

**TECHNICAL COOPERATION LOAN  
PROGRAM OF INSTITUTIONAL STRENGTHENING FOR THE  
SERVICIO NACIONAL DE IMPUESTOS INTERNOS (SNII)**

(BO-0186)

**EXECUTIVE SUMMARY**

<b>Borrower and guarantor:</b>	Republic of Bolivia.	
<b>Executing agency:</b>	Servicio Nacional de Impuestos Internos (SNII) [Internal Revenue Service].	
<b>Amount and source:</b>	IDB (foreign exchange from FSO):	US\$3.2 million
	Local counterpart:	US\$0.8 million
	Total:	US\$4.0 million
<b>Financial terms and conditions:</b>	Amortization period:	40 years
	Grace period:	10 years
	Disbursement period:	3.6 years
	Interest rate (first 10 years):	1.0%
	Interest rate (thereafter):	2.0%
	Inspection and supervision:	1.0%
	Credit fee:	0.5%
<b>Objectives:</b>	The overall objective of the program is to contribute to Bolivia's fiscal sustainability. Its immediate objective is to improve the efficiency and effectiveness of the administrative management of the Internal Revenue Service by means of the following activities: (i) formulation and implementation of a corporate strategy; (ii) design and implementation of a corporate planning system; (iii) strengthening of operational management; (iv) introduction of a modern tax audit strategy; and (v) reinforcement of the institutional capacity in the area of information technology.	
<b>Description:</b>	<b>Organizational development (US\$1,477,000).</b> Under this component, activities will be carried out: (i) to enact legislation giving the SNII technical, administrative and financial autonomy; (ii) to strengthen its capacity for planning, management and supervision of tax procedures; and (iii) to restructure the institutional decision-making process.	

**Support for auditing (US\$1,292,000).** Under this component, activities will be carried out at the central level and within the institution's operational offices. At the central level, strengthening will be provided for activities with indivisibilities (planning and coordination of audits, performance evaluations, etc.) or large externalities (high-impact cases, methodology development, provision of information, etc). In regional offices, support will be provided for the introduction of new audit methods.

**Information technology (US\$536,000).** This component will reinforce the SNII capacity in the area of information systems management and development. It will also address the needs of other program components, particularly those concerned with the organizational modernization and tax procedures.

**Relationship of project in Bank's country and sector strategy:**

The Bank's strategy for Bolivia supports the government's poverty reduction efforts by promoting sustained growth based on three courses of action: (i) economic progress and creation of opportunities; (ii) human capital development and access to basic social services; and (iii) support for governance and consolidation of reforms. The program is consistent with this strategy since it will make it possible to consolidate government reforms and reinforce Bolivia's efforts to improve tax collection and reduce tax evasion.

**Environmental and social review:**

The program was reviewed by the Committee on Environment and Social Impact (CESI). The program is not expected to have any adverse environmental or social impacts.

**Benefits:**

This program will help strengthen the SNII, the entity responsible for administration of tax revenues, amounting to the equivalent of 13.1% of GDP. The institutional strengthening activities are expected to bring fiscal accounts into balance, thus making it possible to increase social spending without compromising economic stability.

The program will also facilitate efforts to reduce tax evasion by assimilating heretofore delinquent taxpayers, thus permitting an increase in revenues without the need to raise taxes, and improving the horizontal equity of the tax system.

**Risks:**

An operation of the kind proposed inevitably entails political risks stemming from possible shortcomings in leadership in implementing the reforms (for which senior and middle-level officials are responsible) and in guiding them through Congress.

In order to reduce this risk, the program requires the passage of a law granting technical, administrative and financial autonomy to the SNII and a Civil Service Statutes act. It should be noted that similar

legislation was recently approved for the customs administration and the executive leadership of this institution has been put in place. These initiatives have been ratified by the Bolivian legislature.

Also, the government's support for making fiscal reforms viable is worth noting, including efforts to meet the fiscal targets set under the IMF's enhanced structural adjustment facility (ESAF).

To minimize potential weakness in the area of leadership at the management level, the program includes activities to strengthen management capacity, and to monitor these activities closely.

**Special  
contractual  
clauses:**

The conditions precedent to the first disbursement are as follows:

- Publication and entry into force of the law granting technical, administrative and financial autonomy to the SNII, and the Civil Service Statutes act (paragraph 3.7).
- The formal creation and start-up of the Management Committee (CD) and the Project Executing Unit (PEU), and hiring of personnel to staff the PEU (paragraphs 3.2 and 3.5).

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

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

**Exceptions to  
Bank policy:**

None.

**Procurement:**

The Bank's standard procedures will be used for the procurement of goods and services. International bidding and/or competitions will be used for contracts valued at more than the equivalent of US\$250,000 in the case of goods and at more than the equivalent of US\$200,000 in the case of consulting services. There will be no financing for construction works under the program.

## **I. FRAME OF REFERENCE**

### **A. Macroeconomic context**

- 1.1 Over the past decade Bolivia has established the basic conditions required for faster economic growth. The program of structural reforms begun in 1985 restored macroeconomic stability and stimulated moderate growth. The first generation of these reforms, completed by 1993, included establishing a unified exchange rate, removing restrictions on imports and capital transfers, promoting greater flexibility in labor markets, giving guarantees to foreign investors, introducing comprehensive tax reforms, eliminating official prices and allowing the market to set interest rates. These measures stabilized prices and reduced the budget deficit. Based on these changes, Bolivia launched a second generation of reforms in 1994 with the support of the IDB, the World Bank and an Enhanced Structural Adjustment Facility (ESAF) from the International Monetary Fund for the period 1994-1997.<sup>1</sup> This second round of reforms includes public service decentralization, capitalization of government enterprises, reform of the State and educational reform.
- 1.2 Bolivia's current economic development is characterized by macroeconomic stability as seen in low rates of inflation, steady monetary indicators and a positive rate of economic growth in line with its economic program. Thus, in 1998 the country posted its lowest level of inflation in the last 27 years, together with one of the highest growth rates in Latin America. The economy grew by 4.7%, led by dynamic growth in telecommunications, construction and the oil and gas sector – this despite the adverse effect of El Niño which is estimated to have shaved 0.8% from the country's GDP. Meanwhile, the annual inflation rate was kept to 4.4%, significantly lower than the 6.5% target set under the ESAF agreement. Contributing factors in this success were the government's monetary and fiscal discipline, the fact that prices on imported products remained steady, and the growing reliance on low inflation rates by economic agents.
- 1.3 The fiscal deficit in 1998 was equivalent to 4% of GDP, compared to the target rate of 4.1%. Except for the cost of pension reforms, the public accounts were in balance for 1998. In fact, the pension reform program accounted for all of the rise in that year's budget deficit which climbed from 2.5% of GDP in 1997, to 4% in 1998. Most of the shortfall was covered by concessional lending from abroad (2.8%), supplemented by domestic funding in the form of government-issued debt (1.2%).
- 1.4 In 1998, the current account deficit rose to US\$675 million (close to 8% of GDP). With respect to foreign trade, the main result of the current international crisis has been to force down prices for the country's major exports. Citing FOB values,

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<sup>1</sup> The government signed an agreement extending the ESAF through July 31, 1998. This agreement includes provisions for deepening the reforms and maintaining macroeconomic stability. In September 1998, the government and the IMF signed a new ESAF for 1998-2001.

Bolivia's exports for the year fell by US\$62 million, dropping from US\$1.166 billion in 1997, to US\$1.104 billion in 1998. The volume of goods exported was up by just 1.6%, owing to the lower return on exports caused by the 20% drop in the main Bolivian commodities and the moderate appreciation of its currency over the past three years. Meanwhile, imports rose by US\$132 million compared to 1997 figures, to a total of US\$1.983 billion on the year, an increase due to growing importation of capital goods as a consequence of foreign investment. Foreign direct investment (FDI) flows have increased dramatically in recent years, encouraged by the privatization of public enterprises in 1995. A total of US\$800 million in foreign capital entered the country in 1998, with FDI (aimed primarily at the oil and gas, and communications sectors) accounting for 10% of the total.

- 1.5 As of July 31, 1999, the external debt was down US\$154 million compared to December 1998, for a total of US\$4.227 billion. Of this figure, US\$2.717 billion represents indebtedness to multilateral lending agencies, while the remainder is owed to bilateral sources. Bolivia's main creditors are the IDB (US\$1.342 billion) and the IDA (US\$1.066 billion), which together account for 87% of its multilateral indebtedness. During the year, the country received disbursements of US\$111.8 million, and paid out a total of US\$124.6 in debt servicing. This negative net transfer of funds could have been worse had Bolivia not obtained (as of July) debt relief totally US\$103.1 million, primarily as a result of its participation in the HIPC initiative. Overall, the HIPC initiative will produce savings equivalent to some 0.7% of Bolivia's GDP during the period 1999-2002.
- 1.6 Bolivia has in fact carried out the majority of its structural reforms on schedule in 1998. Among other changes, the government has developed a program of customs reforms aimed at eliminating evasion in this area. In addition, ceilings were placed on local government borrowing in a move to strengthen the process of fiscal decentralization. As part of the HIPC initiative, the authorities reached agreement with the IDB on a program to protect social spending, which is the center piece of the government's social policy. In 1998, all of the country's financial institutions met the requirement of maintaining a capital to risk-weighted assets ratio of 10%, and the authorities are continuing to tighten the system of financial supervision and regulations.
- 1.7 The economic prospects for 1999 are being hampered by factors such as the slowdown in regional growth, adverse weather conditions early in the year which blocked the country's road system, and depreciation of the Real with an immediate drop in export orders. The program originally forecast real growth of between 4.5% and 5%, with inflation limited to 5.5% (compared to the initial goal of 6%). As a result of the above factors, and based on the pattern of aggregated data to May of the year in progress, it now looks like growth will reach only 4% this year while inflation will be held down to between 3.5% and 4%.

- 1.8 The cost of pension reforms will keep the budget deficit from falling further, but spending controls and improvements in tax administration should enable the government to keep the public sector deficit down to no more than the equivalent of 3.2% of GDP in the year 2000, in line with IMF targets. Indeed, the budget passed in 1999 is based on strict control of expenditures and increased efficiency in the collection of both taxes and customs duty. The program will limit the drop in reserves in 1999 to US\$50 million.
- 1.9 Finally, observance of structural policies is expected to continue. The international community, and the IDB in particular, have been helping and will continue to provide support for Bolivian reforms in various areas. The challenge of the reforms scheduled for 1999-2002 is to set the stage for a substantial reduction of poverty, and the reform agenda includes: (i) reinforce the reforms in health and education; (ii) strengthen tax administration among local governments; (iii) continue consolidation of the financial sector and expand capital markets; (iv) improve governance; (v) complete the privatization process; and (vi) modernize the nation's labor laws.

#### **B. Strategy for strengthening institutions**

- 1.10 The challenge still facing Bolivia is to achieve a growth rate sufficient to allow for poverty reduction. Economic growth in the 1990s has averaged 4% per year, which converts to a per capita rate of only 1.7% -- less than expected. In response to this shortfall, the present government designed its plan of action on the basis of four pillars: *Opportunity* (creating the conditions necessary to provide access to the benefits of growth for its citizens); *Institutionality* (buttressing the institutions and improving the effectiveness of the State through modernization of government, reform and modernization of the judiciary, government decentralization and measures to combat corruption); *Equity* (raising the nation's living standards through provision of public services, including education, health, water and power, and housing, and by investing in rural development); and *Dignity* (reaffirming legitimacy by stepping up efforts to combat drug trafficking).
- 1.11 The aim of *Institutionality* is to consolidate the institutional framework of Bolivia's public sector so that it is better able to promote private enterprise and establish an environment favorable to investment and growth. The drive to modernize the public sector seeks to increase the efficiency and transparency of the Bolivian government as a means of boosting the country's capacity to carry out its ambitious agenda of reforms and poverty-reduction measures. Bolivia has made great strides in laying the foundations for reforming its institutions. The basic law governing public sector operations in Bolivia is the Act creating the Law of Financial Administration and Control System (the SAFCO Act) of 1990, which establishes various systems to regulate the State's procedures for planning and organizing its activities, carrying out these activities, administering its personnel and managing the public sector, and exercising government financial controls. A new Civil

Service Program was created at the start of this decade as well, intended as an interim measure towards establishing a highly professional service to lead the nation's public sector. Due to budgetary constraints, however, it has had only limited implementation to date. Using funds from a variety of sources (primarily the World Bank and bilateral donors), the government has been able to begin hiring for key public sector operational centers.

- 1.12 The design and approval of the Plan Nacional de Integridad (PNI) is a central element of the government's program of *Institutional strengthening*. The plan takes an integrated approach to three of the main facets of that institutionality, namely: (i) reforming the justice sector; (ii) modernizing public administration; and (iii) combating corruption. A noteworthy feature of the PNI is the creation of a National Integrity Commission (CNI) which will be headed by the Vice President and have as its members the Deputy Minister of the President's Office, the Ministers of Finance and Justice, and representatives from the Senate, the House of Representatives, the Supreme Court, the Office of the Auditor General and the Office of the Attorney General (Ministerio Público). Among its other duties, the Commission will seek to ensure compliance with the Inter-American Convention against Corruption, as well as implementing the Civil Service Statute, strengthening the Office of the Public Defender and the Office of the Attorney General, and modernizing and reforming Bolivia's public sector agencies.
- 1.13 The government has three objectives under its plan for modernizing the State: (i) full implementation of the SAFCO Act through adoption of a performance-oriented civil service system; (ii) gradual phasing-in and full implementation of the Civil Service Program; and (iii) modernization of the legislative branch. A first step in this direction will be to submit to Congress the new Civil Service Statute which will introduce incentives and specify the rights and obligations of the country's civil servants. Other aspects of this legislation include greater job security for public servants, adequate salary schedules and pay adjustment schemes, better working conditions and civil service career development programs. The law spells out in detail the procedures for recruitment, dismissal and promotion of civil servants.
- 1.14 The PNI is receiving support under the World Bank's Programa de Reforma Institucional (PRI),<sup>2</sup> which was approved in mid-1999 and is currently in process of being declared eligible. In its initial stage, the PRI will apply institutional strengthening policies in a select group of pilot agencies, beginning with structural

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<sup>2</sup> This project, the first of a three-phase program, will take three years to complete. It has been designed as an Adaptable Program Loan (APL), an approach which permits longer term project financing and flexibility in project design and implementation to support complex institutional development programs. It has been allocated funding of US\$72 million (US\$21 million from the government of Bolivia; US\$32 million from the World Bank; and US\$19 million from bilateral donors), and will finance technical assistance, training, goods and equipment and recurrent costs of programs to improve public-sector management.

and functional diagnoses of their human resource and management systems. Based on the results of these studies, a step-by-step structural adjustment program will be devised for each agency. These reforms will be reinforced by policies touching all areas of the public sector, whereby incentives conducive to performance-based management will be introduced, the modernization of financial administration will be promoted, and policies calculate to achieve integrity and transparency in government will be applied.

- 1.15 The horizontal reforms to be carried out under the PRI will include the following components: (i) *Implementation of performance-evaluation and management systems*: The national evaluation system will require public institutions capable of setting clear goals expressed in terms of readily monitored indicators, and with plans for remedial action where performance lags; (ii) *National integrity and anti-corruption program*: The project will take steps to establish regulatory frameworks (including a Civil Service Statute), to introduce a financial disclosure program for public officials; strengthening of the institutions responsible for investigating corruption, such as the Office of the Public Defender and the Attorney General's Office; simplifying bureaucratic procedures in order to reduce discretionary authority and opportunities for corruption in government, reorganizing the public procurement process, and creating a system for educating the public; and (iii) *Reforming the civil service*: The program will seek renewal of the civil service through adaptation of a new regulatory framework, creation of a human resource register, and reform of the public service training system.
- 1.16 The vertical reforms or organizational-restructuring component will fund efforts to reorganize and strengthen various public-sector agencies, providing technical assistance, information technology and wage subsidies in seven pilot agencies, one of which is the Internal Revenue Service. The reforms to these agencies fall into three areas: (i) organizational restructuring and institutional strengthening; (ii) implementation and adaptation of regulatory frameworks; and (iii) renewal of human resources. The key element in the process will be the organizational restructuring agreements to be agreed separately with each agency. After review and approval by the National Integrity Commission and the World Bank, these documents will become the operating plans for reforms. The government has indicated that in addition to the Ministry of Finance (including the SNII and the customs service), other potential participating agencies will include the Ministries of Agriculture, Housing, Sustainable Development and Education, as well as one prefecture to be determined. An important element of the program is that in addition to funding technical assistance and training as part of the restructuring of pilot agencies, it will also finance the salaries of personnel hired by those agencies on a declining (80, 80, 60, 60, 30) basis.
- 1.17 The Bolivian government has already designed a program of institutional strengthening for the Internal Revenue Service as part of its Plan Nacional de Integridad (PNI). That program will receive support under the World Bank's



Programa de Reforma Institucional, as well as from the IDB. The present program has been designed specifically to avoid duplication of efforts in this area, and to ensure consistency with the PRI. Hence, this program addresses aspects of organizational development and management, tax administration and information technology. For its part, the World Bank concentrates on the areas of transparency (including internal audits and financial administration) and human resources, thus ensuring that its effort will be mutually complementary with the program presented in this document.

### C. The tax system

- 1.18 Modernization of the tax system was a central element in the economic reforms carried out by the Bolivian authorities in the mid-1980s. In 1986, significant changes were introduced in the country's tax policies with the elimination of some 400 taxes which accounted for little in the way of proceeds and were expensive to administer, to be replaced by a smaller number of taxes (primarily the VAT, excise and capital transaction tax). The new tax regime came into effect beginning in 1987 and has led to a steady increase in the country's tax revenues over the first ten years of its existence. In 1995, additional changes were made to the tax system in connection with the privatization of state enterprises, the most important of which was the introduction of a tax on earnings. Thanks to these changes, Bolivia's tax revenues are up significantly, rising from about 8% of GDP in the 1990-1992 period, to 13.1% in 1998.

**Table I-1 – Tax Burden as a Percentage of GDP**

<b>Tax</b>	<b>87/89</b>	<b>90/92</b>	<b>93/95</b>	<b>96</b>	<b>97</b>	<b>98</b>
VAT	2.18	2.29	4.45	5.06	5.39	5.53
Transactions	0.41	1.08	1.56	1.81	1.50	1.60
Excise tax	0.44	0.69	0.81	0.91	0.92	1.05
RC-VAT	0.38	0.45	0.57	0.46	0.44	0.36
IRPE/IUE	0.24	0.44	0.56	1.40	1.57	1.62
IEHD	–	–	0.01	0.13	0.09	0.44
Others	0.41	0.54	0.42	0.04	0.03	0.02
<b>Subtotal</b>	<b>4.06</b>	<b>6.16</b>	<b>8.38</b>	<b>9.81</b>	<b>9.95</b>	<b>10.62</b>
Government securities	0.20	0.58	1.39	0.86	1.27	1.63
YPFB	0.66	1.06	1.26	1.20	1.02	0.80
Others	0.55	0.11	0.08	0.14	0.10	0.07
<b>Total revenues</b>	<b>5.46</b>	<b>7.91</b>	<b>11.11</b>	<b>12.01</b>	<b>12.34</b>	<b>13.12</b>

Source: Based on data provided by the SNII – includes customs duty on imported goods. Note: totals and subtotals may not add up due to rounding.

- 1.19 The IDB has been helping with the implementation of Bolivia's tax system since 1986, and a summary of the principal results is available from the technical files for preparation of this program. In mid-1994, the Bank approved Program 924/SF-BO which provided support for the tax reforms that took effect in 1995, as well as for development of the Integrated Tax Administration and Revenue System (SIRAT), a computer software program that integrates tax collection and auditing processes, with management of the legal aspects of tax administration. Training in the use of the new system was also provided for taxpayers and officials of the Internal Revenue Service (SNII), and the system began to be phased in starting with the country's largest taxpayers. The SIRAT is operating satisfactorily, meeting the efficiency and security requirements for tax administration. Its start-up was made possible by a donation of US\$2 million from the Government of Japan for purchase of equipment, along with the allocation of resources by the Bolivian authorities.
- 1.20 The programs that the IDB has been financing since 1986 to strengthen the Bolivian tax administration system have had their greatest success in the areas of tax collection (taxpayer register, the current account, etc.), modernization of technological infrastructure, and establishment of the strategy of grouping taxpayers according to economic significance, with operations to serve large taxpayers in the country's major cities. Conversely, results in the areas of tax audits, assessments and management of legal affairs have been more modest.
- 1.21 The SNII is the agency responsible for administering the taxes levied on internal activities by the central government. It has a budget of US\$14.2 million, equivalent to 1.3% of revenues collected<sup>3</sup> – a low figure given the requirements for modernization and the country's level of development. At the central level, the agency is divided into four departments which report to the Director of the SNII: Taxation Management, Tax Regulations and Development Services, Administration Office and Legal Affairs. At the operational level there are fourteen regional directorates, including Major Taxpayer Operations in La Paz, Cochabamba and Santa Cruz which, together, account for 61% of tax revenues collected by the SNII. The agency has 1,231 employees who, because of a high turnover rate, average only four years of service each.
- 1.22 The SNII's present limitations can be grouped into two categories: those of an organizational nature and those relating to specific processes used to administer the tax system. Among the first category are: (i) failure to formulate and implement an organizational strategy; (ii) weaknesses in management operations and oversight systems; (iii) budgetary constraints; (iv) shortcomings in the management of its resources; and (v) limitations with respect to its policies and administration of human resources. The problems in the area of personnel issues have debilitated

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<sup>3</sup> Data estimate for 1999. The agency's 1998 budget totaled US\$15.7 million, equivalent to 1.4% of tax proceeds.

managerial staff and resulted in a high turnover of SNII officials due to the politization of human resource management within the service.

- 1.23 In the area of tax procedures, and in addition to the greater inherent complexity of auditing procedures vis-à-vis tax collection itself, there are various factors which explain the relative lack of progress in this area. Some of the more important of these are: (i) the lack of a modern tax inspection strategy that targets activities according to the economic sector, the type of tax involved, and the relative economic importance of taxpayers; (ii) inadequacies in the planning, execution, coordination and evaluation of tax procedures; (iii) lack of resources; (iv) insufficient sources of information; and (v) high turnover of personnel which negates training programs, encourages undesirable standards of conduct, and makes it difficult to accumulate institutional know-how.
- 1.24 The limitations confronting the SNII raise questions with respect to the sustainability of Bolivia's efforts in the field of taxation. From the institutional perspective, such questions relate to the ability of the country's tax administration to modernize its organizational structure on its own, establishing the objectives and both planning the activities and obtaining the resources necessary to attain them. By the same token, the sustainability of the tax collection system will require that specific procedures used by the tax administration be improved in order that they may act as a deterrent to noncompliance on the part of taxpayers.

**D. Overhauling the legal framework for the tax administration**

- 1.25 The SNII authorities and officials of the IDB have been examining the challenges facing Bolivia's tax administration system as outlined in the foregoing paragraphs. In their discussions, all agree that in order to overcome these problems the SNII will require a legal framework which gives it greater independence.
- 1.26 Consequently, the Bolivian authorities are drafting legislation to be submitted to Congress in October 1999, under which will the SNII will be made technically, administratively and financially autonomous. The bill seeks to grant the service technical independence in taxation matters, as well as streamlining its management. Another aim of the bill is to make the SNII financially self-sustaining by allowing for automatic retention of a percentage of the revenues it collects. Its status as an independent government agency will be ensured by providing the SNII with its own legal provisions governing its constitution and operations, creating a career classification for its officials, and arranging for appointment of its governing body with approval by the legislature.
- 1.27 This will be happening at the same time as Congress is considering the new Civil Service Statute, which will revise the legal framework for public sector employment in Bolivia and help to depoliticize management of human resources within state agencies, including the SNII.

- 1.28 There are other positive examples of state enterprises being granted independent status in Bolivia, particularly among the superintendencies responsible for regulatory activities. The Superintendency of Banks provides an excellent example. The efficiency and insulation from political pressures demonstrated by this entity during intensive efforts to consolidate public finances helped authorities to put the country's financial system in order with a minimum of quasi-fiscal repercussions. More recently, and also in the field of fiscal revenues, independent powers were granted to Bolivia's customs service as the first step in providing institutional strengthening of an entity weakened and discredited.

**E. Strategy and rationale for the Bank's participation**

- 1.29 The Bank's strategy for Bolivia is to support the government's poverty reduction efforts through promotion of continuing growth in three areas: (i) economic progress and creation of opportunities; (ii) human resource development and access to basic social welfare services; and (iii) support for governance and consolidation of reforms. The program is consistent with this strategy since it will make it possible to consolidate government reforms and reinforce Bolivia's efforts to increase fiscal revenues and reduce tax evasion.
- 1.30 The Bank has been supporting modernization of the State, strengthening of the civil service and improvement of its management capacity through a number of operations to assist in such areas as the introduction of the SAFCO Act, the National Public Investment System, and municipal and departmental government. A major component of the Bank's activities is to support comprehensive strengthening for decentralized public services in the form of technical cooperation projects in four of the most critical areas of institutional development: (i) strategic planning and implementation of systems for administration and supervision; (ii) managing public spending at the departmental and local level under the National Public Investment System, (iii) management of social services; and (iv) administration of human resources as an essential factor for the consolidation of decentralized public-sector institutions.
- 1.31 Thus, the Bank has taken an active part in Bolivia's decentralization process by carrying out the following technical cooperation operations: (i) a national governance program (loan 954/SF-BO for US\$12 million) which included institutional strengthening components for departments and municipalities; (ii) a program for decentralization of the national public investment system (SNIPRE) (loan 993/SF-BO for US\$7 million) to strengthen the decentralized capacity to administer public investment; (iii) a social management support program (loan 982/SF-BO for US\$2 million) with a specific component to strengthen departmental capacity to administer basic health, education and other services; and (iv) a program of support for decentralization of the civil service (TC-97-01-071-BO for US\$350,000) which will permit the application of human resource administration models in the departments.

- 1.32 In order to establish the institutional and regulatory frameworks needed for broad-based growth, the Bank proposes to support the government in its effort to strengthen the country's tax collection capacity, in particular its ability to collect customs duties. The Bank's activities in the area of taxation will continue this year with the present program, and with the approval of an operation in support of restructuring and modernization of the customs service (BO-0159). Other operations included in the program for 1999-2001 include support for preparation of the national census (BO-0189) and technical cooperation projects in support of pension reform and reorganization of capital markets, and institutional strengthening for the Superintendencies of Securities, Insurance and Pensions.

## **II. THE PROGRAM**

### **A. Objectives**

- 2.1 The program has as its overall objective to support Bolivia's fiscal sustainability. Its immediate objective is to improve the efficiency and effectiveness of the tax administration management system employed by the National Revenue Service (SNII), by means of the following activities:
- a. formulation and implementation of a corporate strategy;
  - b. design and implementation of a corporate planning system;
  - c. strengthening of its operational management;
  - d. introduction of a modern tax administration strategy; and
  - e. consolidation of the institution's capacity in the area of information technology.

### **B. Results of the program**

- 2.2 For purposes of evaluating progress toward the program's objectives and expected outputs, goals and indicators were defined as set forth in the Logical Framework (see Annex 1).
- 2.3 Programs for strengthening of tax administrations are generally judged on the basis of increased collections, despite the effect on this indicator of variables outside the scope of the decision-making bodies receiving such strengthening (the economic cycle, economic policy formulation, etc.). For this program, Bolivia and the Bank decided to include goals based on the tax revenues administered by the SNII, in accordance with the fiscal deficit targets set under the economic program agreed with the IMF. The latter have as their medium-term objective the gradual reduction of the deficit to 2% of GDP by the year 2002, which will require raising tax revenues by roughly the equivalent of 0.6% of GDP in 1999, and 0.8% in the year 2000.
- 2.4 In addition, a specific set of indicators was prepared to monitor the tax administration and customs service. The opening values for this indicators will be set out in the initial report.

### **C. Description of the program**

- 2.5 The institutional strengthening of the tax administration is part of a new generation of reforms being undertaken by Bolivia in order to contribute to the sustainability of the State's institutional framework as a whole, and its tax collection capacity in

particular. With these objectives in mind, the program will finance activities under the following four components:

**1. Organizational development (US\$1,477,000).**

2.6 Under this component, activities will be carried out with the aim of: (i) enacting legislation making the SNII technically, administratively and financially autonomous; (ii) strengthening its capacity for planning, management and supervision of the tax system; and (iii) restructuring the institution's decision-making process. The main activities will include:

- a. Formulation of the SNII's corporate strategy (US\$231,000): A new organizational strategy will be formulated based on the new legal framework devised for the SNII. The organization's goals and objectives will be defined, and a system of planning by objectives instituted. The SNII's organizational structure will require some adjusting as well, in order to accommodate the new strategy, goals and organizational objectives.
- b. Strengthening of capacity for management and supervision of tax procedures (US\$662,000): A review of tax procedures will be conducted and, as a result, new manuals will be prepared and duties reassigned between the central offices and regional directorates, as well as among the main taxation divisions (tax collection, auditing, technical judicial and legal matters). The SIRAT will be extended to include regional directorates, and a module will be set up for enforced collection of taxes. A management control system and a management information system will be developed and placed in operation.
- c. Upgrading management skills (US\$584,000): The management structure of the organization will be defined by reviewing procedures and determining the value added at each level in the SNII's hierarchy. An assessment will be made of the personnel currently carrying out managerial functions to determine suitability for their roles and the desired profiles of management groups. Management training activities will be carried out and support will be provided for the SNII's Training Unit.

**2. Support for auditing (US\$1,292,000).**

2.7 To strengthen the SNII's audit function, activities will be carried out at both the central level and within the institution's various operational offices. In central administration, strengthening will be provided for activities that entail indivisibilities (planning and coordination of audits, performance evaluations, etc.) and large externalities (high-impact cases, methodology development, information retrieval, etc). In regional directorates, support will be provided for implementation of new auditing techniques. The main activities under this component include:

- a. Strengthening of the central administration's capacity for planning, coordination and evaluation of auditing procedures in tax administration.
- b. Develop methods at the central administration level for identification, analysis and tailoring of audit procedures to the economic sector, type of tax involved and relative economic importance of taxpayers. The most important audit programs to be adapted for use by the SNII are: (a) cross-referencing of purchases and sales transactions; (b) checking of debit/credit ratios; (c) integrated audits; (d) partial audits; and (e) review of entries under the simplified system.
- c. Installing the above-mentioned methods in departmental and regional directorates, and in the Large Taxpayers Offices in La Paz, Cochabamba and Santa Cruz.
- d. Improve access to external and internal sources of information to assist with the selection of cases and field work.
- e. Strengthen the Fiscal Studies Unit's capacity to carry out economic and tax analyses for early detection of economic activities and/or agents not otherwise identified and included in the SNII's action plans.
- f. Create a Fiscal Intelligence Unit in the central administration for early detection and suppression of groups organized for the purpose of committing tax frauds.
- g. Modernize the invoicing system used by the SNII.

**3. Information technology (US\$536,000).**

- 2.8 This component will reinforce the SNII's information systems management and computer capacity, and address the needs of other components of the program, particularly the organizational modernization component (management control and information systems, expansion of the SIRAT) and requirements related to tax procedures (primarily the new focus on auditing and setting up the module for enforced collection of taxes).

**4. Management and administration (US\$463,000).**

- 2.9 The management and administration expenses of the program represent the cost of consulting services and procurement of the bare minimum of equipment necessary to establish the project executing unit (PEU) as part of the organizational structure of the SNII. Specifically, funding will be provided for the staff of the PEU, including a general coordinator for the program, one procurement expert and one administrative assistant.



**D. Costs and financing**

2.10 The cost of the program will total US\$4.0 million, of which the Bank will finance US\$3.2 million under a Technical Cooperation Loan to be granted in accordance with current provisions and under the terms and conditions noted:

- **Amortization and grace periods:** maximum amortization period of 40 years, reckoned from the effective date of the contract, and with a 10-year grace period counted from that same date.
- **Interest rate:** 1% during the grace period, and 2% thereafter.
- **Credit fee:** 0.5% on the undisbursed portion of the loan.

**Table II-1 Consolidated budget  
(US\$ thousands)**

COMPONENT	IDB	LOCAL COUNTERPART	TOTAL	%
Organizational development	1,200.0	277.0	1,477.0	36.9
Audit procedures	1,017.0	275.0	1,292.0	32.3
Information technology	400.0	136.0	536.0	13.4
Executing unit	423.0	40.0	463.0	11.6
<b>Subtotal</b>	<b>3,040.0</b>	<b>728.0</b>	<b>3,768.0</b>	<b>94.2</b>
Contingencies	68.0	72.0	140.0	3.5
Auditing	60.0		60.0	1.5
Financial expense (FIV)	32.0		32.0	0.8
<b>Total</b>	<b>3,200.0</b>	<b>800.0</b>	<b>4,000.0</b>	<b>100.0</b>

2.11 The Bank will finance the hiring of consultants and training services, and provide resources for systems development, computer hardware and software, communications equipment and communications with the institution. The local counterpart funding will cover mainly local consultants and training.

**Table II-2 Preliminary costs and financing per category of expenditure  
(US\$ thousands)**

Subcomponent	Equip- ment	Consultants			Training	Communication	Subtotal
		Firms	Individuals Local	Individuals International			
Organizational development	313.0	120.0	315.0	304.0	285.0	140.0	1,477.0
Audit procedures	432.0	70.0	348.0	232.0	175.0	35.0	1,292.0
Information technology	210.0		252.0	54.0	20.0	—	536.0
Executing unit	27.0	—	40.0	396.0	—	—	463.0
<b>Subtotal</b>	<b>982.0</b>	<b>190.0</b>	<b>955.0</b>	<b>986.0</b>	<b>480.0</b>	<b>175.0</b>	<b>3,768.0</b>
Contingencies							140.0
Auditing		60.0					60.0
FIV							32.0
<b>Total</b>	<b>982.0</b>	<b>250.0</b>	<b>955.0</b>	<b>986.0</b>	<b>480.0</b>	<b>175.0</b>	<b>4,000.0</b>

- 2.12 The above table shows the allocation of program resources per component and per category of expenditure. As is usually the case in institutional strengthening programs, the category of consulting services receives a significant share of resources (approximately 38% of the total), whereas those of equipment purchases and training activities are allocated roughly 24% and 12% of total funding, respectively.
- 2.13 The program entails the hiring of international consultants for a total of 73 staff-months, and local consultants for a total of 371 staff-months, to carry out the components outlined above. While the logistical problems inherent in these figures are considerable, the grouping of consultants according to the duration and type of service to be provided shows that the situation is manageable. In the case of the international consultants, of the ten required, five will be hired for periods of from six to twenty months, whereas the remaining five will be needed for very brief periods of two to three months only.
- 2.14 A similar grouping occurs with the local consultants, although in this case with two important differences. First, several individuals will be needed for the same *type* of consulting service (mainly experts in information technology and auditing); and second, the average duration of each consulting contract will be longer (roughly 18 months). This results in a total of 21 long-term consultancies, grouped into 15 types of service, which is considered manageable given the execution plan proposed in Chapter 3.

### **III. PROGRAM EXECUTION**

#### **A. Borrower and executing agency**

- 3.1 The borrower under this program will be the Republic of Bolivia, and the executing agency will be the Servicio Nacional de Impuestos Internos (SNII) [Internal Revenue Service].

#### **B. Plan for execution and administration of the program**

- 3.2 As executing agency, the SNII will have basic responsibility for the program, and for maintaining direct contact with the Bank and determining the course of action of the operation. To supervise execution of the program, an oversight committee (CD) will be created, to be headed by the Deputy Minister for Tax Policy and consisting of the Director General of the SNII plus the Directors of the service's four departments (Taxation Management, Tax Regulations and Development Services, Administration, and Legal Affairs). The CD will have a project executing unit (PEU) to assist it, and the creation of these two bodies – the CD and the PEU – will be a condition precedent to the first disbursement.

##### **1. The Project Executing Unit (PEU)**

- 3.3 The PEU is to be created within the SNII, and will be responsible for program administration, with duties that include the following:
- a. coordinating compliance with the conditions precedent to the first disbursement of the loan;
  - b. drawing up annual work plans and preparing progress reports on the program;
  - c. scheduling procurement of the goods required for execution of the program;
  - d. arranging for signature of contracts with individual consultants and consulting firms, instructors and coordinators of seminars and workshops, as well as authorizing the respective payments;
  - e. handling requests for disbursement of financing from the Bank in accordance with the pertinent disbursement procedures, securing local counterpart funds and preparing the corresponding accounting reports on all such financing;
  - f. coordinating execution of program components;
  - g. ensuring that the program is carried out according to the Bank's standards and the terms and conditions of the contract signed between the Bank and the SNII.

- 3.4 The executing agency must maintain an adequate accounting system and exercise administrative control over the resources of the program. The accounting system must be organized so as to produce the documentation necessary for verification of financial transactions and facilitate the timely preparation of financial statements and reports. The program's record-keeping system must: (a) permit identification of amounts received from the different sources; (b) allocate program expenditures paid out of the proceeds of the loan and other sources of funding, in accordance with the accounting manual approved by the Bank; (c) include sufficient detail to identify the goods purchased and the services hired, along with the use made of such goods and services; and (d) indicate the cost of activities under each category of expenditure.
- 3.5 To carry out its mandate, the PEU will be provided with a general program coordinator (international consultant), a (part-time) procurement expert, and one administrative assistant. The unit will also work in coordination with the SNII's National Administrative Department, receiving the needed logistical support to carry out its duties. The terms of reference for the general coordinator of the PEU are available from the technical files on the program. As a condition precedent to the first disbursement under the program, the authorities must submit evidence acceptable to the Bank showing that personnel have been recruited to staff the PEU.

## **2. Coordination with the World Bank**

- 3.6 At the request of the Bolivian government, the PEU will be responsible for coordinating the activities of the component for organizational reform of the SNII within the framework of the PRI, which will be financed with resources from the World Bank (see paragraphs 1.14 and 1.17). It was agreed that the PRI will transfer to the SNII the resources needed to cover the expenses incurred by the PEU for coordination of this program.

### **C. Special conditions precedent to the first disbursement**

- 3.7 As a condition precedent to the first disbursement, the SNII will forward to the IDB's Country Office in Bolivia documentation pertaining to the publication and enactment of two laws: (i) the act granting technical, administrative and financial autonomy to the SNII; and (ii) the Civil Service Statute referred to in paragraphs 1.26 and 1.27, respectively, of the Frame of Reference.
- 3.8 The first is designed to ensure that the institution remains technically and administratively independent by establishing a separate legal mandate for its creation and operation, a civil service classification system for its officials, and system for the appointment of its governing bodies with the approval of the legislature. At the same time, the SNII will be made financially self-supporting through automatic retention of a percentage of the revenues it collects.

- 3.9 The second of these two laws, the proposed Civil Service Statute which are already before Congress, will provide a new legal framework for the Bolivian civil service, making it possible to upgrade human resource management throughout the country's government agencies, including the SNII.

**D. Supervision, reports and evaluation**

- 3.10 The Bank's Country Office in Bolivia will be responsible for overseeing execution of the program, aided by technical supervision missions carried out by the project team. These missions will be conducted to assess the course of the SNII's development and the degree to which goals are being met, as well as to evaluate execution of annual work plans and make any corrections necessary.
- 3.11 The Planning and Evaluation Committee, consisting of the CD, PEU and representatives of the Bank, will meet at least once per year. It will be the job of this committee to monitor the program, discuss the extent to which the previous year's work plan has been completed, and approve the work plan for the following year based on its preliminary version updated annually by the PEU in accordance with paragraph 3.12(a) below.
- 3.12 The executing agency will submit the following reports to the Bank:
- a. An initial report identifying the personnel who will staff the PEU and listing their responsibilities, and containing a work plan prepared according to a model agreed to in advance by the Bank. This plan will set out full details for the first year, including baseline values for performance indicators, terms of reference for the main consultants, and contents of management training courses. The work plan will be revised and updated annually.
  - b. Progress reports to be submitted within 60 days following completion of each six-month period during execution of the program. These reports will contain a description of the progress made under the program during the preceding six months, the advances achieved in the performance indicators, identification and an explanation for any discrepancies from the plan and proposed changes to compensate for these, and a list of acquisitions, training courses given and the main consulting contracts awarded during the period.
  - c. Final report to be submitted within 90 days following completion of the execution period. The minimum requirements for this report are that it set out the results obtained with the program, the principal factors limiting its execution, and the lessons learned and resulting recommendations.
- 3.13 Upon its completion, the CD and the Bank will reach agreement on a mission to evaluate the program at which the final report referred to in paragraph 3.12(c) above will be discussed. The primary objective in this final evaluation will be measure the quantitative and qualitative improvements brought about in the

performance of the SNII including the quality level of its administration, auditing procedures and management of information technology. This evaluation will also serve to verify the improvement in collections by the SNII.

**E. External audit**

- 3.14 The executing agency will present annual financial statements reporting expenditures made with IDB resources and counterpart funding during the execution of the program. These statements must be audited by a firm of independent auditors acceptable to the Bank and presented in accordance with the latter's requirements. At the request of the executing agency, the cost of this audit will be charged to the loan.

**F. Procurement**

- 3.15 Procurements are to be carried out using the Bank's procedures. Tenders for consulting services valued in amounts greater than US\$200,000 will be advertised internationally. Procurement of goods valued in excess of US\$250,000 will be by international competitive bidding. The program will not entail funding of construction works. (See procurement table in Annex II.)

**G. Revolving fund**

- 3.16 A revolving fund equivalent to up to 5% of the Bank's contribution will be established for execution of the program. This fund will be constituted with resources from the loan upon fulfillment of the conditions precedent to the first disbursement under the operation. The revolving fund may be topped up to the same percentage as activities are carried out and subject to substantiation of expenditures to the Bank's satisfaction. These resources must be managed in a special bank account established separately in the name of the program, and semi-annual reports on the status of this revolving account controlled by the executing agency must be submitted to the Bank within 60 days following completion of six-month periods ending in June and December of each year.

**H. Execution period and disbursement schedule**

- 3.17 The execution period is expected to take three years, with disbursements over a period of three and one-half years – in both cases counting from the date of signature of the contract.
- 3.18 The tentative disbursement schedule is presented below:

**Table III-1**  
**(US\$ thousands)**

	<b>Year 2000</b>	<b>Year 2001</b>	<b>Year 2002</b>	<b>Year 2003</b>	<b>Total</b>
<b>IDB</b>	800	1,280	800	320	3,200
<b>Local counterpart</b>	200	320	200	80	800
<b>Total</b>	1,000	1,600	1,000	400	4,000
<b>%</b>	25	40	25	10	100

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

##### **A. Institutional feasibility**

- 4.1 The program has been designed strictly in accordance with the mission and operational capacity of the executing agency. Accordingly, all activities are consistent with the tasks which the various directorates and units of the SNII are responsible for carrying out. The contents and scope of these activities were developed with the active participation and advice of the SNII's professional staff, who have demonstrated the skills and expertise needed for directing and monitoring execution of the operation.
- 4.2 The project will be carried out by the SNII through its substantive areas of operation, with the participation of its National Administration for questions of an administrative, financial or accounting nature. Added support for execution of the program will be provided through the creation of a small project executing unit to be assigned the duties indicated in paragraph 3.3 above. National counterpart authorities and the Project Team have agreed that the level of institutional development achieved by the SNII makes it possible to forego the hiring of a specialized agency to execute this project, as was necessary in earlier IDB programs.

##### **B. Benefits**

- 4.3 This program forms part of the Bank's strategy for supporting the basic institutions of the Bolivian government. The SNII is responsible for the country's tax collection system, providing the government with its main source of revenues equivalent to 13.1% of Bolivia's GNP. The proposed operation will serve to consolidate tax reforms begun in earlier programs, helping to ensure the sustainability of the nation's system of taxation.
- 4.4 Bolivia is confronted with a short- to medium-term fiscal problem owing to the cost of implementing an ambitious program of reforms to health and education systems and the country's basic infrastructure, in addition to the costs already incurred in previous reforms. Meeting fiscal targets is crucial to commitments undertaken by the government with the multilateral lending institutions, particularly under its ESAF arrangement with the IMF and the Program for Fiscal Adjustment and Maintenance of Social Spending (Loan 1019/SF-BO) with the IDB (see paragraph 2.3). It is worth noting that in addition to the cost of its structural reforms, Bolivia will have less access to external concessional resources in future – a fact which further complicates the difficulties caused by worsening terms of trade affecting Bolivia's principal exports due to developments in the global economy.



- 4.5 The program will provide support aimed at strengthening the management operations of the SNII. These institutional strengthening activities are expected to help the SNII balance the nation's fiscal accounts, ensuring its ability to maintain the economic stability already achieved, generate domestic savings to replace the drop in external aid, and increase social spending to acceptable levels.

**C. Risks**

- 4.6 An operation of the sort proposed inevitably entails political risk in the form of possible lack of leadership in implementing the reforms (for which senior and middle-level officials are responsible) and in guiding them through the legislature.
- 4.7 In order to reduce this risk, the program requires the passage of a law granting technical, administrative and financial autonomy to the SNII, plus an act setting out the Civil Service Statute. It should be noted that a similar law on the customs administration was recently passed and the executive authorities heading this institution have been put in place.
- 4.8 Another potential risk lies in the reaction of SNII management to change given that modernization processes of this magnitude often provoke stiff resistance and are hampered by short comings in management capacity. To lessen this risk, the program will include a subcomponent designed to strengthen management capacity, and provide for close monitoring in this area. At the same time, sensitivity training activities will be carried out to lessen the resistance to organizational changes.

**D. Poverty reduction and social equity classification**

- 4.9 The program does not specify explicit performance indicators to measure poverty reduction and social equity enhancement. The nature of the program does not lend itself to precise quantification of its impact on poverty reduction.

**E. Environmental impact**

- 4.10 The present program was placed before the CESI at its meeting of June 18, 1999. No special measures are required for processing of the operation.

**LOGICAL FRAMEWORK**  
**PROGRAM OF INSTITUTIONAL STRENGTHENING FOR THE SERVICIO NACIONAL DE IMPUESTOS INTERNOS (SNII)**  
**(BO-0186)**

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
The fiscal sustainability of	<ul style="list-style-type: none"> <li>• Greater transparency and control of tax functions.</li> <li>• Improved efficiency in monitoring taxpayer compliance.</li> <li>• Reduction in the number of delinquent taxpayers</li> </ul>	<ul style="list-style-type: none"> <li>• Information on tax administration performance indicators (see program annex).</li> </ul>	<ul style="list-style-type: none"> <li>• Continuity in the process of structural reform in Bolivia, particularly administrative and fiscal reform</li> </ul>
Efficiency and effectiveness of the management system of the (Revenue Service).	<ul style="list-style-type: none"> <li>(a) Administrative, financial and technical autonomy.</li> <li>(b) Improved capacity for planning and supervision.</li> <li>(c) Modern auditing strategy adopted.</li> <li>(d) Information technology resources consolidated within the institution.</li> <li>(e) Greater availability of tax information.</li> </ul>	<ul style="list-style-type: none"> <li>• Law granting autonomy to the SNII.</li> <li>• Civil Service Statute.</li> <li>• Periodic reports on the systems for planning by objectives and performance-based management.</li> <li>• Periodic reports from the Tax Management Directorate (Audit Unit).</li> <li>• Reports on human resources management and systems.</li> <li>• Reports on internal controls.</li> <li>• Reports on enforcement.</li> <li>• Annual budget reports.</li> </ul>	<ul style="list-style-type: none"> <li>• Passage and implementation of laws making the SNII technically, administratively and financially independent.</li> <li>• Passage and implementation of Civil Service Statutes.</li> <li>• Strong degree of commitment on the part of the government.</li> </ul>
<b>(Outputs):</b> Institutional development carried out. Procedures provided for audit procedures. Information technology programs	1. (a) System developed for formulating corporate strategy: (i) organizational strategy formulated within a period of 3 months; (ii) goals and objectives defined within 6 months; (iii) organization structure redefined within 9 months; (iv) dissemination of information throughout the institution within 6 months. (b) Capacity for planning, management and supervision of tax procedures strengthened: (i) tax procedures reviewed within 12 months; (ii) management control system introduced within 15 months;	<ul style="list-style-type: none"> <li>• Reports on execution of the program.</li> </ul>	<ul style="list-style-type: none"> <li>• Little resistance to change on the part of SNII officials.</li> <li>• Activities carried out according to proposed timetable.</li> <li>• The SNII has the capacity to meet the requirements.</li> <li>• International and local consultation with the necessary qualifications</li> </ul>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p>(iii) redistribution of duties between the central administration and decentralized operations completed within 9 months; (iv) extension of the SIRAT obtained within 12 months; and (v) module for enforced collection of taxes and management information system in operation within 18 months.</p> <p>(c) Management capacity enhanced by means of (i) redefining the structure within 3 months; (ii) completing a diagnostic study of personnel within 6 months; (iii) upgrading management skills within 36 months; and (iv) raising awareness of institutional reforms within 6 months.</p>		available
	<p>2.</p> <p>(a) The capacity of the central administration for planning, coordination and evaluation of auditing activities strengthened within 6 months.</p> <p>(b) Audit programs developed and adopted by the institution within 12 months.</p> <p>(c) Access to external and internal sources of information obtained within 12 months.</p> <p>(d) The National Fiscal Studies Unit receives strengthening within 24 months.</p> <p>(e) The Fiscal Intelligence Unit created within 24 months.</p> <p>(f) Invoicing system modernized within 18 months.</p>		
	<p>3.</p> <p>(a) Capacity for management and development of the information technology area strengthened within 24 months.</p> <p>(b) Stricter requirements imposed under the</p>		

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p>new focus on audits within 24 months.</p> <p>(c) Internet connections installed and capacity of communications networks expanded within 30 months.</p>		
<p><b>Activities:</b></p> <p>1. <i>Organizational development:</i></p> <p>1.1 <i>Regulations enacted granting technical, administrative and financial autonomy to the SNII:</i></p> <p>(a) Formulation of the organizational strategy</p> <p>(b) Defining of organizational goals and objectives</p> <p>(c) Restructuring and adjustment to the new institutional framework</p> <p>(d) Communication/dissemination of the strategy of independence throughout the institution</p> <p>1.2 <i>Reinforcement of the capacity for planning, management and supervision of tax procedures:</i></p> <p>(a) Legal and regulatory framework</p> <p>(b) Review of tax procedures</p> <p>(c) Development and implementation of a management control system</p> <p>(d) Monitoring of management and performance</p> <p>(e) Redistributing duties between central services and regions</p> <p>(f) Extending the SIRAT to all taxpayers</p> <p>(g) Development of enforced collection and management information modules</p>	<p>Consulting services, training</p> <p>Equipment/hardware/software</p> <p>Training grants, communications and raising of awareness.</p> <p>Total for component I: \$1,477,000</p> <p>1.1</p> <ul style="list-style-type: none"> <li>• Creation of a strategic plan for the SNII</li> <li>• Official organizational chart for the SNII</li> <li>• Manual covering organization and functions</li> <li>• Development of internal and external communications programs</li> </ul> <p>1.2</p> <ul style="list-style-type: none"> <li>• Manual of procedures</li> <li>• Coverage of supervision and management system to be placed in operation</li> <li>• Management control reports</li> <li>• Management reports</li> <li>• Coverage of the SIRAT</li> <li>• Enforced collection program</li> </ul>	<ul style="list-style-type: none"> <li>• Project performance reviews.</li> <li>• Budget performance reports.</li> <li>• Official periodic reports and SNII annual reports.</li> <li>• Management control system reports.</li> <li>• Reports on tax audits area.</li> <li>• Reports on management training and development activities.</li> <li>• Production reports on management information systems.</li> <li>• Production reports in the area of tax audits.</li> </ul>	<ul style="list-style-type: none"> <li>• Availability of qualified consultants or consulting firms.</li> <li>• The SNII is managing program execution in an efficient manner.</li> <li>• Resistance to change is overcome.</li> </ul>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>ent of management capacity:</p> <p>of management structure study</p> <p>ent of management skills</p> <p>training unit</p> <p>training to overcome resistance</p> <p>auditing:</p> <p>nd evaluation at the central</p> <p>ent at the central level of</p> <p>ethods tailored to economic</p> <p>of tax and economic</p> <p>of taxpayers</p> <p>simplified regime</p> <p>ng methods in depart-</p> <p>onal directorates and the Large</p> <p>Offices</p> <p>ng auditing methods at the</p> <p>ed level</p> <p>access to external and internal</p> <p>nformation</p> <p>ng the National Fiscal Studies</p> <p>the Fiscal Intelligence Unit</p> <p>g the invoicing system</p>	<p>1.3</p> <ul style="list-style-type: none"> <li>• Evaluation of management personnel</li> <li>• Contents and coverage of management training program</li> </ul> <p>Consulting services, training</p> <p>Equipment/hardware/software</p> <p>Training grants.</p> <p>Total for component II: \$1,292,000</p> <ul style="list-style-type: none"> <li>• Manuals of auditing procedures</li> <li>• contents of training programs for auditors</li> <li>• Efficient performance (in terms of collections) of audit programs</li> <li>• Adjustments as a % of collections by year (5.4%, 5.4%, 5.4%)</li> <li>• Adjustments paid out, as a % of collections by year (1.35%, 1.55%, 1.80%)</li> <li>• Number of audits among large taxpayers by program and by year: integrated (200, 220, 240), partial (500, 550, 600), debit/credit (180, 290, 400), comprehensive (10,500, 10,750, 12,000)</li> <li>• Number of audits in general system by program and by year: partial (770, 850, 950), debit/credit (5,500, 7,500, 10,000), comprehensive (74,000, 77,000, 81,000)</li> <li>• Applications of simplified regime (5,000, 12,000, 24,000)</li> <li>• Reports and studies from the Fiscal Studies and Fiscal Intelligence Units</li> <li>• New invoicing regime</li> </ul>		
<p>technology (IT):</p> <p>ng of capacity for managing</p> <p>ing IT</p>	<p>Consulting services, training</p> <p>Equipment/hardware/software</p>		

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
components financed by the	Training grants. Total for component III: \$536,000  <ul style="list-style-type: none"> <li>• Management information system in operation</li> <li>• Management control systems in operation</li> <li>• System for enforced collection of taxes in operation</li> <li>• Audit support systems installed (cross-referencing of information)</li> </ul>		

**PRELIMINARY PROCUREMENT PLAN**  
**(US\$ thousands)**

Principal acquisitions	Amounts and Lots	Financing		Probable dates (quarter)
		IDB	Local	
<b><u>Consultancies</u></b>				
<b><u>Consulting firms</u></b>				
• Organization development	120	102	18	1
• Tax auditing	70	60	10	1
<b><u>Individual consultants</u></b>				
• International (118 staff-months)	986 10 lots	986		0 PEU
• Local (411 staff-months)	955 21 lots	567	388	1-4 Org. 1-2 Fisc 1 IT
<b><u>Equipment and materials</u></b>				
• Organizational development	109	90	19	
• Tax audits	100	85	15	0-1
• Information technology	50	42	8	
• Executing unit	20	17	3	
<b><u>Hardware</u></b>				
• Organizational development	120	102	18	
• Tax audits	192	163	29	
• Information technology	110	95	15	
• Executing unit	4	3	1	
<b><u>Software</u></b>				1-4
• Organizational development	84	71	13	
• Tax audits	140	120	20	
• Information technology	50	42	8	
• Executing unit	3	2	1	
<b><u>Totals</u></b>	<b>3113</b>	<b>2547</b>	<b>566</b>	

PROPOSED RESOLUTION DE

BOLIVIA. LOAN FOR TECHNICAL COOPERATION FOR A  
PROGRAM FOR THE INSTITUTIONAL STRENGTHENING OF THE NATIONAL  
INTERNAL REVENUE SERVICE (SNII)

The Board of Executive Directors

RESOLVES:

1. That the President of the Bank, or such representative as he shall designate, is hereby authorized, in the name and on behalf of the Bank, to enter into such agreements with the Republic of Bolivia and to adopt such other measures as may be necessary for the execution of the proposal referred to in Document \_\_\_\_ with respect to a loan for technical cooperation to support a Program for the Institutional Strengthening of the National Internal Revenue Service (SNII).
2. That up to the equivalent of US\$3,200,000 (three million two hundred thousand dollars of the United States of America), is authorized for the purposes 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, in accordance with the relevant conditions set forth in the corresponding Technical Cooperation Loan Agreement.