



**Board of Executive Directors**  
**No-Objection Procedure**  
Expires on 14 December 2018

PR-4662  
30 November 2018  
Original: Spanish  
**Public**  
**Simultaneous Disclosure**

**To:** The Executive Directors  
**From:** The Secretary  
**Subject:** Peru. Proposal for a loan for the project “Improving Tax and Customs Revenue Collection Services Through Digital Transformation”

**Basic Information:** Loan type ..... Specific Investment Loan (ESP)  
Borrower ..... Republic of Peru  
Amount ..... up to US\$50,000,000  
Source ..... Ordinary Capital

**Inquiries to:** José Larios (telephone Country Office in Peru 511-215-1849) or  
Sandra Corcuera (extension 1661)

**Remarks:** The Executive Directors are requested to inform the Secretary, in writing, no later than **14 December 2018**, if they wish to interrupt this procedure. If no such communication is received by that date, the attached resolution will be considered adopted by the Board of Executive Directors, and a record to that effect will be made in the minutes of a forthcoming meeting.

Management has determined that this loan proposal meets the requirements for presentation by No-Objection Procedure, in accordance with Part III, Section 2 (paragraph 3.29 (b)) of the Regulations of the Board of Executive Directors and Part III, paragraph 3.5 of document GN-1838-3.

**Reference:** GN-1838-3(6/18), DR-398-18(8/18), GN-2915(2/18), GN-2915-2(8/18)



DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**PERU**

**IMPROVING TAX AND CUSTOMS REVENUE COLLECTION SERVICES  
THROUGH DIGITAL TRANSFORMATION**

**(PE-L1239)**

**LOAN PROPOSAL**

This document was prepared by the project team consisting of: José Larios (FMM/CPE), Project Team Leader; Sandra Corcuera (INT/TIN), Alternate Project Team Leader; Alberto Barreix (FMM/CCR); Gustavo García, Edna Armendáriz, Rodrigo Azuero, Dennis Sánchez, and Mariana Canillas (IFD/FMM); Mariano Lafuente (IFD/ICS); David Rosas and Carlos Tovar (SCL/LMK); Gaston Pierri (SPD/SDV); Allizon Milicich Nieto-Polo and Gabriele del Monte (FMP/CPE); Diego Quiroz (CAN/CPE); Pilar Jimenez de Arrechaga (LEG/SGO); Marcio Cracel and Agnes Rojas (consultants).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

## CONTENTS

### PROJECT SUMMARY

I.	PROJECT DESCRIPTION AND RESULTS MONITORING .....	1
	A. Background, problem addressed, and rationale.....	1
	B. Objectives, components, and cost .....	10
	C. Key results indicators .....	14
II.	FINANCING STRUCTURE AND MAIN RISKS .....	14
	A. Financing instrument .....	14
	B. Environmental and social risks .....	15
	C. Fiduciary risks .....	15
	D. Other project risks .....	15
III.	IMPLEMENTATION AND MANAGEMENT PLAN .....	16
	A. Summary of implementation arrangements .....	16
	B. Summary of arrangements for monitoring results .....	18

## APPENDIXES

Proposed resolution

<b>ANNEXES</b>	
Annex I	Summary Development Effectiveness Matrix (DEM)
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

<b>LINKS</b>
<b>REQUIRED</b>
1. <a href="#">Multiyear execution plan and annual work plan (AWP)</a>
2. <a href="#">Monitoring and evaluation plan</a>
3. <a href="#">Procurement plan</a>
<b>OPTIONAL</b>
1. <a href="#">Project economic analysis</a>
2. <a href="#">Itemized budget</a>
3. <a href="#">Draft Project Operations Manual</a>
4. <a href="#">Institutional analysis of SUNAT</a>
5. <a href="#">Safeguard policy filter and Safeguard screening form</a>

## ABBREVIATIONS

AEO	Authorized Economic Operator
AEOI	Automatic Exchange of Information for tax purposes
AWP	Annual work plan
CIAT	Inter-American Center of Tax Administrations
FAR	Fiduciary Agreements and Requirements
FAST	Facilitación Aduanera, Seguridad y Transparencia [Customs Facilitation, Security, and Transparency]
GDP	Gross domestic product
ICT	Information and communication technology
IMF	International Monetary Fund
Invierte.pe	Sistema Nacional de Programación Multianual y Gestión de Inversiones [National multiyear programming and investment management system]
MEF	Ministry of Economy and Finance
MEP	Módulo de ejecución de proyectos [project execution module], SIAF
MRA	Mutual Recognition Agreement
OECD	Organization for Economic Cooperation and Development
POI	Institutional operating plan
SEACE	Sistema Electrónico de Adquisiciones y Contrataciones del Estado [Government electronic procurement system]
SEPA	Procurement Plan Execution System
SIAF	Sistema Integrado de Administración Financiera [Integrated financial management system]
SUNAT	National Customs and Tax Administration Superintendency
VAT	Value-added tax

## PROJECT SUMMARY

### PERU

## IMPROVING TAX AND CUSTOMS REVENUE COLLECTION SERVICES THROUGH DIGITAL TRANSFORMATION (PE-L1239)

Financial terms and conditions				
<b>Borrower:</b> Republic of Peru			<b>Flexible financing facility<sup>(a)</sup></b>	
			<b>Amortization period:</b>	9 years
<b>Executing Agency:</b> National Customs and Tax Administration Superintendency (SUNAT)			<b>Disbursement period:</b>	5 years
			<b>Grace period:</b>	6.5 years <sup>(b)</sup>
<b>Source</b>	<b>Amount (US\$)</b>	<b>%</b>	<b>Interest rate:</b>	LIBOR-based
<b>IDB (Ordinary Capital):</b>	50,000,000	49.3	<b>Credit fee:</b>	(c)
			<b>Inspection and supervision fee:</b>	(c)
<b>Local:</b>	50,682,509	50.7	<b>Weighted average life:</b>	7.55 years <sup>(d)</sup>
<b>Total:</b>	100,682,509	100	<b>Currency of approval:</b>	U.S. dollar
Project at a glance				
<b>Project objective/description:</b> The project's general objective is to improve tax and customs collection services through digital transformation. The specific objectives are to: (i) improve SUNAT's institutional governance model, which will enhance tax collection efficiency; (ii) improve the efficiency of tax and customs control and services; and (iii) improve fiscal intelligence and risk management for tax and customs information.				
<b>Special contractual conditions precedent to the first loan disbursement:</b> (i) an agreement on the transfer of loan proceeds will have been signed by the Ministry of Economy and Finance (MEF) and the SUNAT; and (ii) evidence that the <a href="#">project Operations Manual</a> agreed upon in advance by the executing agency and the Bank has been approved and taken effect will have been submitted (paragraph 3.6).				
<b>Exceptions to Bank policies:</b> None.				
Strategic alignment				
<b>Challenges:<sup>(e)</sup></b>	SI <input type="checkbox"/>	PI <input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>	
<b>Crosscutting themes:<sup>(f)</sup></b>	GD <input type="checkbox"/>	CC <input type="checkbox"/>	IC <input checked="" type="checkbox"/>	

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

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

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

<sup>(d)</sup> The original weighted average life may be shorter, depending on the date the loan contract is signed.

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

<sup>(f)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. PROJECT DESCRIPTION AND RESULTS MONITORING

### A. Background, problem addressed, and rationale

- 1.1 As a result of the rise in commodities prices, fiscal/monetary management, and a favorable investment climate, over the period 2002-2012 Peru's economy grew by an annual average of 6.2% which, in turn, had a positive impact on growth in central government tax revenues from 12.7% to 16.9% of GDP.<sup>1</sup>
- 1.2 With the fall in commodities prices starting in 2013, compounded by the climate shock of El Niño in 2017, the Peruvian economy's growth slowed significantly. In 2016 and 2017, GDP grew by 3.9% and 2.5%, respectively. The more sluggish economy was accompanied by a decline in tax revenues, which fell from 16.9% of GDP in 2012 to 12.9% in 2017,<sup>2</sup> the lowest level since 2002. According to the Ministry of Economy and Finance (MEF, 2018), the dramatic drop in tax receipts is due to: (i) the effect of the economic cycle (-0.3 percentage points (pp)) and lower mineral prices (-1.3 pp); (ii) the weakness of the tax and customs administration in response to the economic events (-1.4 pp); (iii) tax burden reduction policies (-0.7 pp); and (iv) the increase in tax refunds (-0.3 pp).
- 1.3 The tax ratio fluctuated in 2000-2017 from 12.7% of GDP to 16.9% (2015) (National Customs and Tax Administration Superintendency (SUNAT), 2018), which has stood in the way of laying a solid fiscal foundation that would enable the government's financial management to remain stable. Tax revenues in Peru are low in comparison with the country's peers in the region and the members of the Organization for Economic Cooperation and Development (OECD), which average 22.7% and 35.5% of GDP,<sup>3</sup> respectively.
- 1.4 According to Pessino and Fenochietto (2013), Peru's potential tax revenues could reach 29.5% of GDP. However, this potential is eroded, mainly because tax auditing does not effectively cover all economic sectors. For example, tax evasion is particularly high and is reflected in a proliferation of small businesses which account for 59% of enterprises and employ 73% of the workforce (National Statistics Bureau, 2017).<sup>4</sup> These small businesses are not audited electronically on a large scale by SUNAT.<sup>5</sup> This problem contributes to high losses in revenues<sup>6</sup> from the main taxes,

---

<sup>1</sup> The long-short term elasticity of tax revenues in Peru is estimated as 1.4-0.5. Inter-American Center of Tax Administrations (CIAT), 2017.

<sup>2</sup> [SUNAT \(2018\)](#).

<sup>3</sup> OECD 2018. Data from 2016 for the central government. In Peru, the figure was 14% of GDP in the same period.

<sup>4</sup> Refers to business and labor informality. The first relates to whether a business is registered and pays taxes. The second relates to the social insurance status of the employees for health care, pensions, or other contingencies.

<sup>5</sup> Large-scale electronic auditing is a new approach adopted with considerable success by the Chilean tax administration, which permits periodic electronic audits of all taxpayers in the tax base through cross-referencing of information and detection of irregularities. Electronic notices are generated and sent to taxpayers, all of whom can resolve their situation online, without having to visit an office in person. The types of irregularities can vary widely, ranging from errors on tax returns, to overdue payments, to mistakes in the records, etc.

<sup>6</sup> Multiyear Macroeconomic Framework 2018-2021.

- such as the value-added tax (VAT), for an evasion rate of 36%. The VAT accounts for 52% of all taxes collected, for 7.8% of GDP and 3.2% of GDP from imports.<sup>7</sup>
- 1.5 Although Peru is an open economy, with a degree of trade openness of approximately 39% of GDP,<sup>8</sup> customs clearance times are still lengthy. Out of a total of 136 countries included in the 2016 Enabling Trade Report,<sup>9</sup> Peru ranked 89th for imports, which took an average of 100 hours, and 86th for exports, with 24 hours required for goods to clear. These delays, coupled with contamination of export goods, affect the country's competitiveness and have a secondary negative impact on the collection of taxes at the country's various customs points.<sup>10</sup>
- 1.6 **Rationale for the intervention.** SUNAT is responsible for tax and customs collection and for international trade facilitation. Since it was established in 1988, SUNAT has been characterized by ongoing innovations. In its early years, SUNAT carried out tax reforms that simplified taxes, with moderate rates and broad bases, and promoted the professional development of its staff. These efforts were reflected in an increase in tax revenues from 10.8% of GDP in 1990 to 12.8% in 2000.
- 1.7 In 2000, SUNAT began a process of integrating the tax and customs administration functions,<sup>11</sup> by strengthening its institutional management and autonomy. In 2012, it invested in technology infrastructure and developed a technology platform that allows for cross-management of the principal tax and customs processes. The most salient elements of this intervention are implementation of the master taxpayer/foreign trade user account,<sup>12</sup> and the procurement of leading-edge technology equipment for better non-intrusive customs control.
- 1.8 The effectiveness and efficiency of public institutions are limited by the constraints placed on the civil servants that make them up, access to information technologies, availability of financial resources, and the legal framework (Arenas de Mesa, 2016, Finan et al., 2017). Given the nascent process of digital transformation in SUNAT, it is important to address the weaknesses that stand in the way of its tax collection performance. For example, in the area of human resources, SUNAT has a payroll of 10,500 ([SUNAT, 2018](#)) but lacks suitable evaluation methodologies and procedures for rescaling the workforce that would make it possible to quantify and track the profiles and makeup of its personnel. Employees are not assigned on the basis of the institution's current and future needs, and obstacles exist to providing better guidance for skills-based training.

---

<sup>7</sup> Revenues from the VAT on imports, selective taxes on consumer imports, and tariffs accounted for 3.7% of GDP in 2017.

<sup>8</sup> Percentage of exports (X) and imports (M) in total GDP, i.e.:  $(X+M)/GDP \times 100$ . Year 2017. Source: Central Reserve Bank of Peru (BCRP).

<sup>9</sup> Publication of the [World Economic Forum and Global Alliance for Trade Facilitation](#). By way of comparison on the regional level and with the OECD member countries, Mexico ranks 62nd in imports, with 17.6 hours and Chile ranks 70th with 36 hours. In exports, Mexico ranks 53rd with 8 hours and Chile 62nd with 24 hours.

<sup>10</sup> Peru ranks 72nd out of 137 countries in the World Economic Forum's Global Competitiveness Index.

<sup>11</sup> The Executive Branch ordered the merger of SUNAT and the National Customs Superintendency in Decree 061-2002-PCM.

<sup>12</sup> The master taxpayer account is a management tool that provides SUNAT with an up-to-date overview in real time of all transactions undertaken by a specific taxpayer, and is the heart of the tax and customs system. All transactions made by computer must be carried out through the master account.

- 1.9 As for information and communication technology (ICT), although SUNAT's technology hardware has been recently modernized, most of its computer, telecommunication, and security infrastructure will be outdated by 2021, mainly on account of the exponential growth in the use of electronic billing. The incorporation of all microenterprises into the electronic billing system is planned for 2019-2020. As a result, estimates suggest that over 60% of transactions subject to the [VAT](#) will be carried out electronically. Lastly, the availability of emerging technologies to support tax management and the constant threats to security make it necessary not only to update infrastructure, but to review the technology strategy so that the technology infrastructure can be expanded sustainably, securely, and efficiently in the medium term.
- 1.10 The legal framework presents significant restrictions on domestic taxes and customs collection since it contains no basic guidelines to support the use of information and new technologies to be adopted by SUNAT, such as cloud processing, for example.
- 1.11 In this context, the Peruvian government has asked the Bank to support SUNAT in the process of improving its tax and customs administration to improve revenue collection performance by mitigating the following specific problems and associated causes.
- 1.12 **With regard to governance, SUNAT is not efficient in its cost of collection ratio.**<sup>13</sup> The causes of this problem are:
- a. SUNAT's governance model is characterized by work in silos and the lack of an integrated vision of the tax and customs businesses, which stands in the way of obtaining results, particularly those associated with technological innovation to combat evasion. This is due to: (i) the existence of several planning tools that are not integrated;<sup>14</sup> (ii) the existence of a large number of unprioritized indicators with generic definitions<sup>15</sup> that do not provide an adequate picture of the performance of the principal tax and customs processes,<sup>16</sup> and do not provide enough information for decision making purposes; and (iii) insufficient information for timely and dynamic visualization of the behavior of the indicators.
  - b. SUNAT's organizational structure is not suitable for promoting the introduction of solutions to the collection challenges it faces because: (i) it does not promote the coordination of the main common tax and customs processes (audit, collection, recovery, customer service). For example, comprehensive auditing of the domestic and external VAT is not supported by a crosscutting strategy for control by the tax administration;<sup>17</sup> and (ii) it does not facilitate the process of digital transformation that SUNAT is about to adopt, since it leads to

---

<sup>13</sup> International Monetary Fund (IMF), 2017. The cost of collection ratio for domestic taxes and customs duties is 1.4% and 2.7%, respectively. The regional averages are 1% and 1.8%, respectively (*Las Administraciones Tributarias: Recaudación-Costes-Personal*, CIAT, 2018).

<sup>14</sup> Such as the institutional strategic plan, the institutional work plan, and domestic tax control plan, and the customs control and management plan.

<sup>15</sup> The institutional work plan alone contains 71 unprioritized indicators for initiatives to be developed by the central areas and indicators for the operational areas, with no logical thread (IMF, 2017; POI SUNAT 2017).

<sup>16</sup> IMF, 2017.

<sup>17</sup> SUNAT's Customs Administration (IMF, 2017).

overlapping functions and inefficiencies in decision making, standing in the way of project implementation and exchanges of information between areas.<sup>18, 19</sup>

- c. SUNAT's human resources model does not respond to crosscutting needs or the need to use new technologies in tax and customs processes because: (i) SUNAT's digital transformation process poses the challenge of overcoming resistance to change by the institution's staff; (ii) the administrative career path fails to consider crosscutting criteria for skills aligned with the needs of SUNAT's main processes;<sup>20, 21</sup> (iii) insufficient information is available on gaps in capabilities, particularly in the area of digital transformation, and therefore the current model for recruiting and assigning staff is not consistent with the organization's real needs;<sup>22</sup> and (iv) SUNAT's Customs and Tax Institute (IAT)<sup>23</sup> does not have a curriculum or technology infrastructure suited to the new requirements arising from new technology use, in particular data analytics and data science.

**1.13 Difficulty in control and compliance with tax and customs procedures.<sup>24</sup>** The causes of this problem are:

- a. With regard to the coordination of tax and customs processes and systems:
  - (i) Problems exist with the interoperability and integration of the tax and customs administration's different information systems because: (i) SUNAT's main processes are not duly digitized and they do not interact effectively to support the collection, recovery, audit, and customer service processes in the two main tax and customs businesses;<sup>25</sup> and (ii) a plethora of computerized systems exist, some of which are already obsolete (legacy systems).<sup>26</sup> In particular, there are many decentralized repositories of taxpayer data, which are not consistent with each other. These difficulties generate operating cost overruns and delays in response times in critical business processes.<sup>27</sup>

---

<sup>18</sup> For example, tax control and customs management plans are approved without coordination; there are restrictions on access to tax information by customs agents; the electronic billing project does not cover foreign trade operations; smuggling is viewed as a purely customs phenomenon, etc. (IMF, 2017).

<sup>19</sup> IMF, 2017.

<sup>20</sup> Only 15% of SUNAT's staff works on the key functions of collection, management, and debt recovery. The average for Latin America and the Caribbean and the OECD countries is 26% and 29%, respectively. Proyecto Dimensionamiento de Operaciones (SUNAT, 2015).

<sup>21</sup> Presentation by SUNAT's National Human Resources Office (2018).

<sup>22</sup> SUNAT holds about 500 job competitions a year with no underlying logic.

<sup>23</sup> SUNAT office responsible for staff training and specialization.

<sup>24</sup> As for domestic taxes, electronic billing, which is the main element for large-scale electronic audits, covers just 40% of the taxpayers required to use it. As for customs, there are still a large number of physical audits that are not risk-based, which hampers efficient and structured combat of fraud and considerably increases customs clearance times for imported and exported goods.

<sup>25</sup> SUNAT (2018).

<sup>26</sup> There are about 1,500 computer applications (legacy systems) that use a variety of technologies (SUNAT, 2018). SUNAT's operational units generally develop their own applications to resolve day-to-day management problems (IMF, 2015).

<sup>27</sup> In 2014, problems occurred daily with the computer systems, and they were operating at less than 80% capacity (IMF, 2014).

- (ii) Electronic billing is not operating at its full potential, which limits SUNAT's effectiveness in combatting evasion because: (i) control of the total flow of the VAT chain in transactions conducted through electronic billing<sup>28</sup> needs to be modernized; and (ii) currently, electronic billing does not have all the information fields necessary to take advantage of the big data generated for control purposes, such as coding by economic activity, type of goods and services, and geographic location.
  - (iii) Shortcomings in taxpayer service processes<sup>29</sup> because: (i) not enough information is available on taxpayer and foreign trade user profiles that would allow for comprehensive service targeted to the user; and (ii) mechanisms for communication with taxpayers largely require their physical presence.<sup>30</sup>
  - (iv) Difficulties in improving integration and coordination between domestic taxes and customs duties because internal rules and regulations do not consider implementation of horizontal policies in the institution.
- b. With regard to compliance with traceability processes and procedures and customs control:
- (i) Inefficiencies exist in the customs control and clearance process that require high levels of simultaneous physical checks,<sup>31</sup> with an impact on times<sup>32</sup> and costs, because: (i) shortcomings exist in the control of freight traceability on account of the absence of technological tools to control the entire chain of physical movement of goods circulating between terminals, customs depots, and bonded warehouses, and the related inventory systems;<sup>33</sup> (ii) the customs clearance model is based on incomplete and technologically deficient solutions, leading to duplication of activities among the different operating areas<sup>34</sup> and significantly delaying clearance times; and (iii) customs personnel does not have the knowledge required to operate the new technologies applied to management of customs clearance processes.
  - (ii) Insufficient application of the concept of security in the logistics chain owing to the limited scope of the Authorized Economic Operator (AEO) program,<sup>35</sup> which does not free customs sufficiently from the need for intrusive physical controls (simultaneous controls) of a significant percentage of freight. This is because: (i) the AEO program does not

---

<sup>28</sup> The VAT payment flow is more complex and includes the issuance of electronic billing, payment to the VAT administration systems, acceptance of the acquisition of tax credits and their identification, application of the credits to taxes, and tax determination.

<sup>29</sup> Out of the total number of reviews of tax returns requested by taxpayers, only 11.1% were resolved in under 90 days: TADAT Performance Assessment Report (IMF, 2017).

<sup>30</sup> In 2017, only 54.4% of transactions with taxpayers were virtual (SUNAT, 2018).

<sup>31</sup> Control performed once the goods have arrived and the declarations are presented.

<sup>32</sup> Fifteen percent of freight is subject to simultaneous physical and documentary controls (SUNAT, 2018).

<sup>33</sup> The regulations allow for the possibility of unloading goods from vessels without control by customs officials but checked by private entities acting in that capacity.

<sup>34</sup> IMF, 2017.

<sup>35</sup> The AEO program took effect in March 2013. There are currently 67 AEOs covering just 5.13% of foreign trade.

cover all the stakeholders in the clearance logistics chain;<sup>36</sup> and (ii) Peru has not signed enough Mutual Recognition Agreements (MRAs) with other countries on international validation of the AEO status of companies that generate benefits for them on the origin and destination of goods.

- (iii) Difficulties in pre-clearance, simultaneous, and post-clearance customs control processes.<sup>37</sup> This is because: (i) current customs control tools and interventions focus more on the administrative aspects of control than on other aspects that make the process more effective and efficient, such as the risk levels of operators and goods;<sup>38</sup> (ii) customs personnel is not up-to-date on international best practices for efficient control; and (iii) difficulties have been encountered in adequate tracking and monitoring of progress towards targets, outcomes, and feedback to be considered in new actions.
- (iv) Inefficiency in the processes of traceability and control of goods in transit through the country, which increases the risk of fraud and potential contamination of freight,<sup>39</sup> because: (i) sufficient information is not available to control the traceability of goods and vehicles involving all the relevant players, mainly customs, other border control entities and agencies, foreign trade operators and, in particular, shipping companies; today electronic waybills for goods are only used by about 10% of shippers;<sup>40</sup> and (ii) the physical and technology infrastructure is insufficient for secure and comprehensive tracking and auditing of heavy traffic in goods at national customs control points.
- (v) Current customs legislation and rules are not consistent with international best practices for clearance, traceability, and efficient and effective control. For example, except for goods that undergo prior clearance and are controlled at terminals when required, under current Peruvian regulations, goods that have not yet been cleared are controlled at bonded warehouses<sup>41</sup> with deficient security standards which also creates a risk that goods will be transferred outside the primary zone without being assigned to any customs regime.

---

<sup>36</sup> The AEOs do not cover the entire foreign trade logistics chain, since they only include exporters, importers, customs agencies, and warehouses (SUNAT, 2017).

<sup>37</sup> Pre-clearance control is performed by customs before a shipment arrives. Post-clearance control is performed after goods have left the areas under customs control.

<sup>38</sup> IMF, 2017.

<sup>39</sup> In 2017, 1.4 tons of illegal substances were detected hidden in export containers (SUNAT, 2018).

<sup>40</sup> The rest use paper remittance forms which can easily be altered and are not traceable. SUNAT analysis Mission, August 2018.

<sup>41</sup> IMF, 2017.

1.14 **Difficulty in processing and structuring big data from declarations, which limits risk management to combat tax and customs evasion and fraud.**<sup>42</sup> The causes of this problem are:

- a. Difficulties in the exchange and use of the information produced by SUNAT's systems because: (i) roles and responsibilities for management and systematic use of taxpayer data for control purposes are not clearly defined, which means that customs agents encounter serious constraints in access to the databases on the fiscal status of taxpayers;<sup>43</sup> and (ii) SUNAT has different tax regimes and sources of taxpayer information<sup>44</sup> which are not adequately mapped or prioritized by relevance.
- b. Deficiencies in detecting and correcting tax noncompliance in a targeted and timely manner because of: (i) insufficient analysis of information on risk profiles in the sectors of greatest fiscal relevance<sup>45</sup> to improve compliance; and (ii) insufficient analytical and predictive tools for using and analyzing big data, which makes it difficult to adequately target risk-based control efforts to high/low risk taxpayers and foreign trade operators.
- c. Limitations on allowing SUNAT to share tax information with other tax administrations around the world under the framework of the OECD's fiscal transparency standards<sup>46</sup> because of shortcomings in handling confidential tax information in accordance with international cybersecurity standards.<sup>47</sup>

1.15 **Bank experience in the country.** The Bank has been supporting the Peruvian government in strengthening its tax and customs administration through technical-cooperation projects and investment loans. Under the Project for the Integration and Modernization of the Tax and Customs Administrations (loan 1482/OC-PE), which was completed in 2012, the Bank contributed to institutionalization of the tax and customs integration process begun in 2003 and consolidated reforms to strengthen SUNAT's institutional management and autonomy. The proposed operation complements the actions of the Tax and Customs Management Consolidation Projects (3214/OC-PE) currently in execution, which has strengthened the technology systems of the principal tax and customs processes. The salient elements of this intervention are implementation of the master taxpayer and foreign trade user account and the procurement of advanced equipment to improve nonintrusive customs control.

---

<sup>42</sup> SUNAT has no procedures that allow for large-scale electronic audits. At present, just 20% of taxpayers are subject to final audits. Final audits are the procedure whereby SUNAT performs an extensive audit of the taxpayer's books, records, and documents to make a final determination of the amounts owed for a given tax and tax period.

<sup>43</sup> IMF, 2017.

<sup>44</sup> Such as the regimes for withholding, collecting, and discounting the VAT, the regime for checking self-declared operations, the regime for annual declarations of operations with third parties, electronic purchase/sales records, and the profit declaration program for exporters.

<sup>45</sup> Mining, fisheries, forestry, agroindustry, finance, telecommunications, and digital economy.

<sup>46</sup> This is the OECD standard required for implementation of the Automatic Exchange of Information (AEOI) for tax purposes.

<sup>47</sup> Recommendations for a Project Plan to implement AEOI, with a focus on Confidentiality and Data Safeguards (World Bank, 2018).

- 1.16 Through ATN/OC-16895-PE which is supporting the proposed operation, preparatory activities will be financed to contribute to its preparation and implementation, such as a diagnostic assessment and proposal for a strategy for comprehensive control of the VAT for domestic taxes and customs duties, a proposal to scale SUNAT's staff, and an assessment of the quality and dispersion of SUNAT's data.
- 1.17 **Bank experience in other countries in the region and lessons learned.** The Bank has broad experience in strengthening tax and customs administrations in the region and has generated knowledge in this area.<sup>48</sup> Recent experience with tax administration reforms in Argentina (loan 4500/OC-AR), Ecuador (3325/OC-EC), El Salvador (3852/OC-ES), Guatemala (3786/OC-GU), Honduras (3541/BL-HO), Jamaica (2658/OC-JA), and Peru (3214/OC-PE) has been taken into account in particular in this operation. The importance of strengthening organizational aspects and human resources, common tax and customs processes, and fiscal intelligence to achieve a more effective and efficient tax administration are elements that recur in the foregoing operations and were therefore included as lessons learned in the proposed operation. During execution of loan 3214/OC-PE, the groundwork was laid for pilot projects and new practices, such as the creation of a new group in SUNAT's Fiscal Risk Office, which has developed skills in using data analytics tools and methods that will gradually be extended to the different areas of the tax and customs administration under the proposed operation.
- 1.18 **International evidence.** Recent evaluations have demonstrated that tax collection performance relies heavily on institutional strengthening of tax administrations in their organizational structure, processes, and support tools. It is particularly important to: (i) improve access to and the quality of the information available;<sup>49</sup> (ii) implement audit models supported by intensive information use;<sup>50</sup> (iii) simplify procedures to facilitate tax compliance;<sup>51</sup> and (iv) define strategies for ensuring the suitability and motivation of human resources.<sup>52</sup> Various Latin American tax administrations have strengthened these aspects, particularly Brazil and Uruguay.<sup>53</sup>
- 1.19 International evidence, based on a comparative analysis of tax administrations, notes that the emergence of new technologies, the increase in digitization, and flows of big data are leading the administrations to revisit the way in which they conduct their operations and offer opportunities to implement cost-effective solutions to increase tax revenues and improve service delivery. In particular, the OECD (2016)<sup>54</sup> indicates that advanced data analytics is proving to be an extremely valuable tool

---

<sup>48</sup> *Estado de la Administración Tributaria en América Latina 2006-2010* (2013); *Factura Electrónica en América Latina* (2018).

<sup>49</sup> Evasion rates are up to eight times higher when tax administrations lack automated tools for verifying taxpayer sources of income (Slemrod et al., 2015; Pomeranz, 2015; Kleven et al., 2011).

<sup>50</sup> The availability of information acts as a complement to business audits in Spain (Almunia and López Rodríguez, 2016).

<sup>51</sup> Increases in payment rates of up to four percentage points can be generated (Hallsworth et al., 2014).

<sup>52</sup> Incentive programs for key personnel in tax administrations for generating additional tax revenues produced rates of return between 35% and 51% (Khan et al., 2016).

<sup>53</sup> [Project Completion Report for loan 1783/OC-UR](#). Barreix and Zambrano (2018). *Factura electrónica en América Latina*, IDB.

<sup>54</sup> *Advanced Analytics for Better Tax Administration* (OECD, 2016).

- for improving understanding of taxpayer behavior and for making more intelligent decisions to guide audit strategies and control evasion.
- 1.20 Experiments such as those of Slemrod et al. (2001) in the United States, Pomeranz (2015) in Chile, and Kleven et al. (2011) in Denmark have yielded significant findings about strategic taxpayer behavior and how it can be used by the tax authorities to strengthen the audit exercise. By comparing evasion patterns between treatment and control groups, the results suggest that taxpayers who received notifications regarding the possibility of being audited increased the amount of income they reported by up to 12% in the case of the United States. These studies offer important lessons on characteristics that can increase the risk of evasion which the tax authorities can target in their audit efforts, for example: (i) the taxpayer's economic linkage—final sales versus intermediate sales; (ii) the taxpayer's type of income—self-employed earnings vs wages; and (iii) the level of traceability and third-party trails, etc. The digitization of SUNAT and an increase in the analytical capacity of its employees, coupled with the integration of internal processes will enable it to improve its administrative efficiency.
- 1.21 In line with the foregoing, electronic billing is a tool that has been gradually implemented in the region which improves the capacity of the tax authorities to identify taxpayers. Electronic billing permits the tax administration to obtain detailed information on transactions conducted, which enables it to generate effective risk control in real time. Electronic billing issuers need to have a single digital signature duly validated by the tax administration, which significantly reduces the possibility of generating false invoices to evade taxes. Barreix and Zambrano (2018) summarize the empirical evidence available in the region which studies the impact of this tool on tax revenues in different jurisdictions. The studies find that electronic billing has led to significant increases in tax revenues in Argentina, Brazil (Sao Paulo), Ecuador, Mexico, and Uruguay. Studies by Naritomi (2015) in Brazil, Ramírez et al. (2017) in Ecuador, and Fuentes et al. (2016) in Mexico affirm that the introduction of electronic billing increased tax revenues by up to 10.7%, reports of profits by 22%, and individual income tax reported by up to 6%.
- 1.22 Lastly, the World Customs Organization has published guidelines<sup>55</sup> for strengthening joint work among tax and customs administrations to increase collection capacity, reduce fraud, and positively impact taxpayer and foreign trade operator compliance.
- 1.23 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (document AB-3008) and is strategically aligned with the development challenges of: (i) productivity and innovation, since it focuses on boosting public sector capacity by reducing the administrative/transaction costs for taxes and customs through the use of ICT and innovations, and on developing human capital in the audit area to identify and close skills gaps in this new digital environment; and (ii) economic integration, since it modernizes customs processes and systems through the digital transformation of SUNAT, which will help facilitate international trade and reduce crossborder transaction costs. The program is also aligned with the crosscutting area of institutional capacity and rule of law through the institutional and organizational strengthening of SUNAT. In addition, the project will contribute to the Corporate Results Framework (CRF) 2016-2019 (document GN-2727-6), particularly to the indicators: (i) percentage of GDP

---

<sup>55</sup> [Guidelines for Strengthening Cooperation and the Exchanging of Information between Customs and Tax Authorities at the National Level](#), World Customs Organization.

collected in taxes; (ii) public agencies' processing times of international trade of goods and services; and (iii) government agencies benefited by projects that strengthen the technological and managerial tools to improve public service delivery. It is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (document GN-2587-2), particularly the area of public sector management and financing through improvements in revenue management. It is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-3) since it is related to strengthening the efficiency of tax administrations and the financial management and use of public resources; and with the Integration and Trade Sector Framework Document (document GN-2715-6) on account of the improvements in customs operations. It is also aligned with the IDB Group Country Strategy with Peru (2017-2021) (document GN-2889) since it contributes to the strategic objective of improving public management and to the expected results intended to: (i) boost public management capacity; and (ii) increase the use of information technology in government formalities. Lastly, the loan is included in the Update of Annex III of the 2018 Operational Program Report (document GN-2915-2).

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

- 1.24 **Objectives.** The program's general objective is to improve tax and customs collection services through digital transformation. The specific objectives are to: (i) improve SUNAT's institutional governance model, which will enhance tax collection efficiency; (ii) improve the efficiency of tax and customs control and services; and (iii) improve fiscal intelligence and risk management for tax and customs information.
- 1.25 The main beneficiaries will be: (i) the Peruvian government, which will have more funds to finance its public policies; (ii) the population that will benefit from those policies; and (iii) taxpayers and foreign trade operators, who will benefit from greater simplification and use of technology in tax and customs services. The operation is structured with the following components.
- 1.26 **Component I. Improvement of SUNAT's institutional governance model (US\$15.7 million).** The component's objective is to promote adequate coordination between domestic taxes and customs duties, particularly through the use of technological innovation. It includes financing for consulting services and training needed to:
- a. **Implement a results-based process management model** that includes: (i) updating the SUNAT's strategic plan within the framework of digital transformation; (ii) defining indicators using international or regional best practices in tax and customs management as the benchmark; and (iii) designing, developing, and implementing a digital management system of indicators based on results, to facilitate visualization of the indicators and promote institutional governance.
  - b. **Improve SUNAT's organizational structure with technological integration** that includes: (i) mapping macroprocesses and organizational processes; and (ii) proposing improvements in the organizational structure based on business processes that promote adequate coordination between the principal tax and customs processes and recognize the characteristics and needs of each of these areas to enable the joint use of information systems by domestic tax and

customs personnel and streamline and promote the SUNAT modernization process in general.

- c. **Implement a new human resource capacity model** that includes:
    - (i) implementing an organizational culture geared toward change and designing strategies to incorporate innovative thinking into the institution;
    - (ii) implementing a career path geared toward innovation, which supports the new integrated domestic tax and customs processes;
    - (iii) building capacity for a culture of innovation through the identification of gaps in capacity and skills for digital transformation and developing a map of capacities and job profiles on the basis of the gaps identified; and
    - (iv) strengthening the Customs and Tax Institute, with the focus on updating the curriculum to reflect the new digital environments and procuring computer hardware and software necessary for the new data science and analytics.
- 1.27 **Component II. Improvement of tax and customs control and compliance (US\$64.5 million).** The objective of this component is to integrate SUNAT's internal processes through technological innovation. It includes the following subcomponents:
- a. **Subcomponent 2.1. Modernization and integration of domestic tax and customs processes and systems (US\$27.4 million).** This subcomponent includes financing for technology consulting services, training, and procurement of the software needed to:
    - (i) **Modernize and integrate domestic tax and customs processes**<sup>56</sup> that includes: (i) developing and implementing the digital architecture for common processes, optimizing and digitizing the collection, recovery, audit, and user assistance processes. This new digital architecture should allow for increased automation of the principal tax and customs business processes,<sup>57</sup> converting labor- and paper-intensive processes into digitized ones that are traceable and secure; and (ii) modernizing legacy systems by eliminating the architecture of decentralized databases to reduce the operating risks posed by obsolete technology.
    - (ii) **Implement the electronic billing model** that includes: (i) developing and implementing a digital system to control the flow of VAT obligations with electronic payment vouchers, which will allow for more effective and consistent control of the VAT; and (ii) redefining the format and incorporating fields into electronic billing with codes for economic activities, types of goods and services, geographic location of electronic billing issuers, etc.

---

<sup>56</sup> Even though SUNAT has a technical team with solid technological knowledge, to develop systems and implement new digital tools, specialized consultants will be contracted to support these activities. The strategy for the major developments is for SUNAT to be responsible for the business model design and to use outside resources to supplement its team in more highly specialized areas. New technology tools will also be contracted, for example cloud processing, Watson-type robots for taxpayer service, and datamining tools for big data, etc.

<sup>57</sup> Mainly to strengthen the master taxpayer account and the Customs Facilitation, Security, and Transparency (FAST) program.

- (iii) **Improve the service model for taxpayers and foreign trade users** that includes: (i) constructing a 360° view of taxpayers and foreign trade users, by integrating taxpayer information from SUNAT's different computer systems and implementing algorithms that classify operators based on variables or criteria that are relevant for orientation and service activities; and (ii) integrating customer relationship management and the 360° view into channels for contact with taxpayers, with artificial intelligence tools to automate service for requests and procedures that facilitate and increase voluntary compliance.
  - (iv) **Fine-tune rules and procedures to make the integration of common tax and customs processes viable and strengthen the use of crosscutting systems in the institution** that includes the review and updating of rules and procedures related to information systems, personnel, budget management, planning, training, internal control, etc.
- b. **Subcomponent 2.2. Innovation in the processes of traceability and customs control (US\$37.1 million).** This subcomponent includes financing for technology consulting services, training, procurement of software and hardware needed to:
- (i) **Implement technologies to simplify customs clearance and control processes** that includes: (i) implementing a model for tracing merchandize that is interoperable with foreign trade operators and other government institutions; the model includes the procurement of technological surveillance, control, monitoring, and traceability equipment;<sup>58</sup> (ii) introducing the intensive use of technology to streamline customs clearance, mainly through support for implementation of the Customs Facilitation, Security, and Transparency (FAST) program<sup>59</sup> and use of nonintrusive equipment, particularly scanners; and (iii) developing and implementing a strategy for specialization and the creation of new operating capacity in the new control and clearance processes for customs personnel.
  - (ii) **Extend the scope of customs compliance and security programs among foreign trade operators** that includes: (i) increasing the number of operators certified as AEOs, including all the stakeholders in the supply chain and increasing participation by other government institutions in the certification program to increase the customs and tax benefits; and (ii) signing MRAs<sup>60</sup> with Peru's main trading partners.

---

<sup>58</sup> Cameras, optical character recognition (OCR), and radio frequency identification (RFID) equipment, drones, GPS, biometric devices, etc.

<sup>59</sup> The FAST program seeks to streamline and simplify customs processes through the intensive use of technology tools, such as new electronic services for customs agents, ports, and warehouses, web consultations for physical examination, clearance, and records of release from customs depots, etc.

<sup>60</sup> SUNAT has signed MRAs with Uruguay, Republic of Korea, and the countries of the Pacific Alliance. It is currently negotiating agreements with the United States, Brazil, and the Andean Community countries.

- (iii) **Implement a new national system for information, intelligence, and investigation for control interventions** that includes:
  - (i) modelling a system that comprises a definition of processes, their key activities, and technical requirements for their implementation;
  - (ii) stepping up control by providing specialized training for personnel in key processes and goods based on international best practices; and
  - (iii) developing a digital system for recording the results of pre- and post-clearance controls to provide feedback to the risk management system and model future control interventions.
- (iv) **Implement a new system for traceability and management of freight movements for customs control, through the use of new technologies** that includes: (i) developing and implementing a strategy for widespread use of the electronic waybills for goods that cover all users (shipping companies, exporters, and importers) and is integrated with customs processes for the traceability of goods; (ii) developing and implementing a digital platform that incorporates technology for data capture on vehicles and freight and innovative technologies, such as blockchain, that protect traceability and strengthen the security of the supply chain; and (iii) installing technology equipment for surveillance on designated routes and control posts (e.g. cameras, optical character recognition (OCR), antennas, radio-frequency identification (RFID), densimeters, and sensors, etc.).
- (v) **Update applicable customs regulations** to include the updating of rules and procedures to allow for innovations in the traceability and control processes promoted by customs. This aims to ensure that the regulations are aligned with the new automated and digitized processes for clearance, control, and traceability and are consistent with international practices.

1.28 **Component III. Improvement of fiscal intelligence and tax and customs risk management (US\$11.9 million).** This component entails actions to strengthen SUNAT's analytical capacity, such as:

- a. **SUNAT information governance model** that includes: (i) implementing and launching an information governance model in SUNAT to develop the necessary changes on the organizational level and in roles and responsibilities for access to and use of information in the framework of the new vision of institutional management and data analysis; (ii) mapping relevant information sources for SUNAT and analyzing their quality, for adequate performance of its audit and control functions; and (iii) updating the rules and procedures to enable implementation of the information governance model.
- b. **Risk management through the use of analytic-predictive models and data science**, which includes: (i) developing studies to generate risk profiles for the economic activities with the greatest fiscal relevance (mining, fisheries, forestry, agroindustry, finance, telecommunications, digital economy)—this activity seeks to improve understanding of the business and operating models in these sectors and incorporate that understanding into comprehensive risk management for audit and control purposes; and (ii) developing and implementing risk models to improve tax and customs compliance.

- c. **Cybersecurity for the handling of tax information** that includes an analysis of the current status of cybersecurity protocols, a review of international best practices in this field, preparation of alternative strategies, and support in evaluation for the implementation of such strategies.

**C. Key results indicators**

- 1.29 The expected impact is an increase in tax revenue as a percentage of GDP (from 12.9% to 13.9%). The expected results are: (i) better efficiency in tax collection; (ii) better efficiency in tax and customs control; and (iii) increased use of information technologies in virtual transactions for risk-based auditing and fiscal intelligence purposes.
- 1.30 **Economic analysis.** An [economic analysis](#) of the project was undertaken based on results associated with improved efficiency in tax collection management, including: (i) a reduction in collection costs; (ii) a reduction in the time required for customs clearance; and (iii) an increase in the efficiency of tax audits. By the end of 2028, the project will generate an estimated net present value of US\$54.9 million, with an internal rate of return of 31%. The results are robust to the sensitivity analyses performed.

**II. FINANCING STRUCTURE AND MAIN RISKS**

**A. Financing instrument**

- 2.1 **Program resources.** The program will cost an estimated total of US\$100.6 million, with US\$50 million financed by the Bank from the Ordinary Capital and US\$50.6 million by the local counterpart. The financing instrument will be a sovereign-guaranteed specific investment loan. The following table shows the distribution of the financing by source and investment category.

**Table 1. Total budget (US\$)**

Category	IDB	Local contribution	Total	%
<b>1. Direct costs</b>	<b>47,500,000</b>	<b>44,712,930</b>	<b>92,212,930</b>	<b>91</b>
Component I, Improvement of SUNAT's institutional governance model	2,500,000	13,219,224	15,719,224	15
Component II, Improvement of tax and customs control and compliance	40,000,000	24,536,701	64,536,701	64
Component III, Improvement of fiscal intelligence and tax and customs risk management	5,000,000	6,957,005	11,957,005	12
<b>2. Project management and audit</b>	<b>500,000</b>	<b>4,205,627</b>	<b>4,705,627</b>	<b>5</b>
<b>3. Technical management</b>	<b>2,000,000</b>	<b>1,763,952</b>	<b>3,763,952</b>	<b>4</b>
<b>Total</b>	<b>50,000,000</b>	<b>50,682,509</b>	<b>100,682,509</b>	<b>100</b>
<b>%</b>	<b>49.7</b>	<b>50.3</b>		

- 2.2 **Disbursement programming.** Disbursements will take place over five years, as follows:

**Table 2. Disbursement programming (US\$)**

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
<b>IDB</b>	3,731,863	7,717,305	24,929,446	9,119,654	4,501,732	50,000,000
<b>Local</b>	3,782,803	7,822,647	25,269,737	9,244,139	4,563,181	50,682,508
<b>Total</b>	<b>7,514,666</b>	<b>15,539,952</b>	<b>50,199,184</b>	<b>18,363,794</b>	<b>9,064,913</b>	<b>100,682,508</b>
<b>%</b>	<b>8%</b>	<b>15%</b>	<b>50%</b>	<b>18%</b>	<b>9%</b>	<b>100%</b>

**B. Environmental and social risks**

- 2.3 Under the Bank’s Environment and Safeguards Compliance Policy (Operational Policy OP-703), the project is classified as a Category “C” operation. It will support the improvement of tax processes through systems development and institutional strengthening, and no socioenvironmental risks are anticipated.

**C. Fiduciary risks**

- 2.4 During project design, a moderate fiduciary risk was identified of delays in execution due to the heavy workload of the SUNAT’s information system improvement unit. However, the following mitigation measures have been identified: (i) contracting of additional personnel for procurement, with experience in projects financed by multilateral agencies and in Invierte.pe [national multiyear programming and investment management system] rules; (ii) identification of the flows of fiduciary processes in the project Operations Manual, including responsibilities and roles; (iii) contracting of consulting services to prepare highly complex bid documents; and (iv) fiduciary assistance and support for the execution unit.

**D. Other project risks**

- 2.5 A risk workshop was held following the Bank’s methodology, and it was determined that the operation poses a moderate risk. The main risks include:
- a. **Fiscal sustainability.** There is a moderate risk that the expected objective of increasing tax revenue will not be attained due to external factors such as changes in commodities prices and natural disasters (El Niño) that affect the performance of Peru’s economy and, therefore, tax revenues. Although this risk cannot be controlled, the proposed operation strengthens SUNAT in auditing sectors of the economy other than mining, which reduces dependence on revenues from a specific sector.
  - b. **Public management and governance.** The following risks have been classified as moderate: (i) Difficulties may arise in implementing actions to integrate the tax and customs processes owing to the tendency of both areas to work in silos. This risk will be mitigated by developing a proposal for an organizational structure that facilitates coordination of common tax and customs processes. (ii) Project execution may be delayed on account of changes in SUNAT authorities after the 2021 presidential election, affecting the continuity of key teams and delaying execution and/or lowering the program’s priority. This risk will be mitigated by: (i) presenting the project to the new authorities and winning their support for the SUNAT modernization plan; and (ii) prioritizing preparation of the main terms of reference and

technical specifications linked to technology implementation during the early years of execution.

- c. **Development.** There is a moderate risk that difficulties may arise in implementing the technology innovation activities due to resistance to change by various government offices or weaknesses in technical capacity. This risk will be mitigated by: (i) designing an action program to manage change and strengthen capacities for innovation and use of the new technology tools, to facilitate an adequate transition; and (ii) an internal and external communication strategy that explains and promotes the changes associated with SUNAT's digital modernization.
- d. **Sustainability.** There is a moderate risk of a lack of continuity in the technology innovation services if SUNAT does not have the capacity to maintain the services or products. This risk will be mitigated through: (i) training for SUNAT's permanent staff in operating and maintaining the systems and technology products financed by the project; and (ii) allocating SUNAT's regular budget for maintenance of the investments made.

### III. IMPLEMENTATION AND MANAGEMENT PLAN

#### A. Summary of implementation arrangements

- 3.1 **Execution arrangement.** The borrower is the Republic of Peru, and the executing agency is SUNAT, through its information system improvement unit, which will coordinate with the executing agency's other units and project users. The execution unit will be the same as the one executing loan 3214/OC-PE, which has gained experience and knowledge of technical, financial, and procurement management during the operation, which are skills that will contribute to optimum and efficient execution of the proposed project. The execution unit will have administrative and financial autonomy.
- 3.2 The executing agency's organizational structure includes a board of directors that will act as direct interlocutor with the Bank, an administrative and financial coordination area responsible for directing, coordinating, and controlling execution of procurement and legal advisory processes as well as those related to the administrative systems for budgeting, logistics, cash management, and project accounting; and a technical coordination area that will take charge of administering the project's planning, execution, monitoring, control, and closing activities.
- 3.3 The execution unit's main functions will be: (i) planning the execution of activities; (ii) preparing, implementing, and updating the project's operating tools, i.e. [the multiyear execution plan](#), the [annual work plan \(AWP\)](#), the [procurement plan](#), and the [monitoring and evaluation plan](#); (iii) supervising execution and submitting progress reports; (iv) coordinating and preparing terms of reference, bids, procurement of goods, and selection and contracting of services; (v) submitting disbursement justifications and requests to the Bank; (vi) preparing the financial statements; and (vii) submitting the project evaluation. The execution unit will have at least two procurement specialists who will be responsible for planning and implementing procurement processes in a timely fashion.

- 3.4 **Coordination mechanism.** The execution unit will coordinate the technical aspects of each component with SUNAT's various operating areas involved in the project, in accordance with the breakdown of functions established in the project Operations Manual. With respect to external interoperability, the Digital Government Secretariat of the Presidency of the Council of Ministers, which leads the government's interoperability platform, is developing standards and general criteria for promoting projects that include digitization processes. Although the main challenge in the proposed project is to build and promote SUNAT's interoperability itself, the changes proposed under this operation will be carried out in accordance with those criteria and with ongoing dialogue with the other institutions (National Superintendency of Public Records, Superintendency of Banks and Insurance, National Identification and Vital Records Registry, Ministry of Labor, National Statistics Bureau, and the MEF) with which it maintains ongoing working relationships.
- 3.5 The project Operations Manual is a dynamic document subject to periodic review, which can only be modified with the Bank's consent. It identifies the roles, functions, and responsibilities of the parties involved to facilitate their coordination. In addition, the project Operations Manual will include the following: (i) the project's organizational structure; (ii) the technical and operational arrangements for project execution; (iii) the guidelines for the project's financial management and procurement processes; (iv) the details of the execution unit's functions; (v) the project's Results Matrix; (vi) the project's fiduciary agreements and requirements; (vii) the monitoring and evaluation plan; and (viii) the project's itemized budget.
- 3.6 **Contractual conditions precedent to the first loan disbursement: (i) an agreement on the transfer of loan proceeds will have been signed by the MEF and the SUNAT; and (ii) evidence that the [project Operations Manual](#) agreed upon in advance by the executing agency and the Bank has been approved and taken effect will have been submitted.** The first condition is established because SUNAT has its own legal identity and status and the transfer of funds needs to be formalized in an agreement. The second condition is justified because of the operating, fiduciary, and institutional responsibilities that need to be regulated for orderly project execution.
- 3.7 **Fiduciary Agreements and Requirements.** The Fiduciary Agreements and Requirements establish the financial management and planning framework as well as the frameworks for supervision and procurement execution applicable to the operation. The loan proceeds may be disbursed as advances of funds, reimbursements of expenditures, or direct payments to suppliers. For advances of funds, disbursements will be based on projected expenditures for up to 180 days. At least 80% of total cumulative balances will be justified, using Bank forms, before a new disbursement will be made. The execution unit will submit the project's annual financial statements and the final statements, prepared by auditors hired in accordance with specific terms of reference acceptable to the Bank, within 120 days after the close of each of SUNAT's fiscal years during the original disbursement period and any extensions thereof. The final audit report will be submitted within 120 days after the end of the original disbursement period or any extension thereof.

- 3.8 The execution unit will use the government electronic procurement system (SEACE) and the Procurement Plan Execution System (SEPA) (or a system determined by the Bank) to record the procurement plan for purposes of disseminating procurement processes. The operation's procurement will be carried out in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9) or subsequent updates thereof. Procurement undertaken in the context of subprojects financed by this operation will be executed in line with those policies.

**B. Summary of arrangements for monitoring results**

- 3.9 **Monitoring.** Monitoring will be based on: (i) the [multiyear execution plan and the AWP](#); (ii) the [procurement plan](#); (iii) the Results Matrix; and (iv) the [monitoring and evaluation plan](#). The execution unit will prepare semiannual reports on progress in fulfillment of the outcome, output, and financial targets for approval by the Bank, which will carry out inspection visits and ex post reviews as part of project monitoring. The semiannual reports will be used by the Bank to update the progress monitoring report.
- 3.10 **Evaluation.** The project will be evaluated on the basis of the targets and annual outcome and output indicators in the Results Matrix using a before/after comparison. The [monitoring and evaluation plan](#) provides for independent midterm and final evaluations. The borrower will prepare and submit to the Bank the midterm evaluation within 90 days after 50% of the loan proceeds have been disbursed or 36 months after the entry into effect of the loan contract, whichever occurs first. A final evaluation report which will serve as an input for the project completion report will be submitted to the Bank within 90 days after 95% of the loan proceeds have been disbursed.
- 3.11 The program provides for two project evaluations (one random and one based on difference in differences) to be carried out with SUNAT to identify the causal impact on tax revenue of the improvements in efficiency and reduced tax evasion. They will seek to produce key evidence for measuring: (i) the impact on collections, given implementation of the new strategy for modernization, risk management, and data analytics tools in the auditing processes; (ii) reduction of response and goods processing times through the implementation of virtual services and remote inspections, with the use of information technologies and the risk-management system; (iii) impact on tax revenue of targeted audits based on the use of risk profiles in the new data management strategy; and (iv) determination of whether spillover impacts exist on collections from taxpayers who receive a notice of audit that acts as a deterrent, based on the new risk criteria established in the new big data management model.

Development Effectiveness Matrix		
Summary		
<i>I. Corporate and Country Priorities</i>		
<b>1. IDB Development Objectives</b>	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Economic Integration -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Public agencies' processing times of international trade of goods and services * -Percent of GDP collected in taxes (%) -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)*	
<b>2. Country Development Objectives</b>	Yes	
Country Strategy Results Matrix	GN-2889	Objective: Improve public management. Results: (i) Boost public management capacity; and (ii) increase the use of information technology in government formalities
Country Program Results Matrix	GN-2915-2	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (if not aligned to country strategy or country program)		
<i>II. Development Outcomes - Evaluability</i>		
<b>3. Evidence-based Assessment &amp; Solution</b>	8.1	
3.1 Program Diagnosis	2.4	
3.2 Proposed Interventions or Solutions	4.0	
3.3 Results Matrix Quality	1.7	
<b>4. Ex ante Economic Analysis</b>	9.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	3.0	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	0.0	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
<b>5. Monitoring and Evaluation</b>	10.0	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	7.5	
<i>III. Risks &amp; Mitigation Monitoring Matrix</i>		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	C	
<i>IV. IDB's Role - Additionality</i>		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System, Price Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	The Bank has accompanied with technical assistance in the recent reform providing diagnostic reports and proposals. In addition, the ATN / OC-16895-PE supports in the preparation of the present operation.

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

*The main goal of this operation is to improve tax collection levels in Peru. To achieve this end, the proposal defines three specific areas on which the project will intervene: (i) enhance the efficiency of tax collection, (ii) improve the efficiency of tax and custom's control systems, and (iii) to increase the use of technological information on virtual transactions.*

*The POD clearly identifies the potential beneficiaries of the project.*

*The project's vertical logic is clear and well outlined.*

*The link between interventions and problems has been adequately established.*

*The project presents adequate evidence. The result matrix is suitably built and incorporates the required elements to monitor the project.*

*The POD documentation includes an economical analysis where its benefits have been quantified. The costs reflect the project's net investment and its maintenance for a ten-year period. The estimated net present value is 54.9M USD and the internal rate of return is thirty one percent (31%). A sensitivity analysis was performed, which validated the presumed hypotheses*

*This project's monitoring relies on reports by the SUNAT; it also includes two impact evaluations (a randomized control trial and a difference in difference evaluation). The evaluations would be implemented with SUNAT to identify the causal inference effects on tax collection and evasion.*

*The POD includes a risk matrix, and its mitigation measures were identified with the appropriate monitoring indicators.*

## RESULTS MATRIX

<b>Objective:</b>	The project's general objective is to improve tax and customs collection services through digital transformation. The specific objectives are to: (i) improve SUNAT's institutional governance model, which will enhance tax collection efficiency; (ii) improve the efficiency of tax and customs control and services; and (iii) improve fiscal intelligence and risk management for tax and customs information.
-------------------	---

### EXPECTED IMPACT

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End target	Means of verification	Comments
<b>IMPACT 1: Increase in central government tax collection as a percentage of GDP</b>											
Tax revenue/ GDP	%	12.9	2017	12.9	12.9	13.0	13.5	13.9	13.9	SUNAT report on tax revenue	<b>Calculation formula:</b> Central government tax revenue = S/ 90,705,600,000 GDP = S/ 701,761,000,000

### EXPECTED OUTCOMES<sup>1</sup>

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End target	Means of verification	Comments
<b>OUTCOME 1: Improvement of tax collection efficiency</b>											
SUNAT costs/tax revenue	%	4.1	2017	4.1	4.1	4.0	3.5	3.1	3.1	SUNAT annual reports	<b>Calculation formula:</b> SUNAT costs = S/ 3,718,900,000 Central government tax revenue = S/ 90,705,600,000
<b>OUTCOME 2: Improvement of tax and customs control efficiency</b>											
Total time to clear imports	Hours	100.1	2017	95.5	91.0	82.5	67.5	50.0	50.0	Control reports issued by SUNAT's Customs Management and Coordination Office and SUNAT management-by-results report	<b>Calculation formula:</b> Average time between the date and time goods are cleared and the date and time the shipment was received.

<sup>1</sup> The expected outcomes are cumulative.

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

<b>Country:</b>	Republic of Peru
<b>Project number:</b>	PE-L1239
<b>Name:</b>	Improving Tax and Customs Revenue Collection Services through Digital Transformation
<b>Executing agency:</b>	National Customs and Tax Administration Superintendency (SUNAT)
<b>Prepared by:</b>	Allizon Milicich Nieto-Polo and Gabriele del Monte (FMP/CPE)

### **I. EXECUTIVE SUMMARY**

- 1.1 The fiduciary situation was evaluated and an institutional capacity assessment was performed of SUNAT's execution unit, and meetings were held with key SUNAT staff and with the project team. In fiduciary matters, a moderate risk of delays in program execution was identified owing to the execution unit's heavy workload.

### **II. THE COUNTRY'S FIDUCIARY CONTEXT**

- 2.1 The country financial administration systems are adequate and reliable. The national procurement system currently uses the reverse electronic auction and electronic catalogues for framework agreements subsystems approved through the Acceptance of Partial Use of the Country Procurement Systems of Argentina, Bolivia, Costa Rica, El Salvador, Jamaica, Panama, Paraguay, and Peru (document GN-2538-11).

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

- 3.1 The executing agency will be SUNAT through execution unit 003, which will coordinate with the executing agency's other organizational units and project users.
- 3.2 Execution unit 003's organizational structure includes a board of directors that will act as direct interlocutor with the Bank, an administrative and financial coordination area, and a technical coordination area. The execution unit will be responsible for project management and is administratively and financially autonomous. It will be in charge of the fiduciary functions and the technical aspects of project planning, execution, monitoring, and evaluation.
- 3.3 The execution unit has executed 80% of loan 3214/OC-PE to date and its fiduciary management is adequate. Although the date for final disbursement of the loan is 29 August 2020, the unit is close to completing execution of the resources for which

- it is responsible and therefore has overall technical authority in fiduciary matters. However, it may be overburdened for a time by the simultaneous execution of two operations, which could lead to delays in execution. In general, the unit exhibits satisfactory development of execution and control capacity, although there is room to improve its planning and organization capacity.
- 3.4 The fiduciary staff of the execution unit work full time on the operation. The fiduciary staff working on loan 3214/OC-PE (executed by the same unit) will be retained and supplemented by contracting two additional procurement specialists.
  - 3.5 The execution unit will use the government electronic procurement system (SEACE) and the Procurement Plan Execution System (SEPA) to record the procurement plan for purposes of disseminating procurement processes.
  - 3.6 The execution unit will use the integrated financial management system (SIAF) as its financial management operating system and SIAF's project execution module (MEP) to generate financial reports.

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

- 4.1 During project design, a moderate risk was identified of delays in execution due to the execution unit's heavy work load. The following measures have been identified to mitigate the risk: (i) contracting of additional procurement personnel with experience in projects financed by multilateral agencies and in Invierte.pe rules; (ii) identification of the flows of fiduciary processes in the project Operations Manual, including responsibilities and roles; (iii) contracting of consulting services to prepare highly complex bid documents; and (iv) fiduciary assistance and support for the execution unit.

#### **V. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS**

- 5.1 The execution unit will submit the project's annual and final audited financial statements, under specific terms of reference acceptable to the Bank, within 120 days after the close of each of SUNAT's fiscal years during the original disbursement period or any extensions thereof. The final audit report will be submitted within 120 days after the end of the original disbursement period or any extension thereof.
- 5.2 To determine the equivalence between an eligible expenditure made in the borrower's local currency and the currency of disbursement or approval, for accounting and expenditure justification purposes, the effective exchange rate on the date the currency of approval or disbursement is converted into the local currency of the borrowing member country will be used (Article 4.10 (b)(i) of the General Conditions of the loan contract). To determine the equivalence of expenditures incurred in local currency from the local contribution or for reimbursement of expenditures from the loan, the exchange rate will be the rate in effect on the date that the borrower, the executing agency, or any other individual or legal entity to whom the authority to incur expenditures has been delegated makes such payments to a contractor, supplier, or beneficiary.

## VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 6.1 **Procurement execution.** Procurement will be undertaken in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9) of March 2011. The threshold for international competitive bidding will be made available to the borrower through the executing agency. Below that threshold, the selection method will be determined on the basis of the complexity and characteristics of the procurement or contract, which will appear in the procurement plan approved by the Bank.
- 6.2 **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services<sup>1</sup> arising under the operation will be executed using the standard bidding documents issued by the Bank. Bids subject to national competitive bidding will be executed using national bidding documents agreed upon with the Bank (or satisfactory to the Bank if none have been agreed upon to date). The Project Team Leader is responsible for reviewing the technical specifications.
- 6.3 **Selection and contracting of consultants.** Consulting contracts arising under operations will be executed using a standard request for proposals issued by or agreed upon with the Bank, regardless of the amount of the contract (or satisfactory to the Bank if none have been agreed upon to date). The Bank is responsible for reviewing the terms of reference.
- 6.4 **Ex ante review of procurement.** The Bank will review the selection, contracting, and procurement processes as established in the procurement plan. The Bank may change the type of review of those processes at any time during project execution after providing advanced notice to the borrower or the executing agency. The changes approved by the Bank will be reflected in the procurement plan.
- 6.5 **Use of country procurement systems.** Since the Bank's Board of Executive Directors approved advanced use of Peru's government procurement system, it may be used once the implementation and monitoring activities included in the Report for Acceptance of Partial Use of the Country Procurement System in Peru have been carried out and the procurement plan has been modified. The reverse electronic auction and electronic catalogue for framework agreements subsystems may be used once the recommendations for their use have been implemented.
- 6.6 **Initial procurement plan.** See the itemized [procurement plan](#) for the first 18 months. The executing agency will publish the procurement plan in SEPA and update it semiannually or as required by the Bank to reflect the program's real execution requirements and the progress made.
- 6.7 **Procurement supervision.** The Bank's ex post evaluations will cover a sample of contracts selected using technical-professional criteria and will be performed by

---

<sup>1</sup> Under the Bank's procurement policies, nonconsulting services are treated as goods (document GN-2349-9).

consultants or external auditors. Once the country procurement system has come into use, the plan may be updated on the basis of the fiduciary risks.<sup>2</sup>

- 6.8 **Files and records.** The records will be kept in the executing agency's offices in such a way as to assure the integrity and security of the documentation.

## VII. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 7.1 **Programming and budget.** Expenditures related to project activities must be viable under the MEF's regulations. Invierte.pe is used to streamline approval of investment projects and allow them to be executed more flexibly at all three levels of government. Preparation of the annual programming and budget will be based on the requirements of the MEF's Public Budget Branch. A multiyear execution plan will be prepared and the annual budget will be drawn up on the basis thereof. The budget for projects will be approved by the MEF and Peru's Congress and reported annually to the Bank. The budget will be executed under the SIAF.
- 7.2 **Accounting and information systems.** MEP-SIAF will be used for accounting, reporting, disbursement requests, exchange rate control, and other matters in keeping with Bank requirements, since it offers transparency and specific controls in budget execution. Cash-based accounting will be used in accordance with international accounting standards, following the directives of the National Public Accounting Directorate.
- 7.3 **Disbursements and cash flow.** The country's cash management system will be used, following the guidelines of the National Debt and Cash Management Directorate. Expenditures will be subject to the budget and financial execution process and data related to their formalization under the legal framework applicable to each of the stages (committed, obligation, warrant, disbursement) will be recorded in MEP-SIAF. The execution unit will maintain two specific bank accounts in U.S. dollars and another two in soles (monetization) to manage the loan proceeds. The MEF has expressed an interest in promoting the use of the treasury single account for loan operations and this option could be implemented in the short term.
- 7.4 Disbursements will be made on the basis of the program's real liquidity needs. The execution unit will submit disbursement requests to the Bank with a financial plan for the next 180 days. At least 80% of total cumulative balances will be justified using Bank forms before a new disbursement will be made. Loan proceeds may be disbursed in the form of advances of funds, expenditure reimbursements, or direct payments to suppliers.
- 7.5 Ex post reviews of records and supporting documents for activities and transactions will be performed by external auditors. All documents and records will be kept for a minimum of three years after the date of the last disbursement. Expenditures that the Bank determines to be ineligible will be repaid from the local contribution.
- 7.6 **Internal control and internal audit.** Control, communication, information, and monitoring of the activities of the execution unit are governed by country rules based

---

<sup>2</sup> Once the reverse auction and framework agreement systems come into use in operations as part of the strategy for the use of country systems, procurement will be systematically monitored and supervised by tracking and verifying the stability of Peru's country system.

on the Law Governing the National Control System and the Office of the Comptroller General of the Republic (CGR). Internal control is performed by the CGR's institutional control office.

- 7.7 **External control and reports.** Given the role of the CGR and its regulations, external project audits are outsourced to independent audit firms considered eligible by the Bank, which evaluates such firms periodically. The CGR authorizes the process of selecting and contracting a firm, in accordance with Bank policies, for the entire execution period, including extensions of the final disbursement period. Selection of an independent firm with an eligibility level of I or II will be required.
- 7.8 The financial statements include the cash flow statement, the cumulative investment statement, the notes to the financial statements, and a declaration by the execution unit's board of directors. The audit report will include an evaluation of the internal control system. The external audits will be covered by the loan proceeds and will cost an estimated US\$152,000 for the five years of project execution.
- 7.9 **Financial supervision plan.** The plan may be adjusted depending on operations execution and the external audit reports.

**Table 1. Supervision plan**

Activity	Nature/scope	Frequency
Financial	Review of the portfolio with the executing agency and the MEF	Twice per year
	Financial audit and submission of financial statements	Annual and final
	Review of disbursement requests and attached reports	Four to five times per year
	Inspection visit/project status review/analysis of the execution unit's control environment	Annual

Indicator	Unit of measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End target	Means of verification	Comments
Tax revenue/audit costs	%	0.010	2017	0.010	0.010	0.009	0.009	0.008	0.008	SUNAT annual reports	<b>Calculation formula:</b> Tax revenue = US\$27.4 billion Audit costs = US\$55.9 million
<b>OUTCOME 3:</b> Increase in the use of information technology in virtual transactions for risk-based audit and fiscal intelligence purposes											
Number of virtual transactions/total transactions	%	54.4	2017	55.5	55.9	56.4	56.9	57.4	57.4	Reports by SUNAT's National Process Management Office	<b>Calculation formula:</b> Number of virtual transactions = 27,516,604 Total number of transactions = 50,619,516

### OUTPUTS<sup>2</sup>

Output	Unit of measure	Baseline	Year Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	End target	Means of verification	Comments
<b>Component I: Improvement of SUNAT's institutional governance model</b>											
1.1 Results-based process management model implemented	Model	0	2018	0	0	1	0	0	1	SUNAT report	Considered implemented when the first measure/mechanism for results measurement based on the model is put into practice.
1.2 Proposal to update SUNAT's organizational structure with technological integration implemented	Structure	0	2018	0	0	1	0	0	1	SUNAT report	Considered implemented when SUNAT approves the new organizational chart.
1.3 Human resources model implemented	Model	0	2018	0	0	0	1	0	1	SUNAT report	Considered implemented when SUNAT trains or contracts the first employee with verified skills in digital innovation.

<sup>2</sup> Results are annual.

Output	Unit of measure	Baseline	Year Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	End target	Means of verification	Comments
<b>Component II: Improvement of tax and customs control and compliance</b>											
<b>Subcomponent 2.1. Modernization and integration of domestic tax and customs processes and systems</b>											
2.1.1 Domestic tax and customs systems implemented <sup>3</sup>	Software	0	2018	0	0	0	0	1	1	SUNAT report	
2.1.2 Electronic billing model implemented	Model	0	2018	0	0	0	0	1	1	SUNAT report	Idem footnote 3.
2.1.3 Service model for taxpayers and foreign trade users implemented	Model	0	2018	0	0	0	0	1	1	SUNAT report	Idem footnote 3.
2.1.4 Rules and procedures to make integration of common tax and customs processes viable and strengthen the use of crosscutting systems in the institution implemented	Rules and procedures	0	2018	0	0	0	0	1	1	SUNAT report	
<b>Subcomponent 2.2. Innovation in the processes of traceability and customs control</b>											
2.2.1 Technologies to simplify customs clearance and control processes implemented	Equipment	0	2018	0	0	0	0	1	1	SUNAT report	
2.2.2 Model to extend customs compliance and security among foreign trade operators implemented	Model	0	2018	0	0	0	0	1	1	SUNAT report	Considered implemented when the first stakeholder in the foreign trade chain that was not a program participant joins.

<sup>3</sup> The new way of constructing digital systems involves building models to test the concept which are gradually scaled up to the rest of the universe of transactions in an organization. This makes early results visible before the final product is fully implemented in an organization.

Output	Unit of measure	Baseline	Year Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	End target	Means of verification	Comments
2.2.3 New national system for information, intelligence, and investigation for control interventions implemented	Software		2018	0	0	0	0	1	1	SUNAT report	
2.2.4 New system for traceability and management of freight movements for customs control, through the use of new technologies	Software	0	2018	0	0	0	0	1	1	SUNAT report	Idem footnote 3.
2.2.5 Customs regulations implemented	Regulations	0	2018	0	0	0	0	1	1	SUNAT report	Considered implemented when approved by SUNAT.
<b>Component III: Improvement of fiscal intelligence and tax and customs risk management</b>											
3.1 Information governance model implemented in SUNAT	Model	0	2018	0	0	1	0	0	1	SUNAT report	Idem footnote 3.
3.2 Risk management model through the use of analytic-predictive models and data science implemented	Model	0	2018	0	0	1	0	0	1	SUNAT report	
3.3 Cybersecurity strategy/protocol for handling tax information implemented	Strategy	0	2018	0	0	0	1	0	1	SUNAT report	

## FIDUCIARY AGREEMENTS AND REQUIREMENTS

<b>Country:</b>	Republic of Peru
<b>Project number:</b>	PE-L1239
<b>Name:</b>	Improving Tax and Customs Revenue Collection Services through Digital Transformation
<b>Executing agency:</b>	National Customs and Tax Administration Superintendency (SUNAT)
<b>Prepared by:</b>	Allizon Milicich Nieto-Polo and Gabriele del Monte (FMP/CPE)

### I. EXECUTIVE SUMMARY

- 1.1 The fiduciary situation was evaluated and an institutional capacity assessment was performed of SUNAT's execution unit, and meetings were held with key SUNAT staff and with the project team. In fiduciary matters, a moderate risk of delays in program execution was identified owing to the execution unit's heavy workload.

### II. THE COUNTRY'S FIDUCIARY CONTEXT

- 2.1 The country financial administration systems are adequate and reliable. The national procurement system currently uses the reverse electronic auction and electronic catalogues for framework agreements subsystems approved through the Acceptance of Partial Use of the Country Procurement Systems of Argentina, Bolivia, Costa Rica, El Salvador, Jamaica, Panama, Paraguay, and Peru (document GN-2538-11).

### III. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 3.1 The executing agency will be SUNAT through execution unit 003, which will coordinate with the executing agency's other organizational units and project users.
- 3.2 Execution unit 003's organizational structure includes a board of directors that will act as direct interlocutor with the Bank, an administrative and financial coordination area, and a technical coordination area. The execution unit will be responsible for project management and is administratively and financially autonomous. It will be in charge of the fiduciary functions and the technical aspects of project planning, execution, monitoring, and evaluation.
- 3.3 The execution unit has executed 80% of loan 3214/OC-PE to date and its fiduciary management is adequate. Although the date for final disbursement of the loan is 29 August 2020, the unit is close to completing execution of the resources for which

- it is responsible and therefore has overall technical authority in fiduciary matters. However, it may be overburdened for a time by the simultaneous execution of two operations, which could lead to delays in execution. In general, the unit exhibits satisfactory development of execution and control capacity, although there is room to improve its planning and organization capacity.
- 3.4 The fiduciary staff of the execution unit work full time on the operation. The fiduciary staff working on loan 3214/OC-PE (executed by the same unit) will be retained and supplemented by contracting two additional procurement specialists.
  - 3.5 The execution unit will use the government electronic procurement system (SEACE) and the Procurement Plan Execution System (SEPA) to record the procurement plan for purposes of disseminating procurement processes.
  - 3.6 The execution unit will use the integrated financial management system (SIAF) as its financial management operating system and SIAF's project execution module (MEP) to generate financial reports.

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

- 4.1 During project design, a moderate risk was identified of delays in execution due to the execution unit's heavy work load. The following measures have been identified to mitigate the risk: (i) contracting of additional procurement personnel with experience in projects financed by multilateral agencies and in Invierte.pe rules; (ii) identification of the flows of fiduciary processes in the project Operations Manual, including responsibilities and roles; (iii) contracting of consulting services to prepare highly complex bid documents; and (iv) fiduciary assistance and support for the execution unit.

#### **V. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF CONTRACTS**

- 5.1 The execution unit will submit the project's annual and final audited financial statements, under specific terms of reference acceptable to the Bank, within 120 days after the close of each of SUNAT's fiscal years during the original disbursement period or any extensions thereof. The final audit report will be submitted within 120 days after the end of the original disbursement period or any extension thereof.
- 5.2 To determine the equivalence between an eligible expenditure made in the borrower's local currency and the currency of disbursement or approval, for accounting and expenditure justification purposes, the effective exchange rate on the date the currency of approval or disbursement is converted into the local currency of the borrowing member country will be used (Article 4.10 (b)(i) of the General Conditions of the loan contract). To determine the equivalence of expenditures incurred in local currency from the local contribution or for reimbursement of expenditures from the loan, the exchange rate will be the rate in effect on the date that the borrower, the executing agency, or any other individual or legal entity to whom the authority to incur expenditures has been delegated makes such payments to a contractor, supplier, or beneficiary.

## VI. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 6.1 **Procurement execution.** Procurement will be undertaken in accordance with the Policies for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9) of March 2011. The threshold for international competitive bidding will be made available to the borrower through the executing agency. Below that threshold, the selection method will be determined on the basis of the complexity and characteristics of the procurement or contract, which will appear in the procurement plan approved by the Bank.
- 6.2 **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services<sup>1</sup> arising under the operation will be executed using the standard bidding documents issued by the Bank. Bids subject to national competitive bidding will be executed using national bidding documents agreed upon with the Bank (or satisfactory to the Bank if none have been agreed upon to date). The Project Team Leader is responsible for reviewing the technical specifications.
- 6.3 **Selection and contracting of consultants.** Consulting contracts arising under operations will be executed using a standard request for proposals issued by or agreed upon with the Bank, regardless of the amount of the contract (or satisfactory to the Bank if none have been agreed upon to date). The Bank is responsible for reviewing the terms of reference.
- 6.4 **Ex ante review of procurement.** The Bank will review the selection, contracting, and procurement processes as established in the procurement plan. The Bank may change the type of review of those processes at any time during project execution after providing advanced notice to the borrower or the executing agency. The changes approved by the Bank will be reflected in the procurement plan.
- 6.5 **Use of country procurement systems.** Since the Bank's Board of Executive Directors approved advanced use of Peru's government procurement system, it may be used once the implementation and monitoring activities included in the Report for Acceptance of Partial Use of the Country Procurement System in Peru have been carried out and the procurement plan has been modified. The reverse electronic auction and electronic catalogue for framework agreements subsystems may be used once the recommendations for their use have been implemented.
- 6.6 **Initial procurement plan.** See the itemized [procurement plan](#) for the first 18 months. The executing agency will publish the procurement plan in SEPA and update it semiannually or as required by the Bank to reflect the program's real execution requirements and the progress made.
- 6.7 **Procurement supervision.** The Bank's ex post evaluations will cover a sample of contracts selected using technical-professional criteria and will be performed by

---

<sup>1</sup> Under the Bank's procurement policies, nonconsulting services are treated as goods (document GN-2349-9).

consultants or external auditors. Once the country procurement system has come into use, the plan may be updated on the basis of the fiduciary risks.<sup>2</sup>

- 6.8 **Files and records.** The records will be kept in the executing agency's offices in such a way as to assure the integrity and security of the documentation.

## VII. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 7.1 **Programming and budget.** Expenditures related to project activities must be viable under the MEF's regulations. Invierte.pe is used to streamline approval of investment projects and allow them to be executed more flexibly at all three levels of government. Preparation of the annual programming and budget will be based on the requirements of the MEF's Public Budget Branch. A multiyear execution plan will be prepared and the annual budget will be drawn up on the basis thereof. The budget for projects will be approved by the MEF and Peru's Congress and reported annually to the Bank. The budget will be executed under the SIAF.
- 7.2 **Accounting and information systems.** MEP-SIAF will be used for accounting, reporting, disbursement requests, exchange rate control, and other matters in keeping with Bank requirements, since it offers transparency and specific controls in budget execution. Cash-based accounting will be used in accordance with international accounting standards, following the directives of the National Public Accounting Directorate.
- 7.3 **Disbursements and cash flow.** The country's cash management system will be used, following the guidelines of the National Debt and Cash Management Directorate. Expenditures will be subject to the budget and financial execution process and data related to their formalization under the legal framework applicable to each of the stages (committed, obligation, warrant, disbursement) will be recorded in MEP-SIAF. The execution unit will maintain two specific bank accounts in U.S. dollars and another two in soles (monetization) to manage the loan proceeds. The MEF has expressed an interest in promoting the use of the treasury single account for loan operations and this option could be implemented in the short term.
- 7.4 Disbursements will be made on the basis of the program's real liquidity needs. The execution unit will submit disbursement requests to the Bank with a financial plan for the next 180 days. At least 80% of total cumulative balances will be justified using Bank forms before a new disbursement will be made. Loan proceeds may be disbursed in the form of advances of funds, expenditure reimbursements, or direct payments to suppliers.
- 7.5 Ex post reviews of records and supporting documents for activities and transactions will be performed by external auditors. All documents and records will be kept for a minimum of three years after the date of the last disbursement. Expenditures that the Bank determines to be ineligible will be repaid from the local contribution.
- 7.6 **Internal control and internal audit.** Control, communication, information, and monitoring of the activities of the execution unit are governed by country rules based

---

<sup>2</sup> Once the reverse auction and framework agreement systems come into use in operations as part of the strategy for the use of country systems, procurement will be systematically monitored and supervised by tracking and verifying the stability of Peru's country system.

on the Law Governing the National Control System and the Office of the Comptroller General of the Republic (CGR). Internal control is performed by the CGR's institutional control office.

- 7.7 **External control and reports.** Given the role of the CGR and its regulations, external project audits are outsourced to independent audit firms considered eligible by the Bank, which evaluates such firms periodically. The CGR authorizes the process of selecting and contracting a firm, in accordance with Bank policies, for the entire execution period, including extensions of the final disbursement period. Selection of an independent firm with an eligibility level of I or II will be required.
- 7.8 The financial statements include the cash flow statement, the cumulative investment statement, the notes to the financial statements, and a declaration by the execution unit's board of directors. The audit report will include an evaluation of the internal control system. The external audits will be covered by the loan proceeds and will cost an estimated US\$152,000 for the five years of project execution.
- 7.9 **Financial supervision plan.** The plan may be adjusted depending on operations execution and the external audit reports.

**Table 1. Supervision plan**

Activity	Nature/scope	Frequency
Financial	Review of the portfolio with the executing agency and the MEF	Twice per year
	Financial audit and submission of financial statements	Annual and final
	Review of disbursement requests and attached reports	Four to five times per year
	Inspection visit/project status review/analysis of the execution unit's control environment	Annual

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/18

Peru. Loan \_\_\_\_/OC-PE to the Republic of Peru  
Improving Tax and Customs Revenue  
Collection Services Through  
Digital Transformation

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Peru, as borrower, for the purpose of granting it a financing to cooperate in the execution of the "Improving Tax and Customs Revenue Collection Services Through Digital Transformation" program. Such financing will be for the amount of up to US\$50,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ \_\_\_\_\_ 2018)