



Project Proposal for
Bolivia
January 2025

Component: Revenue

Module: RM I – Revenue Administration



PROJECT SUMMARY**COUNTRY:** Bolivia**LEAD DEPARTMENT:** FAD**REGION:** WHD**PLANNED DATES:** FY25/26**FUNDING PROGRAM TITLE:** Bolivia - GPFP Revenue Module I&II**PROJECT MANAGERS:** Juan Redondo (Revenue Administration, FADR2)**ESTIMATED BUDGET** \$ 583,752

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ACRONYMS

CD	Capacity development
CRM	Compliance risk management
FAD	IMF's Fiscal Affairs Department
GPFP	IMF's Global Public Finance Partnership
RA-GAP	IMF's Revenue Administration Gap Analysis Program
RMTF	Revenue Mobilization Thematic Fund
SIN	Servicio de Impuestos Nacionales (Bolivian Tax Administration)
TADAT	Tax Administration Diagnostic Assessment Tool
VAT	Value-added tax

I. PROJECT PURPOSE

This project supports the Bolivian Minister of Finance modernization efforts. This initial 27-month project is structured as part of the Revenue Component, Module II with the following two strategic objectives, to: (i) strengthen revenue administration management and governance arrangements; and (ii) strengthen core tax administration functions.

This project is the successor to a multi-module program 2020–23, under the Revenue Mobilization Thematic Fund (RMTF). The RMTF project, which was extended through April 2024, was designed to help the authorities continue implementing ongoing reforms, aligning tax operations with international good practices, aiming to increase compliance levels and raise tax revenues needed for long-term and inclusive growth.

Under this project proposal, FAD will deliver capacity development (CD) to: (i) continue strengthening the operational and managerial capacity of the Bolivian tax administration (Servicio de Impuestos Nacionales (SIN) based on a compliance risk management (CRM) approach; (ii) reinforce the tax core processes to improve compliance; (iii) continue enhancing core systems and process automation; and (iv) improve governance arrangements.

The estimated budget for this three-year project is \$583,752, and endorsement is requested for the full amount through FY27.

II. BACKGROUND

Macro-fiscal situation

Bolivia faced economic headwinds in 2023. While GDP surpassed pre-pandemic levels in 2022, declining natural gas production and financial sector volatility dampened growth to 3.1 percent in 2023. Price controls, food and fuel subsidies, export restrictions, and strong agricultural performance effectively contained inflation, keeping it at 2.1 percent at the close of 2023. Lower gas exports, high fuel imports, and an overvalued currency led to a wider current account deficit (2.6 percent of GDP) and depleted international reserves (US\$1.8 billion at end-2023, about 1.6 months of import cover). Additionally, public debt has risen steadily, reaching nearly 88.4 percent of GDP by end-2023.

Fiscal position deteriorated significantly in 2023. Deficit widened to 10.9 percent of GDP (from 7.1 percent of GDP in 2022) reflecting higher expenditures, including social transfers (fuel subsidies bill is estimated at 4.4 percent of GDP) and interest bill, while revenues continued to fall due to lower hydrocarbon proceeds. The initial plan to issue a US\$2 billion Eurobond in 2023 proved unfeasible with sovereign spreads remaining at elevated levels since having risen sharply in March/April 2023 on account of the foreign exchange shortage and the failure of a mid-sized bank, leading to a decline in investor confidence. Political tensions within the ruling party thwarted the passage of crucial legislation and disbursements of new multilateral loans. In this context, the central bank and national pension fund remained the main net financing sources of the government, with domestic credit financing nearly 94 percent of total deficit. Regarding revenue collection, the tax-to-GDP ratio is projected to remain at 21.5 in 2024.

Country engagement and alignment to reform priorities

The authorities have demonstrated both commitment and the capacity to implement reforms. Tax authorities have expressed a strong dedication to adopting best practices based on the Tax Administration and Diagnostic Assessment Tool (TADAT) framework as a reference for modernization. The Bolivian tax administration has made significant strides in expanding the scope of CRM, gradually implementing a new IT system—SIAT—and adopting electronic invoicing, which currently covers over 80 percent of VAT collection. Furthermore, Bolivia has opted to participate as an observer in the Punta de Este Initiative, which coordinates efforts from the Organisation for Economic Co-operation and Development (OECD) Global Forum on Transparency and Exchange of Information for Tax Purposes.

The authorities have requested to continue receiving FAD support by implementing a successor project under the Global Public Finance Partnership (GPFP) over the next two years. FAD continued providing limited CD since the end of the RMTF through available Fund resources until the project could be presented through the GPFP. They plan to formally request a second TADAT assessment to monitor and evaluate the progress of reforms. This project will primarily focus on strengthening CRM and enhancing core business processes, specifically the audit function and the VAT refunds process, in addition to conducting an RA-GAP (i.e., the IMF's Revenue Administration Gap Analysis Program) analysis on VAT.

IMF priority areas / cross-cutting themes

This project includes the development of the IT Strategy to underpin the core processes and CRM.

III. PROJECT MODULES - DESCRIPTION

This proposal will provide CD support to Bolivia in the area of revenue administration. FAD CD will support improvements within the strategic objectives presented in Table 1.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM II / Revenue Administration	- Strengthened core tax administration functions - Strengthened revenue administration management and governance arrangements

A. RM II - Revenue Administration

Scope

The tax administration encounters significant challenges in enhancing tax compliance. This project, grounded in ongoing dialogue and CD with relevant authorities, aims to bolster the modernization initiatives of the tax administration across several dimensions: (i) strengthening CRM, including the mitigation of international tax risks and risks associated with large taxpayers; (ii) reinforcing the core operational processes of the tax administration, with a focus on the tax audit function and the tax refunds system; (iii) developing IT strategies and systems to underpin core business areas and enhance CRM capabilities; and (iv) Providing targeted training for managers and key officials. Additionally, a second TADAT assessment will evaluate the progress of these reforms, while the RA-GAP mission will assist tax authorities in effectively monitoring taxpayer compliance.

Program Objectives

This project proposal is structured around two primary strategic objectives aimed at enhancing revenue generation to foster long-term and inclusive growth. The project intends to strengthen revenue administration management and governance frameworks and enhance core tax administration functions. Specifically, the project will support the Bolivian tax administration in advancing CRM through the adoption of: (i) a system-based approach to assess and prioritize key compliance risks, including those associated with large enterprises, international taxation, and major economic sectors; (ii) the formulation of Key Performance Indicators (KPIs) to monitor and evaluate the effectiveness of risk

mitigation activities; (iii) the documentation of procedures for assessing, prioritizing, evaluating, and mitigating compliance risks encountered by the tax administration. Moreover, the project will ensure that new IT systems align with best practices and will assist in developing a roadmap to strengthen data governance, including improvements to the VAT refunds process. Furthermore, the initiative will provide guidance for modernizing the audit function to enhance voluntary compliance, thereby generating additional revenue, and improving the VAT refunds process. In-person and online training will be offered to Bolivian tax administration to build capacity and facilitate progress in the reform process, aligning with the project's objectives.

Expected Results (outcomes)

To enhance voluntary compliance and increase revenue through the consolidation of the CRM process, strengthening core functions, and improving the IT system. The expected results are as follows:

Consolidation of the CRM Process: Extend the implementation of the CRM process by streamlining methodological aspects to enhance the identification, assessment, and prioritization of tax risks, including specific segment risks related to international tax, large taxpayers, and compliance risks within major economic sectors.

Definition of Business Requirements: Establish clear business requirements for core processes—specifically tax arrears management and the audit process—to support the progressive implementation of the new IT system. Additionally, implement data governance tools to define preventive measures that safeguard the tax administration's systems and enhance controls for detecting incidents that may compromise the integrity of tax administration data, thereby improving security policies.

Enhancement of the VAT Refund Process: Improve the VAT refund process by integrating specific arrangements for VAT refund claims for exporters, recently approved.

Promotion of Audit Types: Encourage the use of a diverse range of audit types, particularly desk audits, to enhance the performance and monitoring of audit functions. This includes promoting the utilization of e-invoice information as a critical tool in improving voluntary compliance.

Monitoring of Reform Progress: Assess the progress of reforms through a second TADAT assessment—the first assessment was conducted in September 2018—and monitor the VAT compliance gap utilizing the RA-GAP methodology.

IV. ORGANIZATIONAL ARRANGEMENTS

A. Country Engagement

Since May 2017, Bolivia has made significant progress, benefiting from two consecutive FAD Capacity Development (CD) projects under the Revenue Mobilization Thematic Fund (RMTF). These CD projects have successfully operated from FY18 to FY24, facilitating a series of reforms in core tax administration functions, as well as revenue administration management and governance arrangements. CD support continued after the conclusion of the RMTF, from May 2024 to present, supported with limited Fund resources until the project could be presented through the GPFP. A TADAT assessment conducted in September 2018, along with HQ scope missions, follow-up missions, and continuous dialogue with authorities, has been pivotal for the advancement of the RMTF projects and the formulation of this project proposal.

The SIN has demonstrated substantial progress in implementing prior FAD recommendations. Tax authorities have expressed their commitment to adopting best practices informed by TADAT as a foundation for their modernization efforts. They have shown both the commitment and capacity to implement the recommendations put forth by FAD missions. Noteworthy advancements include improvements in TADAT indicators, an expanded scope of CRM, and enhancements to the CRM process. Additionally, a new IT system is gradually being implemented, which will facilitate a comprehensive digitalization process featuring new functionalities in tax return processing, taxpayer accounts, and registration. The implementation of electronic invoicing and significant successes in certain audit cases related to international taxation further underscore these developments.

The SIN has also devised a cross-cutting strategy aimed at enhancing the management of tax arrears, thereby defining a more efficient operational process for this strategy. With the support of FAD, and at the request of the authorities, a Ministry of Finance team has been drafting the Bolivian Tax Procedures Code in alignment with international standards; however, this work was postponed due to political instability. The Ministry of Finance has expressed interest in strengthening cooperation and information exchange between tax and customs administrations. In this context, FAD has provided guidance on critical elements necessary for fostering effective collaboration between both entities.

B. Delivery Modalities

CD will comprise of a mix of remote and in-person activities. Virtual deliveries will be used to provide efficiencies to in-person support, including pre-engagement meetings and post-follow-up meetings. The following CD activities will be delivered as a package:

- **Headquarters-led (HQ) missions and staff visits** to provide strategic recommendations, conduct regular follow-ups, assess progress, ensure short-term expert (STX) work is aligned to plans, coordinate with other CD providers, and adjust reform implementation plans.

- **STX** visits to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration and public financial management. The project will seek to use Portuguese-speaking experts.
- **Workshops**, during the HQ missions, staff visits, or STX visits, to share experiences, provide stakeholders with a view of progress achieved and challenges faced, and discuss with the managers and staff their views on the reforms and particular technical subjects.

C. Coordination / Cooperation

Partner	Coordination Type	Coordination Area	Frequency
Inter-American Development Bank (IADB); Inter-American Center of Tax Administrations (CIAT)	Sharing of information, agree on areas to be covered by each CD provider	IT System implementation, international taxation and transfer pricing	Quarterly

V. RISK ASSESSMENT AND MITIGATION

Category/Module	Description	Risk Assessment	Mitigation Measures
EXTERNAL CLIMATE/CONDITIONS			
RM II - Revenue Administration	Risks that external events create a more challenging environment to implement reforms	Medium	Ensure sufficient flexibility in program execution and allow for ability to adjust activities in the case of adverse events.
POLITICAL SUPPORT			
RM II - Revenue Administration	Political instability and social unrest can slow the implementation of reforms. That said, the authorities have remained firmly committed to reforms.	High	Bolivia has prioritized this project based on its needs assessment. Focus on strategic advice and hands on capacity building to have a more permanent impact.
MANAGEMENT AND TECHNICAL STAFF SUPPORT AND COMMITMENT			
RM II - Revenue Administration	Lack of trained managers and staff's rotation undermine the absorptive capacity	Low	The missions will work with stable staff and officials encouraging authorities to implement administrative reforms that contribute to a more stable staff. Continual/regular high-level engagement and monitoring.
RESOURCE ADEQUACY			
RM II - Revenue Administration	Deterioration of fiscal situation may impact availability of resources to finance reforms	Medium	Careful alignment of reforms with the main priorities of the government. Reforms at SIN are underpinned by comprehensive strategic plans, and the projected results from the respective government's strategic decision to reduce non-compliance and modernize its risk management capabilities.
OTHER RISKS			
RM II - Revenue Administration	Lack of coordination among capacity building partners duplicate efforts and deliver contradictory advice	Low	Take an active role in engagement with other donors to ensure support is well coordinated especially with the IADB and CIAT

VI. CD DELIVERY PLAN

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY25	FY26	FY27	FY28	FY29	Grand Total
RM II – Revenue Administration						
HQ led CD mission	-	2 ¹	-	-	-	2
STX visits	4	4	5			13
Staff visits	-	-	-	-	-	-
Workshops (inc. during HQ and remote CD)	-	-	1	-	-	1

¹ Collectively, the blend of CD delivery proposed over the duration of this project/program reflects the optimal balance of in-person, remote, and hybrid activities needed to achieve the project/program outcomes taking into account the needs of the country and the resources available.

Table 3. First year workplan

Timing	CD Modality	Proposed Topics of CD
RM II - Revenue Administration		
Q3/FY25	Duty station-based Work - DS	Tax: Risk management
Q3/FY25	Duty station-based Work - DS	Tax: Risk management
Q4/FY25	Field-Based work - FB	Tax: VAT refunds
Q4/FY25	Duty station-based Work - DS	Tax: VAT Refunds

VII. PROGRAM FINANCIALS

Module	FY 25	FY26	FY27	TOTAL (USD)
Direct Delivery				
RM II - Revenue Administration	\$80,174	\$259,799	\$205,589	\$545,562
Subtotal				
Trust Fund Management Fee (7%)	\$5,612	\$18,186	\$14,391	\$38,1889
TOTAL	\$85,786	\$277,985	\$219,980	\$583,752

Note: The estimated budget for this three-year project is \$583,752 and endorsement is requested for the full amount through FY27. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

¹ That includes a second TADAT assessment and a RA-GAP mission.

VIII. TARGETED LOGICAL FRAMEWORK

A. RM II – Revenue Administration

Objective	
Strengthened revenue administration management and governance arrangements (SDG 17.1) - RAM	
Outcome(s)	Indicator(s)
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized	Key performance indicators established, regularly reported and monitored
Corporate priorities are better managed through effective risk management	Improved identification, assessment, ranking and quantification of compliance risks (TADAT POA2-3)
Digital technologies are better aligned with strategic objectives	Capacity to work with data and analytics is strengthened
	Core systems and process automation are consistent with good practices
	Essential data management practices are in place and adhered to
	Essential information security practices are in place and adhered to
Objective	
Strengthened core tax administration functions (SDG 17.1) - TAD	
Outcome(s)	Indicator(s)
A larger proportion of taxpayers meet their payment obligations as required by law	Management of refunds improved (TADAT 2015 POA8-24/TADAT 2019 POA8-28)
Audit and other verification programs more effectively ensure accuracy of reporting	Automated cross-checking used to verify return information (TADAT 2015 POA6-16/TADAT 2019 POA6-20)
	Appropriate range of tax audits and other initiatives used to detect and deter inaccurate reporting and fraud (TADAT 2015 POA6-16/TADAT 2019 POA6-19)

	Sound methodologies used to monitor the extent of inaccurate reporting and tax gaps (TADAT 2015 POA6-18/TADAT 2019 POA6-22, RA-GAP results)
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