
B. Support expenses		82,500	
Credit fee (0.75%)		67,500	67,500
Inspection & supervision (1%)	45,000		45,000
Contingencies	249,190	30,000	279,190
TOTAL	4,500,000	480,000	4,980,000

(*) Nonreimbursable, in local currency from FSO.

D. Conditions

3.12 The Bank's contribution of US\$4.5 million would be reimbursable and disbursements would be administered by the Ministry of Finance and Economic Development's National Finance Secretariat. At the Secretariat's request, a revolving fund could be set up for up to 10% of the Bank's contribution. The agreement would include the following obligations so as to guarantee proper execution of the operation:

1. Evaluation of Internal Revenue Bureau staff should be completed within eight months after approval of the agreement by the Bolivian Congress, with evidence that any necessary remedial measures have been taken to ensure that the technical staff is qualified and holds appropriate positions within the agency.
2. Six months after program start-up, a report should be drawn up on the performance indicators to be used in the management system. As a minimum, these indicators should include: collection targets, audit targets, productivity of auditing and

additional staff necessary for tasks related to auditing and legal matters, administrative costs (especially in the banking system), and goals for training and the incorporation of skilled human resources. The indicators would also be applied to the regional tax offices. The performance of the management control system, as measured by these indicators, would be assessed halfway through the technical-cooperation operation.

3. Fifty percent of the local staff hired under the project (10 tax specialists) should be absorbed into the budget for 1995, with the remainder (the other 10 specialists) being absorbed upon completion of the operation.

IV. BENEFITS AND RISKS

A. Benefits

- 4.1 Upon completion of the program, the Internal Revenue Bureau, the area offices, and the regional tax offices will have staff that have been trained in all the systems, regulations, and procedures in force and will be in a position to efficiently conduct new tax-supervision and audit programs developed and implemented with support from the project. Human resources will also be distributed better through the reassignment of twice as many staff members to audit and legal functions.
- 4.2 With the curtailment of evasion in regions of the country marked by high levels of tax delinquency, revenue collected should increase by an estimated 2% of GDP (US\$100 million). This would broaden the tax base and make Bolivia's tax system more equitable. If nothing is done in the area of auditing, collection levels will never reach their potential, with serious implications for the system's equity and the country's internal savings.
- 4.3 If the legal reforms to be proposed under the program are adopted (specifically, the amendments to Law 843 on tax reform and the tax code), tax administration would be significantly strengthened, especially the auditing function.

B. Risks

- 4.4 Successful attainment of the program's objectives could be jeopardized if the staff trained under the program to run and maintain the tax-administration systems were to leave. However, career paths have been instituted within the Internal Revenue Bureau, and the present operation includes personnel evaluation and ongoing training programs as an integral part of the staff selection and evaluation system. Also, the midterm and final monitoring will be

able to gauge the performance of the human-resource management function.

V. PROGRAM EVALUATION

- 5.1 This activity will assess the degree to which scheduled activities were performed, objectives attained, and what benefits were yielded as a result of program execution. The project team will be responsible for monitoring the program and reviewing the evaluations thereof.
- 5.2 Initial evaluation and approval of the work plan. Ninety days after program start-up, the Bank will send a mission to revise and approve the work plan and evaluate compliance with the conditions set forth in the agreement. The mission should coincide with the first meeting of the programming and evaluation committee, which will approve the work plans and programs and ensure adequate coordination with the other financing agencies.
- 5.3 Fifteen months after start-up, the Bank will monitor the status of the program in cooperation with the executing agency, the specialized agencies, and the other financing agencies. The midterm evaluation will measure achievements and progress made, identify problems encountered, assess the fulfillment of commitments to absorb local staff, and identify any irregularities in program execution and make recommendations for their solution. Special attention will be given to examining matters related to legal reforms and the results obtained in the areas of auditing and legal matters at the regional tax offices.
- 5.4 This process will be repeated thirty months after program start-up, to assess the degree of fulfillment of commitments assumed. The mission will end with a meeting of the programming and evaluation committee, at which the findings will be analyzed.

GUIDELINES FOR PROGRAM EXECUTION

A. PROGRAM ACTIVITIES

The activities to be carried out during program execution will focus on the following areas:

1. Strengthening of the management system at the Internal Revenue Bureau and area offices
 - a. General and area-specific performance indicators will be devised for use in planning and evaluating Internal Revenue Bureau staff performance. These indicators will be worked out each month and will be applied specifically to the operations areas of the regional tax offices and offices for large taxpayers.
 - b. A management information system will be designed and implemented with an eye to making sure that full use is made of information at the decision-making level.
 - c. A specific management control system will be designed for 1994, based on the annual plan of operations.
2. Evaluation of system development and use
 - a. **Collection.** An assessment will be undertaken of the changes made to the collection systems as a result of the replacement of Banco del Estado, of recent agreements entered into with commercial banks, and of the overall costs of bank-based collection. Recommendations on adjustments will be made with a view to minimizing costs while ensuring the quality and timeliness of collection data. Support will also be provided for reissuing taxpayer identification numbers to active taxpayers registered in the Single Taxpayer Register in an effort to purge the register.
 - b. **Audits.** Existing systems will be analyzed - e.g., the general audit system, the fiscal debit/credit system for the VAT, and the system of self-reported operations - in terms of their design, use in previous phases, and effective yield, and assistance will be provided in formulating a plan to ensure their best systematic use given the human resources available.
 - c. **Technical and legal matters.** The enforced collection monitoring systems at the Internal Revenue Bureau and the regional tax offices will be evaluated and an inventory of cases and

actions pending will be drawn up. An action program will then be formulated in connection with that information.

- d. **Computers and information technology.** The systems that have been switched over to the new computer platform will be evaluated, including link-ups between the regional and central offices and the design of programs for decentralization; modifications will be made as necessary.
- e. **Regional tax offices and offices for large taxpayers.** Compliance with established rules and procedures will be assessed, with special regard to audits, technical and legal matters, communications, and the division of duties among the regional offices and the offices for large taxpayers; proposals will be made for any necessary modifications.

3. New systems development

- a. **Collection.** Develop a computer-based analytical model to set real collection ceilings by type of tax, and gauge levels of evasion. Devise specific procedures for collection in the forestry and mining sectors and for rural property. Design and implement a system to issue and track tax vouchers for taxes returned in connection with the Exports Act. Develop the necessary systems in response to the revised procedures for domestic-tax exemptions and waivers.
- b. **Audits.** Set up a procedure for coordinating with the technical and legal area on technical support and assistance for organizing and defining the sector functions and responsibilities of the regional offices. Develop systems to track the issuance of receipts, beginning with the initial drawing up of instruments up through the closing of the establishment. Devise and help implement a legal framework for productivity incentives based on the performance of duties as part of a general policy to increase productivity.
- c. **Technical and legal matters.** Devise tracking systems to provide information as of the time an audit is begun up through the collection of taxes assessed as a result of on-site inspections, official assessments, denunciations, closings, fines, etc. Update and standardize rules and procedures at the central and regional levels, developing and using a database for their implementation. Design and assist in the implementation of a legal framework for productivity incentives based on the performance of duties as part of a general policy to increase productivity.

- d. **Offices for large taxpayers.** Design and implement a computerized system to keep track of installment payment programs for this group of taxpayers.
- e. **Computers and information technology.** Develop new systems for such areas as management control, audit support (invoicing, VAT records/bank-interest cross-checks, tracking of receipts), technical and legal support (enforced-collection monitoring, database on legal background and cases); support for human resources and training (database for staff selection, performance evaluation, career paths, personnel files, training programs, etc.).
- f. **Human resources and training.** Set up a staff selection and evaluation system. Develop procedures for identifying training needs, and devise and lend support for a regular training program for the various levels found at the Internal Revenue Bureau; the program should include training for instructors and be linked to the career paths. Also, assist in the design and implementation of an organizational structure for the training area and of a personnel policy that includes the system for absorbing and retaining trained staff.
- g. **Administration.** Provide support for the development of operating procedures and guidelines for administrative systems in tandem with management-strengthening activities. Lend support for enforcement of the SAFCO Act with respect to the Internal Revenue Bureau's internal autonomy.
- h. **Public information.** Design and launch a public information plan to publicize information on actions taken and results obtained in terms of administration and policy management, and set up a system for gauging program impact.

4. Legal framework

Revise the legal, tax-related, and accounting content of Law 843 with regard to the interpretation of exemptions, donations, tax obligations, and tax base, *inter alia*. Adjust timing procedures for some taxes and the procedures used for adjustments, penalties, and others.

5. Tax policy

- a. Study tax policy proposals and their impact on tax-administration systems, e.g., presumptive corporate income tax, excise tax on oil and gas sales, distribution of VAT paid by Yacimientos Petrolíferos Fiscales Bolivianos, revenue sharing, revision of transitory systems created under Law 843, expansion of the tax base, and revision of the simplified system.

- b. Suggest different or additional measures based on study findings.

6. Training program

The Internal Revenue Bureau will be strengthened through the formulation of a training plan and the creation of a unit (such as in the form of an institute, school, or center) that will be responsible for training and professional development of staff in the area of tax administration.

For the training program, the project will hire the services of the Inter-American Center of Tax Administrators, which will be responsible for the following activities:

- a. Preparation and delivery of a program on basic tax-administration support.
- b. Preparation and implementation of an ongoing training program with objectives, content, methodological strategies, evaluation strategies, and the necessary support resources.
- c. Establishment and implementation of the necessary organizational training structure to support these specific tasks.

B. TERMS OF REFERENCE FOR THE UNDP AS SPECIALIZED AGENCY

1. Select and hire consultants required for the project areas under its responsibility, subject to approval by the Internal Revenue Bureau and the Bank.
2. Prepare a general plan and schedule of activities for program development, implementation, and evaluation.
3. Supervise consultants' work to ensure compliance with the terms of reference, plans, and schedules as proposed, and the proper technical expertise.
4. Work with Internal Revenue Bureau authorities to conduct the midterm evaluation of the project.
5. Advise the bureau at all stages related to program activities.
6. Prepare and present to the bureau - within the established time frames - the initial, quarterly, and final reports as follows:
 - a. An initial report, to be presented within 90 days of program start-up and to contain information on: (i) the status of IMF-funded consultant services in the auditing area; (ii) the results of the work done by consultants hired during the period

for which costs were recognized retroactively up to the date of the initial report; (iii) an up-to-date quantitative study on the current status of the Internal Revenue Bureau, indicating national and regional human and physical resources, status of systems implemented, tax revenues, and other elements that could be used to set indicators for measuring program results; (iv) a specific plan of activities for the program; (v) problems encountered during program start-up; (vi) a plan for hiring consultants and their terms of reference; (vii) the local counterpart assigned to the program; (viii) a plan for the legal-reform program.

- b. Quarterly progress reports, to be submitted to the National Finance Secretariat within 15 days of the end of each quarter and forwarded to the Bank for approval. As a minimum, the reports should contain information on the status of activities performed during the period, the main problems encountered, a revision of defined performance indicators, and the activities scheduled for the following period.
- c. A final report, to be presented within 30 days of the end of the program execution period. The final report should discuss activities carried out, results obtained, and the problems encountered in obtaining said results, as part of a comparative analysis of performance indicators defined in the study conducted for the initial report.

C. **TERMS OF REFERENCE FOR THE CIAT AS SPECIALIZED AGENCY**

I. Responsibilities

The Inter-American Center of Tax Administrators will have the following responsibilities:

- 1. Select and hire consultants required for the project, subject to approval by the Internal Revenue Bureau and the Bank.
- 2. Prepare a general plan and schedule of activities for program development, implementation, and periodic and final evaluation.
- 3. Prepare guidelines for the organization, planning, follow-up, and evaluation of the training program.
- 4. Supervise consultants' work to ensure compliance with the terms of reference, plans, and schedules as proposed, and the proper technical expertise.
- 5. Provide technical supervision for the project through short-term missions of experts from CIAT headquarters to the bureau.

6. Present statements of expenditure as required by the bureau, for items charged against funds received.
7. Work with the bureau to conduct the midterm evaluation of the project.
8. Advise the bureau at all stages related to training program activities.
9. Prepare and present to the bureau - within the established time frames - the initial, quarterly, and final reports (containing an evaluation of the results obtained). Such reports will follow the guidelines set forth above for the UNDP.

D. ITEMIZED BUDGET

CATEGORY		IDB CONTRIBUTION	TOTAL
1.	UNDP, specialized agency - TOTAL	3,720,170	
1.1.1	International consultants	1,895,000	
(a)	Strengthening of management system at Int. Rev. Bureau and area offices		
-	Project director 30 m x US\$8,500	255,000	
-	Tax administration specialist 6 m x US\$8,000	48,000	
-	Tax administration consultants 12 m x US\$8,000	96,000	
(b)	Evaluation of systems development and utilization		
-	Tax collection consultants 10 m x US\$8,000	80,000	
-	Tax audit consultant 6 m x US\$8,000	48,000	
-	Technical-legal consultants 6 m x US\$8,000	48,000	
-	Information systems consultants 10 m x US\$8,000	80,000	
(c)	New systems development		
-	Tax administration consultants 30 m x US\$8,000	240,000	
-	Tax collection consultants 12 m x US\$8,000	96,000	
-	Tax audit consultant 18 m x US\$8,000	144,000	
-	Tax audit specialist 16 m x US\$8,000	128,000	
-	Technical-legal consultant 18 m x US\$8,000	144,000	
-	Technical-legal specialist 16 m x US\$8,000	128,000	

CATEGORY		IDB CONTRIBUTION	TOTAL
-	Public information consultants 12 m x US\$8,000	96,000	
-	Information systems consultants 16 m x US\$8,000	128,000	
(d)	Legal framework		
-	Legal consultants 5 m x US\$8,000	40,000	
(e)	Tax policy		
-	Tax policy consultants 12 m x US\$8,000	96,000	
1.1.2	Local consultants (FSO, nonreimbursable local currency)	1,060,000	
(a)	Strengthening of management system at Int. Rev. Bureau and area offices		
-	National Coordinator 30 m x US\$3,000	90,000	
-	Tax administration consultants 36 m x US\$2,500	90,000	
(b)	Evaluation of systems development and utilization		
-	Tax collection consultants 27 m x US\$2,500	67,500	
-	Tax audit consultants 27 m x US\$2,500	67,500	
-	Technical-legal consultants 5 m x US\$2,500	12,500	
-	Information systems consultants 6 m x US\$2,500	15,000	
(c)	New systems development		
-	Tax administration consultants 120 m x US\$2,500	300,000	
-	Tax collection consultants 49 m x US\$2,500	122,500	
-	Tax audit consultants 36 m x US\$2,500	90,000	
-	Technical-legal consultants 30 m x US\$2,500	75,000	
-	Public information consultants 12 m x US\$2,500	30,000	
-	Information systems consultants 12 m x US\$2,500	30,000	
(d)	Legal framework		
-	Legal consultants 12 m x US\$2,500	30,000	
(e)	Tax policy		
-	Tax administration consultants 16 m x US\$2,500	40,000	
1.2	Supplies and equipment	200,000	
1.9	Other	258,000	
A.	Internships	178,000	
B.	Travel and per diems	80,000	
	Overhead (9% of 3,413,000)	307,170	

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CATEGORY		IDB CONTRIBUTION	TOTAL
2.	Specialized agency, CIAT - TOTAL	485,640	
2.1.1	International consultants	320,000	
-	Consultant in tax training programs 24 m x US\$8,000	192,000	
-	Instructors on tax matters 4 m x US\$8,000	32,000	
-	Consultants in curriculum design, audiovisual aids, distance training 12 m x US\$8,000	96,000	
2.1.2	Local consultants	96,000	
-	Consultants in tax matters 24 m x US\$2,500	60,000	
-	Instructors on tax matters 12 m x US\$3,000	36,000	
2.9	Other training courses	10,000	
	Overhead (14% of 426,000)	59,640	
98.	Contingencies	249,190	
99.	Inspection and supervision (1%)	45,000	
TOTAL IDB CONTRIBUTION			<u>4,500,000</u>
TOTAL COUNTERPART FUNDING			<u>480,000</u>
A.	Consultants	300,000	
B.	Support expenses	99,000	
C.	Credit fee (0.75%)	51,000	
D.	Contingencies	30,000	
PROGRAM TOTAL			<u>4,980,000</u>

BACKGROUND AND JUSTIFICATION FOR HIRING SPECIALIZED AGENCIES

1. UNDP

The IDB and UNDP have been working together on technical-cooperation programs in the area of domestic taxation since 1987, for a total of over six years of experience in Bolivia.

The programming and evaluation committees that have been convened to evaluate the execution of technical-cooperation agreements in the area of taxation (12 to date) have highlighted the efficient operation of UNDP/OPS, which has optimized the impact of project results. The vast majority of local consultants hired for these operations are still working in tax-related functions in Bolivia, and the international consulting services used have been praised nationally and internationally by the countries and by other international agencies (IMF, IBRD, IDB).

UNDP offers other advantages for the country:

- a. Rapid availability of bridge financing for quick start-up of technical-cooperation activities, a key element in the operation under discussion here. This would allow the Bank to recognize expenses incurred prior to the loan agreement and would make it possible to advance considerably in physical and financial terms over a short period of time.
- b. Expeditious enforcement of compliance and management of the disbursement of counterpart funds, which are crucial to ensuring the success of the activities and setting up local teams trained under the operation, in addition to maintaining an appropriate disbursement rate for program resources.
- c. Timely and transparent support for project procurements, which would otherwise have to be carried out by the government and would surely be costlier and slower.
- d. Expeditious hiring of local and international consultants approved by the government, ensuring objectivity and transparency throughout the recruitment process.

2. CIAT

The Inter-American Center of Tax Administrators (CIAT) is a nonprofit, public international agency that was founded in 1967. Its basic objective is to promote cooperation for improving tax administration in the countries of the Western Hemisphere. It currently has 27 regional and 6 nonregional members. Representatives are appointed by the ministers of finance of their respective countries and comprise the General Assembly, the center's executive decision-making body.

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CIAT is Latin America's only specialized agency in the area of tax administration. Its technical expertise is acknowledged by its 27 regional members, to which it offers ongoing technical cooperation through funding from multilateral sources (IDB, IBRD, IMF) as well as bilateral sources (the Internal Revenue Service of the United States, Germany's technical-cooperation agency, France's Ministry of Finance, and Spain's Ministry of Economic Affairs).

Bearing in mind that CIAT was founded for the purpose of enhancing tax administration in its regional member countries, many of the center's technical staff possess levels of experience and skills not found in other agencies and consulting firms. Building on the experience it has gained in country programs, its association with modernization programs, and the new technologies being applied in industrialized countries (such as Great Britain, Australia, and Spain, to cite but a few), CIAT has designed a series of models and methods and has drawn up training manuals for a taxpayer master file and current account system. CIAT is also in the process of carrying out two regional training programs for tax administrators. This experience shows that CIAT possesses the technical skills required for the training component of the proposed operation.

Since 1983, CIAT has participated in Bank-financed projects to strengthen tax administration in the countries of Central America, Panama, the Dominican Republic, The Bahamas, Ecuador, Peru, Suriname, Bolivia, and Venezuela. On the whole, CIAT services have received very good ratings under the Bank's evaluation system.

Since CIAT is in constant contact with the tax-administration agencies of the countries of the Hemisphere, it is able to provide formal and informal follow-up on the activities it is involved in.

PROPOSED RESOLUTION

BOLIVIA. NON-REIMBURSABLE TECHNICAL COOPERATION IN AID OF THE MANAGEMENT OF
TAX POLICY AND ADMINISTRATION

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreements as may be necessary and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document AT- _____, with respect to a technical cooperation with the Republic of Bolivia, in aid of the Ministry of Finance and Economic Development's National Secretariat of Finance and Administration's management of its tax policy and administration.

2. That up to the equivalent of US\$1.156.000 in local currency is authorized for the purpose of this resolution, chargeable to the resources of the Fund for Special Operations.

3. That the above mentioned sum is to be provided on a non-reimbursable basis.

PROPOSED RESOLUTION

BOLIVIA. REIMBURSABLE TECHNICAL COOPERATION IN AID OF THE MANAGEMENT OF TAX
POLICY AND ADMINISTRATION

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such agreements as may be necessary and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document AT-_____, with respect to a technical cooperation with the Republic of Bolivia, in aid of the Ministry of Finance and Economic Development's National Secretariat of Finance and Administration's management of its tax policy and administration.

2. That up to the sum of US\$3.344.000 is authorized for the purpose of this resolution, chargeable to the resources of the Fund for Special Operations.

3. That the above mentioned sum is to be provided on a reimbursable basis.