

INSTITUTIONAL STRENGTHENING OF THE TAX ADMINISTRATION OFFICE (PHASE II)

(TC-96-04-36-6)

EXECUTIVE SUMMARY

REQUESTER: Ministry of Finance

EXECUTING AGENCY: Office of Tax Administration

BENEFICIARY: Government of Suriname

FINANCING:

IDB:	US\$1,830,000 (FSO)
Local counterpart funding:	US\$ 324,000
Total:	US\$2,154,000

TERMS:

Execution period:	36 months
Disbursement period:	42 months

ENVIRONMENTAL AND SOCIAL IMPACT: The CESI reviewed this operation at its meeting of September 12, 1997 and made no objection.

OBJECTIVES: The objectives of the proposed program are as follows: (a) to develop a comprehensive proposal to simplify and improve the tax system (analysis of the tax structure, tax legislation and normative procedures), as well as to contribute to the harmonization of Suriname's tax legislation with other CARICOM countries; (b) to improve the organizational structure of the Office of Tax Administration; (c) to expand the tax base by enrolling a large number of economically significant taxpayers over the life of the program; and (d) to increase the coverage and productivity of auditing activities by designing and utilizing automated procedures and programs for identification en masse of taxpayers who have failed to file returns or are in arrears in meeting their tax liability.

DESCRIPTION: In order to achieve the above objectives, activities will be undertaken in the following areas: (a) tax legislation and normative procedures; (b) organizational development and human resources; (c) collections and tax receipts; (d) auditing; (e) information systems; (f) training; and (g) taxpayer assistance.

BENEFITS: The program will improve significantly the OTA's performance, which is the main revenue collecting agency of the country. In particular, the program will help to expand the tax base and to increase government revenues, by lowering evasion and avoidance, as well as by improving overall efficiency in the administration and control of direct taxes.

Also, the program will help to improve the image of the OTA with the taxpayers through, among other channels, a series of taxpayer assistance programs, which would serve as a model to promote the modernization of the Surinamese public sector.

RISKS:

In general, the main risk in institutional strengthening projects in Suriname is the low wages of the civil service and, consequently, the departure of the trained professional officers from the civil service once sufficient professional experience has been acquired for the officer to be attractive to the private sector. An improvement in the professional civil service career is necessary to the long-term success of institutional strengthening operations which, like the present program, contain important training activities. OTA will propose a new career stream to its officers and will explore the possibility of obtaining financial and administrative autonomy.

The success of the second phase of the tax administration project is influenced by the implementation of major changes in the current tax legislation and in the organizational structure of the OTA, which ultimately relates the political will of the GOS to support these changes and their implications. Mitigation measures to this risk are proposed under special contractual conditions.

**THE BANK'S
COUNTRY STRATEGY:**

The Bank's strategy for Suriname is to support policy and institutional reforms that would improve institutional and incentive frameworks and thereby enable the country's resources to be used more efficiently and effectively. In June of 1997, a programming mission visited Suriname and agreed with the government that the Bank would explore in the short-term the following main areas: (a) natural resources management, (b) revitalization of agriculture, (c) reform of the financial sector, and (d) improvements in tax administration. In the Aide Memoire, the project is scheduled to use \$1.83 million FSO and be approved in 1997.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Prior to the first disbursement, the Executing Agency shall present to the Bank evidence of: (a) the designation of the National Project Coordinator; (b) the hiring of CIAT as specialized agency -- after the Bank's review and clearance of CIAT's hiring contract -- and of the International Project Coordinator; (c) the Bank's approval of the initial calendar of benchmarks, to be used in the evaluations of the program; (d) confirmation that all equipment bought during the

first phase of the project has been delivered and installed. By the end of the eighteenth month following the start up of the program, the Executing Agency shall present to the Bank evidence of: (a) completion of the activities regarding the Tax Legislation and Normative Procedures of the project. In particular, finalization of the proposals regarding the simplification of the tax system and the preparation of the tax code and submission to the Cabinet for consideration; (b) the activities corresponding to the Organizational Development and Human Resources component have been completed and the new organizational structure and the career system for OTA's employees have been implemented.

**EXCEPTION TO BANK
POLICY:**

In accordance with the criteria set forth in Bank's procurement guidelines (GS-403 norms for selection without competition), the technical execution of the program will be the responsibility of a specialized agency, the Inter-American Center of Tax Administrators (CIAT). Based on an analysis of its institutional and technical capacity as well as on its experience in Suriname, CIAT has been judged to be the most appropriate organization to implement this project.

I. FRAME OF REFERENCE

A. Macroeconomic context

- 1.1 The Republic of Suriname endured a long economic decline between 1982 and 1994. The period was marked by negative GDP growth, falling living standards, and -- between 1990 and 1994 -- growing macroeconomic instability and an acceleration of inflation, which caused real wages to fall considerably, particularly in 1993 and 1994.
- 1.2 After mid-1995, however, Suriname's macroeconomic situation has improved greatly. In late 1994 and throughout 1995, the international prices for aluminum, Suriname's largest exports and principal sources of government revenues, rose strongly, thereby boosting sharply export earnings and government tax revenues. The improvement in tax revenues also resulted from significant improvements in tax administration through: (a) the introduction of a self-assessment income tax system, which sharply raised compliance and reduced Olivera-Tanzi effects on tax revenues -- by reducing the gap between the time when the tax obligation is generated and the time when taxpayers effectively pay; (b) the creation of a special unit to control large taxpayers; (c) and the implementation of an automated information system (Integrated Tax Information System). The combination of increased bauxite company profits and improvements in tax administration boosted tax revenues from 8.5% of GDP in 1993 to 28.1% of GDP in 1995. In 1996, tax revenues amounted to 35.3% of GDP.
- 1.3 Increased revenues and reductions in expenditures on certain subsidies eliminated the fiscal deficit, which, in conjunction with the sharply increased export earnings caused a sizeable accumulation of foreign exchange reserves. The accumulation of reserves enabled the central bank to stabilize the parallel exchange rate in mid-1995 and thereby bring about a sharp reduction in the inflation rate. On a December to December basis, inflation fell from 587% in 1994 to 37% in 1995 and 1% in 1996. The stabilization of the economy had a variety of positive effects, including a rapid recovery of real wages and renewed economic growth. GDP is estimated to have grown by around 7% in both 1995 and 1996.
- 1.4 Nonetheless, the improvement in economic conditions has been fragile and consolidation of the recent gains requires fiscal discipline, monetary restraint, maintenance of a realistic exchange rate, and a program of liberalization and deregulation. In early 1997, a new government embarked on an expansionary fiscal policy by increasing expenditure levels. In particular, civil servants -- who comprise 45% of the labor force -- were awarded across-the-board a 50% salary increase. The government is counting on several revenue-raising measures to offset the higher expenditure level, including: the introduction of a sales tax; increased fees and license prices; increased taxes on luxury goods, alcohol and tobacco; increased electricity, water and gasoline prices; and increased penalties for

overdue payments. It will also be important to prevent slippage in the existing revenue stream through weaker enforcement and/or compliance. Strengthening tax administration, therefore, would contribute fundamentally to fiscal equilibrium and macroeconomic stability.

B. The Bank's strategy

- 1.5 The Bank has traditionally had a low level of operational activity in Suriname, partly due to Suriname's access to concessional resources from bilateral donors and other sources and partly due to macroeconomic instability. The Bank's strategy in the last few years, therefore, was to avoid lending in the productive sectors or for physical infrastructure until the economy had stabilized, and to develop a well-targeted technical cooperation program focussing on strengthening public institutions, particularly those that would support macroeconomic stability. Among other technical cooperation projects, the Strengthening of the Tax Administration Office-first phase (see 1.7 below) was approved within that context. The Bank's strategy for Suriname is to support policy and institutional reforms that would improve institutional and incentive frameworks and thereby enable the country's resources to be used more efficiently and effectively. In June of 1997, a programming mission visited Suriname and agreed with the government that the Bank would explore in the short-term the following main areas: (a) natural resources management, (b) revitalization of agriculture, (c) reform of the financial sector, and (d) improvements in tax administration.

C. The request

- 1.6 On January 31, 1995 the Minister of Finance requested the Bank's assistance in the preparation of a second phase technical cooperation to further strengthen the country's tax administration. In September 1996, the Bank decided to proceed with an indepth review of the first phase, while analyzing the government's proposal and appraising the Office of Tax Administration (OTA). The project team proposed to extend the first phase by six months, until April 1997, before approving the second phase in order to complete some required activities, as explained below, and to provide a bridge to the second phase.

D. The first phase of the tax administration project

- 1.7 In 1990, the IDB approved a technical cooperation project for the institutional strengthening of the tax administration system. The project, which was completed on April 24, 1997, accomplished significant achievements, particularly in the area of systems development. The project, in conjunction with a larger Dutch project, supported the introduction of a self-assessment income tax system in 1995 which -- in combination with a sharp rise in international aluminum prices -- boosted direct tax revenues from 11% of GDP in 1994 to 15.5% in 1995. The introduction of the self-assessment tax system, therefore, played an important part in the stabilization of

Suriname's economy in 1995 and the accompanying reduction of inflation. In 1996, the share of direct taxes as a percentage of GDP was 18.1%.

- 1.8 In September 1996, a review of the first phase showed that despite important advances in the strengthening and modernization of OTA, some activities, mainly related to fine-tuning the computerized Integrated Tax Information System, developed and introduced by the project, had not been finished. To take advantage of the momentum created by the achievements of the first phase, the training provided, and the availability of funds and consultants working on the project, the Bank recommended an extension of the project for six months, defining specific outputs and actions to be undertaken during the extension period. These outputs related to the preliminary design of new information systems to be completed during the second phase and to the cleaning-up of the taxpayers master file. The implementation of the extended first phase of the tax administration project was completed as scheduled on April 24, 1997.

E. Present institutional problems

- 1.9 Notwithstanding the achievements accomplished during the first phase of the program, the OTA requires further technical assistance to modernize and strengthen specific areas. The tax administration in Suriname faces the greatest problems in the following areas:

1. Tax system

- 1.10 The tax system as a whole suffers from three major problems: (a) an unnecessarily large number of low-revenue taxes, the administration and collection of which require the use of resources that could be allocated in a more efficient and productive way, such as strengthening the auditing programs of the income tax -- which in 1996 accounted for 99.5% of total direct taxes collection; (b) some inconsistencies within the legislation of major direct taxes, such as differences between the minimum taxable amounts established in the income tax and the wealth tax laws; and, (c) the co-existence of a self-assessment regime combined with an assisted assessment system for the income tax, which also consumes resources that could be used more productively elsewhere, and which makes the administration of the income tax less efficient than it would be under a full self-assessment regime.
- 1.11 The program will address these issues by providing consulting services to prepare a comprehensive proposal to simplify the tax system and to improve tax legislation, by identifying inconsis-

tencies and making recommendations to remove them, as well as by preparing a proposed tax code. 1/

2. Organizational structure

- 1.12 Units of OTA are currently organized by type of tax instead of by function. This structure introduces some degree of functional overlapping and prevents a complete integration among the OTA's different areas. An example is the recent creation of the sales tax department. This department, operating in a different building than that occupied by the administration, works with a different computer system than the rest of the OTA, which ultimately breaks the unity of the current account. In addition, there is no special unit responsible for internal auditing of the OTA nor updated organization and functions manuals, which gives rise to problems. Some functions for which OTA's units are responsible are not defined clearly and are not carried out effectively.

3. Tax auditing

- 1.13 Currently, the OTA's major auditing efforts are concentrated on controlling 500 large taxpayers. This focus makes sense given that in 1996 the top 20 taxpayers of this group alone represented 51% of total direct tax revenues and the 500 large taxpayers around 80%. However, the overall performance of the auditing department suffers from some weaknesses that must be addressed. The lack of training on aggressive auditing programs prevents OTA from expanding its auditing coverage to sectors where evasion is high. Also, there is a lack of technical ability to use external sources as a means of identifying delinquent taxpayers. As explained later, one of the objectives of the program will be to expand the tax base. This objective will be reached principally by (a) reviewing the composition of the current directory of large taxpayers in order to replace some taxpayers by others economically more significant, and (b) by enrolling and controlling more effectively a larger number of medium taxpayers.

4. Collection system

- 1.14 OTA's collection effectiveness is constrained by an inadequate banking collection system. The lack of a formal agreement with the banks is the main factor contributing to this situation. Banks do not include the Unique Taxpayer Identification Number in the receipts and the correct taxpayer name. These are important requirements to solve the present inconsistencies existing between the aggregate manual and automated collection reports. Moreover, banks collecting taxes in Suriname fail to transfer the collected funds

1/ The activities that the program will perform in this area are consistent with the general IMF's recommendations regarding the simplification of the tax systems and increased efficiency of the tax administration.

to the OTA's accounts on a timely basis. These delays and the lack of accurate information hamper identification of non-filers.

- 1.15 The taxpayer master file (TMF), in theory should contain all pertinent data to ensure the proper identification of taxpayers and to serve as a major tool for auditing activities. Nevertheless, the utility of the OTA's TMF is limited by the existence of duplicated records (taxpayers with more than one tax identification number) and by the lack of relevant information -- the economic activity of taxpayers, for example -- required by the administration for the purposes of control.

5. Information systems

- 1.16 The administration of the information systems requires adjustments. OTA's data base is freely open for manipulation by any of the technical staff, who have passwords permitting their access to the data and programs pertaining to the ITIS operating system. Security procedures to follow-up and control the users access to system's programs and processes have not been developed. Presently, there are no tools and procedures to inform when, why, what and how changes were entered and to indicate the condition of the files before and after the changes.

F. Conclusions

- 1.17 Completing and sustaining the modernization of Suriname's tax administration will require streamlining the overall tax system and the OTA's organization while improving the collection, auditing and information systems processes. The proposed project includes the aforementioned improvements, and at the same time it provides for initiatives that in the medium term will result in a broader tax base and increased efficiency, as well as changes that will pave the way for the process of streamlining the complete tax system.

II. THE PROGRAM

A. Overall objective

- 2.1 The general objective of the program is to contribute to the sustainability of the ongoing process of strengthening the Office of Tax Administration in order to increase its efficiency in the administration of a larger number of taxpayers, increase the level of voluntary tax compliance and reduce the level of evasion.

B. Specific objectives

- 2.2 The specific objectives of the proposed program are as follows:
(a) to develop a comprehensive proposal to simplify and improve the tax system (analysis of the tax structure, tax legislation and normative procedures), as well as to contribute to the harmoniza-

tion of Suriname's tax legislation with other CARICOM countries; (b) to improve the organizational structure of the Office of Tax Administration; (c) to expand the tax base by enrolling a large number of economically significant taxpayers over the life of the program; (d) to increase the coverage and productivity of auditing activities by designing and utilizing automated procedures and programs for identification en masse of taxpayers who have failed to file returns or are in arrears in meeting their tax liability; (e) to train OTA's employees in the effective use of new information systems and new auditing techniques and strategies, and in the implementation of the new procedures developed by the project; and (f) to contribute to the development and implementation of a civil service or administrative career system for OTA's employees, with well defined and classified job positions, entrance examinations, merit promotions and competitive salary scale.

C. Description of the program

1. Program's areas of action

- 2.3 In order to achieve the above mentioned objectives, activities will be undertaken in the following areas: (a) tax legislation and normative procedures; (b) organizational development and human resources, (c) collections and tax receipts; (d) auditing; (e) information systems; (f) training; and (g) taxpayers assistance.

2. Activities and expected results

- 2.4 The major activities and the expected results within each area are as follows:

a. Tax legislation and normative procedures

- 2.5 Review the current tax legislation in order to prepare a proposal for tax system simplification and improvement, involving mainly the elimination of inconsistencies in direct tax legislation, the elimination of low-revenue taxes, and the implementation of a tax code.
- 2.6 Preparation of a proposal to improve normative procedures, particularly regarding the self-assessment system for the income tax. The proposal should address specifically aspects regarding appeals, late presentations, the implementation of procedures to allow taxpayers to modify their returns themselves, and the co-existence of the self-assessment system with assisted assessment practices. Preparation of a proposal for new norms and procedures aimed at increasing the efficiency of tax administration, such as criteria to reduce the existing backlog of assessments (enforcement of the observance of the prescription periods), and avoiding the production of assessments (both automatic and manual) for very low amounts.

- 2.7 Review and improvement of the procedures for the control and monitoring of administrative collection and collection by legal means of the tax debt.
- 2.8 Development of an action plan for the implementation of the proposals developed by the component, particularly regarding changes in the normative procedures and the implementation of the tax code.
- 2.9 Expected results: (a) presentation to the National Assembly for approval of the proposals to improve and simplify the tax system and introduce the tax code, within 18 months following the start-up of the program; (b) elimination of the co-existence between self-assessment and assisted assessment practices. More expediency in the clearance of prescribed and minimum amount assessments; and (c) improvement of the procedures for receipt and collection of the tax debt.

b. Organizational Development and Human Resources

- 2.10 Development of a sound organizational structure in which the administration of taxes is performed by functions instead of by type of taxes.
- 2.11 Re-engineering of the tax administration processes, including the administration and control of large taxpayers.
- 2.12 Preparation of manuals of organization, responsibilities and functions, in which activities and responsibilities of each OTA unit will be clearly defined and delimited.
- 2.13 Strengthening of the Planning, Finance and Control Unit of the OTA in order to increase its efficiency in making tax collection estimations and projections, quantifying evasion gaps, assisting the auditing department in the identification of potential delinquent taxpayers, and designing and administering performance indicators for OTA's units. Enhancement of its responsibilities to include the follow up of the implementation of the program.
- 2.14 Creation of a special unit responsible for internal auditing.
- 2.15 Development of a civil service or administrative career system for OTA employees aimed to facilitate personnel's professional development as well as its permanency in the institution after training has been provided. The new system should include aspects such as the design of well defined and classified job positions and entrance examinations; and, incentive schemes like merit promotions and a competitive salary scale.
- 2.16 Expected results: (a) implementation of a sound new organizational structure in which every unit has clearly defined and delimited functions and responsibilities; (b) integration of all areas responsible for tax auditing activities in one single unit; and (c)

implementation of a personnel policy covering OTA's staff recruitment, development, training, evaluation and promotion.

c. Collection and tax receipts

- 2.17 Implementation of a new taxpayer registration system. Inclusion of relevant data in the taxpayer master file for further cross-checking with external sources such as banks, the Civil Registration Office and the Chamber of Commerce.
- 2.18 Improvement of the procedures to file self assessment returns in order to handle returns and payments together as a unit.
- 2.19 Development of procedures to track and monitor payments made through the banking system. Evaluation of the possibility of adjusting and expanding the banks' collection system. Development of a proposal to set formal collection agreements with the banks, where issues regarding the payment of fees to banks, the establishment of penalties for faulty capture of information and late transfer of funds to OTA's accounts at the Central Bank will be addressed.
- 2.20 Improvement of procedures to handle payments made directly at the OTA's offices, such as daily updates of taxpayers' current accounts including the reversal of payments made with bad checks, and the improvement of the security in the manual handling of checks.
- 2.21 Redesign of forms, procedures and operation manuals, to capture pertinent data required to increase the efficiency of the collection process and of the production of statistical reports, audit selection, and delinquent action.
- 2.22 Expected results: Improvement of the collection system performed through OTA and the banking system and increased efficiency in the collection process as a whole. Availability of both funds and information captured by banks within a period of no longer than 48-72 hours.

d. Auditing

- 2.23 Development of new auditing techniques and procedures (e.g. cross checking with external sources such as customs and public sector institutions), and expansion of auditing activities to provide broad audit coverage, well targeted at areas of avoidance and evasion.
- 2.24 Development of systems and procedures for administrative control of inspection and auditing.
- 2.25 Expansion of the number of medium taxpayers currently under OTA's control.

- 2.26 Development and implementation of special programs to enforce sales tax compliance.
- 2.27 More intensive use of the information systems to select taxpayers for auditing and to establish periodic calendars of activities and goals.
- 2.28 Expected results: (a) implementation of sound techniques and procedures for the selection, planning, and execution of tax audits and inspections, and increased probability of identifying non-compliance; and (b) intensive use of internal information systems and external sources of information as support for routine activities and for the development of financial and economic indicators to quantify levels and sources of evasion.

e. Information systems

- 2.29 Completion of the cleaning up of the taxpayer master file and incorporation of additional relevant information, to properly identify taxpayers and to support collection and auditing activities.
- 2.30 Expansion of the Integrated Tax Information System (ITIS) to incorporate the sales tax in the current account system. Adjustment of the current account system to ensure that payments are posted to a current account for a specific tax and taxpayer.
- 2.31 Preparation and updating of detailed written procedures (manuals).
- 2.32 Updating of the ITIS internal security system. Modification of the procedures to grant access to computer processes. Restriction of access by levels of responsibilities and functions. Activation of the audit trails functions. Development of procedures to follow-up and control user access to system's programs and processes. Designation of a high-level official in charge of administering authorizations to access information and routines (queries) provided by the system.
- 2.33 Design and implementation of a Management Information System, compatible with ITIS, capable of producing statistical, budgetary and analytical reports to serve as a management tool for measuring performance and decision making.
- 2.34 Design and implementation of a Cross Reference System, as a major tool to identify delinquent taxpayers and inconsistencies in filed returns.
- 2.35 Optimization of the Electronic Data Processing (EDP) department procedures regarding the internal organization, inventories of computer equipment, security issues (access to the data center), daily verification of data base integrity, and the maintenance of equipment.

- 2.36 Expected results: (a) consolidation and expansion of the data processing and information systems developed during the first phase of the project; and (b) implementation of new information systems required to enhance the effectiveness of the OTA, principally in the areas of auditing, management information and statistics.

f. Training

- 2.37 Design and implementation of annual training plans tied in with the OTA staff selection, evaluation and promotion process.
- 2.38 Preparation and implementation of extensive training programs for both in-house training and attendance at courses and seminars available to selected member countries of the Bank where satisfactory results have been observed in the area of tax administration. The bulk of training will be on-the-job training and will be provided by relevant experts under each project component. The content of the training programs will be consistent with the timing of execution of the different components and activities of the project.
- 2.39 Continuous training of officers with managerial responsibilities.
- 2.40 Permanent update of the training provided to the staff of the EDP department in managing, maintaining and updating the new ITIS subsystems to be developed by the project.
- 2.41 Expected results. OTA's management, supervisory and operating employees trained in planning, management, organization, work improvement methods, use of information systems, and specific tax administration topics (legislation, auditing, taxpayers assistance, etc.)

g. Taxpayer assistance

- 2.42 Development of information programs (e.g. press releases, information guides, etc.) to publicize relevant aspects of the tax system, especially topics of a legal nature regarding interpretation and information of the rights and obligations of taxpayers.
- 2.43 Design of special programs and procedures to facilitate the compliance of large and medium taxpayers.
- 2.44 Provision of skills training for the staff responsible for assisting taxpayers.
- 2.45 Expected results. Implementation of programs to publicize aspects of the tax system and provision of broad assistance and guidance for taxpayers.

D. Requirements of goods and services

1. Consulting services

- 2.46 The project will require approximately 150 person/months of consulting services. The breakdown of the requirements of international consultants is as follows: (a) tax administration expert, acting also as the international project coordinator, (18 months); (b) auditing specialist (12 months); (c) tax legislation specialist (12 months); (d) information systems expert (9 months); (e) specialist in collection systems and tax receipts (9 months); expert in organization and methods (8 months). In addition, 30 person/months of short term consultancies in the fields of legislation, information systems, collection and auditing will be required.

2. Acquisition of equipment

- 2.47 The major purchases of equipment (hardware and software) were made during the first phase of the project, while some pieces of equipment still need to be installed. Nevertheless, in order to expand and modernize existing computer capabilities, the program will fund the installation of some new workstations, mainly to support the area of auditing.

E. Cost and financing

- 2.48 The total cost of the project will be the equivalent of US\$2.15 million, of which the Bank will provide non-reimbursable financing up to US\$1.83 million equivalent from the net income of the FSO, in accordance with the following estimated budget summary.

BUDGET (in US\$)			
	IDB	LOCAL	TOTAL
I. Professional Services Firms	1,424,000		1,424,000
A. Long Term Consulting Services by Components	834,000		834,000
1. Coordination of the Project- Training-Taxpayers Assistance	234,000		234,000
2. Tax Legislation & Normative Procedures	144,000		144,000
3. Organization and Methods	96,000		96,000
4. Collection Systems & Tax Receipts	108,000		108,000
5. Auditing	144,000		144,000
6. Information System	108,000		108,000
B. Short Term Consultants	415,000		415,000
C. Overhead	175,000		175,000
II. Training and seminar participation	260,000	130,000	390,000
III. Computer Equipment		150,000	150,000
IV. Publications	50,000		50,000
V. Contingencies	96,000	44,000	140,000
TOTAL	1,830,000	324,000	2,154,000

- 2.49 The Bank's contribution, which amounts to 85% of the total project cost, will be destined to finance 150 person/months of international and local consulting services and the bulk the taxpayer assistance programs and the training activities. GOS funding will cover the purchases of equipment, and part of taxpayer assistance and training.

III. EXECUTION OF THE PROGRAM

A. Organization and execution

- 3.1 Overall responsibility for the implementation of the Project is with the Ministry of Finance, which is by law the Ministry responsible for the administration of taxes. The responsibility of direct project supervision and administration will be given to the Director of the OTA and the National Project Coordinator, who shall be responsible for: (a) coordinating with the International Project Coordinator the day-to-day administration and execution of the project; (b) assisting in the coordination of the project activities; (c) providing advice in solving potential implementation issues; (d) evaluating the development and implementation of the project; (e) reviewing the quarterly progress reports; and (f) reviewing the final evaluation report.

- 3.2 The International Project Coordinator will be the consultant expert in tax administration. He will coordinate project activities under the supervision and guidance of the OTA Director, who will act as the formal link between the executing agency and the Bank. The project will be executed over a period of 36 months.

B. Technical execution

- 3.3 Technical execution of the program will be the responsibility of a specialized agency, the Inter-American Center of Tax Administrators (CIAT), to be contracted by the Ministry of Finance within 60 days of the signing of the technical cooperation agreement. CIAT will perform these duties pursuant to the technical cooperation agreement, and in accordance with Bank rules and procedures. In addition, CIAT will be responsible for contracting and paying the consultants and other pertinent administrative actions. Annex II contains the terms of reference of the specialized agency and of the international long term consultants required to execute the components of the program.
- 3.4 CIAT, a nonprofit public international organization established in 1967, is the only institution in Latin America and the Caribbean that specializes in the field of tax administration. CIAT's experience is recognized by its 33 member countries and has participated in technical cooperations funded by multilateral organizations such as the Bank, the World Bank and the International Monetary Fund. CIAT was in charge of the technical execution of the first phase of the Suriname's tax administration project and has performed satisfactorily. CIAT receives also technical support from the United States (Internal Revenue Service), Canada (Revenue Canada), France (Direction des impôts), Spain (Agencia Estatal de Administración Tributaria e Instituto de Estudios Fiscales), Italy (Ministry of Finance), and the Netherlands (Directorate of Taxes and Customs). In addition, since 1983 CIAT has acted as specialized agency for Bank-financed projects in Central and South America and the Caribbean.
- 3.5 CIAT's technical expertise and experience has been described in many previous Bank's documents. In addition, CIAT has demonstrated its institutional ability to coordinate such operations, to manage satisfactorily project implementation, to support beneficiaries in their administration of covenants under TC agreements and to provide continuity of support beyond project execution. Based on an analysis of its institutional and technical capacity, and of other activities it will be carrying out over the next few years, CIAT is judged to have the capacity to satisfactorily execute the proposed technical cooperation in accordance with the criteria set forth in Bank's procurement guidelines (GS-403 Norms for selection without competition).

C. Monitoring reports

- 3.6 The following reports will be submitted to the Bank by the Executing Agency to facilitate supervision of project performance:
- a. A quarterly progress report will be presented within 30 days after completion of each three-month period. The reports will review the execution of each project component, their impact on tax administration and their interaction with other project components, if any. The first quarterly report should include a detailed description and schedule of the first training programs to be executed as well as a revised version of the initial schedule of benchmarks, to be used in the evaluation of the program. Subsequent quarterly reports should describe the status of execution of the project components and the current benchmark values.
 - b. A final evaluation report will be presented within three months of the completion of the project. It will contain a summary of the activities carried out and the results obtained in terms of the established objectives and benchmark indicators.

D. Disbursements

- 3.7 This operation will be executed over a 36-month period. The final disbursement will be made, at the latest, 42 months from the date of signature of the agreement between the Bank and the Government of Suriname. The Ministry of Finance will delegate administration of the disbursements of the Bank's contribution to the OTA, which will act as the Executing Agency. The mid-term evaluation referred to in paragraphs 3.9 and 5.1 will assess disbursement requirements for the remaining life of the project.
- 3.8 Prior to the first disbursement, the Executing Agency shall present to the Bank evidence of: (a) a certificate including the name, office, and authenticated specimen of the signature of the person or persons who shall represent the Executing Agency in all acts relating to the execution of this Agreement; (b) the designation of independent auditors to review and certify the financial statements that have been agreed upon by the Beneficiary and the Bank; (c) the designation of the National Project Coordinator; (d) the hiring of CIAT as specialized agency -- after the Bank's review and clearance of CIAT's hiring contract -- and of the International Project Coordinator; (e) the Bank's approval of the initial calendar of benchmarks, to be used in the evaluations of the program; and (f) confirmation that all equipment bought during the first phase of the project has been delivered and installed.
- 3.9 By the end of the eighteenth month following the start up of the program, the Executing Agency shall present to the Bank evidence of: (a) completion of the activities regarding the Tax Legislation and Normative Procedures of the project. In particular, that the proposals regarding the simplification of the tax system and the

preparation of the tax code have been finalized and submitted to the Cabinet for consideration; (b) completion of the activities corresponding to the Organizational Development and Human Resources component and implementation of the new organizational structure and the career system for OTA employees.

E. Benchmark indicators

- 3.10 A table with the proposed benchmark indicators by which the project will be evaluated is attached as Annex I. The indicators will be prepared periodically and mostly are oriented to measure the OTA's progress in reducing the non-compliance and evasion levels, and key areas as auditing and training. The logical framework will be also used as a complementary evaluation tool, when reviewing the quarterly progress and final reports and performing the mid-term and final evaluations.

F. Environmental impact

- 3.11 The CESI, reviewed this project at its meeting of September 12, 1997 and made no objection.

IV. BENEFITS AND RISKS

A. Expected benefits

- 4.1 The program supports stabilization of Suriname's economy, since it will improve significantly the OTA's performance, which is the main revenue collecting agency of the country. In particular, the program will help to expand the tax base and to increase government revenues, by lowering evasion and avoidance levels, as well as by improving overall efficiency in the administration and control of direct taxes.
- 4.2 Also, the program will help to improve the image of the OTA with the taxpayers through, among other channels, a series of taxpayer assistance programs, which would serve as a model to promote the modernization of the Surinamese public sector.

B. Project risks

- 4.3 In general, the main risk in institutional strengthening projects in Suriname is the low wages of the civil service and, consequently, the departure of the trained professional officers from the civil service once sufficient professional experience has been acquired for the officer to be attractive to the private sector. An improvement in the professional civil service career is necessary to the long-term success of institutional strengthening operations which, like the present program, contain important training activities. OTA will propose a new career stream to its officers, which eventually would consider the possibility of obtaining financial and administrative autonomy. The latter would

allow the tax administration to face more effectively the problem of its personnel's low salaries.

- 4.4 The success of the second phase of the tax administration project is influenced by the implementation of major changes in the current tax legislation and in the organizational structure of the OTA, which ultimately relates the political will of the GOS to support these changes and their implications. Success in the implementation of some fundamental areas of the project, therefore, ultimately will depend on the political commitment of the government to the execution of the program as well as on technical grounds. Mitigation measures are proposed under special contractual conditions (see paragraph 3.9).

V. EVALUATION

- 5.1 A mid-term and a final evaluation shall be conducted 18 months after the start up of the program and 6-12 months after the end of program execution, respectively. The project team will perform the mid-term evaluation. For the final evaluation -- which will be financed by the Bank -- the Bank shall contract specialized consultants to make an independent evaluation that, among other aspects, will measure the total impact of the operation on the operational and technical structure of the Suriname's tax administration. Both evaluations shall also cover the performance of the specialized agency. The evaluation reports will present the problems encountered and the way in which they were resolved, the relationship between the results obtained and the proposed program goals, with an explanation of any disparity between them, and especially indicating actions taken by the OTA as a result of the technical cooperation. The terms of reference for both the mid-term and the final evaluation will be prepared in coordination with Bank's Evaluation Office (EVO).
- 5.2 In addition, and in accordance with the established norms of the Bank, within six months from the date of last disbursement, the GOS shall prepare the Project Completion Report (PCR) of the proposed technical cooperation, which will contain a judgement on the attainment of the objectives of the program, and will serve as an input for the final evaluation of the program.

BENCHMARKS

	Benchmark	Initial values	Month 6	Month 12	Month 18	Month 24	End of the project
1	Level of large taxpayers' non-compliance						Max. 5%
2	Taxpayers filing returns as a percentage of taxpayers registered in the TMF						Min. 80%
3	Taxpayers making payments as a percentage of taxpayers filing returns						Min. 80%
4	Percentage of non-filers/delinquent taxpayers on whom OTA has initiated administrative actions within 7 days after being detected/tax payment due date						Min. 80%
5	Percentage of tax debt collected by administrative collection and by legal means as a percentage of total tax debt						Min. 70%
6	Tax debt as a percentage of total tax collection						
7	Number of audits initiated and terminated by semester						
8	Percentage of employees trained at managerial, supervising and operating levels						100%
9	Number of technical courses/seminars provided to auditors						
10a	Number of courses/seminars on ethics held.						100%
10b	Percentage of employees attending these courses						

PROPOSED RESOLUTION

SURINAME. NONREIMBURSABLE TECHNICAL COOPERATION
INSTITUTIONAL STRENGTHENING OF THE TAX ADMINISTRATION OFFICE

The Board of Executive Directors

RESOLVES:

1. 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 agreements as may be necessary and to adopt such other measures as may be pertinent for the execution of the plan of operations referred to in Document AT-_____, with respect to a technical cooperation with Suriname, the purpose of which is to institutionally strengthen the Tax Administration Office.
2. That up to the sum of US\$1,830,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the net income of the Fund for Special Operations.
3. That the above mentioned sum is to be provided on a non-reimbursable basis.