



THE CASE OF PERU

BASIC PUBLIC SERVICES, TAX EVASION AND TAX AVOIDANCE 2006-2016: IMPACT ON WOMEN AND GIRLS EXECUTIVE SUMMARY

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December 2017



In 2017, Public Services International (PSI) decided to conduct a pilot study into trends in fiscal spending of benefit to women and girls in Peru, along with tax evasion and avoidance in the economy over the 2006-2016 period. It was over this decade that Peru embarked on a democratization process and experienced a period of sustained economic growth, enabling substantial reductions to be obtained in both absolute and relative levels of poverty.

What trends have there been in public spending on human, social and productive development of benefit to women and girls in Peru? And how far does the extent and nature of tax evasion and avoidance affect the possibility of reducing inequalities in the country, particularly those affecting women and girls? These are the two key questions this study will aim to answer. To do so, a theoretical frame was proposed and time series analyses conducted of expenditure on 34 selected basic public services, national budgets, taxes raised over the 2006-2016 period, and estimates of tax evasion and avoidance in 2016.

**Tax justice and gender justice
Studies on the impact of taxes
on public services and women**

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Context

Over the 2006-2016 period, Peru embarked on and implemented a process of democratization, reform and modernization of the state, and the period was characterized by a peak and then a deceleration in the rate of economic growth.

The overall national poverty rate declined substantially over the period in question, from 42.4% in 2007 to 20.7% in 2016 (INEI: 2017a, p.47). Both urban and rural poverty fell as real average incomes increased (27.4% between 2007 and 2016) (INEI: 2017 a, p. 26). This sustained economic growth extended to all productive sectors, and resulted in significant fiscal abundance, enabling public investment in infrastructure for greater connectivity and the implementation of major social and productive development programs at all government levels (central, regional and local) (Cáceres and Rojas; 2013).

As of 2017, however, significant inequalities remain within the country: urban/rural inequalities, educational inequalities, differential access to high-quality public services, ethnic/cultural inequalities and gender inequalities. The persistence of these inequalities highlights a need for greater fiscal efforts and for the Peruvian state to design public policies aimed at reducing these gaps and achieving balanced and sustainable development.

Understanding the relationship between fiscal policy (taxes and public spending) and its impact on girls and women

What possible relationships exist between tax revenues, public spending and the impact on women and girls? An analytical frame has been proposed by which to consider the expected relationships between tax revenues, public spending and their impact on girls and women (Velazco, Fuertes and Ballester, 2017). This analyzes the set of events, circumstances and conditions that mediate these relations (see Diagram 1). First, the authors identify a number of factors that determine the amount of tax revenue collected. One macroeconomic factor is the current development model as this establishes which economic activities are the engines of growth and what fiscal and tax incentives are needed to promote them. To this must be added the country's position in the economic

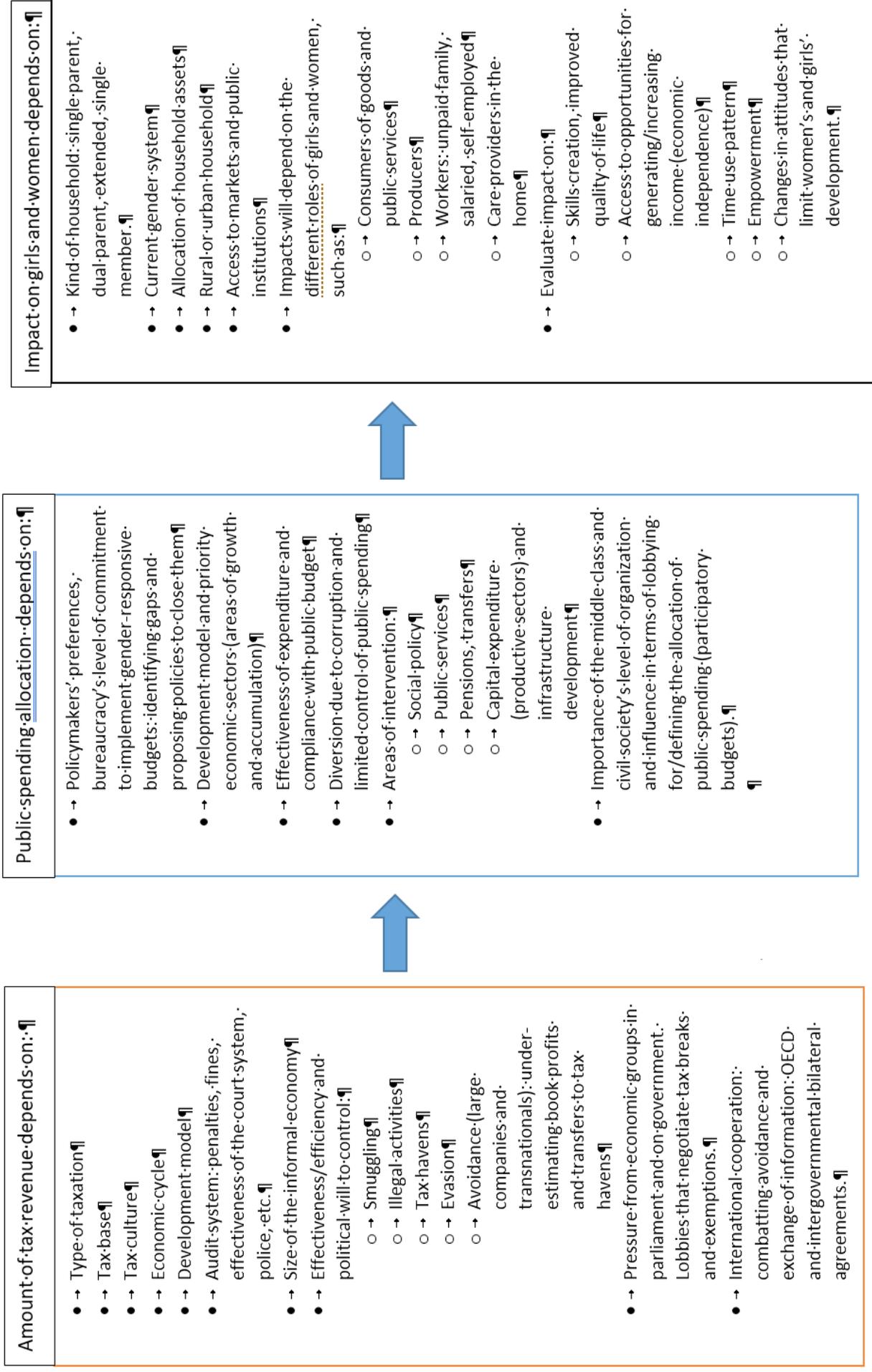
cycle because differing amounts of taxes are likely be collected depending on whether the country is in a phase of expansion, recovery or recession. Another factor to consider is the size of the informal economy and the effectiveness of measures aimed at ensuring that companies and industrial relations operate within the formal sector.

Other factors include the type of taxation, the tax base, the existence of a culture of tax paying, and the effectiveness of the audit and sanctions system for non-payment of taxes, be it evasion, avoidance, illegal activities or smuggling. Institutional-level lobbies or economic groups can also influence both parliament and government to implement tax breaks or exemptions.

A second line of discussion within the theoretical frame is the allocation of public expenditure. Broadly speaking, public spending may be focused on social policy, public services, pensions, transfers, capital expenditure and/or infrastructure development. Assuming that tax revenues form an important source of a state's ability to finance public spending, then how that spending is allocated is key to evaluating any potential impact on girls and women. One factor in this allocation is public policymakers' preferences when deciding whether or not to implement gender-responsive budgeting that would enable gaps and differences in access to resources and opportunities between men and women to be closed. To this must be added the nature of the development model, which sets out the priority economic sectors. The final breakdown of how public spending is allocated will also depend on the effectiveness of that spending and its budgetary compliance, as well as the capacity of audit and control mechanisms to minimize resource diversion due to corruption. One final important factor is the organizational capacity of civil society and whether or not there is a significant middle class, as these groups can set the public spending agenda by, for example, producing gender-responsive participatory budgets.

A third component of the theoretical frame focuses on the factors to be considered when analyzing the impact of public spending on girls and women. The kind of household should be considered, as well as the current gender system, which dictates how men and women access resources, use of time and institutions. The allocation of household assets, whether people live in rural or urban areas, and access to markets and public institutions are also important.

Diagram-1. THEORETICAL FRAME: IDENTIFYING RELATIONSHIPS BETWEEN TAX REVENUE, PUBLIC SPENDING AND POTENTIAL IMPACT ON GIRLS AND WOMEN



Collection, non-compliance and spending on basic services

Table 1 shows that, over the 2006-2016 period, the proportion of unpaid tax (through evasion and/or avoidance) for the two most important forms of taxation in the Peruvian tax system varied between 46.1% and 57.3% for third category income tax

(Impuesto a la Renta de Tercera Categoría or corporation tax) and 29.2% and 40.2% for general sales tax (Impuesto General a las Ventas / IGV). This would seem to demonstrate the inability of fiscal policy to reduce tax evasion and avoidance and this situation has to be affecting the availability of funds with which to finance the public budget and improve basic public service spending.

Table 1. Estimate of fiscal non-compliance in Peru, 2006-2016 (in percentages)

Type of taxation	Third Category Income Tax	General Sales Tax (IGV)
Year	(%)	(%)
2006	n.d.	38,4
2007	46,1	37,9
2008	50,1	29,2
2009	53,5	40,2
2010	51,9	31,6
2011	47,9	30,9
2012	54,3	32,7
2013	50,1	30,3
2014	50,0	29,1
2015	51,1	34,0
2016	57,3	35,9

Source: Prepared by the authors on the basis of Aide-Memoires drawn up by SUNAT's National Planning and Economic Studies Office - Economic Studies Unit (SUNAT, 2017b and 2017c). n/a: not available.

Based on SUNAT (National Customs and Tax Administration) estimates, it can be seen that evasion and avoidance of Third Category Income tax and IGV totalled 57,797.1 million Sols in 2016, or 8.9% of Gross Domestic Product (GDP) (Table 2). This amount would

have more than doubled the budgets of the social services analyzed, offering possibilities for improving the quality of life and development options of women and girls.

Table 2. Estimate of fiscal non-compliance in Peru, 2016

Type of taxation	Rate of non-compliance (in %)	Amount of non-compliance (in millions of Sol)	Percentage GDP
Third Category Income Tax	57,3	35270,1	5,4
General Sales Tax (IGV)	35,9	22527	3,5
Total		57797,1	8,9

Source: Prepared by the author on the basis of Aide-Memoires drawn up by SUNAT's National Office of Planning and Economic Studies - Economic Studies Unit (SUNAT, 2017b and 2017c).

The evidence provided in this document clearly identifies a direct relationship between tax revenues and the allocation of public spending to basic services. As discussed in the theoretical frame, this relationship may be mediated or affected by a series of events or circumstances in which public policymakers' express will in terms of promoting or prioritizing social expenditure is fundamental. One of this study's conclusions in the Peruvian case for the 2006-2016 period is therefore that improved tax collection would result in or enable greater public spending and thus increase the options

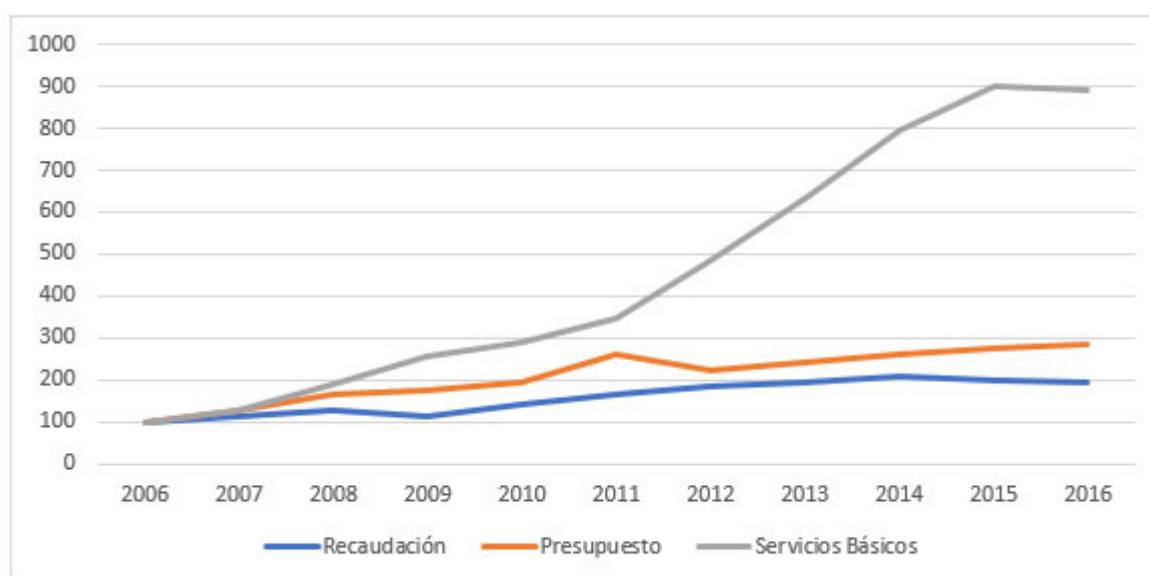
for expanding spending on social issues (Table 3 and Figure 1). The novel dimension in the Peruvian case is the speed with which spending on basic public social services has grown. This can be explained by the Peruvian state's clear desire to implement the National Agreement with regard to a range of state policies that need to be institutionalized and sustained over time for the country's development, implementation of which has been facilitated by the long period of economic growth. The 2011-2016 period also legitimizes social inclusion as one of its policy objectives.

Table 3. Peru: Trend in central government tax revenue, public budget and public budget allocated to basic services, 2006-2016 (in millions of Soles)

Año	Recaudación Tributaria	Presupuesto Público	Presupuesto en Servicios Básicos	
			En Millones de Soles	Porcentaje del Presupuesto
2006	45813,4	55176,7	2835,4	5,1
2007	52381,0	71317,7	3628,7	5,1
2008	58333,2	90766,5	5379,2	5,9
2009	52652,5	97169,6	7218,5	7,4
2010	64509,4	106415,4	8249,4	7,8
2011	75595,8	144635,2	9817,7	6,8
2012	84153,4	122380,2	13741,3	11,2
2013	89402,7	133676,7	17898,4	13,4
2014	95394,7	144805,7	22551,9	15,6
2015	90262,4	152888,9	25511,2	16,7
2016	89375,3	158282,2	25240,2	15,9

Source: Revenue data obtained from Sunat webpage (www.sunat.gob.pe) and budget data from the Ministry of the Economy and Finances (www.mef.gob.pe). Prepared by the author

Figure 1. Trend in rates of central government tax revenue, public budget and public budget allocated to basic services, 2006-2016 (2006=100)



Blue: Revenue Orange: Budget Grey: Basic Services.

Source: Prepared by the author using the SUNAT and MEF databases

Spending on basic services and potential impact on women and girls

The framework used shows that there has been a desire on the part of successive governments to improve spending on basic public services over the period in question (this is the aim of the results-based budget). Programs with results-based budgets have helped speed up spending on basic services as they enable expenditure to be more clearly targeted, and services to be fine-tuned and also pin-pointed more accurately by user (target) population. They are more focused.

The gender analysis applied to 2016 expenditure across the set of 34 selected basic services indicates that

there will be a need to ensure that the programs and services created have a gender equality focus (seeking a reduction in gender gaps). This will be the challenge over the coming years. A large proportion of the spending on basic services with a potential to improve women's and girls' lives is "general" or considered "neutral", i.e. with no gender equality focus (Table 4). Specific and affirmative spending with a gender equality focus is negligible. The other necessary task is therefore to increase funding of and expand services crucial to improving the lives of women and girls where they are currently marginal, such as: care services, job promotion, improved justice services, protection of vulnerable groups, prevention of teenage pregnancy.

Table 4. Public Service Spending, 2016: Gender-based Analysis

TYPE OF EXPENDITURE BY GENDER EQUALITY AIM	SOLS	%
A. GENERAL	21,751,460,573	86
B. SPECIFIC	2,930,214,780	12
C. AFFIRMATIVE	558,549,596	2
TOTAL	25,240,224,949	100

Source: MEF, Consulta Amigable, prepared by the author.

By contrasting gender gaps with spending on basic public services of potential impact, it becomes clear that if public spending on these services is to have a direct and concrete effect on the lives of women and girls then a public policy with a clear gender equality focus is required. This will ensure that this spending is significant not only in terms of the amount allocated but also in terms of its relevance to women and the service coverage provided. The example of the possible impacts of basic service spending on health (teenage pregnancy, no impact; cancer in women or health insurance, impact) demonstrates the validity of these assertions. Where expenditure has been marginal and/or "neutral" (i.e. no gender equality focus) there are unlikely to have been positive impacts on women and girls; quite the contrary, the gender gaps are likely to have been increased or exacerbated.

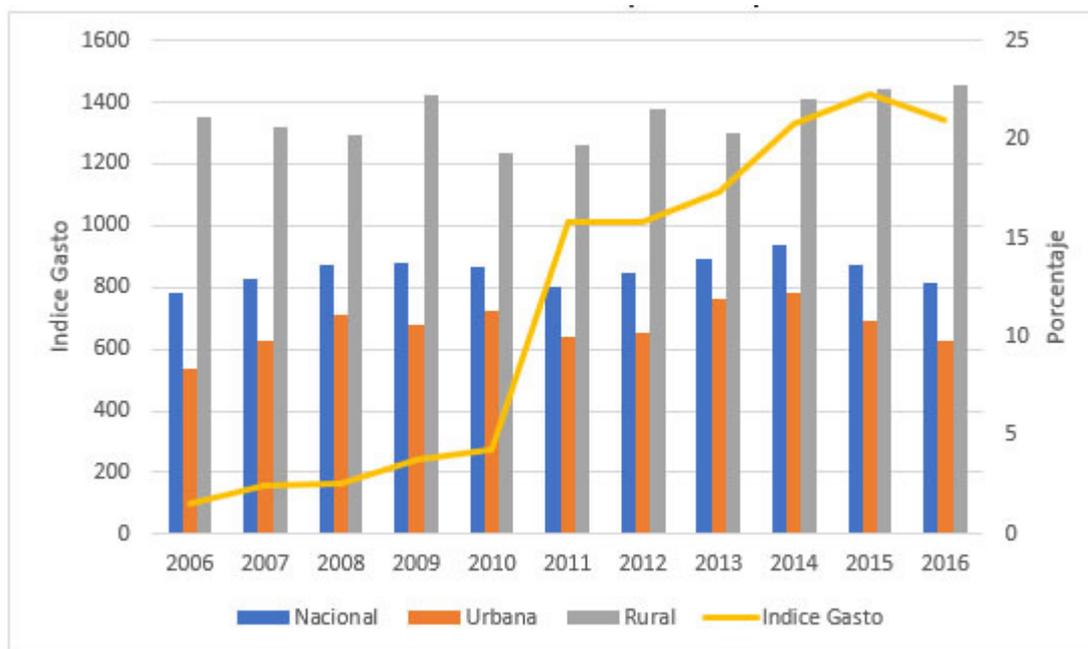
It can be seen, for example, that the persistent and increasing rate of teenage pregnancies over the period parallels the marginal nature of social spending aimed at its prevention and treatment (Figure 2). It also parallels the reduction in budgetary support for strategic actions and services such as comprehensive sexuality education (CSE) in Peruvian schools.

The same can be said for the lack of care services, such as nurseries for Peruvian mothers, which reinforces continuing gender gaps in income and employment opportunities and in professional development.

There is also a persistent gap between men and women's literacy levels in their native mother tongue, with women still at a disadvantage. Although intercultural bilingual education (IBE) does exist, it does not take inequalities between women and men into account in the design of its services.

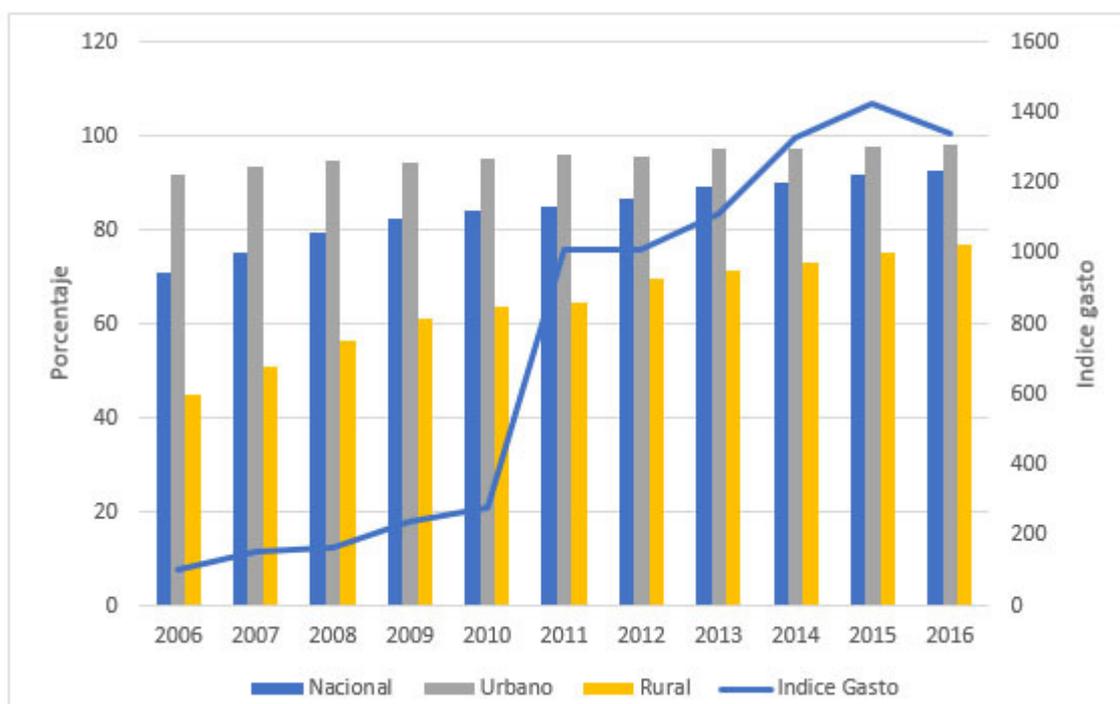
Other services such as comprehensive health insurance (Seguro Integral de Salud / SIS), however, have been crucial in reducing poverty and closing a number of gender gaps (school registration, access to health insurance, improved institutional birthing. Figure 3). This service existed before the creation of the budgetary programs. It began during the period of economic growth and has become universal. It is linked to a program with a gender equality focus (the "Together" budgetary program). □

Figure 2. Teenage or first-time mothers, by geographical area (as percentage of all teenagers 15-19 years of age), and rate of public spending on mother-and-child health (2006=100)



Blue: National Orange: Urban Grey: Rural Yellow: Rate of expenditure
 Source: INEI (2017). Prepared by the author.

Figure 3. Births attended by specialist health staff, by geographical area, 2006-2016 (as percentage of all births in the five years preceding the survey) and rate of public budget spending on mother-and-child health(2006=100)



Thick blue: National Grey: Urban Yellow: Rural Thin blue: Rate of expenditure
 Source: INEI (2017). Prepared by the author