

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PERU

PROGRAM TO SUPPORT FISCAL AND ECONOMIC RECOVERY IN PERU II

(PE-L1288)

LOAN PROPOSAL

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ABBREVIATIONS	
BCRP	Banco Central de Reserva de Perú (Central Reserve Bank of Peru)
CFP	Consejo Fiscal de Perú (Fiscal Council of Peru)
CIAT	Inter-American Center of Tax Administrations
DDO	Deferred drawdown option
DGPMADF	Dirección General de Política Macroeconómica y Descentralización Fiscal (Macroeconomic Policy and Fiscal Decentralization Department)
DGPP	Dirección General de Presupuesto Público (Public Budget Department)
DGTP	Dirección General del Tesoro Público (Public Treasury Department)
ECG	Evaluation Cooperation Group
FISLAC	Fiscal Sustainability for Latin American and Caribbean Countries, an on-line platform
FONCOR	Fondo de Compensación Regional (Regional Compensation Fund)
FUP	Ficha Única del Proveedor (Central Vendor Registry)
GDP	Gross domestic product
IAPM	Informe de Actualización de Proyecciones Macroeconómicas (Macroeconomic Forecasts Update Report)
IMF	International Monetary Fund
MEF	Ministry of Economy and Finance
MMM	Marco Macroeconómico Multianual (Multiyear Macroeconomic Framework)
MSEs	Micro and small enterprises
NFPS	Nonfinancial public sector
OECD	Organisation for Economic Co-operation and Development
OSCE	Organismo Supervisor de Contrataciones del Estado (Government Procurement Supervisory Body)
OVE	Office of Evaluation and Oversight
PBP	Programmatic policy-based loan
PEIP	Special public investment projects
PIM	Amended institutional budget
SIAF	Sistema Integrado de Administración Financiera (Integrated Financial Management System)
SUNAT	Superintendencia Nacional de Administración Tributaria (National Superintendency of Tax Administration)

PROJECT SUMMARY
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Financial Terms and Conditions									
Borrower:				Flexible Financing Facility^(a)					
Republic of Peru				Amortization period:	20 years				
Executing agency:				Drawdown period:	3 years				
Ministry of Economy and Finance (MEF), through the Public Treasury Department (DGTP)				Grace period:	5.5 years ^(b)				
Source		Amount (US\$)		%		Interest rate:			
IDB (Ordinary Capital)		600,000,000		100		SOFR-based			
						Front-end fee:		50 basis points	
						Standby fee:		(c)	
						Inspection and supervision fee:		(c)	
Weighted average life:		12.75 years		Approval currency:		United States dollars			
Total:		600,000,000		100					
Program at a Glance									
<p>Program objective/description: The general development objective of the program is to improve the sustainability of fiscal management in support of the economic recovery program. Its specific development objectives are to increase: (i) tax revenue, while preserving companies' liquidity; (ii) public investment, while maintaining expenditure levels that will facilitate economic and fiscal recovery; and (iii) the effectiveness of public spending.</p> <p>This project is the second of two operations under the programmatic policy-based loan modality (PBP), to consist of two contractually independent but technically linked loans, with the deferred drawdown option (DDO).</p>									
<p>Special contractual conditions precedent to the sole disbursement of the financing: Disbursement of the Bank's loan proceeds, made at the request of the borrower, will be subject to fulfillment of the policy reform commitments described in the program components and set forth in the policy matrix (Annex II) and the policy letter, in addition to other conditions set forth in the loan contract (see paragraph 3.3).</p>									
<p>Exceptions to Bank policies: None.</p>									
Strategic Alignment									
Objectives:^(d)		O1 <input checked="" type="checkbox"/>		O2 <input checked="" type="checkbox"/>		O3 <input checked="" type="checkbox"/>			
Operational focus areas:^(e)		OF1 <input checked="" type="checkbox"/>	OF2-G <input checked="" type="checkbox"/> OF2-D <input type="checkbox"/>	OF3 <input checked="" type="checkbox"/>	OF4 <input type="checkbox"/>	OF5 <input type="checkbox"/>	OF6 <input checked="" type="checkbox"/> OF7 <input type="checkbox"/>		

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

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

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

^(d) O1 (Reduce poverty and inequality); O2 (Address climate change); and O3 (Promote sustainable regional growth).

^(e) OF1 (Biodiversity, natural capital, and climate action); OF2-G (Gender equality); OF2-D (Inclusion of diverse population groups); OF3 (Institutional capacity, rule of law, and citizen security); OF4 (Social protection and human capital development); OF5 (Productive development and innovation through the private sector); OF6 (Sustainable, resilient, and inclusive infrastructure); OF7 (Regional integration).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problems addressed, and rationale

- 1.1 **Background for the first operation.** This is the second and last operation in a programmatic series under the programmatic policy-based loan (PBP) modality. The objective of the series is to assist the Government of Peru in improving the sustainability of fiscal management in support of economic recovery. The first operation ([5384/OC-PE](#); US\$500 million) was approved in 2021 and disbursed in full in 2022;¹ formulated during the second year of the health crisis, this operation supported fiscal measures that the Government of Peru introduced to combat the pandemic, which were designed to: (i) safeguard the macrofiscal framework; (ii) increase revenue collection while preserving corporate liquidity; and (iii) improve expenditure management in terms of efficiency and effectiveness. This second operation completes the programmatic series by further advancing the implementation of structural measures aimed at consolidating improvements in the sustainability of fiscal management, in support of economic recovery.
- 1.2 **Recent macroeconomic performance.** For more than three decades, Peru has been consolidating its macroeconomic stability, enabling it to maintain an environment of low inflation, reduced exchange rate volatility, and low debt, which in 2019, just before the pandemic, amounted to 27% of the country's gross domestic product (GDP), just 40% of the average level for the region (68%) for that year.² This environment of confidence and predictability is a fundamental pillar of the country's good economic performance, with per capita GDP growth of 4.7% per year in the 2000s (the highest in the region), which slowed to 2.7% per year in the 2010s, partly due to the end of the commodity supercycle (2003-2014).³
- 1.3 The pandemic affected Peru more than other countries in Latin America and the Caribbean, which in turn was the hardest hit region in the world.⁴ This was largely the result of the high level of informality in the economy, which, combined with one of the longest lockdown periods in the world, led to a drop in GDP per capita in 2020 of close to 12%, exceeding the regional average of -7.5%. Nevertheless, thanks to its ample fiscal headroom, Peru was able to implement a robust response package that year, redirecting public investment towards current spending, using resources from the fiscal stabilization fund amounting to close to three percentage points of GDP, incurring a deficit of 8.9% of GDP, slightly higher than the average for the region (8.8%), and increasing the public debt to 34.6% of GDP.⁵
- 1.4 The gradual emergence from the COVID-19 pandemic, combined with the fiscal stimulus package and improved commodity prices, helped economic activity to rebound rapidly in 2021, with GDP per capita growth of 12.4%, almost double the region's average of 6.4%. In 2022, per capita growth was 1.7% (half the regional

¹ That operation had a deferred drawdown option, as does the current one.

² [MMM 2024-2027](#).

³ Figures from [WEO-IMF](#).

⁴ [2021 Latin American and Caribbean Macroeconomic Report](#), IDB.

⁵ [MMM 2022-2025](#).

average), hampered by unfavorable external conditions, commodity price adjustments, and inflationary pressures.

1.5 In 2023, the Peruvian economy slowed further, and its GDP shrank 0.6% as a result of various factors, which included: (i) social unrest at the beginning of the year; (ii) adverse weather shocks, such as Cyclone Yaku, the El Niño phenomenon, and droughts; and (iii) the continuation of an adverse external context.⁶ These factors had a negative impact on revenue collection for 2023 (see paragraph 1.9) and required extraordinary economic reactivation measures (see paragraph 1.15), which, according to preliminary figures, led to a fiscal deficit in 2023 of 2.8% of GDP, exceeding the fiscal limit of 2.4%.⁷ It is in this context that the Peruvian government has been implementing a comprehensive response strategy to counter these adverse shocks with support from the Bank,⁸ further advancing an extensive work agenda on competitiveness and fiscal sustainability (see paragraph 1.25). Thus, in September 2023, the Bank approved operation [5784/OC-PE](#), phase II of the “Reform Program to Support Economic Recovery and Competitiveness,” which supports the Government of Peru in its efforts to reactivate the economy and accelerate growth,⁹ together with this second phase, which deepens measures to preserve fiscal sustainability, helping to address the following specific problems: (i) low revenue collection; (ii) low levels of public investment; and (iii) insufficient effectiveness of public spending.

1.6 **Safeguarding the macrofiscal framework.** In the macrofiscal area, the first operation in the programmatic series supported measures for the country’s economic recovery and fiscal sustainability in the wake of the COVID-19 pandemic: (i) the legal provision that updated fiscal rules in the nonfinancial public sector (NFPS); and (ii) the approval of the 2022-2025 MMM adjusted to the updated fiscal rules. Those measures helped put Peru back on the path to fiscal sustainability, supporting the phasing out of temporary measures that were necessary during the pandemic.¹⁰ Following the fiscal effort made during the pandemic, the deficit fell from 8.9% of GDP in 2020 to 2.5% in 2021 and 1.7% in 2022, the latter two values being lower than the deficits projected in the 2022-2025 MMM of 4.7% and 3.7% of GDP, respectively. This rapid fiscal consolidation was possible thanks to both the Peruvian government’s commitment to fiscal responsibility and the following factors: (i) the strong economic recovery in 2021; (ii) increased fiscal revenue as a result of higher mineral prices; and (iii) the gradual elimination of the extraordinary spending required during the pandemic. As mentioned, according to preliminary figures, the 2023 fiscal deficit grew to 2.8% of GDP, straying beyond the fiscal rule ceiling (2.4% of GDP) for the first time since

⁶ [MMM 2024-2027](#), [Technical Report 03-2023 of the CFP](#), [Inflation Report, December 2023](#) and [2024-2027 Macroeconomic Forecast Update Report](#).

⁷ [BCRP Research Note](#), January 2024.

⁸ [MMM 2024-2027](#). The growth forecast for 2024-2025 is 3% ([Inflation Report, December 2023](#)).

⁹ This program supports reactivation of public and private investment in infrastructure; improved access to financing; development of a private venture capital industry; and promotion of the formalization and digitalization of microenterprises and small businesses (MSEs). The first operation ([5203/OC-PE](#)) was approved in December 2020.

¹⁰ This lesson from the 2008-2009 financial crisis, incorporated in the COVID-19 prototype operations in response to the pandemic (paragraph 1.30), consists of ensuring the phasing out of temporary stimulus measures, to contribute to fiscal sustainability.

2015. NFPS debt stands at around 33% of GDP,¹¹ up from 27% of GDP in 2019, although it remains one of the lowest in the region and among emerging countries.
- 1.7 Along with the post-pandemic fiscal consolidation in 2021-2022, the Government of Peru complied with the indicative policy measures for this second programmatic operation, aimed at safeguarding the macrofiscal framework: (i) it approved by law the path to gradual convergence (to 2026) with the parameters of NFPS fiscal rules;¹² and (ii) it approved the 2023 and 2024 MMMs consistent with the path of gradual convergence. In the case of the 2024 MMM, it included a sensitivity analysis of the effects of natural disasters linked to climate change, with particular attention to the impact of an extraordinarily intense El Niño phenomenon.¹³
- 1.8 The Government of Peru is also moving forward with other policy measures that buttress the macrofiscal component of this operation: (i) the Macroeconomic Policy and Fiscal Decentralization Department (DGPMADF) of the Ministry of Economy and Finance (MEF) has been improving its macrofiscal analysis and projection tools, thanks to technical assistance in the use of the Bank's Fiscal Sustainability for Latin American and Caribbean Countries (FISLAC) platform,¹⁴ including the simulation of the economic and fiscal effects of climate change, with special emphasis on the El Niño phenomenon, contributing to climate sustainability; and (ii) the law strengthens the institutional framework, transparency, and technical independence of the Peruvian Fiscal Council (CFP):¹⁵ (1) it elevates the council to the status of a regulatory agency for civil service purposes, improving working conditions for its personnel; (2) it increases the number of members from three to five, enhancing independence in the selection process for those members;¹⁶ and (3) it establishes that the MEF will absolve, if necessary, the nonbinding opinions of the CFP, contributing to the transparency of macroeconomic and fiscal estimates. The CFP has been in operation since 2013 and is among the most solid in the region, as it has a stable budget, which allows it to hire qualified technical staff, and the independence of its studies support the sustainability, transparency, and institutional framework of public finances.¹⁷
- 1.9 **Strengthening tax policy and administration.** Peru's fiscal revenues are relatively low by international standards and tend to track fluctuations in

¹¹ [Macroeconomic Report, 4th quarter, 2023](#), BCRP.

¹² Law 31541 of August 2022 states that NFPS debt must not exceed 38% of GDP as of 2023 and must be less than or equal to 30% of GDP within less than 10 years. It also states that NFPS fiscal deficit for 2023, 2024, 2025, and 2026 must not exceed 2.4%, 2.0%, 1.5% and 1.0% of GDP, respectively.

¹³ [MMM 2024-2027](#).

¹⁴ The [FISLAC Platform](#) was developed by the Bank to strengthen the countries of the region in their macrofiscal policy, through the development of predictive models, fiscal risk analysis, and the provision of comparative information.

¹⁵ [Law 31.681](#). The [CFP](#) is an independent public-sector technical commission that issues nonbinding opinions contained in public finance analysis reports on amendments to, and compliance with, fiscal rules, macroeconomic projections, and developments in public finances. This measure complies with a [recommendation of the International Monetary Fund](#).

¹⁶ Previously, the MEF proposed and selected the members, but under the new law, the CFP itself proposes the shortlist of members, from which the MEF makes a selection.

¹⁷ See [the comment on the MMM 2024-2027](#) in which the CFP makes a critical analysis of the macroeconomic projections, along with the response of the MEF, included as an annex to [MMM 2024-2027](#).

international prices of the main export commodities (minerals and hydrocarbons). Thus, general government revenues averaged 19.2% of GDP between 2015 and 2019 (compared with 28.6% of GDP for Latin America and the Caribbean in the same period), a decline from the average of 22% of GDP in the previous five-year period (2010-2014), largely due to the end of the high prices associated with the commodity supercycle. In 2020, those revenues fell to 17.8% of GDP (compared with 27.2% of GDP for Latin America and the Caribbean) but recovered to 22.1% in 2022 (compared with 30.2% for Latin America and the Caribbean),¹⁸ explained by the post-pandemic increase in the prices of the main export commodities, together with the effect of tax policy and administration measures implemented since 2017 (see paragraph 1.10). In 2023, general government revenues fell to 19.8% of GDP, mainly due to slower economic growth and the commodity price correction.¹⁹

- 1.10 Among the items that explain Peru's low government revenues relative to Latin America and the Caribbean and the Organisation for Economic Co-operation and Development (OECD) are property taxes, social security contributions, taxes on goods and services (linked to exemptions), and personal income tax on individuals.²⁰ In this regard, since 2017 Peru has been adopting a series of tax policy and administration measures that have helped to improve collection in many of these areas. The following, in particular, stand out: (i) correction of excise tax rates; modification of general sales tax deductions; and elimination of general sales tax exemptions for imports into the Amazon; (ii) anti-avoidance measures and adherence to international taxation framework; and (iii) strengthening of the National Superintendency of Tax Administration (SUNAT) in terms of digital transformation, risk management, and simplification of procedures for voluntary compliance. These measures helped to reduce nonpayment of corporate general sales tax and income tax between 2017 and 2022 from 37.4% and 51.5%, respectively, to 30.3% and 40.5%.²¹
- 1.11 Within this framework, the first operation in the programmatic series supported special measures aimed at providing liquidity and solvency to microenterprises and small businesses (MSEs) during the pandemic: (i) authorization for companies to extend the period for offsetting net losses from fiscal year 2020 with net income for up to five years thereafter; and (ii) accelerated depreciation of assets acquired by companies in 2020 and 2021. Second, it supported an update of housing valuations for property tax collection. Finally, it supported the progress made by the Peruvian government in approving the rules for adherence to international commitments on tax transparency, which help to reduce tax evasion and avoidance.
- 1.12 Now that the pandemic is over, this second operation fulfills and reinforces the indicative policy measures included in the first operation. First, at the central government level, it supports the preparation of legislation to implement a mechanism for charging general sales tax on imported digital services. Although these services are currently included in general sales tax, there is no collection

¹⁸ In OECD countries, the general government tax-to-GDP ratio was 39.9% in 2022.

¹⁹ [MMM 2022-2025](#), [MMM 2024-2027](#), and [BCRP Research Note, January 2024](#).

²⁰ [Revenue Statistics in Latin America and the Caribbean 1990-2021](#).

²¹ [MMM 2024-2027](#).

mechanism for enforcing the tax in direct sales to the end-consumer, in keeping with international best practices. This results in a loss of revenue and a lack of neutrality in the general sales tax regime, when taxing equivalent domestic services.²² At the same time, it supports a legislative proposal sent to the Congress to modify the simplified income tax regimes for MSEs, in order to improve efficiency, facilitate tax compliance by MSEs, and encourage the declaration and formalization of workers. Peru currently has four income tax regimes: one is for micro taxpayers, two are for MSEs (these three regimes cover 99% of taxpayers), and the fourth is the general regime, for larger companies. The current design, particularly of the intermediate regimes, is complex, promotes arbitrage and “fiscal dwarfism” (artificial subdivision of businesses to underreport), reducing the tax potential for high-profit companies, inhibits efforts to formalize the economy, for example by not allowing the deduction of expenses such as payroll, and fails to take advantage of automatic reporting mechanisms to reduce the cost of compliance and facilitate migration to the general regime.²³

- 1.13 With respect to property taxes, Peru’s property tax collection, which is the main municipal tax, amounted to just 0.26% of GDP in 2022, below the Latin American and Caribbean average (0.4% of GDP) and barely one fifth of the OECD average.²⁴ The main cause of this low collection is the lack of knowledge of the corresponding tax base due to the absence of a fiscal cadastre containing the universe of tax-liable properties valued at market prices. This program supports the recent reform that established the characteristics and uses of the fiscal cadastre, under the institutional responsibility of the MEF. The implementation of the fiscal cadastre will be supported by a Bank investment loan that is being prepared in parallel to the present operation.²⁵ It is the most important reform to property tax in Peru and is intended to increase municipal autonomy.²⁶
- 1.14 Finally, with respect to tax transparency, firstly, since the approval of the legal framework for lifting and controlling banking secrecy, there has been progress towards implementation: SUNAT, a pioneer in the region, has been receiving semiannual reports from financial institutions on their clients’ financial transactions since 2020. This has served to increase the direct yield of audits based on that

²² International Monetary Fund (2022a) with analysis for Peru; [IDB, CIAT, World Bank, and OECD \(2021\)](#) and [Brondolo and Konza \(2021\)](#) for international good practices. [Jiménez and Podestá \(2021\)](#) estimate a potential VAT collection for digital services of 0.06% of GDP by 2020 for Peru (with values increasing year by year).

²³ [IMF \(2022b\)](#) with analysis of the simplified regimes in Peru and blog by [Azuero and Bosch \(2018\)](#), including an illustration of their effects on business growth, collection levels, and tax complexity. [Cárdenas and others \(2021\)](#) present evidence of how simplified regime policies can help reduce informality, highlighting the examples of Brazil and Uruguay. [Lavado and Yamada \(2021\)](#) describe the complexity of Peru’s tax regimes and suggest the need for their simplification to provide greater incentive for formal hiring.

²⁴ [Panorama de las relaciones fiscales entre niveles de gobierno de países de América Latina y el Caribe.](#)

²⁵ The Bank has also been supporting a fiscal cadastre pilot through investment project [5869/OC-PE](#) approved on 10 April 2024 for US\$45.5 million (paragraph 1.27).

²⁶ A national projection of cadastre valuations shows that, on average, they are 26% above market ([Piumetto, Carranza, Morales, and Zavala, 2021](#)). In addition, there are errors and omissions in the land registry. By conservative estimates, implementing the Fiscal Cadastre will increase property tax collection by at least 0.1% of GDP ([5869/OC-PE](#)).

information, which amounted to S/ 465 million in 2022 (0.05% of GDP).²⁷ Secondly, complementing the lifting and control of domestic banking secrecy, since the approval of the legal regulation on the automatic exchange of financial information for the purposes of fiscal control, Peru participates fully in the automatic exchange of information at the international level: as of September 2023, it was exchanging tax-relevant information with 77 other countries, representing more than 3,000 foreign and 800 Peruvian financial institutions. That information, in turn, is used by SUNAT, enabling, for example, around 600 people with financial information abroad to be notified, contributing to a 53% increase in foreign-source income declared in 2022 compared with the average for the previous four years.²⁸ Third, following the approval of the legal regulation on the implementation of the beneficial ownership registration standards, Peru began to update the information in its registries: as of September 2023, 37% of large corporate taxpayers had filed a beneficial ownership declaration, and SUNAT had issued some 700 fines for failure to file the declaration. Beneficial owner identification is key to determining who the individual that benefits is, making it easier to detect tax violations, as well as money and asset laundering.²⁹

1.15 Improving public expenditure management As with tax revenue, Peru's public expenditure is low in international terms. In 2023, general government nonfinancial spending amounted to 20.9% of GDP, compared with 29% for the Latin American and Caribbean region overall. That level was lower than in 2020 (24.7%) but still higher than the 2015-2019 average (20.2%), partly because the withdrawal of pandemic spending was partly replaced by measures to revive the economy and confront the climate emergency.³⁰ Due to the rules governing the allocation of public revenues from natural resources (paragraph 1.9) fluctuations in those revenues are mirrored in public spending, particularly that of subnational governments.³¹ Thus, capital expenditure in Peru went from an average of 3% of GDP between 2001 and 2005 (similar to the Latin American and Caribbean average)—with subnational spending accounting for just over a third of that—to an average of 5.4% of GDP in 2006-2022, with 55% spent by subnational governments. Those levels, in turn, have fluctuated with commodity prices, going from 5.8% of GDP in 2010-2014 to 4.8% in 2015-2019 (when the commodity boom ended), before dropping to 4.5% in 2020 and rising again to 5.5% of GDP in 2022

²⁷ The information is used in the audit control processes and has been incorporated into compliance risk management as an additional source of data for identifying taxpaying capacity and for contrasting with fulfilled tax obligations. [Tostes \(2024\)](#).

²⁸ [Yesenia \(2024a\)](#).

²⁹ [Yesenia \(2024b\)](#).

³⁰ They included the *Con Punche Peru 1* and 2, *Con Punche Emergencia - FEN*, and *Unidos* plans to boost public spending, address the climate emergency, provide support to vulnerable populations, and promote economic activity. These plans, which had a fiscal cost of close to 1% of GDP meant that the fiscal deficit limit was missed in 2023. [Nota de Estudios del BCRP](#), January 2024.

³¹ The share of fiscal revenues from extractive industries (minerals, gas and oil) that goes to Peru's subnational governments (especially municipalities) is more than half. Those resources are allocated on a devolutionary basis (to the subnational governments of the jurisdictions where they are extracted) and must be used almost entirely for public investment.

(compared with 3.2% for Latin America and the Caribbean).³² Of that total, 60% corresponds to subnational governments (20% to regional governments and 40% to local governments).³³ Meanwhile, current expenditure, setting aside the bump of 5 points of GDP in 2020, has grown over the last decade from 14.1% of GDP in 2010-2014 to 15.4% in 2015-2019 and 15.6% in 2023. The areas that grew most are health and education, whose values in 2023 reached 3.5% and 3.2% times that of 2011, respectively.³⁴

- 1.16 The objectives of the programmatic series in terms of spending are to increase: (i) public investment, while maintaining expenditure levels that facilitate economic and fiscal recovery; and (ii) the effectiveness of public spending (paragraph 1.34). Execution of the budget for public investment in Peru is low, averaging 65% between 2019 and 2021, compared with 80% for Latin America and the Caribbean as a region. It is even lower for subnational governments, averaging 64% and 57% in that period for the regional and local government levels, respectively, compared with 75% for the central government. The reasons for this are weaknesses in public investment, procurement, and budgeting processes, as well as in project management at the central and subnational government levels.³⁵ The first operation in the programmatic series sought to shore up public investment, which fell to a 20-year low of 4.3% of GDP in 2020, amid the reallocation of spending to address the health emergency.³⁶ Thus, the first operation supported the establishment of a new public investment execution model, through special public investment projects (PEIP), which consisted in the creation of an organizational structure that incorporated best practices in project management to accelerate the execution of complex investments.³⁷ This second operation supports recent reforms aimed at sustaining public investment to contribute to economic recovery by strengthening the role of the MEF's national system of multi-year programming and investment management (Invierte.pe) in the execution of public investment and enhancing its quality, especially at the subnational level, through improvements in project management standards, expansion of Invierte.pe's competencies in monitoring the execution of investments, and streamlining and making investment and government procurement processes more flexible.³⁸ These

³² [FISLAC](#) with information to 2021. Despite these values, Peru would need to invest approximately an additional 1.7% of GDP per year for two decades to attain the median gap in basic access to infrastructure services seen in OECD countries. [Bonifaz et al \(2020\)](#).

³³ Prepared by the authors on the basis of [economic transparency](#) data from the Ministry of Economy and Finance (MEF) of Peru and [MMM 2024-2027](#).

³⁴ [MMM 2024-2027](#).

³⁵ Other causes relating to subnational governments include: (i) the distribution rules for tax revenues from natural resources, since it is a volatile revenue source concentrated in the areas that produce those resources, and unexecuted expenditures can be accumulated; and (ii) the subnational political cycle, which results in lower execution in the first year of a new administration.

³⁶ [MMM 2024-2027](#).

³⁷ Good practices in PEIPs include: a project management office; technical assistance in investment management; PEIP governance change board; contracting strategy; international standard contracts; collaborative building information modeling (BIM) methodology; and government-to-government contracts (see [Medina Flores, 2021](#)). The first PEIP was approved in 2022, in the framework of the [Special Bicentennial Schools Project](#).

³⁸ Among other measures, project management structures (equivalent to a project management office) are created; the role of Invierte.pe in execution follow-up is made explicit; works can be carried out in parallel with the preparation of technical files; the use of levy and royalty resources for rehabilitation expenses is authorized; and subnational governments may sign agreements with PEIPs to facilitate execution.

and other measures³⁹ helped to increase investment execution in 2023 to 76%,⁴⁰ despite it being the first year for subnational authorities. In turn, improving the execution of public investment supports the Peruvian government's efforts to maintain spending at levels that help to reactivate the economy.

- 1.17 The programmatic series also supports improvement in the allocation of public investment resources to regional governments, contributing to greater territorial equity (paragraph 1.34). The first operation supported the reform of the Regional Compensation Fund (FONCOR), which allocates investment resources among regional governments. Prior to the reform, the amount of funds at the disposal of FONCOR was fixed annually in the budget law; its formula for funds distribution among regional governments was not publicly known and did not take into account income received by regional governments from natural resource transfers. The reform sought to give predictability to FONCOR resources, based on a growing share of general sales tax collection until reaching two percentage points in 2024. It also aimed to improve distribution among regional governments through a transparent, fiscal equalization formula, Peru being one of the first countries in the region to follow international best practices by reforming FONCOR with equalizing transfer criteria, designed to compensate regional governments according to their spending needs (approximated by population and poverty) and fiscal capacity (taking into account natural resource transfers).⁴¹ This operation verifies the implementation of that reform. Since 2022, the FONCOR allocation substantially reduced the fragmentation in per capita transfers among regional governments and provides more compensation to regional governments that receive less in natural resource transfers.⁴²
- 1.18 Aiming to increase the effectiveness of spending, this second operation promotes an update to government procurement regulations. Associated with the importance of capital spending and goods and services procurement in the budget, government procurement is the main source of technical inefficiency in spending in Peru, with a value of 1.8% of GDP.⁴³ In that regard, the proposed reform of the procurement law recently sent to Congress seeks to modernize and simplify management of government procurement by incorporating efficient and internationally used practices, oriented towards value for money, as well as criteria

³⁹ It includes the incorporation into the subnational governments of public servants focused on public investment execution; MEF support for new subnational authorities; pilot implementation of the collaborative BIM project management methodology; and resources from competitive funds to encourage subnational execution ([MMM 2024-2027](#)). In addition, the [National Infrastructure Authority \(ANIN\)](#) was created for the formulation, execution, and maintenance of large investment projects; likewise, the [Investment Project Studies and Design Agency \(OEDI\)](#) was set up to provide technical assistance to subnational projects. Both entities report to the Office of the President of the Council of Ministers.

⁴⁰ The values for the central, regional, and local levels were 89%, 79%, and 64%, respectively. Source: [MEF - friendly consultation](#). For Latin America and the Caribbean: [FISLAC](#).

⁴¹ [Muñoz, Pineda, and Radics \(2017\)](#), with a review of the experience in Latin America and the Caribbean and OECD countries.

⁴² In 2023, with respect to the previous distribution formula, the FONCOR reform reduced the coefficient of variation of capital income per capita of regional governments by more than 50%; and the correlation between FONCOR resources and natural resource transfers went from slightly positive to markedly negative, denoting greater territorial equity in the distribution of capital resources. In future, in order to ensure fiscal neutrality, it is essential to continue the gradual reduction of other transfers to regional governments to offset the increase in FONCOR resources. [Baca \(2024\)](#).

⁴³ [DIA 2018, Better Spending for Better Lives](#).

- of transparency and environmental, social, and economic sustainability. Among other measures, the proposal introduces incentives to reward good suppliers and makes procurement processes more efficient, defines contractual modalities for emergency situations, introduces strategic contracting mechanisms, facilitating centralized purchases,⁴⁴ enables phasing in of the use of standardized contracts; and seeks to avoid unnecessary delays in precautionary measures.
- 1.19 As regards government procurement, this operation also verifies the implementation of measures to promote and monitor women's participation in the government procurement market. In this regard, the first operation supported the approval of the legal regulation approving the "Action Plan: Participation of Women Entrepreneurs in Government Procurement"; this operation verifies progress in the implementation of the action plan, which identified the need to: (i) build the capacities of women entrepreneurs and women-led companies in relation to the current regulatory framework; (ii) identify women-led companies in the FUP (Central Vendor Registry) system in order to increase the visibility of such companies as potential government contractors; (iii) study comparable international experiences with women's participation in government procurement; (iv) form sorority groups among women entrepreneurs that promote solidarity and mutual knowledge generation; and (v) organize business roundtables to put women entrepreneurs in touch with government procurement markets.⁴⁵ To facilitate online monitoring, in March 2023, the [Women's participation in government procurement](#) dashboard was launched as a pioneering initiative, containing information available since 2020 on the participation of women and women-led companies in the government procurement market in Peru. Lastly, the operation also supports the results platform for eco-efficiency measures in public management and the establishment of a multisectoral commission on sustainable government procurement.
- 1.20 With respect to public financial management and quality of spending, this operation supports, on the one hand, the gradual implementation of cost accounting in Peru's public administration, which involves measuring the resources consumed by a government unit to produce a public good or service; this makes it possible, for example, to compare costs per patient in each hospital and identify the resources used on critical inputs (medicines, wages, etc.). In this way, it facilitates the identification of areas of savings (technical efficiency) and greater resource efficiency (allocative efficiency) and by making information more widely available, it contributes to transparency and accountability.⁴⁶ In this way, it supports the approval of the methodology for applying cost accounting and its progressive implementation in the health sector.
- 1.21 This operation also supports Peru's most recent advances in the results-based budgeting strategy. Launched more than 15 years ago, this strategy seeks to

⁴⁴ In 2023, the MEF Supply Department promoted a series of provisions on corporate purchases of inputs and standardization of goods and services, which are expected to result in potential savings of more than US\$100 million.

⁴⁵ See [implementation report](#) of the "Action Plan: participation of women entrepreneurs in government procurement".

⁴⁶ Cost accounting is information intensive and works best for goods or services that are clearly identified and comparable between entities. See [blog highlighting experiences in Brazilian states](#) supported by the Bank's PROFISCO programs.

improve the allocation of public resources to measurable outcomes and outputs for public benefit. Peru's results-based budget garnered international recognition for its achievements in programs such as the Coordinated Nutrition Program, which brought substantial reductions in chronic malnutrition and childhood anemia,⁴⁷ based on solid evidence of the causal relationship between the products delivered and the results sought. However, there are areas for improvement in Peru's results-based budgeting strategy that this operation supports:⁴⁸ (i) creation of a fund for impact evaluations, which generates evidence for improving budget allocation; (ii) pilot application of budget incentives in a prioritized sector (health),⁴⁹ based on the fulfillment of goals linked to the recording and reporting of information on performance; and (iii) improvement of indicator monitoring and generation to assess progress in the implementation of the Results-Oriented Budget Program to Reduce Violence against Women.⁵⁰

1.22 Regarding this last matter, Peru has one of the highest levels of violence against women in the region: 54.9% of women have suffered some type of intimate partner violence.⁵¹ The Results-Oriented Budget Program to Reduce Violence against Women, approved in 2019 and a pioneer in the region, is a multisectoral and intergovernmental budgetary instrument designed to reduce violence against women through the implementation of evidence-based prevention, care, and protection interventions.

1.23 **Rationale and summary of the reform proposals.** This program is part of the Bank's ongoing work with the MEF to strengthen fiscal management. In particular, as a complement to operation [5784/OC-PE](#) (paragraph 1.5), it supports measures aimed at economic reactivation and consolidation of the path to fiscal sustainability. In fulfillment of its objectives, this second operation of the programmatic series strengthens half of the indicative measures originally envisaged (paragraph 1.39). Notably, the new measures incorporated under the components include strengthening the CFP's institutional framework, transparency, and independence; creating the fiscal cadastre in the MEF, to better identify the municipal tax base; and public contracting and investment measures to spur economic recovery. In the first operation, 88% of the measures included in the policy matrix entailed the approval of legal regulations to make the project objective viable. In this second operation, 60% of the measures concern the implementation and evaluation of results of those policies, and the remaining 40%,

⁴⁷ See [World Bank policy note](#) containing the initial results of the Coordinated Nutrition Program, together with an article summarizing developments in the Peru's results-based budgeting strategy ([Paliza, 2022](#)).

⁴⁸ These measures are the responsibility of Peru's Public Budget Department (DGPP), which has extensive experience in the implementation of the results-based budgeting strategy and the technical capabilities to ensure their sustainability.

⁴⁹ The health sector was prioritized because of its previous experience in the implementation of results-based budgets and the size of its budget (about 15% of the total national budget).

⁵⁰ This is a multidimensional problem that affects more than two thirds of the women in Peru and was documented in the [budget program](#) that this operation supports. See [Informe de Medidas para Fortalecer el Seguimiento a su Implementación](#).

⁵¹ [DHS/ENDES \(2022\)](#) based on 2021 information.

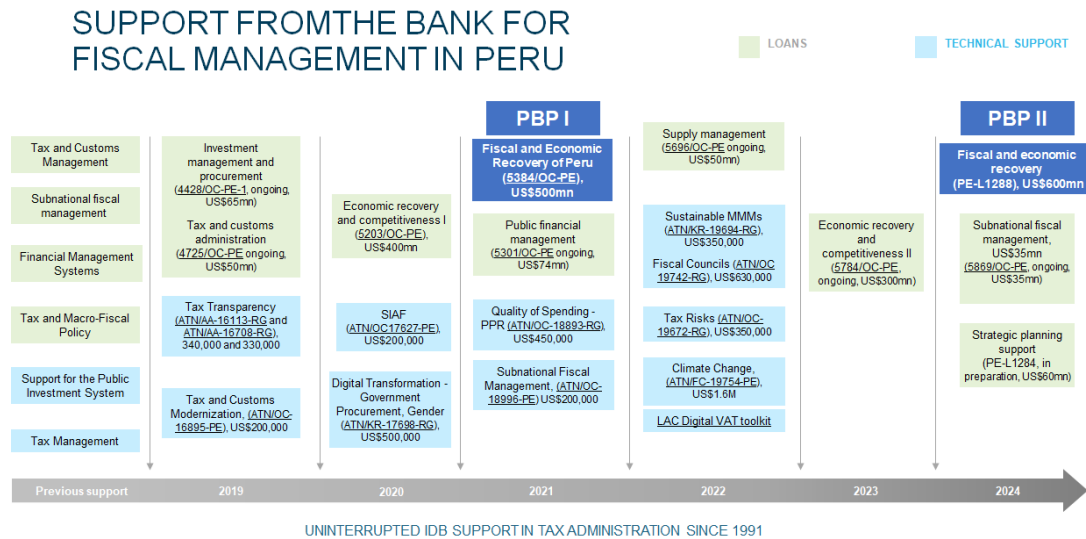
to the formulation of new policies focused on achieving the objectives of the programmatic series (paragraph 1.39 and [optional link 1](#)).⁵²

- 1.24 **Pending challenges.** In the medium term, there are ongoing challenges, many of which were also mentioned in the [Concluding Statement of the 2024 Article IV Mission of the International Monetary Fund \(IMF\)](#). In that regard, [Peru's possible accession to the OECD](#) offers an opportunity to address them in an expedited manner. The challenges include completing the path to gradual convergence with the macrofiscal rules and/or adjusting it if adverse shocks persist; continuing to improve identification and mitigation of fiscal risks, including those arising from climate change;⁵³ in tax matters, completing the reform of simplified regimes, implementing the fiscal cadastre, reducing tax expenditures, and improving income tax collection capacity; in terms of expenditure, continuing to improve the efficiency of public investment, implementing the government procurement reform, strengthening public financial management (including expanding cost accounting and implementing the SIAF), and deepening the agenda to improve the quality of spending. As described below, the Bank has a wide array of instruments to support fiscal management in Peru that not only have contributed to the development of this operation but also will help address many of the ongoing challenges in the future.
- 1.25 **Bank value-added.** The Bank has a long history of providing support to the Peruvian government in fiscal matters. Multiple technical cooperation operations and five investment loans currently in execution are being used to contribute to the fulfillment and sustainability of the various policy conditions in this operation, including the recently approved operation to support implementation of the fiscal cadastre reform ([5869/OC-PE](#)). As indicated below, the Bank's value-added here is key both for formulating and approving the reforms and for their implementation and sustainability—the investment loans are particularly important in this regard, as they have longer execution times than the present operation (paragraph 2.9). Bank staff have also been building knowledge and trust with Peruvian officials and technical experts for more than 15 years (see Figure 1).

⁵² A sign of the deepening of the measures relative to the original design is the increase in measures involving new policy formulation from 18% to 40%.

⁵³ A [recent report of the Fiscal Council](#) warns of the fiscal risks arising from the state-owned company PetroPerú and the Metropolitan Municipality of Lima, among others.

Figure 1. Bank support for fiscal management in Peru



- 1.26 In the macrofiscal area, the Bank is providing technical assistance to the MEF to improve its predictive tools and fiscal risk analysis through the FISLAC platform—including economic activity projections—and models to quantify the effects of climate change and natural disasters on public finances (ATN/KR-19694-RG, condition 2.2). This is in addition to support for the development of tools and capacities of the CFP for its fiscal sustainability studies, as well as experience-sharing with other councils in Latin America and the Caribbean and OECD countries (ATN/OC-19742-RG, condition 2.3).⁵⁴ See [Summary of IDB support activities for policy actions](#).
- 1.27 In the area of tax policy and administration, the Bank has been supporting the MEF and SUNAT since 1991, through technical cooperation and investment loans.⁵⁵ Specifically, the Bank participated in the preparation of the [VAT Digital Toolkit for Latin America and the Caribbean](#) in cooperation with the OECD, the World Bank, and the Inter-American Center for Tax Administration (CIAT) and provided technical assistance to Peru and other countries in the region in the preparation of proposals (condition 3.1). It also contributed to the preparation of a diagnostic assessment and proposed modification of the simplified tax regimes, which served as an input for the legislative bill prepared by the government (ATN/OC-16895-PE, condition 3.2). Comprehensive support has been provided for the reform creating the fiscal cadastre (condition 3.3), which included: (i) design and development of a pilot digital fiscal cadastre platform (ATN/OC-18996-PE), which is the proof of concept currently being enhanced by the Government of Peru with a view to mass rollout as part of the investment loan (5869/OC-PE); and (ii) analysis of the fiscal potential of the property tax and the feasibility of implementing automated tools for mass real estate valuation (ATN/OC-16895-PE). The policy measures related to

⁵⁴ This is part of a regional public good in execution that supported the formation of a regional network of officials from independent fiscal councils and macrofiscal analysis departments.

⁵⁵ Since SUNAT became administratively independent in 1991, the Bank has provided successive support through four technical cooperation operations and four investment loans.

tax transparency (conditions 3.4 to 3.6) are supported by the investment operation presently in execution with SUNAT ([4725/OC-PE](#));⁵⁶ transactional resources to verify compliance with these measures through expert reports; and regional technical cooperation operations that help consolidate the progress made by Peru and other Latin American and Caribbean countries in implementing tax transparency standards ([ATN/AA-16113-RG](#) and [ATN/AA-16708-RG](#)).⁵⁷

- 1.28 With respect to public expenditure management, for more than two decades the Bank has been supporting the improvement of public financial management systems, including management of public investment by the central government and subnational governments.⁵⁸ Several of the measures to improve the execution and quality of public investment (condition 4.1) are being implemented through investment loan [4428/OC-PE-1](#), currently in execution,⁵⁹ and complement policy measures to reactivate public and private infrastructure spending, supported by the policy-based loan [5784/OC-PE](#) (paragraph 1.5). In addition, administrative resources and technical assistance from the Bank were used to support the evaluation of the results of the FONCOR reform (condition 4.2). The Bank also provided suggestions, based on international good practices, to the proposed new government procurement law, including the introduction of environmental sustainability criteria (condition 4.3); once approved, many of the measures contained in the law will be implemented through loans [4428/OC-PE-2](#) and [5696/OC-PE](#), both of which are in execution.⁶⁰ In another area, technical cooperation resources were used to support actions implemented to promote the inclusion of women-led companies in the government procurement market ([ATN/KR-17698-RG](#), condition 4.4,⁶¹ as well as for the implementation of provisions for eco-efficiency management ([ATN/FC-19754-PE](#), condition 4.5).⁶² With respect to public financial management, investment loan [5301/OC-PE](#) is financing the cost accounting model (condition 4.6).⁶³ Lastly, through its staff and technical cooperation resources, the

⁵⁶ The project financed equipment to implement an integrated system for the automated exchange and receipt of information, by which tax and financial information is shared with more than 100 jurisdictions, in accordance with OECD security and confidentiality standards.

⁵⁷ The Bank contributes to the definition and monitoring of these standards through its specialists at global forums on international taxation. See [Building Effective Beneficial Ownership Frameworks: A Joint Global Forum and IDB Toolkit](#).

⁵⁸ Loans [1437/OC-PE](#) and [2703/OC-PE](#), approved in 2002 and 2012, respectively, have supported the improvement of public investment management at all three levels of government since 2003.

⁵⁹ The “Project to Boost Efficiency in Public Investment Management and Public Procurement” finances, among other measures, the implementation of project management standards (“Project Management Structures”); the creation of a “Center of Excellence” to provide specialized support to those structures; and support to subnational governments through experts in public investment management. The Project to Improve and Expand Operational or Institutional Mission Services at the National Strategic Planning Center (in preparation) is also expected to contribute to improvements in public investment planning.

⁶⁰ “Project to Boost Efficiency in Public Investment Management and Public Procurement” and “Improvement of the Public Supply Service for Goods, Services, and Works,” respectively.

⁶¹ It includes a training program in procurement rules, leadership, and business strategies.

⁶² Support was provided for the preparation of the report on the results of the eco-efficiency measures, and sustainability criteria are being introduced in the product sheets of high-demand products.

⁶³ “Project to Improve the Financial Administration of the Public Sector through Digital Transformation,” which supports the implementation of cost accounting within the framework of the modernization of the Integrated Financial Management System for Public Resources (SIAF-RP). The approach is consistent with operation [5696/OC-PE](#), currently in execution, aimed at improving the supply chain by creating synergies to improve expenditure management.

Bank is providing technical assistance for the implementation of results-based budget expenditure quality measures ([ATN/OC-18893-RG](#), condition 4.7); with respect to the Results-Oriented Budget Program to Reduce Violence against Women, one of the strategic objectives of policy-based loan [5267/OC-PE](#) is to help reduce the prevalence of violence against women, through improvements in the quality and coordination of prevention and care services; and through technical cooperation operation [ATN/CF-18365-RG](#), the Bank is supporting the Ministry of Women and Vulnerable Populations in interventions that use technology and behavioral science to prevent violence against women.⁶⁴

- 1.29 **The Bank's experience in the sector and the region.** The Bank has extensive experience in assisting countries in the region with their fiscal reform processes. In the case of this programmatic series, it contributes comprehensively to the different pillars of fiscal management (macrofiscal framework; tax policy and administration; public expenditure management). Similar precedents include operations in Costa Rica ([4819/OC-CR](#)), approved in 2019 for US\$350 million; Paraguay ([4667/OC-PR](#)), approved in 2018 for US\$300 million; and El Salvador ([4542/OC-ES](#)), approved in 2018 for US\$350 million. Other recent operations include Colombia ([5766/OC-CO](#)), approved in 2023 for US\$500 million, with measures aimed at increasing equity and effectiveness in the tax system; and the Dominican Republic ([5806/OC-DR](#)), approved in 2023 for US\$300 million, a pioneering loan that incorporates climate change goals into public and fiscal management. This program also incorporates elements from the COVID-19 programmatic series, as it was prepared during the pandemic (e.g., tax relief measures for MSEs in the first operation).⁶⁵ A distinguishing feature of Peru in this programmatic series is the wide range of complementary investment operations, which contribute not only to the identification of policy reforms, but also to their sustainability.
- 1.30 **Lessons learned.** The program takes into account lessons learned by the Bank in the sector, including:⁶⁶ (i) the importance of adding value to policy measures and providing them with complementarity through investment loans, technical cooperation operations, and long-term technical support (paragraph 1.25); (ii) obtaining counterpart buy-in to contribute to the soundness and sustainability of reforms; in this regard, the fiscal cadastre reform builds on several years of technical assistance that the Bank has provided to help Peru's Ministry of Economy and Finance (MEF) enhance its subnational fiscal management capacities

⁶⁴ "Hablemos entre patas" is an initiative aimed at men that seeks to reduce intimate partner violence by developing skills in communication, emotional regulation, healthy sexuality, and consent. Another initiative measured the impact of the use of text messages to encourage help-seeking among women victims of intimate partner violence. Both initiatives underwent impact assessments that produced evidence for improving resource allocation.

⁶⁵ The Bank approved 13 operations as part of programmatic series designed under the COVID-19 prototypes in response to the pandemic, for US\$2.1 billion, and completed both operations under that series in Barbados, Guyana, Jamaica, Paraguay, and Uruguay. The last first operation in that programmatic series was for Jamaica and approved in March 2021. The Bank is currently designing a contingent loan for natural disasters and public health emergencies (PE-O0011), which seeks to help cushion the impact that a natural disaster or a public health event of severe or catastrophic magnitude could have on public finances.

⁶⁶ These lessons come from the Bank's recent experience and the [Fiscal Management Sector Framework Document](#), the [Comparative Evaluation: Review of Bank Support to Tax Policy and Administration, 2007-2016](#), and [Technical Note: Design and Use of Policy-Based Loans at the IDB](#).

(paragraph 1.27); and (iii) ending pandemic-era temporary fiscal support and introducing reforms to consolidate fiscal sustainability and economic recovery (paragraphs 1.8, 1.17, and 1.16).

- 1.31 **Coordination with other development partners.** This operation seeks complementarity with the activities of other development partners that support fiscal management in Peru. The Bank coordinates with the following organizations: (i) OECD, in improvement of the CFP, joint monitoring of compliance with tax transparency standards, and in general on the fiscal commitments assumed by the Government of Peru with respect to the country's OECD accession process; (ii) Swiss cooperation, complementing technical assistance to the MEF in public financial management (particularly accounting and results-based budgeting systems); and (iii) United States Agency for International Development (USAID), which provided support in the preparation of the government procurement bill, with technical reviews by the Bank.
- 1.32 **Strategic alignment.** The program is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) and is aligned with the objectives of: (i) reducing poverty and inequality, among other measures, through improved regional equity in the distribution of public investment resources; (ii) addressing climate change, through, for example, the incorporation of climate change fiscal risks in macrofiscal programming, according to the [joint MDB methodology for tracking climate finance](#), and due to planned policy measures that integrate climate considerations into fiscal management, climate finance is estimated at 25% (see [Annex on sustainability and climate change](#)). These resources will support the IDB Group's goal of increasing funding to projects related to climate change; and (iii) promoting sustainable regional growth through greater efficiency in the execution of public investment. The program is also aligned with the following operational focus areas: (i) biodiversity, natural capital, and climate action; (ii) gender equality; (iii) institutional capacity, rule of law, and citizen security; and (iv) sustainable, resilient, and inclusive infrastructure. The program is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-2) and is consistent with: (i) the Fiscal Policy and Management Sector Framework Document (GN-2831-8), as regards revenue mobilization and greater efficiency in the use of public resources; (ii) the Decentralization and Subnational Governments Sector Framework Document (GN-2813-10), in that it supports self-generated revenue mobilization and improved territorial equity in the distribution of capital transfers; (iii) the Climate Change Sector Framework Document (GN-2835-8), by integrating climate considerations into fiscal management; and (iv) the Gender and Diversity Sector Framework Document (GN-2800-8) by promoting gender equality and women's empowerment. It is also consistent with the Employment Action Framework with Gender Perspective (GN-3057), by supporting regulations aimed at encouraging formal employment. The project is aligned with the IDB Group Country Strategy with Peru 2022-2026 (GN-3110-1), through the priority area of institutional strengthening and delivery of basic services at the regional level, based on the strategic objective of boosting the effectiveness and institutional structure of public administration. Lastly, the operation is included in the 2024 Operational Program Report (GN-3207).

- 1.33 **Alignment with the Paris Agreement.** This operation has been analyzed using the Joint MDB Assessment Framework for Paris Alignment and the IDB Group Paris Alignment Implementation Approach (GN-3142-1), and it has been determined to be: (i) aligned with the Paris Agreement adaptation target; and (ii) universally aligned with the Paris Agreement mitigation target. See [Annex: Sustainability and Climate Change](#).

B. Objectives, components, and cost

- 1.34 The general development objective of the program is to improve the sustainability of fiscal management in support of the economic recovery program. Its specific development objectives are to increase: (i) tax revenue, while preserving companies' liquidity; (ii) public investment, while maintaining expenditure levels that will facilitate economic and fiscal recovery; and (iii) the effectiveness of public spending.
- 1.35 **Component 1. Macroeconomic framework.** Maintain an appropriate macroeconomic context consistent with program objectives as established in the policy matrix (Annex II) and with the [policy letter](#) guidelines.
- 1.36 **Component 2. Safeguarding the macrofiscal framework.** This component will support the general development objective through the following policy conditions: (2.1) a legal regulation that provides for a gradual return to the macrofiscal rules set out in the Framework for Responsibility and Fiscal Transparency of the Nonfinancial Public Sector, in order to preserve fiscal sustainability, has been approved and published; (2.2) adoption of the following measures related to macrofiscal programming and fiscal risk management: (i) the MMM for 2024 and thereafter is approved and published in accordance with the legal regulation providing for a gradual return to the macrofiscal rules set out in the Framework for Responsibility and Fiscal Transparency of the Nonfinancial Public Sector, including sensitivity analyses to determine the potential effects of natural disasters linked to climate change; and (ii) FISLAC's macrofiscal analysis and projection tools have been developed and implemented to support macroeconomic and fiscal risk analysis of natural disasters linked to climate change, with an emphasis on the El Niño phenomenon; and (2.3) a legal regulation has been approved and published that establishes provisions to strengthen the institutional framework, transparency, and technical independence of the Fiscal Council of Peru.
- 1.37 **Component 3. Strengthening tax policy and administration.** This component will support specific objective 1 through the following policy measures: (3.1) a legislative proposal has been drafted on the implementation of a mechanism for the collection of general sales tax on digital services in cross-border transactions; (3.2) a legislative proposal for reform of the simplified income tax regimes has been sent to the Congress of the Republic, aimed at enhancing efficiency and facilitating compliance by small and medium taxpayers; (3.3) the legal regulation establishing the fiscal cadastre, aimed at improving identification of the municipal tax base, with administration and valuation of properties by the MEF, has been approved and published; (3.4) the National Superintendency of Tax Administration (SUNAT) has begun to receive information from financial institutions on their clients' banking transactions, and the effects of use of the information on the comprehensive tax compliance strategy are starting to be

- evaluated; (3.5) SUNAT has begun to automatically exchange financial information from other jurisdictions, and the effects of use of the information on the comprehensive tax compliance strategy are starting to be evaluated; and (3.6) the information on beneficial owner registration has started to be updated in the SUNAT records, and progress towards implementation is being evaluated.
- 1.38 **Component 4. Improving public expenditure management.** This component will support specific objective 2 and 3 through the following policy measures: (4.1) the legal regulation establishing public investment and government procurement measures to promote economic recovery has been approved and published; (4.2) investment resources have been allocated to the regional governments based on equity and territorial compensation criteria, and the results of their application are being evaluated; (4.3) the proposed new Law on Government Procurement has been sent to the Congress of the Republic and includes environmental, social, and economic sustainability criteria; (4.4) the OSCE has implemented the “Action Plan: Participation of Women Entrepreneurs in Government Procurement,” and online monitoring is being carried out of the participation of women and women-led companies in the government procurement market; (4.5) the provisions for managing eco-efficiency have been implemented, especially: (i) the report on the results of the eco-efficiency measures in public management has been published on the consolidated digital platform of the Peruvian government; and (ii) a multisectoral commission for sustainable government procurement has been installed; (4.6) the methodology for applying cost accounting has been designed, and its implementation has begun to be piloted in the health sector, contributing to the gradual estimation of the costs for improving efficiency in the sector; and (4.7) the following measures related to quality of spending have been adopted: (i) an impact evaluation fund has been created, which contributes to generating evidence to make the decision-making process more efficient in the allocation of public resources; (ii) the legal regulation for the establishment of budgetary incentives linked to the improvement of expenditure programming and service delivery in a prioritized sector has been approved and published; and (iii) the legal regulation containing measures for monitoring and accountability of actions implemented and indicators prioritized in the framework of the Results-Oriented Budget Program for the reduction of violence against women has been approved and published.
- 1.39 **Changes in policy triggers and rationale.** The 16 policy measures agreed upon with the government have changed somewhat from the indicative measures that were identified when the first operation was designed, as explained in detail in the [optional link 1](#). These changes do not impact the fulfillment of the specific objectives of the programmatic series; on the contrary, they reinforce it. There are: (i) eight measures that were strengthened; this is the case of measure 2.2, which includes a sensitivity analysis of the effects of natural disasters linked to climate change, together with the improvement of macrofiscal analysis and projection tools, with support from the Bank; measure 2.3, a new addition, which strengthens the CFP by law; measure 3.1, involving the drafting of a bill for the implementation of a mechanism for the collection of general sales tax on digital services in cross-border transactions, based on the proposal originally envisaged; measure 3.2, involving the submission to Congress of the proposal originally envisaged; measure 3.3, a new addition, which consists in the creation by law of the fiscal cadastre in the MEF; measure 4.1, involving the approval by law of measures that strengthen the role of the MEF in overseeing the execution of public investment

and improving its quality; measure 4.3, which includes environmental, social, and economic sustainability criteria in the proposed new law on government contracting; and measure 4.6, involving the effective rollout of cost accounting in the health sector; (ii) six measures whose wording was made more precise to reflect updates and/or better describe the intended outcome (measures 2.1, 3.1, 3.4, 3.5, 3.6, and 4.4); (iii) one measure that, although advanced, was not completed, and was replaced with a measure of equivalent scope, which recognizes the recent progress of the MEF in its results-based budgeting strategy and is aligned with gender equity (measure 4.7); and (iv) two unchanged measures (4.2 and 4.5).

- 1.40 **Beneficiaries.** The direct beneficiaries are: (i) the Government of Peru, at the central and municipal levels, which will have access to more tax resources; (ii) businesses, which will benefit from the environment of fiscal transparency that private investment promotes; and (iii) women, who will have more opportunities to contract with the State, and who will suffer less violence thanks to better monitoring of the Results-Oriented Budget Program to Reduce Violence against Women. The citizenry in general will be indirect beneficiaries, since they will have access to more public works and services as a result of higher revenue and increased spending on investment that is both more efficient and more equitable.

C. Key results indicators

- 1.41 **Outcomes.** Achievement of the general development objective will be measured through the decrease in the fiscal deficit. Achievement of the specific objectives will be measured through: (i) formal properties linked in the fiscal cadastre platform / number of formal properties registered in SUNARP, inasmuch as better identification of the tax base will help increase property tax revenue; (ii) increase in the number of information exchange requests made abroad, enabling greater domestic collection as a result of audit findings and increased voluntary compliance; (iii) improvement in the execution of capital expenditure, which will increase public investment executed in closer range to the budgeted value; and (iv) percentage of the Ministry of Health's total budget used to begin implementation of the cost accounting model, which will help improve the technical and allocative efficiency of resources in the health sector, as a pilot that is expected to be expanded to other sectors.
- 1.42 **Economic analysis.** Based on recommendations of the Office of Evaluation and Oversight (OVE) in its 2011 Evaluability Review of Bank Projects,⁶⁷ and the results of the Review of Good Practice Standards for the Evaluation of Policy-based Lending, prepared by the Evaluation Cooperation Group (ECG) comprising the independent evaluation offices of multilateral development banks,⁶⁸ as described in paragraph 1.3 of the Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non-Sovereign Guaranteed Operations (document GN-2489-5), indicating, inter alia, that there is no need to include an analysis of

⁶⁷ RE-397-1: Currently, the economic analysis section is calculated as the maximum between the cost-benefit analysis and the cost-effectiveness analysis. However, neither analysis is applicable to policy-based loans.

⁶⁸ Good Practice Standards for the Evaluation of Public Sector Operations, Evaluation Cooperation Group, Working Group on Public Sector Evaluation, 2012 Revised Edition, February 2012.

efficiency in the use of financial resources,⁶⁹ it was decided not to perform an economic analysis for loans of this type, as reported to the Bank's Board of Executive Directors. Accordingly, this loan operation does not include an economic analysis, so none was used for the purposes of determining the development effectiveness matrix (DEM) evaluability score.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This loan is the second of two technically linked but independently financed operations, in accordance with the document Policy-based Loans: Guidelines for Preparation and Implementation (CS-3633-2). The program also follows the guidelines of the Proposal to Establish a Set of Contingent Lending Instruments of the IDB (GN-2667-2). This structure and instrument are justified because they: (i) promote ongoing policy dialogue with the country on fiscal sustainability; and (ii) facilitate monitoring of the reform implementation strategy, since some of the reforms are complex to implement, long-term, and require dedicated coordination between government agencies. Furthermore, the instrument is also flexible enough to be adaptable to new knowledge that may be acquired during execution of the agreed-upon measures.
- 2.2 This series will use the deferred drawdown option (DDO).⁷⁰ The use of this tool, which acts as a guarantee, is fully consistent with the Government of Peru's debt management policy, characterized by the precautionary diversification of financing sources. This gives the country financing at sustainable costs, especially during times of regional and international financial volatility.
- 2.3 **Dimensioning.** This second operation is for US\$600 million, to be financed with the Bank's Ordinary Capital resources. This amount will be disbursed in a single tranche and is justified by the country's general need for fiscal resources. It is not directly related to the costs of the reforms, in accordance with section (b) of paragraph 3.27 of document CS-3633-2. This operation accounts for 7% of NFPS gross financing needs for 2024 and 49% of multilateral financing.

B. Environmental and social risks

- 2.4 This PBP operation not expected to generate significant direct adverse effects on the environment or natural resources of the country, and therefore it is excluded from the scope of the IDB Environmental and Social Policy Framework (GN-2965-23) pursuant to the provisions of its paragraph 4.7.

⁶⁹ According to the ECG, policy-based loans should be evaluated for relevance, effectiveness, and sustainability. Efficiency was not included as a criterion because policy-based loans are sized according to the country's financing gap, independent of project benefits.

⁷⁰ With a drawdown period of up to three years (GN-2667-2).

C. Fiduciary risks

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

D. Other risks and key issues

- 2.6 **Economic and financial climate.** There is a medium-high risk that if the factors that affected economic performance in 2023 persist (unfavorable external context, El Niño phenomenon, social unrest), and/or if there is political instability, economic growth and the path to convergence with fiscal rules could be compromised. This risk will be accepted and partially mitigated based on the Bank's fluid technical dialogue with the government, as well as complementary loans and technical cooperation operations in execution (see paragraphs 1.26 to 1.28) that will support implementation of the operation's policy measures which, in turn, contribute to meeting the government's fiscal targets.⁷¹
- 2.7 **Institutional environment.** There is a medium-high risk that if the reform measures that require legislative approval do not obtain that approval, or undergo significant changes, the objectives sought through them may not be achieved. To mitigate this, the Bank will support with investment loans in execution the implementation of administrative measures that will allow partial progress in achieving the objectives of the proposed laws in question (simplified regimes, [4725/OC-PE](#); and government procurement, [4428/OC-PE-2](#) and [5696/OC-PE](#)).
- 2.8 **Social climate.** A third medium-high risk, shared with the investment loan in preparation (paragraph 1.27), is that if the municipalities do not adopt an incremental approach in expanding the property tax base resulting from the reform giving rise to the fiscal cadastre, there may be a social backlash that prevents them from taking sufficient advantage of the achievements of that reform. To mitigate this, with support from the Bank ([5869/OC-PE](#)), the MEF will prepare strategies for updating real estate valuations, including communication campaigns, and will train municipalities in their use, in order to promote gradual increases in the property tax base so as to reduce the risk of a political backlash.
- 2.9 **Sustainability.** All of the policy measures envisaged in the program are part of a commitment to fiscal consolidation that Peru has been implementing for decades and plans to deepen (see [MMM-2024-27](#)). The Bank's historical support by means of multiple instruments, spanning different administrations, will continue over the coming years and contribute to the sustainability of the policy measures supported by this operation. These measures are the result of a sustained, incremental effort aimed at adopting best practices: (i) an increasingly comprehensive and robust fiscal responsibility framework, which this operation helps to strengthen; (ii) support for tax reforms that improve tax collection, address informality, and increase tax transparency; (iii) a commitment to improving the execution of public

⁷¹ In particular, the [MMM 2024-27](#) and FISLAC's macrofiscal analysis and projection tools (policy conditions 2.2 (i) and (ii)) helped to identify the fiscal risk of an extraordinarily intense El Niño phenomenon and propose mitigation measures with the fiscal instruments available to the Government of Peru.

investment and greater spending effectiveness; and (iv) incorporation of climate change and gender priorities into fiscal management systems.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower is the Republic of Peru, and the executing agency is the Ministry of Economy and Finance (MEF), through the Public Treasury Department (DGTP). The DGTP is responsible for the operation's negotiations, as well as the program's financial aspects. It is also in charge of coordinating with the institutions responsible for implementing the planned reforms, verifying the proposed policy conditions, and delivering monitoring reports and evidence of achievement of the program's policy conditions.
- 3.2 **Strategic coordination.** The Deputy Minister of the Treasury will be in charge of strategic coordination, and the Macroeconomic Policy and Fiscal Decentralization Department will perform the technical analysis and coordinate with the various government agencies in charge of adopting the measures.⁷² It will also monitor the measures included in the policy matrix and promote fulfillment thereof, participate in program evaluation, and address the risks, among other actions.
- 3.3 **Special contractual conditions precedent to the sole disbursement of the financing. Disbursement of the Bank's loan proceeds, made at the request of the borrower, will be subject to fulfillment of the policy reform commitments described in the program components and set forth in the policy matrix (Annex II) and the [policy letter](#), in addition to other conditions established in the loan contract.**

B. Summary of arrangements for monitoring results

- 3.4 **Monitoring.** Given the nature of the operation, monitoring will center on verifying fulfillment of policy actions. Once the disbursement has been made, the executing agency will be responsible for collecting information on the performance indicators needed to evaluate the program results, with technical assistance from the Bank, according to the [monitoring and evaluation plan](#).
- 3.5 **Evaluation.** As per the guidelines set out in document OP-1242-5, the program evaluation will be included in the project completion report. The evaluation methodology for the program outcomes and impacts will be reflexive, before and after, to assess the impacts of the institutional reforms made through regulatory changes and the updates to the macroeconomic forecasts supported by the program ([monitoring and evaluation plan](#)).

⁷² SUNAT, the OSCE, Perú Compras, and the Ministry of the Environment.

IV. POLICY LETTER

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

Development Effectiveness Matrix		
Summary		PE-L1288
I. Corporate and Country Priorities		
Section 1. IDB Group Institutional Strategy Alignment		
Operational Focus Areas	<ul style="list-style-type: none"> -Biodiversity, natural capital, and climate action -Gender equality and inclusion of diverse population groups -Institutional capacity, rule of law, citizen security -Sustainable, resilient, and inclusive infrastructure 	
[Space-Holder: Impact framework indicators]		
2. Country Development Objectives		
Country Strategy Results Matrix	GN-3110-1	Boost the effectiveness and institutional structure of public administration
Country Program Results Matrix	GN-3207	The intervention is included in the 2024 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		10.0
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		3.5
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium High
Environmental & social risk classification		N.A.
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	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	Main Loan Document - Par. 1.26 to 1.28

Evaluability Assessment Note: The Proposal for Operation Development (POD) refers to the second and final operation of the programmatic series under a Policy-Based Loan (PBP) modality. The PBP was designed during the second year of the pandemic with the main objective of supporting the fiscal and economic recovery of the Republic of Peru. The purpose of this second operation is to complement the already implemented economic measures (during the first operation) and, at the same time, support the development of new policies that, together, will continue promoting economic growth and fiscal sustainability. This second operation is relevant taking into account the significant slowdown that the Peruvian economy experienced in 2023 due to unfavorable internal factors (social and climatic) and global economic instability.

Considering the General Development Objective of the PBP—strengthening fiscal management sustainability in support of the Economic Recovery Program—the POD organizes its Policy Matrix around four components. Component 1 is transversal and seeks to maintain an appropriate macroeconomic context consistent with the stated objectives. Component 2 includes three policy conditions that safeguard the fiscal macro framework. These measures support the gradual return to a set of prudent fiscal rules and the strengthening of the institutional framework of the Fiscal Council. Component 3 proposes six measures that will strengthen the tax management by improving tax collection capacity and the transparency of the tax system. Lastly, Component 4 proposes seven policy measures aimed at improving public expenditure management in terms of efficiency and effectiveness. These last two components are directly related to the three Specific Development Objectives (SDOs) that the PBP proposes: (i) increase tax collection while preserving business liquidity; (ii) increase public investment while maintaining expenditure levels that allow economic and fiscal recovery; and (iii) increase the effectiveness of public expenditure.

The vertical logic is appropriate. The theory of change is clear in connecting the policy measures described in the Policy Matrix with the four proposed outcome indicators, which, in turn, adequately capture and measure the scope of the SDOs. The proposed indicators are SMART, and the deadlines and targets described in the Results Matrix are considered reasonable and achievable. The causal chain is supported by recent empirical evidence observed both in Peru and abroad. The POD also describes the added value of the Bank, highlighting the parallel development programs that are being executed and prepared, many of which would find the necessary macroeconomic support and stability due to the implementation of policy measures proposed by this operation.

The project adequately plans the Monitoring and Evaluation (M&E) activities. The M&E plan includes adequate scheduling and budgeting and indicates that impact achievements will be evaluated through a reflective before-and-after methodology. The program, being part of a PBP and considering the recommendations of OVE and ECG, does not include an economic analysis. The lack of an analysis of efficiency does not impact the evaluability score in the DEM.

POLICY MATRIX

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

Components/ Policy objectives	Policy conditions Programmatic operation I	Policy Conditions Programmatic operation II	Status of fulfillment of conditions Programmatic operation II ¹
Component 1. Macroeconomic framework			
Macroeconomic stability	1.1 Maintenance of an appropriate macroeconomic context consistent with program objectives	1.1 Maintenance of an appropriate macroeconomic context consistent with program objectives	Fulfilled
Component 2. Safeguarding the macrofiscal framework			
Support the fiscal measures established by the government to combat the pandemic	2.1 The legal regulation establishing the economic performance and debt rules for the nonfinancial public sector for 2022, with the purpose of continuing to support the country's economic recovery and fiscal sustainability, has been approved and published in the El Peruano Official Gazette. ²	2.1 A legal regulation that provides for a gradual return to the macrofiscal rules set out in the Framework for Responsibility and Fiscal Transparency of the Nonfinancial Public Sector (NFPS), in order to preserve fiscal sustainability, has been approved and published.	Fulfilled (Q3 2022)
	2.2 The Multiyear Macroeconomic Framework (MMM) 2022–2025, adapted to the legal regulation that establishes the fiscal rules applicable for 2022 and indicating a path to towards achieving the objectives of the Law on the Responsibility and Transparency of the NFPS has been approved and published in the El Peruano Official Gazette.	2.2 Adoption of the following measures related to macrofiscal programming and fiscal risk management: (i) The MMM for 2024 and thereafter has been approved and published in accordance with the legal regulation establishing a gradual return to the macrofiscal rules set out in the Framework for Responsibility and Fiscal Transparency of the Nonfinancial Public Sector, including sensitivity analyses to determine the potential effects of natural disasters linked to climate change.	Fulfilled (Q3 2023)

¹ This information is purely indicative as of the date hereof. In accordance with the document "Policy-Based Loans: Guidelines for Preparation and Implementation" (document CS-3633-2), the fulfillment of all specified conditions for disbursement, including maintaining an appropriate macroeconomic policy framework, will be verified by the Bank at the time of the Borrower's disbursement request and reflected in a timely manner in the disbursement eligibility memorandum.

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

Components/ Policy objectives	Policy conditions Programmatic operation I	Policy Conditions Programmatic operation II	Status of fulfillment of conditions Programmatic operation II ¹
		(ii) FISLAC's macrofiscal analysis and projection tools have been developed and implemented to support macroeconomic and fiscal risk analysis of natural disasters linked to climate change, with an emphasis on the El Niño phenomenon.	Fulfilled (Q1 2024)
		2.3 A legal regulation has been approved and published that establishes provisions to strengthen the institutional framework, transparency, and technical independence of the Fiscal Council of Peru.	Fulfilled (Q1 2023)
Component 3. Strengthening tax policy and administration			
Improve the country's collection capacity, relief for companies, and the transparency of the tax system	3.1 The legal regulation approved to allow carryover of the net losses recorded by legal entities in 2020 has been published in the El Peruano Official Gazette.	3.1 A legislative proposal has been drafted on the implementation of a mechanism for the collection of general sales tax on digital services in cross-border transactions.	Fulfilled (Q1 2024)
	3.2 The legal regulation allowing accelerated depreciation of assets, including: (i) buildings and structures; and (ii) machinery, equipment, and high-tech, natural gas, or electric overland transportation vehicles has been published in the El Peruano Official Gazette.	3.2 A legislative proposal for reform of the simplified income tax regimes has been sent to the Congress of the Republic, aimed at enhancing efficiency and facilitating compliance by small and medium taxpayers.	Fulfilled (Q1 2024)
	3.3 The approved legal regulation on updating property values for the purposes of calculating property taxes has been published in the El Peruano Official Gazette.	3.3 The legal regulation establishing the fiscal cadastre, aimed at improving identification of the municipal tax base, with administration and valuation of properties by the MEF, has been approved and published.	Fulfilled (Q2 2023)
	3.4 The legal regulation approved for lifting and controlling banking secrecy through financial institutions providing SUNAT with information has been published in the El Peruano Official Gazette.	3.4 SUNAT has begun to receive information from financial institutions on their clients' banking transactions, and the effects of use of the information on the comprehensive tax compliance strategy are starting to be evaluated.	Fulfilled (Q1 2024)
	3.5 The legal regulation approved for the automatic exchange of financial information for the purposes of fiscal control as agreed in the Administrative Convention on Mutual Assistance among Jurisdictions and the standards of procedure and security (Common Reporting Standard) undertaken with the Global Forum and the OECD has been published in the El Peruano Official Gazette.	3.5 SUNAT has begun to automatically exchange financial information from other jurisdictions, and the effects of use of the information on the comprehensive tax compliance strategy are starting to be evaluated.	Fulfilled (Q1 2024)

Components/ Policy objectives	Policy conditions Programmatic operation I	Policy Conditions Programmatic operation II	Status of fulfillment of conditions Programmatic operation II ¹
	3.6 The legal regulation approved for implementing the beneficial owner standards as agreed upon with the Global Forum and according to FATF recommendations has been published in the EI Peruano Official Gazette.	3.6 The information on beneficial owner registration has started to be updated in the SUNAT records, and progress towards implementation is being evaluated.	Fulfilled (Q1 2024)
Component 4. Improving public expenditure management			
Improve the efficiency and effectiveness of expenditure management	4.1 The legal regulation to establish a new model for executing public investments through special public investment projects (PEIP), which will implement measures to facilitate project execution, help dynamize economic activity, and ensure the effective provision of public services to benefit the population, has been approved and published in the EI Peruano Official Gazette.	4.1 The legal regulation establishing public investment and government procurement measures to promote economic recovery has been approved and published.	Fulfilled (Q2 2023)
	4.2 The legal regulation to establish a methodology that will make it possible to allocate investment funds to regional governments based on equity and territorial compensation has been approved and published in the EI Peruano Official Gazette.	4.2 Investment resources have been allocated to the regional governments based on equity and territorial compensation criteria, and the results of their application are being evaluated.	Fulfilled (Q1 2024)
	4.3 The legal regulation for approval of standardized procurement requirement certificates, which is an enabling condition for adhering to the environmental sustainability principle of the Law on Public Procurement, has been approved and published on the Perú Compras website.	4.3 The proposed new Law on Public Procurement has been sent to the Congress of the Republic and includes environmental, social, and economic sustainability criteria.	Fulfilled (Q2 2023)
	4.4 The legal regulation with training activities, identification of women-led companies, and business roundtables for including women-led companies in the public procurement market has been approved and published on the OSCE website.	4.4 The OSCE has implemented the "Action Plan: Participation of Women Entrepreneurs in Government Procurement," and online monitoring is being carried out of the participation of women and women-led companies in the government procurement market	Fulfilled (Q1 2024)
	4.5 The legal regulation establishing the provisions for managing ecoefficiency in public administration entities, understood as an ongoing, continuous process to optimize the institutions' environmental and economic performance and continuously improve public services by helping to reduce carbon emissions associated with the consumption	4.5 The provisions for managing ecoefficiency have been implemented, especially:	
		(i) The report on the results of ecoefficiency measures in public management has been published on the consolidated digital platform of the Peruvian government.	Fulfilled (Q4 2023)

Components/ Policy objectives	Policy conditions Programmatic operation I	Policy Conditions Programmatic operation II	Status of fulfillment of conditions Programmatic operation II ¹
	of materials and electricity, has been approved and published on the Ministry of the Environment's website.	(ii) A multisectoral commission for sustainable government procurement has been installed.	Fulfilled (Q2 2024)
	4.6 The legal regulation with the general cost accounting guidelines that will help improve transparency, the execution of public funds, fulfillment of the public sector agencies' institutional objectives, as well as analysis, evaluation, and decision-making in public management, has been approved and published on the Ministry of Economy and Finance's website.	4.6 The methodology for applying cost accounting has been designed, and its implementation has begun to be piloted in the health sector, contributing to the gradual estimation of the costs for improving efficiency in the sector.	Fulfilled (Q4 2023)
	4.7 The Public Sector Financial Management Coordination Committee (CCAFSP) has approved, on the record, acceptance of the new conceptual model for the seven systems that comprise the Public Sector Financial Management System – AFSP (i.e., public budget, cash management, accounting, public borrowing, procurement, multiyear programming, investment management, and fiscal management of human resources – payroll), including budget classifiers to tag gender- and climate-change-related funds.	4.7 Adoption of the following measures related to quality of spending:	
		(i) An impact evaluation fund has been created, which contributes to generating evidence to make the decision-making process more efficient in the allocation of public resources.	Fulfilled (Q4 2023)
		(ii) The legal regulation for the establishment of budgetary incentives linked to the improvement of expenditure programming and service delivery in a prioritized sector has been approved and published.	Fulfilled (Q4 2023)
		(iii) The legal regulation containing measures for monitoring and accountability of actions implemented and indicators prioritized in the framework of the Results-Oriented Budget Program for the reduction of violence against women has been approved and published.	Fulfilled (Q4 2023)

RESULTS MATRIX

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

Indicator	Unit of measure	Baseline value	Baseline year	Target 2026	Means of verification	Comments
General development objective: Improve the sustainability of fiscal management in support of the economic recovery program						
Fiscal deficit/GDP	%	2.8	2023	1.8	IAPM and/or MMM - MEF	Deficit/GDP based on economic performance of the NFPS ¹

SPECIFIC DEVELOPMENT OBJECTIVES

Indicator	Unit of measure	Baseline value	Baseline year	Target 2026	Means of verification	Comments
Specific development objective 1. Increase tax revenue while preserving companies' liquidity						
Formal properties linked in the Fiscal Cadastre platform / number of formal properties registered in SUNARP	%	0	2023	5	SUNARP, DPDFFS	It reflects progress towards implementation of the Fiscal Cadastre, a reform initially supported by this operation whose mass rollout is an expected result of the Improvement of Subnational Public Finance Management for Fiscal Sustainability project (in preparation).
Information exchange requests made abroad	Number	67	Average 2021–2023	107	National Superintendency of Tax Administration (SUNAT)	Information exchange requests are made possible by policy measures 3.4 and 3.5. They encourage taxpayer compliance and generate control actions that increase tax collection. The target is the 2024–2026 average that SUNAT expects to achieve.
Specific development objective 2. Increase public investment while maintaining expenditure levels that will facilitate economic and fiscal recovery						
Execution of capital expenditure (accrued expense / PIM)	%	67	2019–2022 annual average	72	Monitoring of budget execution (friendly consultation)	Accrued expenditure on acquisition of nonfinancial assets as a percentage of the amended institutional budget (PIM) of the central government and subnational governments. The value achieved at the end of the project will be calculated as the average of the values observed in 2023-2026.

¹ The target for this impact indicator and the outcome indicators are consistent with the Peruvian government's estimates as to the effect of the reforms and the program. The details of the formula for calculating the results matrix indicators are provided in the [monitoring and evaluation plan](#).

Indicator	Unit of measure	Baseline value	Baseline year	Target 2026	Means of verification	Comments
Specific development objective 3. Increase public spending effectiveness						
Percentage of the Ministry of Health's total budget used to begin implementation of the cost accounting model	%	0	2023	10	Report of the DGCP – MEF	Percentage of the Ministry of Health's total budget used to begin gradual implementation of the cost accounting model.

OUTPUTS

Indicators	Unit of measure	Baseline year	Baseline value	Target 2024	Means of verification	Responsible entity
Component 2. Safeguarding the macrofiscal framework						
2.1 Legal regulation providing for a gradual return to NFPS macrofiscal rules	Regulation approved	2022	0	1	Official Gazette El Peruano, Law 31.541 of 4 August 2022	See monitoring and evaluation plan
2.2 (i) Multiyear Macroeconomic Framework (MMM) for 2024 and thereafter, in line with the legal regulation establishing the gradual return to macrofiscal rules, including sensitivity analysis of the effects of natural disasters linked to climate change.	Report published	2023	0	1	El Peruano Official Gazette, MMM 2024-2027 published in special offprint on 29 August 2023	
2.2 (ii) Report on the development and implementation of FISLAC's macrofiscal analysis and projection tools to support management of macroeconomic and fiscal risks of natural disasters linked to climate change, with an emphasis on the El Niño phenomenon.	Report approved	2023	0	1	Note from the MEF enclosing the Report on the development and implementation of FISLAC-type macrofiscal analysis and projection tools	
2.3 Legal regulation establishing provisions to strengthen the institutional framework, transparency, and technical independence of the Fiscal Council.	Regulation approved	2023	0	1	Official Gazette El Peruano, Law 31.681 of 3 February 2023	
Component 3. Strengthening tax policy and administration						
3.1 Preliminary draft law containing a proposal for the implementation of a mechanism for the collection of general sales tax on digital services in crossborder transactions.	Preliminary draft law	2023	0	1	Note from the MEF enclosing the preliminary draft law	See monitoring and evaluation plan
3.2 Draft law containing a proposed reform of the simplified income tax regimes to improve efficiency and facilitate compliance by small and medium taxpayers	Legal regulation presented	2023	0	1	Institutional website and information from the Congress of the Republic of Peru, Draft Law 06768/2023-PE presented by the Executive Branch on 5 January 2024	

Indicators	Unit of measure	Baseline year	Baseline value	Target 2024	Means of verification	Responsible entity
3.3 Legal regulation establishing the fiscal cadastre, aimed at improving identification of the municipal tax base, with administration and valuation of properties by the MEF.	Regulation approved	2023	0	1	Official Gazette El Peruano, Legislative Decree 1557 of 19 May 2023	
3.4 Evaluation report on how SUNAT has begun to receive information from financial institutions on their clients' banking transactions and preliminary evaluation of the effects of the use of the information in the comprehensive tax compliance strategy.	Report approved	2023	0	1	Note from the MEF enclosing a report verifying that SUNAT has begun to receive information and is starting to evaluate the effects of its use , independent consultant	
3.5 Evaluation report on how SUNAT has begun to automatically exchange financial information with other jurisdictions and preliminary evaluation of the effects of the use of the information in the comprehensive tax compliance strategy.	Report approved	2023	0	1	Note from the MEF enclosing a report verifying that SUNAT has begun to automatically exchange information and is starting to evaluate the effects of the information's use , independent consultant	
3.6 Evaluation report on how SUNAT has begun to update beneficial owner information in its records and to assess the progress in its implementation.	Report approved	2023	0	1	Note from the MEF enclosing a report verifying that SUNAT has begun to update information in the beneficial owner register is assessing progress in its implementation , independent consultant	
Component 4. Improving public expenditure management						
4.1 Legal regulation establishing public investment and government procurement measures to promote economic recovery.	Regulation approved	2023	0	1	Official Gazette El Peruano, Legislative Decree 1553 of 10 May 2023	
4.2 Evaluation report on how investment resources have been allocated to regional governments based on equity and territorial compensation and evaluation of the results of their application	Report approved	2023	0	1	Note from the MEF enclosing an evaluation report on the results of the allocation of investment resources to regional governments , independent consultant	See monitoring and evaluation plan
4.3 Draft law proposing a new law on government procurement that includes environmental, social, and economic sustainability criteria.	Legislation presented	2023	0	1	Institutional website and information from the Congress of the Republic of Peru, Draft Law 05472/2022-PE presented by the Executive Branch on 23 June 2023	

Indicators	Unit of measure	Baseline year	Baseline value	Target 2024	Means of verification	Responsible entity
4.4 Evaluation report on the "Action Plan: participation of women entrepreneurs in government procurement," including monitoring of the participation of women and women-led companies in the government procurement market. ²	Report approved	2023	0	1	Note from the MEF enclosing an Action Plan implementation report , independent consultant Platform for Monitoring Women's Participation in Government Procurement launched by Government Procurement Supervisory Body (OSCE) on 5 March 2023.	
4.5 (i) Report on the results of the ecoefficiency measures in public management published on the consolidated digital platform of the Peruvian government.	Report published	2023	0	1	2022 Annual Ecoefficiency Report , published on 5 December 2023	
4.5 (ii) Legal regulation providing for the installation of a multisectoral commission for sustainable government procurement.	Regulation approved	2023	0	1	Supreme Resolution creating the Multisectoral Commission for Sustainable Government Procurement .	
4.6 Report approved that contains the methodology for applying cost accounting, as well as information on progress in its pilot implementation in the health sector.	Report approved	2023	0	1	Methodology and progress report for the definition and progressive implementation of cost accounting.	
4.7 (i) Legal regulation creating an impact evaluation fund that contributes to generating evidence to make the decision-making process more efficient in the allocation of public resources.	Regulation approved	2023	0	1	Law 31912 approving supplementary credits of 27 October 2023.	
4.7 (ii) Legal regulation for the establishment of budgetary incentives linked to the improvement of expenditure programming and service delivery in a prioritized sector.	Regulation approved	2023	0	1	Law 31953 of the Public Sector Budget for fiscal year 2024 , published on 6 December 2023	
4.7 (iii) Legal regulation containing measures for monitoring and accountability of actions implemented and indicators prioritized in the framework of the Results-Oriented Budget Program for the reduction of violence against women. ³	Regulation approved	2023	0	1	Law 31953 of the Public Sector Budget for fiscal year 2024 , published on 6 December 2023	

² Pro-gender indicator.

³ Pro-gender indicator.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/24

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

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Peru, as borrower, for the purpose of granting it a financing to cooperate in the execution of the Program to Support Fiscal and Economic Recovery in Peru II. Such financing will be for the amount of up to US\$600,000,000 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 ___ _____ 2024)