

INTERAMERICAN DEVELOPMENT BANK DOCUMENT

BELIZE

STRENGTHENING OF TAX ADMINISTRATION

(BL-L1031)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Monica Calijuri, Team Leader; Alberto Barreix, Alternate Team Leader; Belinda Perez Rincon; Rodrigo Azuero and Edna Armendariz (IFD/FMM); Brodrick Watson and Patricia Payen (FMP/CBL); Jane Chow (CID/CBL); Alvaro Sanmartin (LEG/SGO); Jose Alejandro Martinez (SPD/SDV); Ida M. Fernandez and Mariana Canillas (IFD/FMM); and Marcio Cracel (consultant).

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

CONTENTS

PROJECT SUMMARY	1
I. PROJECT DESCRIPTION AND RESULTS MONITORING	2
A. Background, Problem Addressed and Justification	2
B. Objectives, Components and Cost.....	10
C. Key Result Indicators	12
II. FINANCING STRUCTURE AND MAIN RISKS.....	13
A. Financing Instruments.....	13
B. Environment and Social Safeguard Risk.....	14
C. Fiduciary Risk	14
D. Other Risks and Key Issues of the Project	14
III. IMPLEMENTATION AND MANAGEMENT.....	16
A. Summary of Implementation Arrangements	16
B. Summary of Arrangements for Monitoring Results	19

ANNEXES	
Annex I	Summary Development Effectiveness Matrix (DEM)
Annex II	Results Framework
Annex III	Fiduciary Arrangements

REQUIRED ELECTRONIC LINKS (REL)	
REL#1	Pluriannual Execution Plan (PEP) / Annual Operational Plan (AOP)
REL#2	Monitoring and Evaluation Arrangements
REL#3	Procurement Plan

OPTIONAL ELECTRONIC LINKS (OEL)	
OEL#1	Safeguard Policy Filter (SPF) and Safeguard Screening Form (SSF)
OEL#2	Analysis of Project Cost and Economic Viability
OEL#3	Problem Matrix
OEL#4	Project Operations Manual (POM) - Draft

ABBREVIATIONS	
AOP	Annual Operating Plan
ASYCUDA	Automated System for Customs Data
BCTF	Belize Cybersecurity Task Force
CARTAC	Caribbean Regional Technical Assistance Center
CED	Customs and Excise Department
CIAT	Inter-American Center of Tax Administrations
CITO	Central Information of Technology Office
CSIRT	Computer Security Incident Response Team
DGST	Department of General Sales Tax
FY	Fiscal Year
GDP	Gross Domestic Product
GST	General Sales Tax
ICAS	Institutional Capacity Assessment Systems
IDT	Income Tax Department
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IT	Information Technology
ITAS	Integrated Tax Administration System
ITD	Income Tax Department
MEP	Monitoring and Evaluation Plan
MOF	Ministry of Finance
MoPS	Ministry of Public Service
NPV	Net Present Value
OAG	Office of the Auditor General
OECD	Organization for Economic Co-operation and Development
PEU	Project Executing Unit
PFM	Public Financial Management
PMO	Program Management Office
POM	Project Operations Manual
PP	Procurement Plan
PSC	Project Steering Committee
RM	Results Matrix
SIB	Statistical Institute of Belize
SIGTAS	Standard Integrated Government Tax Administration System
TA	Tax Administration
TAPA	Tax Administration Procedures Act
TC	Technical Cooperation
TOR	Terms of References
VAT	Value-Added Tax

PROJECT SUMMARY
BELIZE
STRENGTHENING OF TAX ADMINISTRATION
(BL-L1031)

Financial Terms and Conditions					
Borrower:			Flexible financing facility ^(a)		
Belize			Amortization Period:		25 years
Executing Agency			Disbursement Period:		5 years
Ministry of Finance (MOF)			Grace Period:		5.5 years ^(b)
Source	Amount (US\$)	%	Interest rate:		LIBOR Based
IDB (Ordinary Capital):	14,000,000	100	Credit fee:		(c)
			Inspection and supervision fee:		(c)
Total:	14,000,000	100	Weighted Average Life (WAL):		15.25 years
			Currency of Approval:		Dollars of the United States of America
Project at a Glance					
Project objective/description: The main objective of the project is to contribute to strengthening Tax Administration (TA) aimed at increasing revenue collection. The specific objectives are the following: (i) increasing the government's effectiveness in tax collection; and (ii) increasing the efficiency of TA. These objectives will be achieved by improving TA governance and operational processes, and by modernizing the technological infrastructure.					
Special Contractual Clauses prior to the first disbursement: The Borrower, through the MOF, shall provide evidence that: (i) the key staff of the Project Executing Unit (PEU) has been appointed, including its Coordinator, Procurement Specialist and Financial Specialist; and (ii) the Project Operations Manual (POM) for the project has been approved, in the terms agreed with the Bank (¶3.9).					
Exceptions to Bank Policies: None.					
Strategic alignment					
Challenges^(d):	SI	<input type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI <input checked="" type="checkbox"/>
Cross-cutting themes^(e):	GD	<input type="checkbox"/>	CC	<input type="checkbox"/>	IC <input checked="" type="checkbox"/>

^(a) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option to request modifications to the amortization schedule, as well as currency, interest rate, and commodity conversions. In considering such requests, the Bank will take into account operational and risk management considerations.

^(b) Under the flexible repayment options of the Flexible Financing Facility, changes in the grace period are possible as long as the Original WAL and the last payment date, as documented in the loan agreement, are not exceeded.

^(c) The Board of Executive Directors will periodically establish the credit fee and the inspection and supervision fee during its review of the Bank's lending charges, in accordance with the relevant policies.

^(d) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(e) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, Problem Addressed, and Justification

- 1.1 The economy of Belize is challenged by low economic growth. From 2008 to 2014, the average annual growth rate was 2.7%, while from 2015 to 2018 it fell to 1.8%.¹ Despite the recovery after the recession of 2016, growth expectations for the medium term remain modest at 2%.
- 1.2 Low economic growth has been associated with fiscal imbalances and a persistent accumulation of public debt. Between 2015 and 2018, total expenditures averaged 33.5% of Gross Domestic Product (GDP) while revenue averaged 28.3%. This has contributed to recurrent fiscal deficits and increased debt financing. The debt-to-GDP ratio increased from 79.3% in 2015 to 94.2% in 2018.² The lack of fiscal space has limited the country's ability to make priority investments to promote economic growth.

Table 1. Belize Macro/Fiscal Indicators (% GDP)

Indicator / FY	2015/16	2016/17	2017/18	2018/19 Projected
1.Real GDP growth	3.4	-0.6	1.4	3.1*
2.Revenue and grants	28.2	28.9	29.6	29.9
2.1 Current revenue	27.6	27.6	28.8	29.0
2.2 Tax revenue	24.4	25.4	25.7	26.1
2.2.1 Income and profits	7.2	7.2	7.2	7.0
2.2.2 Goods and services	10.0	13.4	14.2	14.6
2.2.3 International trade	7.0	4.6	4.2	4.4
2.3 Grants	0.6	1.2	0.8	0.9
3.Total expenditure	35.6	33.1	33.5	30.8
3.1 Current expenditure	25.5	26.2	26.9	26.9
3.1.1 Wages and salaries	10.8	11.1	11.3	11.2
3.1.2 Pensions	2.2	2.3	2.5	2.5
3.1.3. Goods and services	5.6	5.9	5.7	5.7
3.1.4 Interest payments	2.4	2.4	2.8	2.9
3.1.5 Transfers	4.5	4.5	4.6	4.6
3.2 Capital expenditure	10.2	7.0	6.5	3.9
4.Primary balance	-5.1	-1.9	-1.1	2.0
4.1 Excluding one-off capital transfer	-5.1	-1.9	1.3	2.0
5.Overall balance	-7.5	-4.2	-3.9	-0.9
6. Public debt	79.3	93.3	93.6	94.2

* Statistical Institute of Belize.

Source: International Monetary Fund (IMF) Article IV, 2018 -Table 2b.

- 1.3 **Fiscal Situation.** In March 2017, the Government of Belize reached a restructuring agreement with private external bondholders on its US\$526 million bond (about 30% of GDP) and initiated a fiscal consolidation program. As part of the agreement, the authorities committed to a fiscal consolidation program, geared toward tightening the fiscal stance by 3.0 percentage points of GDP in Fiscal Year (FY)³ 2017/2018 and maintaining a primary surplus of 2.0% of GDP for the subsequent three years. The main revenue measures introduced in the FY 2017/2018 budget were: (i) higher excises on fuel, beer, sugary drinks, and construction materials; (ii) higher import duties on selected products, including

¹ [IMF Article IV 2018.](#)

² IMF Article IV 2018.

³ FY refers to April 1 – March 30.

cigarettes; (iii) an increase in an environmental tax (a levy on most imported goods); and (iv) adjustments in the General Sales Tax (GST) base, including lowering the social exemption for household electricity use. The main fiscal adjustment to expenditure has been through reduced government investment.⁴ As a result of these measures, the primary fiscal balance in FY 2017/2018 increased to a surplus of 1.3% of GDP.⁵

- 1.4 In FY 2018/2019, the Government of Belize has continued the fiscal consolidation program.^{6,7} Parliament approved revenue-enhancing measures to increase revenues by 0.5% of GDP mainly by: (i) broadening the base of GST by removing zero-rated items; (ii) levying higher excises on fuel; and (iii) imposing higher import duties on selected items. The measures also include reducing overall expenditures, mainly via the wage bill and capital spending.⁸
- 1.5 The IMF evaluation, in its Article IV consultation in 2018, projected economic recovery, supported by a favorable global environment. The fiscal adjustment is one of the risks that could restrain growth below the forecast in the near term. The Statistical Institute of Belize (SIB) calculates Belize's GDP growth at 3.1% for 2018. The Government's efforts in FY2019/2020 will continue to focus mainly on strengthening Tax Administration (TA) by consolidating the two tax departments and establishing a new system for TA. With these measures, the Government expects to close administrative loopholes that lead to revenue leaks due to inefficiency. In addition to this major reform, the Government will address the pay as you earn anomalies in threshold and rates.⁹ To implement these measures, the support of the IMF and the IDB is fundamental.
- 1.6 To sustain the gains from the revenue-enhancing measures, the Government of Belize needs a strong TA. The increase in revenues requires a comprehensive approach that includes the modernization of tax institutions. Modernization would cover a broad spectrum of legal, technical and administrative measures, including increasing the use of automation, and information and communications technology.¹⁰
- 1.7 **Justification.** Currently, two departments at the Ministry of Finance (MOF) administer domestic taxes in Belize. They employ 240 staff members, 66 of whom are auditors.¹¹ The Income Tax Department (ITD) is responsible for corporate and personal income taxes, as well as business tax, and the Department of General Sales Tax (DGST) administers the domestic GST.¹² The Customs and Excise Department (CED) administers the international trade tax and GST on imports. Although all three departments fall under the MOF, these types of organizational approaches (domestic taxes separated in two different departments) result in the duplication of functions (dual registration system with double data bases, doubled

⁴ IMF Article IV 2018.

⁵ Excluding the one-off capital transfer.

⁶ Ford, E. A. and L. Roberts. 2017. Assessing Debt Sustainability in Belize.

⁷ Central Bank press release.

⁸ IMF Article IV 2018.

⁹ See Prime Minister's Budget Speech for Fiscal Year 2019/2020.

¹⁰ Raising revenue (2018, IMF).

¹¹ Information provided by the MOF (Data from January 2019).

¹² DGST has 5,120 taxpayers in the GST registry; ITD has 27,728 taxpayers in the Business Tax Registry and 6,035 taxpayers in the PAYE registry. Information provided by the MOF (data from 2017).

return and payment processing), inefficiencies (additional administrative costs), and compliance burdens for taxpayers.

- 1.8 The model used in Belize to administer domestic taxes has also proven to be ineffective in comprehensively managing taxpayer compliance (including audit and collection enforcement).¹³ These problems are exacerbated by inconsistencies in the taxpayers registry, the absence of a taxpayers account, inefficiency in collection, ineffectiveness in auditing, and insufficient automated processes to provide taxpayer assistance for compliance.¹⁴ Modern TAs are organized in a mix of tax functions (basic functions, such as collection or examination, and supportive, such as information technology and human resources), taxpayer size and characteristics (client segmentation), and integrated processes.¹⁵
- 1.9 The Government of Belize has been receiving technical assistance from the Caribbean Regional Technical Assistance Center (CARTAC) that emphasizes the need to modernize the TA model and improve compliance management (§1.14). As part of the TA modernization process, in November 2018 the Government prepared a Program Initiation Document report and started four modernization initiatives: (i) Communication and Change management; (ii) Organization; (iii) Legal; and (iv) Information Technology (IT). A Program Management Office (PMO) for these initiatives was created, and a Program Manager was assigned. In April 2019, the Cabinet approved the consolidation of the Income Tax and General Sales Tax Departments into one new department and further approved the procurement and installation of the new Integrated Tax Administration System (ITAS). On June 21, 2019, the legislation supporting the consolidation of the two departments was passed by Parliament, in particular, the Tax Administration Procedures Act (TAPA).
- 1.10 The CED has already undergone extensive reform in recent years, implementing the Automated System for Customs Data (ASYCUDA) World in 2013 and moving into an operating environment characterized by faster processing of cargo, risk-based inspection, and an increasingly paperless environment.¹⁶ The ASYCUDA can provide useful data for the new tax department.
- 1.11 Restrictions faced by public officials limit the effectiveness and efficiency of public institutions. These include access to information and technology, availability of financial resources, and the required legal framework (Arenas de Mesa, 2016; Finan et al., 2017). Given the preliminary level of digital transformation in Belize's TA at this time, it is important to address the weaknesses that limit the improvement of its tax collection performance. For example, in human resources, although ITD and DGST have a significant workforce, the allocation of personnel does not satisfy the institution's current and future needs and does not allow it to conduct the necessary training based on actual personnel competencies and institutional needs.

¹³ The integration of consumption and income taxes into one administration has accelerated in the last five years. Out of 12 countries that currently administer Value Added Tax (VAT), all except Belize have now adopted the integrated approach. Schlotterbeck, S. 2017. TA Reforms in the Caribbean. IMF.

¹⁴ Review of IT Systems of the TA of Belize. Inter-American Center of Tax Administrations (CIAT)-IDB report, 2017.

¹⁵ Barreix and Zambrano, 2017. *Factura Electrónica en América Latina*. IDB-CIAT.

¹⁶ Next Steps in Modernizing Revenue Administration. 2014. IMF-FAD report.

- 1.12 Regarding information and communication technology, although the MOF is well supported by the Central Information and Technology Office (CITO),¹⁷ and the technological park has recently been modernized, it is estimated that most of this hardware, telecommunications and security infrastructure will be outdated by 2022,¹⁸ mainly because of the exponential growth in the use of electronic transactions. In this respect, it is estimated that approximately 50% of taxpayers' operations will be carried out electronically (filing, payments, purchase and sales book, payroll information, etc.). Finally, the availability of emerging technologies to support TA, as well as constant security threats raise the need not only to update the infrastructure, but also to review the technology strategy, so as to allow for the sustainable and efficient expansion of the technological park in the medium term.
- 1.13 In this context, the Government of Belize has requested an investment loan from the Bank to strengthen TA in order to increase tax revenues. Due to the previous modernization of the CED, the project does not include customs, except for the interconnectivity of the systems. This will be done by increasing the efficiency and effectiveness of tax collection through improved TA governance, operational processes, and technological systems and infrastructure. The program is expected to contribute to an additional increase in tax revenue to support the fiscal consolidation in the short and medium term and to increase the fiscal space to recover investment expenditures in the long term.¹⁹
- 1.14 **Coordination with International Organizations.** The project was prepared in close cooperation with the IMF and CARTAC. The IMF, through Article IV, provided inputs for the project's economic background and fiscal situation. CARTAC has been supporting the MOF by providing technical assistance in several areas of TA, including a diagnostic and preparation of the reengineering process. The present operation used reports and diagnostics prepared by CARTAC and coordination is expected during the project implementation, since CARTAC will continue providing technical assistance to MOF in areas that will complement and reinforce the Bank's project.
- 1.15 **Problems and Causes.** The main problem is low effectiveness and efficiency in tax collection. The specific problems and causes to be addressed are:
- 1.16 **Tax Administration Governance**
- a. **Challenges of organizational structure.** The ITD and the DGST, which manage domestic taxes, are organized by tax type rather than functions,²⁰ and they carry out their operations separately. There is no coordination among the main processes (auditing, collection, enforced collection, and taxpayer services) causing limited efficiency in domestic tax collection, low taxpayer compliance,²¹ and deficiencies in taxpayer services. It

¹⁷ CITO was established in 2004 to provide management, administration and support for the newly implemented Government of Belize Wide Area Network and its enterprise applications.

¹⁸ Information provided by the MOF (data from March 2019).

¹⁹ Evidence that the strengthening of TA processes and systems, could raise tax revenue in five low-income countries. See Raising Revenue (IMF, 2018).

²⁰ Of 126 countries currently administering VAT, only 10 have separate departments for VAT/Sales Taxes and income taxes (FAD/IMF 2014 report). In the Caribbean region: Belize and Suriname.

²¹ According to information provided by the MOF, in 2018, the ratio between the number of taxpayers filing on time and the total number of taxpayers expected to file on time, excluding non-filers within three years, was 76% for DGST and 19% for ITD.

also causes inefficiency in the cost of collecting tax revenue. The current ratio is 2.05%, which is higher than the average cost of collection in the region.^{22, 23} The legislation to consolidate the two departments was approved by the Parliament on June 21, 2019, but the government lacks technical support to organize and establish the new tax department, and to implement the change of management.

- b. **Inadequate internal control mechanisms to ensure accountability and transparency.** There are no annual reports available, and internal affairs policies are not in place. The TA also lacks internal audit capacity to promote transparency in its processes.^{24, 25}

1.17 Operational Processes

- a. **The taxpayer register contains duplicate and incorrect records.** The ITD registry contains approximately 27,000 taxpayers, less than 30% of whom are active. The DGST has already started cleansing the registry database, of 5,000 taxpayers, 90% are active.²⁶ Nevertheless, the registry still has two registration databases for each taxpayer, duplicating information and creating inaccuracies.
- b. **Limited technical capacity of human resource.** The staff for the two TA departments lacks the necessary training in key areas, such as collection and audits.²⁷ Most of the auditors are neither accountants nor professionals in related fields.²⁸
- c. **Insufficient attention is given to large taxpayers.** Although a Large Taxpayer Unit was recently established, it is still in the initial phase, and only four auditors were assigned to the unit to cover 243 large taxpayers. These taxpayers account for 59%²⁹ of total revenue collection. No taxpayer segmentation criteria and corresponding procedures have been officially established.³⁰ Additionally, since the TA auditors lack expertise in key areas, such as economic sectors and large taxpayers' behavior, such taxpayers are audited using the same criteria applicable to small and medium taxpayers, making the processes inefficient and ineffective.³¹

²² Information provided by the MOF: the ratio of the cost of collecting taxes to the amount of taxes collected in 2018 for DGST and ITD was 2.05%. The recurrent costs are emoluments, travelling and subsistence, materials and supplies, operating cost and maintenance.

²³ The average ratio of regional cost of collection is 1.05 (*Las Administraciones Tributarias: Recaudación, Costes y Personal Evidencia para los Países de CIAT con los Datos de ISORA*, CIAT, 2018). Using all the data base from ISORA, the cost of collection for low income countries, considering the median recurrent budget to revenue collected (less VAT and excise on imports) is 0.7%, and using only the small states data, is 0.9%. See [ISORA 2016: Understanding Revenue Administration \(2019, IMF\)](#).

²⁴ Information provided by the MOF.

²⁵ Baum, A. et al. 2017. Corruption, Taxes and Compliance. IMF Working Paper.

²⁶ Information provided by the MOF (Data from 2017). "Inactive taxpayers" means those who have not filed a return in the last three years.

²⁷ Information provided by the MOF (data from January 2019).

²⁸ Belize TA Modernization Report. September 2018.

²⁹ Information provided by the MOF (Revenue data from FY 2016/2017).

³⁰ Organization for Economic Co-operation and Development (OECD), 2009. Compliance Management of Large Businesses.

³¹ Information provided by the MOF.

- d. **Deficiencies in tax auditing processes and systems.** Audit programs are based primarily on the auditor's opinion. In the DGST, each auditor performs three to six assessments per year, considering the current number of staffs, it would take approximately 10 years to inspect all taxpayers; situation that generates a perception of low risk. No cross-checking instruments are available, making it impossible to process large amounts of information. The massive tax audit is not used, and comprehensive audits are mostly carried out with limited use of technology. The audit selection process uses information on returns and payments from its own tax department and does not use risk management for this purpose. Information gathering to conduct comprehensive audits is carried out manually, which is time consuming. Existing records are compared manually with the additional information provided by taxpayers, resulting in inaccuracies. In 2018, the ratio between the number of assessments issued and the amount of tax collected from them was only 5.92%.^{32, 33}
- e. **Insufficient support for taxpayers to comply with their tax obligations in a cost-effective manner.** Basic taxpayer services such as payment and filing are essentially paper-based and walk-in. Only 3% of the DGST declarations are filed using the support of banks. There is also limited use of banking' services for payment of taxes. Only 20% of the DGST's payments and 14% of the ITD's³⁴ are made through commercial banks.³⁵
- f. **Difficulty in managing arrears.** In 2018, the total stock of tax arrears recorded by the ITD was US\$82 million, while the DGST arrears total US\$39.2 million (56% and 43% of annual revenues, respectively).³⁶ Write-offs of non-collectible arrears have not been used.
- g. **Difficulty in identifying inconsistencies in taxpayer obligations.** Integrated taxpayer accounts are not in place to provide a taxpayer-centric overview for tax control purposes.³⁷
- h. **The taxpayer invoicing process control is ineffective.** It generates inaccurate information. In addition, the refund process is slow due to a lack of reliable information to confirm the amounts owed to taxpayers.³⁸

1.18 Technological System and Infrastructure

- a. **The current Standard Integrated Government Tax Administration System (SIGTAS) is obsolete and does not generate useful information for decision making and tax compliance.** SIGTAS, an off-the-shelf system, was implemented in 2001 and an additional module to support administration of the GST was launched in 2006. Over the years, attempts to enhance the functionalities of SIGTAS have been primarily conducted internally. SIGTAS has almost reached the end of its useful life and cannot sustain further

³² IDB, 2018. Evaluation of the GST Department.

³³ Considering each auditor can perform eight audits per year, with four auditors allocated to LTU, it will take 6.5 years to inspect all large taxpayers.

³⁴ Good practices recommend 100% of payments made electronically.

³⁵ Information provided by the MOF (data from 2018).

³⁶ Information provided by the MOF (data from 2017).

³⁷ [2018 Government request for expression of interest for acquisition of ITAS.](#)

³⁸ FAD/IMF 2014 report.

modifications to cater to the needs of the tax department.³⁹ Currently, the functionality remains the same, and presenting many deficiencies are evident, including: (i) unreliability and duplication of data; (ii) incomplete modules related to audit, debt management, objections, and appeals; (iii) inability to deactivate a tax obligation to a given taxpayer; (iv) difficulty reporting on existing data; (v) lack of capacity to match third-party information and to interface with other systems; (vi) lack of case management, work-flow capability, and automate processes; (vii) insufficient control of system usage; (viii) absence of risk analysis; and (ix) lack of electronic services, such as registration, refunds, filing, objections, payments, and inquiries.⁴⁰

- b. **Since inception, few enhancements have been implemented.** The lack of an effective and sustainable maintenance contract with the vendor has meant that maintaining the system in-line with user demands has been the responsibility of CITO, located in Belmopan. Most updates have been made internally.⁴¹
 - c. **The technological infrastructure is insufficient to host a new ITAS and to provide good taxpayer services.** The current data-center processing capacity is insufficient to support a modern ITAS functionality, including storage capacity, telecommunication resources, and mechanisms to ensure data integrity and access control.⁴²
- 1.19 **The Bank's Experience in the Country.** The Bank implemented the Macroeconomic and Public Financial Sector Reform Program (1817/OC-BL),⁴³ with the aim of restoring Belize's macroeconomic and financial stability, which included improving the tax system. It will use lessons learned for the preparation of this operation, of which, the most important was to hold meetings with representatives of both TA departments participating in the project, in order to ensure that the interventions will effectively contribute to the department's integration.
- 1.20 Through ATN/OC-14663-BL, the Bank provided support for trade and tax policy reform with the aim to contributing to a more efficient, simplified, and equitable tax policy and TA in Belize. The Technical Cooperation (TC) provided: (i) proposals for reforms of the main taxes and fiscal incentives and analysis of their economic consequences; (ii) institutional strengthening of Belize's TA; and (iii) the dissemination, discussion, and validation of the reform proposals.
- 1.21 **The Bank's Experience in the Sector.** The Bank has extensive experience in strengthening tax and customs administrations in the region and has generated knowledge in this area. In particular, the Bank's recent experience with TA reforms in Ecuador (3325/OC-EC), El Salvador (3852/OC-ES), Honduras (3541/BL-HO), Peru (3214/OC-PE), and Brazil - CCCLIP PROFISCO I (BR-X1005) - provided recurrent elements that have been incorporated as lessons learned in the present operation. These include the attention paid to the preparation of technical specifications in accordance with the to-be processes analysis for the technological interventions, which will enable the authorities to avoid delays in their

³⁹ Considerations to Implement an ITAS. CARTAC Report, February 2018.

⁴⁰ Review of IT Systems of TA of Belize. CIAT-IAD Report, 2017.

⁴¹ Consideration to Implement an ITAS. CARTAC Report, February 2018.

⁴² Review of IT Systems of the TA of Belize. CIAT-IAD Report, 2017.

⁴³ Approved on December 6, 2006.

bidding processes and in the subsequent implementation of the system. Specifically, lessons learned from PROFISCO were used in preparing Terms of Reference (TOR) and in acknowledging the importance of having specialists in project preparation with international experiences of cutting-edge technologies available in the market.

- 1.22 More specific experience in this area is the Bank's recently completed Fiscal Administration Modernization Program in Jamaica (2658/OC-JA), which supported an increase in the number of tax functions subject to internal audit from four to nine, and implementation of four main auditing and supervision processes. These initiatives, along with others in the program, contributed to a reduction in the rate of non-filing among large and medium taxpayers from a baseline of 6% to between 2 and 3% and to narrowing of the tax gap from 45% to around 36% by the end of the program. Other program initiatives that contributed to these outcomes were the automation of four budget planning functions, the provision of five web-portal services, the connection of 40 TA offices to a new central office system, and the implementation of debit card and third-party payment options for taxpayers. The lessons incorporated into the present project are the importance of integrating processes in the domestic taxes departments, and the use of fiscal intelligence to achieve a more effective and efficient TA.
- 1.23 **International Evidence.** Recent evaluations show that tax collection performance depends on the institutional strengthening of country TAs in the areas of organizational structure, processes and support tools. In particular, tax authorities must: (i) improve access to and the quality of the information available;⁴⁴ (ii) implement auditing models that are based on the intensive use of information;⁴⁵ (iii) simplify procedures to facilitate tax compliance; and (iv) define strategies to ensure the suitability and motivation of human resources.⁴⁶ Several TAs in Latin America have strengthened these elements, notably in Brazil and Uruguay.⁴⁷
- 1.24 International evidence based on the comparative analysis of TAs indicates that the emergence of new technologies, the increase in digitization, and massive information flows are causing TA to re-examine the way they carry out their operations. Such factors also offer opportunities to implement cost-effective solutions to increase tax collection and improve the delivery of taxpayer services. The OECD (2016)⁴⁸ indicates that advanced data analytics is proving to be an extremely valuable tool for improving taxpayer knowledge and making smarter decisions to guide anti-evasion and control strategies.
- 1.25 The application of experiments such as Slemrod et al. (2015) in the United States, Pomeranz (2015) in Chile, and Kleven et al. (2011) in Denmark have revealed important findings regarding the strategic behavior of taxpayers and how tax authorities can use it to strengthen audit processes. A comparison of evasion patterns between the treatment groups and the control group suggests that

⁴⁴ Tax evasion rates are up to eight times higher where the TA lacks automated tools to verify taxpayers' income sources (Kleven et al., 2011; Pomeranz, 2015; Slemrod et al., 2015).

⁴⁵ The availability of information acts as a complement to the control of companies in Spain (Almunia and López Rodríguez, 2016).

⁴⁶ Incentive schemes for key TA personnel to generate additional collection produced rates of return of between 35% and 51% (Khan et al., 2016).

⁴⁷ Project Completion Report (PCR) 1783/OC-UR. Barreix and Zambrano, 2018. Electronic Invoicing in Latin America, IDB.

⁴⁸ OECD, 2016. Advanced Analytics for Better TA.

taxpayers who received notifications related to the possibility of being audited increased their reported income to the tax authority by up to 12%, as occurred in the United States. These works offer some important lessons with respect to characteristics that can increase the risk of evasion and on which the tax authorities could focus their control efforts, in the following areas: (i) the economic link of the taxpayer - final sales vs. intermediate sales; (ii) the type of taxpayer income - income on own account vs. salaries; and (iii) the level of traceability and registration of transactions with third parties (third-party trails), among others.

- 1.26 **Strategic Alignment.** The program is aligned with the Update to the Institutional Strategy 2010–2020 (AB-3008) and the development challenge of Productivity and Innovation, through digitization and simplification of processes such as electronic services for taxpayers, filing returns and payment online.⁴⁹ The program is also aligned with the development challenge of Economic Integration by promoting the integration of the domestic tax system (ITAS) and the customs system (ASYCUDA), making taxpayer registration, filing and payment processes easier for importers and exporters and reducing the time needed for processing GST refund claims, and improving compliance with the GST of imported goods. The program promotes horizontal equity among taxpayers and economic neutrality between domestically produced and imported goods. It is strategically aligned with the cross-cutting theme of Institutional Capacity and the Rule of Law, by increasing the government's effectiveness in tax collection and the efficiency of TA. Additionally, the program is aligned with and contributes to the Corporate Results Framework 2016-2019 (GN-2727-6) by increasing tax compliance, and specifically through the following indicators: (i) percentage of GDP collected in taxes; (ii) beneficiaries of on-the-job training programs; (iii) government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery; (iv) public registries strengthened; and (v) accountability institutions strengthened. The operation is also aligned with the Sector Strategy on Institutions for Growth and Social Welfare (GN-2587-2), since it strengthen TA departments (ITD and DGST) and is consistent with the Fiscal Policy and Management Sector Framework Document (GN-2831-8), particularly through the strengthening of TA. The program is aligned with the Country Strategy with Belize 2013-2017 (GN-2746),⁵⁰ through the strategic objective of "fostering export-led growth and greater trade integration by strengthening the economic efficiency and simplicity of the tax system and reducing non-tax barriers." Finally, the project is included in the 2019 Operational Program Report (GN-2948).

B. Objectives, Components and Cost

- 1.27 **Objectives.** The main objective of the project is to contribute to strengthening TA aimed at increasing revenue collection. The specific objectives are the following: (i) increasing the government's effectiveness in tax collection; and (ii) increasing the efficiency of TA. These objectives will be achieved by improving TA governance and operational processes, and by modernizing the technological infrastructure.
- 1.28 **Beneficiaries.** The main beneficiaries will be: (i) the government, which will have more revenues to implement its public policies; (ii) taxpayers, who will have more

⁴⁹ Innovation additionality of the project explained in ¶1.32.

⁵⁰ The Country Strategy was extended for an additional year after the transition period and is still valid until December 31, 2019.

support and digital environment to fulfill their tax obligations; and (iii) the population, who will benefit from the government policies implemented.

1.29 Component I. Strengthening Tax Administration Governance (US\$545,562).

The objective of this component is to develop a new TA business model. This component will finance the following:

- a. The new business model, consolidating ITD and DGST,⁵¹ including:
(i) implementation of new processes and procedures; (ii) implementation of a strategic plan; and (iii) delivery of the workshops to disseminate the new business model.⁵²
- b. Internal control model, including (i) operating manuals; (ii) a system to support the model's operation; and (iii) training in internal control techniques.⁵³

1.30 Component II. Improvement of Operational Processes (US\$1,749,428).

The objective of this component is to implement a series of integrated processes and improve staff skills to increase efficiency. This component will finance the following:

- a. Integrated taxpayer registration model, common to all tax departments and systems designed to facilitate taxpayer registration and to ensure the adequacy and accuracy of taxpayer information, including: (i) definition of new processes and procedures; (ii) data cleansing and data migration to the new ITAS; and (iii) delivery of workshops to disseminate the new registration model.
- b. Human resource strengthening plan based on competence evaluation, comprising: (i) identification of skill gaps among TA personnel;⁵⁴ (ii) implementation of an on-site training program; (iii) implementation of an e-learning platform; and (iv) delivery of workshops to disseminate the program.
- c. Taxpayer segmentation and risk-based compliance management model, including: (i) revision and adjustment of the existing processes and procedures to identify, prioritize, and mitigate risks in TA operations; and (ii) delivery of workshops to disseminate the new model.
- d. New audit model using a wider range of examination and risk-based techniques,⁵⁵ comprising: (i) revision and adjustment of existing processes and procedures; (ii) implementation of analytic tools for data mining; and (iii) delivery of workshops to disseminate the new model.
- e. Enforced collection model based on risk criteria, including: (i) definition of new processes and procedures; and (ii) delivery of workshops to disseminate the new model.
- f. Taxpayer account model to provide the TA with a fast taxpayer-centric overview, including: (i) revision and adjustment of existing processes and

⁵¹ Current business process and To Be business process draft reports, developed by the Government of Belize (February 2019).

⁵² Developed by the Government of Belize.

⁵³ International good practices.

⁵⁴ The employees will be reassigned to new functions. No dismissals are planned.

⁵⁵ Audits have a sustainable effect deterring future evasion among audited firms. See Pomeranz, 2013. No Taxation without Information: Deterrence and Self-Enforcement in the Value Added Tax. Harvard Business School.

procedures; and (ii) delivery of workshops to disseminate the new model.

- g. Development of an invoicing control model comprising a strategy for further implementation of electronic invoice, including: (i) definition of new processes and procedures; and (ii) delivery of workshops to disseminate the new model.

1.31 **Component III. Modernization of Technological Infrastructure (US\$10,376,000).** The objective of this component is to modernize the technological infrastructure to support the operations of the new TA department. This component will finance the development and implementation, including training, of the following:

- a. Information and technology strategic plan, including: (i) definition of the activities; (ii) installation of the equipment; (iii) implementation of the contingency environment; and (iv) delivery of workshops to disseminate the plan.
- b. Implementation of the new ITAS,⁵⁶ comprising (i) registration; (ii) declaration processing and filer monitoring; (iii) payments and refunds processing; (iv) taxpayer account and revenue accounting; (v) collection; (vi) audit and case management; (vii) objections and appeals; (viii) taxpayers services; (ix) risk management; and (x) supporting processes, including reporting, statistics, and internal audit. The new system will be piloted on large taxpayers before being rolled out to the broader population.

1.32 **Innovation Additionality of the Project.** In terms of digital innovation, the project includes implementation of a new ITAS, aligned with best practices in TA and Information and Technology, as well as implementation of a new auditing strategy, called electronic audit, which will allow the TA to carry out a massive taxpayers' control. The project will also reduce the costs of collection through the use of technology, increasing the efficiency of TA, and will improve the technical capacity of personnel in risk analysis and auditing processes, narrowing the skill gaps in digital issues.

C. Key Result Indicators

1.33 **Impact and Outcomes.** The expected impact is to increase tax revenue as a percentage of GDP. The expected outcomes are: (i) increase tax collection effectiveness, which will be measured by number of business tax taxpayers filing on time/total number of business tax taxpayers expected to file, and number of payments made electronically/total number of payments made through any type of method; and (ii) increase tax collection efficiency, which will be measured by the cost of collection (tax administration administrative cost/ tax revenue collected, and number of audits carried out/number of existing auditors and amount collected from audits/cost to audit).

1.34 **Economic Analysis.** The Bank's project team conducted a study to establish the economic benefits that the project would generate based on an increase in tax collection from 26.1% of GDP in 2018 to 27.0% of GDP in 2023. The estimation uses the projected economic benefits from the indicator related to tax collection efficiency (cost of collecting taxes / taxes collected). By the end of 2028 (almost 10 years from the beginning of project execution), it is estimated that the Program

⁵⁶ The modality of acquisition is commercial off-the-shelf. As the technological arm for the government, the new ITAS will be hosted under the scope of CITO (¶2.10).

will generate a Net Present Value (NPV) of US\$2.43 million, with an Internal Rate of Return of 24%. The sensitivity analysis estimates the minimum tax collection increase that would justify the investment. In this scenario, the program must increase tax collection to 26.8% of GDP in 2023, which will produce an NPV of US\$15,755 and an internal rate of return of 12%.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instruments

- 2.1 This project will be financed through a Specific Investment Loan for an estimated cost of US\$14 million. The loan will be financed completely from the Bank's Ordinary Capital resources. Table 2 provides a breakdown by components and source of financing:

Table 2. Project Budget (US\$)

Categories	IDB
1. Direct Costs	12,670,990
Component I. Strengthening TA Governance	545,562
1.1 New business model, consolidating ITD and DGST	220,600
1.2 Internal Control Model	324,962
Component II. Improvement of Operational Processes	1,749,428
2.1 Integrated taxpayer registration model, common to all tax departments and systems	260,252
2.2 Human resource strengthening plan based on competence evaluation	395,000
2.3 Taxpayer segmentation and risk-based compliance management model	260,253
2.4 New audit model using a wider range of examination and risk-based techniques	460,253
2.5 Enforced collection model based on risk criteria	138,126
2.6 Taxpayer account model to provide the TA with a fast taxpayer-centric overview	138,126
2.7 Invoicing control model comprising a strategy for further implementation of electronic invoice	97,418
Component III. Modernization of Technological Infrastructure	10,376,000
3.1 IT strategic plan	1,376,000
3.2. Implementation of the new ITAS	9,000,000
2. Administrative Costs	1,234,700
PEU	749,700
Evaluation	220,000
Audits	100,000
Specialized consultancies	165,000
3. Contingency	94,310
Total	14,000,000

- 2.2 **Disbursement Timetable.** The disbursements will be made over a five-year period, as shown in Table 3.

Table 3. Project Disbursement (US\$)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	1,159,195	1,252,613	4,202,730	3,945,306	3,440,156	14,000,000
%	8.28	8.95	30.02	28.18	24.57	100

B. Environment and Social Safeguard Risk

- 2.3 In accordance with the Environment and Safeguards Compliance Policy (OP-703), this project is classified as Category C. There are no negative social or environmental risks associated with the proposed activities.

C. Fiduciary Risk

- 2.4 During project preparation, the Bank's project team conducted an institutional assessment of the MOF using the Institutional Capacity Assessment System (ICAS) methodology. Based on the results of the assessment and the state of public financial management in Belize, the following mid-level fiduciary risks were identified: (i) weak internal control systems of the Executing Agency and the absence of an internal audit function can lead to error or fraud in financial reporting. To mitigate this risk, an adequate internal control system for the project will be established and documented in the Project Operations Manual (POM); and (ii) lack of experience with and knowledge of IDB procurement and financial management procedures can lead to delays in procurement, payments, financial reporting, compliance with financial contractual clauses, and overall execution. To mitigate this risk, the Bank will provide the MOF and Project Executing Unit (PEU) with a solid and intensive staff training program on Bank fiduciary policies and procedures with respect to, among other matters, its procurement policies, integrated financial management, and internal controls.

D. Other Risks and Key Issues of the Project

- 2.5 A risk assessment workshop was conducted with the application of the Risk Management in Projects methodology- specifically, identification of the main risks surrounding program implementation and sustainability. The results determined that the project carries a medium level of risk. In addition to the fiduciary risks described above, the following risks were identified along with the corresponding mitigation measures:
- 2.6 **Fiscal Sustainability.** In the event of a slowdown of the Belizean economy, the country's overall fiscal position may be affected, ultimately offsetting the benefits of the project (increased tax revenues). This was identified as a medium-level risk. Nevertheless: (i) the fiscal consolidation measures undertaken by the Government of Belize are helping to build the necessary buffers for possible downturns in the economy, specifically with respect to expenditure controls and, ultimately, fiscal surplus targets in the coming years; (ii) in close coordination with the IMF, the Government of Belize has established a monitoring mechanism for the fiscal adjustment effort, as part of the debt restructuring agreement reached with private external bondholders with respect to the fiscal consolidation program, which is geared toward tightening the fiscal stance and meeting the fiscal surplus targets in the coming years; and (iii) on the revenue side, the program will contribute to the Government of Belize's overall efforts in the area of fiscal consolidation, by strengthening the governance, structure, and administration of the tax collection system. Even under the scenario of an economic downturn, the net benefit of the program, under a comparison of a "with" and "without" project, is expected to increase public revenue. Hence, it is important to highlight that the program, in any case, will improve the Belize's fiscal situation, allowing it to create more fiscal space.

- 2.7 **Development.** Two risks were identified in this category: First, with a high level of risk, potential delays in the project implementation due to delays in the consolidation of the new core organizational structure for TA in the MOF, in particular, consolidation of the ITD and DGST into a single department, along with the establishment and designation of the key management, technical and administrative positions to the new Department and PMO. A number of mitigating actions have already been initiated by the MOF with a view to advancing this process: (i) the preparation and initial execution of a strategic plan which is indeed progressing in the implementation of the new governance framework, through dissemination activities and work groups in the PMO, ITD and DGST; (ii) the continuous and committed support given to this process by CARTAC, which is to providing technical assistance to the MOF. This includes implementation of a formal training program in 2019, to be followed by phased modular training activities and workshops that will be funded by the project. These will be based on a formal training plan developed by the PMO in close coordination with the new department, central departments of the MOF, and CITO, among others; and (iii) the recent creation of the new Large Taxpayer Unit with the aim of enhancing its governance and institutional capacity for TA and revenue generation.
- 2.8 Second, with a medium level of risk, the presence of limitations in overall systems integration among the various platforms of the Government of Belize and specifically at the MOF, can lead to challenges in the design of the new ITAS, and impose limitations on the ultimate functionality of the new platform. The following actions are aimed at mitigating such risk: (i) the design of the ITAS will take into consideration the modular integration of the new system with existing solutions, and specifically, as it relates to TA, custom duties, treasury, and overall financial management, among others matters; (ii) a new unit specifically responsible for management information systems will be created under the new consolidated department and supported by the PMO during the project implementation phase. CITO will retain responsibility for infrastructure management while, on the basis on its experience, also contributing to systems integration, implementation and maintenance; and (iii) the procurement of the ITAS platform will take into consideration inter-systems integration and functionality requirements. This will be accompanied by an in-depth assessment of internal and external platforms, communication protocols, formats, security, and other matters.
- 2.9 **Public Management and Governance.** One risk was identified in this category. With a medium level of risk, limitations in the number of personnel officially assigned by the MOF to implement the project, as well as limited technical capacity among its staff members to lead the institutional reforms. In this respect, the MOF has initiated the administrative process with the Ministry of Public Service (MoPS) toward approval and designation of permanent personnel for the PMO. In addition, key personnel from the ITD and the DGST are being selected to drive the reform process in direct support to the PMO. Among other matters, they will receive the necessary training in the design of internal processes directly related to the new TA structure and systems, this will be leveraged from the training activities of the present project and supported by PEU.
- 2.10 **Sustainability.** Belize has been receiving technical assistance in TA and public expenditure from the IMF, through CARTAC, which will guarantee the continuation of Belize's modernization agenda. Moreover, in recent years, the government has been investing in fiscal areas, starting with implementation of a new Integrated

Financial Management Information System (IFMIS), and now with the implementation of the new ITAS. These actions offer evidence of the government's commitment to improving the sustainability of its fiscal sector. Furthermore, to ensure the continuation of the TA reforms and the sustainability of the systems and technological infrastructure, the following actions will be implemented: (i) a permanent capacity-building training program;⁵⁷ (ii) a clause in the contract of the vendor of the ITAS will establish long-term support for system maintenance; (iii) a clause in the contract to purchase technological equipment to host ITAS operation will include maintenance service conditions; and (iv) definition in the bidding document of security procedures to be developed for the new ITAS. Additionally, interoperability with the main government systems will be developed and implemented, including ASYCUDA and SmartStream.⁵⁸ The new system must have modern security procedures, including a set of necessary functions for user authentication, authorization and administration, the encryption of the transactions required for online filing and payments, and audit trails. The new ITAS will be hosted in CITO, and the physical and logical infrastructure will also adhere to CITO's standards (ISO 27001 certified). CITO is the technological arm for the government and provides technical support, the data center and security for the MOF information system.⁵⁹

III. IMPLEMENTATION AND MANAGEMENT

A. Summary of Implementation Arrangements

- 3.1 **Project Execution.** The executing agency will be the MOF. The PMO has been established under the MOF to implement the modernization of TA in Belize. A PEU will be established within the PMO for the administration of the resources of the project. The PEU will be responsible for the execution of the project including: (i) planning; (ii) financial management; (iii) procurement and contract administration; and (iv) monitoring progress and results. The PEU will comprise a project coordinator, a financial specialist, a procurement specialist, a monitoring and evaluation specialist, and a project support officer.

⁵⁷ Component II-b and Component III prescribe training programs to staff the tax department. TOR to acquire the new ITAS has provisions for the vendor to provide training services in all aspects of the system, so as to enable the client's staff to use, maintain and develop the system. The MOF is committed to have a permanent training program to keep staff skills updated.

⁵⁸ ITD, DGST, Customs, and treasury are within the MOF.

⁵⁹ Aspects related to cybersecurity are addressed by the government in the National [E-government Strategy & Work Plan](#) which states that "CITO will work alongside the National Authorized Ministry/Agency responsible for Cybercrime and Cybersecurity in formulating a National Policy, Strategy and Action Plan on Cybersecurity, and assist in addressing its strategic mandate, among other action regarding cybersecurity". CITO is one of the four key members of Belize Cybersecurity Task Force (BCTF). The other members are the Attorney General's Ministry, the National Security Council Secretariat and the Public Service Commission. The BCTF also includes private companies (utilities), network operators, financial institutions, civil society and other Government departments. The BCTF meets on a regular basis and works closely with the Organization of American State. Furthermore, "CITO will therefore assist in the establishment of the Computer Security Incident Response Team and provide support in the protection of Government's critical infrastructure, virtual and intellectual assets of citizens, and in securing information networks". While no official mandate has been given for CITO to lead the Computer Security Incident Response Team (CSIRT), CITO personnel have been receiving training to be able to act in the capacity of a CSIRT. Response to cyber incidents have been on an ad-hoc basis and official reports has been submitted.

- 3.2 **Coordination Mechanism.** A Project Steering Committee (PSC) will be established to facilitate coordination among the agencies involved as part of the project execution mechanism, and to provide strategic advice and monitoring.
- 3.3 Among other duties, the PSC⁶⁰ will: (i) provide the strategic framework, guidance and direction for program execution; (ii) facilitate and provide for the necessary inter-institutional coordination and collaboration; (iii) monitor the effective attainment of the strategic objectives; (iv) assess implementation of the various project's activities vis-à-vis the strategic and operational plans; (v) provide project management updates related to the government's policies and priorities that may impact the strategic direction and/or implementation of the project; (vi) ensure the timely allocation of financial resources for project implementation; and (vii) learn of obstacles that may arise during project implementation, and contribute to decision making on corrective actions, as necessary.
- 3.4 The PSC will be chaired by the MOF (Financial Secretary) and comprise representatives from the PMO, the tax departments and CITO. It will also include other government agencies, including the Ministry of Economic Development and Petroleum, the MoPS, the Central Bank of Belize, the Public Service Union, and private sector representatives including business associations.
- 3.5 **Project Operations Manual.** A [POM](#) will be created to guide all matters related to the standards and procedures of project execution. The POM will include the definition of the role of the PSC and the staff of the PEU. The POM shall include the administrative, procurement, financial management policies (budgeting, cash management, payment/disbursement, procedures to ensure proper operation and maintenance of the Bank-financed assets, accounting and reporting), policies, procedures, and other internal control requirements to define overall project management.
- 3.6 The governance structure and procedural matters to be contained in the POM will take into consideration both, the current and the new consolidated tax department as the main stakeholder and focus point for implementation of the various activities of the project. This will also include the identification and actual allocation of responsibilities to specific personnel, who will work in direct coordination with the PMO and other departments of the MOF during project implementation and beyond.
- 3.7 **Technical Assistance.** Inputs for the current project will be financed for the implementation of key activities through a Technical Cooperation, currently under preparation, which will support the implementation of this operation. Component I will support the analytical work conducive to strengthening TA, such as diagnostics and design of the procedures of tax refund control, electronic payroll control and electronic purchase and sales book, as well as a methodology to estimate the tax gap and dissemination of best practices through training. Component II comprises technical assistance needed for the procurement process to detail the tax processes for the new ITAS.
- 3.8 **Implementation Strategy.** The strategy for the implementation of this project will comprise the following sequence: (i) consolidation of ITD and DGST in a single internal tax authority (Component I and II); (ii) revision, adjustment and implementation of the processes and procedures that support the TA

⁶⁰ No memoranda of understanding are required for the establishment of the PSC.

- operations activities (i) and (ii) will be conducted in parallel - (Components I and II); (iii) dissemination and personnel training in the new processes and procedures (Components I, II and III); (iv) finalization of the technical specification for the acquisition of the new ITAS, aligned with the new processes and procedures (Component III); (v) bidding process for the acquisition of the ITAS (Component III); (vi) preparation of the data for the migration to ITAS (Component III); (vii) implementation, data migration and customization of ITAS (Component III); (viii) training personnel in the use of ITAS (Component III); (ix) parallel operation of the old system and ITAS (Component III); (x) certification of ITAS by an accredited firm (Component III); and (xi) deactivation of the old system (Component III). The current project will be executed concomitantly with the other modernization initiatives managed by PMO: (i) Communication and Change Management; (ii) Organization; (iii) Legal; (iv) IT; and (v) Business Processes.
- 3.9 **Special Contractual Clauses prior to the first disbursement. The Borrower, through the MOF, shall provide evidence that: (i) the key staff of the PEU has been appointed, including its Coordinator, Procurement Specialist and Financial Specialist; and (ii) the [POM](#) for the project has been approved, in the terms agreed with the Bank.** These conditions are essential to ensure the timely execution of the project, as they will guarantee the definition of detailed governance arrangements and regulations on operational and fiduciary issues, including the roles and responsibilities of the PEU key staff.
- 3.10 **Reports.** PEU responsibilities include: (i) preparation and implementation of an Annual Operating Plan (AOP);⁶¹ (ii) financial administration, accounting, and preparation of budgets and disbursement requests; (iii) preparation of an annual Procurement Plan (PP) and procurement of works, goods and services; (iv) preparation of technical reports and financial statements; (v) monitoring project activity progress, environmental and social safeguards compliance, and actual and planned results variance; (vi) selection and hiring of the external audit firm and implementation of recommendations; (vii) hiring of consultants to conduct external evaluations; and (viii) serving as liaison to the Bank.
- 3.11 The supervision method for procurement will be ex ante. However, following the first year of project execution, the possibility of applying the ex post supervision method will be assessed on the basis of the outcomes of the supervision visits conducted by the Bank, if appropriate evidence is presented to demonstrate the PEU's capacity to observe and execute the Bank's procurement policies and procedures.
- 3.12 **Retroactive Financing.** The Bank may finance retroactively under the loan, eligible expenses incurred by the Borrower prior to the date of loan approval, up to the amount US\$2.1 million (15% of the proposed loan amount), provided that all the requirements substantially similar to those set out in the loan agreement requirements have been met. The eligible expenses will mainly relate to: (i) staffing and office equipment for establishment of PEU; and (ii) training and communication workshops. These expenses must have been incurred on or after March 22, 2019 (approval date of the Project Profile), and under no

⁶¹ The AOP, presented by November 30 each year, will detail implementation plans for the following year, and include annual goals, budget, and the implementation schedule for each programmed activity. The AOP for the first year is contained in the Project Execution Plan.

circumstances shall expenditures incurred more than 18 months prior to the loan approval date be included.

B. Summary of Arrangements for Monitoring Results

- 3.13 **Monitoring and Reporting.** The Bank and the MOF have agreed to use the Results Matrix (RM) and the [Monitoring and Evaluation Plan \(MEP\)](#) as the principal elements for monitoring the program. The program supervision and monitoring system will include: (i) analysis of the technical and financial reports; (ii) semiannual monitoring meetings after submission of semiannual progress reports; and (iii) midterm and final evaluations. In addition, the system will include routine inspection visits normally carried out by the IDB Belize Country Office. The MOF will present semiannual technical and financial progress reports. Moreover, it will present annually: (i) an assessment of the AOP for the year; (ii) the AOP for the upcoming year; and (iii) audited financial statements.⁶² The information from these documents will serve as an input for the annual monitoring meetings and inspection visits.
- 3.14 **Evaluation.** The project will be evaluated according to the annual goals and indicators of the results and products presented in the RM of the project, by comparing the results before and after. The [MEP](#) contemplates an intermediate and final independent evaluation. The borrower will prepare and send to the Bank a mid-term evaluation report, 90 days from the date on which 50% of the resources have been disbursed or when 36 months of execution have passed, whichever happens first. It will also send to the Bank a final evaluation that will serve as an input for the PCR, 90 days from the date of the last disbursement. The project also contemplates a random impact evaluation that is detailed in the MEP. It aims to evaluate the impact of the new audit model (product 2.4) and the integrated TA system (product 3.2 at an early stage) on the effectiveness of the TA to collect taxes. The intuition is that a tax authority with a greater capacity to audit and with more information to detect evasion will encourage firms to file their ITAS tax forms accurately and on time. It proposes a randomized control trial in which the treatment group receive messages to increase their awareness of the new TA capacity. We expect to evaluate the impact of these new tools on the probability that a firm file its tax form on time and without inconsistencies (with respect to other data sources and third-party information). This analysis will contribute to the attribution of result indicator 1.1.

⁶² Annual Financial Statements may be carried out by the Auditor General's Department or an external audit firm. The financial statements audited will be presented to the Bank within 120 days of the closing of each FY of the executing agency. The last of these reports will be submitted within 120 days following the date stipulated for the final disbursement of the financing.

Development Effectiveness Matrix		
Summary		BL-L1031
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Productivity and Innovation -Economic Integration -Institutional Capacity and the Rule of Law	
Country Development Results Indicators	-Percent of GDP collected in taxes (%) -Beneficiaries of on-the-job training programs (#)* -Government agencies benefited by projects that strengthen technological and managerial tools to improve public service delivery (#)* -Public registries strengthened (#)* -Accountability institutions strengthened (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2746	Foster export-led growth and greater trade integration by strengthening the economic efficiency and simplicity of the tax system and reducing non-tax barriers
Country Program Results Matrix	GN-2948	The intervention is included in the 2019 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		3.0
3.2 Proposed Interventions or Solutions		4.0
3.3 Results Matrix Quality		3.0
4. Ex ante Economic Analysis		9.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		0.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		10.0
5.1 Monitoring Mechanisms		2.5
5.2 Evaluation Plan		7.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Medium
Identified risks have been rated for magnitude and likelihood		Yes
Mitigation measures have been identified for major risks		Yes
Mitigation measures have indicators for tracking their implementation		Yes
Environmental & social risk classification		C
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control.
Non-Fiduciary	Yes	Monitoring and Evaluation National System.
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	Technical cooperation BL-T1114, that supports this operation during the preparation and execution

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

The project is funded through an investment loan. Its general objective is to strengthen the Tax Administration (TA) in Belize. Accordingly, the specific objectives are: (i) to increase the government's effectiveness to collect taxes and (ii) to increase the efficiency of the TA.

The main problem to tackle is low effectiveness and efficiency in tax collection. The main causes are: (i) organizational structure barriers having little coordination between the office collecting the corporate income (ITD) tax and the value added tax (DGST); (ii) duplication and inaccurate records in the taxpayer registry; (iii) limited human resource and technical capacity; (iv) deficiency in tax auditing process lacking taxpayers' risk profiles and effective use of available information; (v) inadequate support to taxpayers, (vi) insufficient technological infrastructure to host an effective "Integrated Tax Administration System" (ITAS); among others. Therefore, the project will achieve their specific objectives by improving the TA governance and operational processes, and by modernizing the technological infrastructure.

Direct beneficiaries of the project are the government, with more revenue, and the taxpayers who will receive more support to fulfill their tax obligations. On the other hand, the population as a whole is an indirect beneficiary.

The project presents adequate evidence of internal (but not external) validity for the proposed solutions. The vertical logic is adequate. The Result Matrix is organized correctly. Outcome and impact indicators are SMART. The project identifies and addresses the monitoring and evaluation requirements. It also proposes an attributable impact evaluation of the new auditing model on the percentage of taxpayers that fill their tax forms accurately and on time.

The loan's overall risk is rated Medium. Risks are mainly related to governance: delays in the consolidation of the two departments managing the ITD and the DGST. Mitigation measures have already been initiated.

Results Matrix

Project Objective:	The main objective of the project is to contribute to strengthening TA aimed at increasing revenue collection. The specific objectives are the following: (i) increasing the government's effectiveness in tax collection; and (ii) increasing the efficiency of TA. These objectives will be achieved by improving TA governance and operational processes, and by modernizing the technological infrastructure.
---------------------------	---

EXPECTED IMPACT

Indicator	Unit Measure	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Comments
IMPACT: The expected impact is to increase tax revenue as a percentage of GDP.											
Tax Revenue / GDP	%	26.1	2018	26.1	26.1	26.4	26.7	27.0	27.0	IMF Article IV	Calculation: Baseline (2018): 26.1% Tax Revenue = BZ\$ 1,013 million GDP = BZ\$3,887million

EXPECTED OUTCOMES (CUMULATIVE)

Indicator	Unit Measure	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Comments
RESULT #1: Increase Tax Collection Effectiveness¹											
Number of business tax taxpayers filing on time ² / Total number of business tax taxpayers expected to file ³	%	52.7	2018	52.7	52.7	55	60	70	70	Information provided by the Government of Belize through the MOF annual monitoring report	Calculation: Baseline (2018): 16.6% Number of business tax taxpayers filling on time = 53,450 Total of taxpayers expected to file=101,301 (ITD)
Number of payments made electronically ⁴ / Total number of	%	15	2018	15	15	20	40	50	50	Information provided by the Government of	Calculation: Baseline (2018): 15%

¹ The information of the numerators and denominators of all the indicators is from same year.

² Total number of taxpayers filing business tax in a specific year.

³ Total number of taxpayers expected to file business tax are those who has at least one filing within the last three years.

⁴ Total number of payments made through an electronic method in a specific year.

Indicator	Unit Measure	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Comments
payments made through any type of method ⁵										Belize through the MOF annual monitoring report	Number of payments made electronically through banks = 20,711 Total number of payments made through any payment method available ⁶ = 136,026 (ITD and DGST)
RESULT #2: Increase Tax Collection Efficiency											
Tax Administration Administrative Cost ⁷ (Internal Tax Department - ITD and Department of General Sales Tax - DGST) ⁸ / Tax Revenue collected (ITD and DGST) ⁹	%	2.05	2018	2.05	2.05	2.03	2.01	1.98	1.98	Information provided by the Government of Belize through the MOF annual monitoring report	Calculation: Baseline (2018): 2.05 Administrative Cost = BZ\$9,664,199 million (ITD and DGST) Tax Revenue collected = BZ\$471,399,355 (ITD and DGST) (Customs was not considered)
Number of audits carried out ¹⁰ / Number of existing auditors ¹¹	Ratio	5.9	2018	5.9	5.9	7.0	8.00	10	10	Information provided by the Government of Belize through the MOF annual monitoring report	Calculation: Baseline (2018): 5.9% Number of audits = 394 Number of auditors = 66

⁵ Total number of payments made using any payment method available (Electronically, Bank, Government cashier) in a specific year.

⁶ Payments made in person at tax office or through banks.

⁷ This indicator is largely used to track the achievement of specific or general objectives. Reductions in this value indicate improvements in efficiency or effectiveness. See: ISORA 2016 Understanding Revenue Administration. IMF; CIAT. 2018. *La Administración Tributaria: Recaudación, Costes y Personal – Evidencia para los Países de Ciat con los Datos de ISORA*; Crandall, W. 2010. Revenue Administration: Performance Measurement in Tax Administration, IMF.

⁸ Recurrent expenditure incurred by ITD and DGST in 2018 (emoluments, travelling & subsistence, materials & supplies, operating cost, maintenance).

⁹ Total tax revenues collected by the government in a specific year.

¹⁰ Total number of audits carried out in a specific year.

¹¹ Total number of auditors who participated in audits in a specific year.

Indicator	Unit Measure	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Comments
Amount collected from audits ¹² / Cost to audit ¹³	Ratio	0.83	2018	0.83	0.83	1.0	3.0	5	5	Information provided by the Government of Belize through the MOF annual monitoring report	Calculation: Baseline (2018): 0.83% Cost to audit = BL\$2,741,054 Amount collected from audits = BL\$ 2,291,129

OUTPUTS¹⁴

Outputs	Unit Measure	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Comments
Component I. Strengthening Tax Administration Governance											
1.1 New business model consolidating ITD and DGST	Report	0	2018	0	0	0	1	0	1	Report of the MOF providing evidence that the new business model has been implemented.	The new model is considered implemented when the MOF publishes it in the web page. The model comprises the following tasks: (i) implementation of new processes and procedures; (ii) implementation of the strategic plan; and (iii) delivery of workshops to disseminate the new business model.
1.2 Internal Control Model	Report	0	2018	0	0	1	0	0	1	Report of the MOF providing evidence that the new internal control model has	The model is considered implemented when the first report is prepared based on the new model guidelines. The model includes: (i) operating manuals; (ii) a system to

¹² Total amount collected from assessments issued in a specific year.

¹³ Total cost of the auditor salaries in a specific year.

¹⁴ The results are annual.

Outputs	Unit Measure	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Comments
										been implemented.	support the model's operation; and (iii) training in internal control techniques.
Component II. Improvement of Operational Processes											
2.1 Integrated taxpayer registration model, common to all tax departments and systems	Report	0	2018	0	0	1	0	0	1	Report of the MOF providing evidence that the new taxpayer registration model has been implemented.	The model is implemented when at least one user employs the new model and verifies its correct functioning. The model comprises the following tasks: (i) definition of the new processes and procedures; (ii) data cleansing and data migration of existing information to the new system; and (iii) delivery of workshops to disseminate the new registration model.
2.2 Human resource strengthening plan, based on competence evaluation	Employees trained	0	2018	200	400	400	0	0	1,000	Report of the MOF providing evidence that the employees have been trained.	The human resources plan is considered implemented when the first official is trained based on competence evaluation. The model comprises the following tasks: (i) identification of skill gaps among TA personnel; (ii) implementation of an on-site training program; (iii) implementation of an e-learning platform; and (iv) delivery of workshops to disseminate the program.
2.3 Taxpayer segmentation and risk-based	Report	0	2018	0	0	1	0	0	1	Report of the MOF providing evidence that	The model is implemented when the new consolidated tax department adopts the

Outputs	Unit Measure	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Comments
compliance management model										taxpayer segmentation and compliance management model have been implemented.	risk model to plan its activities. The model comprises the following tasks: (i) revision and adjustment of existing processes and procedures to identify, prioritize, and mitigate risks of TA operations; and (ii) delivery of workshops to disseminate the new model.
2.4 New audit model making use of wider range of examination and risk-based techniques	Report	0	2018	0	0	1	0	0	1	Report of the MOF providing evidence that the new audit model has been implemented.	The model is implemented when the new consolidated tax department adopts the new audit plan based on the audit model. The model comprises the following tasks: (i) revision and adjustment of existing processes and procedures; (ii) implementation of analytic tools for data mining; and (iii) delivery of workshops to disseminate the new model.
2.5 Enforced collection model based on risk criteria	Report	0	2018	0	0	1	0	0	1	Report of the MOF providing evidence that the enforced collection model has been implemented.	The model is implemented when the first batch of arrears, selected on risk-based criteria, is processed. The model comprises the following tasks: (i) definition of new processes and procedures; and (ii) delivery of workshops to disseminate the new model.
2.6 Taxpayer account model to provide the TA with	Report	0	2018	0	0	1	0	0	1	Report of the MOF providing evidence that	The model is implemented when at least one user

Outputs	Unit Measure	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Comments
a fast taxpayer - centric overview										the new taxpayer account model has been implemented	executes the processes and procedures and verifies the correct functioning. The model comprises the following tasks: (i) revision and adjustment of existing processes and procedures; and (ii) delivery of workshops to disseminate the new model.
2.7 Invoicing control model comprising a strategy for further implementation of electronic invoice	Report	Model	0	2018	0	0	0	1	1	Report of the MOF providing evidence that the new invoicing control model has been implemented	The model is implemented when at least one user executes the processes and procedures and verifies the correct functioning of the model. The model comprises the following tasks: (i) definition of new processes and procedures; and (ii) delivery of workshops to disseminate the new model.
Component III. Modernization of Technological Infrastructure											
3.1 IT strategic plan	Report	0	2018	0	0	0	1	0	1	Report of the MOF providing evidence that the IT strategic plan has been implemented.	The plan is implemented when the recommendations are adopted by IT Directorate. The plan comprises the following tasks: (i) definition of the activities; (ii) installation of the equipment; (iii) implementation of the contingency environment; and (iv) delivery of workshops to disseminate the plan.

Outputs	Unit Measure	Baseline	Baseline Year	Year 1	Year 2	Year 3	Year 4	Year 5	End of Project	Means of Verification	Comments
3.2 Implementation of the new ITAS	Report	0	2018	0	0	0	0	1	1	Report of the MOF providing evidence that the ITAS has been implemented.	<p>The software is implemented when at least one user uses and verifies its correct functioning.</p> <p>Modules: (i) registration; (ii) declaration processing and filer monitoring; (iii) payments and refunds processing; (iv) taxpayer account and revenue accounting; (v) collection; (vi) audit and case management; (vii) objections and appeals; (viii) taxpayers services; (ix) risk management; and (x) supporting processes, including reporting, statistics and internal audit.</p> <p>The new system will be piloted on large taxpayers before being rolled out to the broader population.</p>

FIDUCIARY ARRANGEMENTS

COUNTRY: Belize
PROJECT NAME: Strengthening of Tax Administration (BL-L1031)
EXECUTING AGENCY (EA): Ministry of Finance (MOF)
PREPARED BY: Brodrick Watson and Patricia Yamilee Payen (FMP/CBL)

I. EXECUTIVE SUMMARY

- 1.1 This project aims at increasing revenue collection by strengthening TA in Belize. A PEU will be established under the MOF and within the existing PMO for the administration of the resources of the project. In March 2019 the project team applied the Institutional Capacity Assessment Systems (ICAS) methodology to conduct an institutional capacity assessment of MOF to execute the project.
- 1.2 Public Financial Management (PFM) in Belize is at a functional level in the areas of budget formulation, budget execution, cash management and accounting. These functions are facilitated mainly using the national integrated financial management system, SmartStream. The Auditor General Department has responsibility for the external audit and control of the Government of Belize and, even though it uses modern audit techniques, it faces with significant capacity constraints. On the other hand, internal audit has not yet been established and the procurement system is not adequately developed. Taking into consideration the state of PFM and the results of the ICAS assessment, the overall fiduciary risk of the project is determined to be medium.
- 1.3 The Bank recommends use of the national systems in the project for the budgeting, treasury and accounting and reporting functions. However, given the level of development of the internal control, external control and procurement systems, the Bank recommends: (i) that an adequate internal control system is designed and outlined in the POM; (ii) that an independent audit firm is contracted as auditors of the project; and (iii) that the IDB procurement policies are used in the procurement of goods, works, consulting and non-consulting services for the project.
- 1.4 The project will be funded with Ordinary Capital loan resources of US\$14 million.

II. EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 The Constitution of Belize is based on the Westminster parliamentary model and was last updated March 2017. It defines the legislature as the National Assembly with authority to approve laws, including the national budget. Additionally, it defines the mandate of the Auditor General to hold the government accountable for its stewardship of public funds.
- 2.2 The five laws and regulations that provide guidelines for PFM are: (i) Finance and Audit (Reform) Act of 2005, last amended in 2011; (ii) Financial Orders; (iii) Stores Orders; (iv) Control of Public Expenditure Handbook; and (v) Fiscal Transparency and Responsibility Regulation, 2010. The Government of Belize has recognized the need for strengthening of the legal framework that pertains to PFM and in mid-2016 formed a PFM Law Working Group that is in the process of combining and updating PFM-related legislations and guidelines.

- 2.3 SmartStream system is an integrated financial management suite used by the MOF and other line ministries for processing, recording and reporting all the payments clearing to and from the Consolidated Revenue Fund. It comprises of the following modules: (i) financials (ledger, payables and funds control); (ii) human resources (payroll and personnel, taxes, and social security); and (iii) procurement (payables and purchasing). The budgeting, treasury and accounting and reporting function of the Central Government of Belize is adequately deployed and integrated through SmartStream.
- 2.4 There are some established internal control procedures that supports the financial management environment of the MOF with regards to contract administration and transaction management. However, there are no formal handbook or manual on internal control and the Government of Belize does not have an established internal audit directorate. The Office of the Auditor General (OAG) conducts external audit of the ministries, including MOF, but are behind on the annual audits with the latest published audit report corresponding to fiscal year ending March 31, 2012. Additionally, the last special audit conducted by the OAG on the MOF was in 2007.
- 2.5 The Government of Belize lacks a specific/concrete national policy/legislation framework for procurement administration. Additionally, the MOF does not have a section or staff exclusively responsible for procurement in the MOF.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The overall fiduciary risk of the project, which was evaluated using the ICAS methodology, is deemed to be medium. Below are the fiduciary risks which were identified and their respective risk rating and mitigation measures. Mitigation measures include, as conditions prior to first disbursements, the hiring of a procurement specialist and a financial specialist as well as the approval of the POM:

Table 1. Main Risk Areas and Mitigating Measures

Risk	Risk rating	Risk Response
Weak internal control systems of the EA and absence of an internal audit function can lead to error or fraud in financial reporting	Medium	Mitigation measures: An adequate internal control system for the project will be established and documented in the POM Responsibility for implementation: Borrower/IDB Timeline for implementation: during project design and throughout project execution
Lack of experience with and knowledge of IDB procurement and financial management procedures can lead to delays in procurement, payments, financial reporting, compliance with financial contractual clauses, and overall execution	Medium	Mitigation measures: The Bank will provide the MOF and PEU with a solid and intensive staff training program on Bank fiduciary policies and procedures with respect to, among other matters, its procurement policies, integrated financial management, and internal controls Responsibility for implementation: PEU (1) and IDB (2)

IV. FIDUCIARY ARRANGEMENTS FOR PROCUREMENT EXECUTION

- 4.1 **Procurement execution.** Procurements for the proposed project will be carried out in accordance with Document GN-2349-9 ("Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank") dated March

2011 and; Document GN-2350-9 (“Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank”) dated March 2011, as well as the provisions established in the loan contract and the PP. In addition, for all projects, the Borrower is required to prepare and submit to the Bank a draft General Procurement Notice. If the Procurement Policies are amended by the Bank, the procurement of goods, works, and non-consulting services shall be carried out in accordance with the provisions of the modified Procurement Policies, once they are made known to the Executing Agency. The supervision method for procurement will be ex ante. However, following the first year of project execution, the possibility of applying the ex post supervision modality will be assessed based on the outcomes of the supervision visits conducted by the Bank, if appropriate evidence is presented to demonstrate the capacity of the PEU to observe and execute Bank’s procurement policies and procedures.

- i. **Procurement of works, goods and non-consulting services.** The PP for the program, covering the duration of project execution, can be accessed through the following [link](#). The PP indicates the procurement method to be used for the acquisition of goods and the contracting of works or non-consulting services. The review of technical specifications in all cases, during the process of selection is the responsibility of the sector specialist of the operation.
- ii. **Procurement of consulting services.** The PP for the operation, covering the duration of project execution, can be accessed through the following [link](#). The PP indicates the procurement method to be used for the selection and contracting of consulting services. The Borrower is responsible for preparing and implementing the project; and therefore, for preparing the Terms of Reference (TOR), short lists, selecting the consultants, and awarding and subsequently administering the contract.
 - a. **Sole source selection and/or direct contracting.** To be used only in exceptional circumstances and is based on the Bank’s no objection to the justification. The requirements for single source selection are provided for under Sections 3.6 and 3.7 (GN-2349-9) and Sections 3.9 – 3.13 (GN-2350-9).
 - b. **Selection of individual consultants.** Individual consultants are employed on assignments for which: (i) teams of personnel are not required; (ii) no additional outside (home office) professional support is required; and (iii) the experience and qualification of the individual are the paramount requirement. Individual consultants are selected on the basis on their qualifications for the assignment. Advertisement is not required, and consultants do not need to submit proposals. Consultants shall be selected through comparison of qualifications of at least three candidates among those who have expressed interest in the assignment or have been approached directly by the Borrower. Individual consultants may be selected on a sole-source basis with due justification in exceptional cases. This is to be carried out in accordance with Section V (Selection of Individual Consultants) of GN-2350-9 in paragraphs 5.1- 5.4.
 - c. **Training.** The detailed PP indicates to which consultancy services training and workshops are applicable. As per GN-2350-9 if the assignment includes an important component for training or transfer of knowledge to Borrower staff or national consultants, the TOR shall indicate the objectives, nature, scope, and goals of the training program, including details on trainers and

trainees, skills to be transferred, time frame, and monitoring and evaluation arrangements. The cost for the training program shall be included in the consultant's contract and in the budget for the assignment.

- iii. **Recurrent expenses.** Include payment of utilities and other office operating expenses of the PEU, if any.
 - a. **Domestic preference.** Determining whether it is appropriate and necessary to use domestic preference in the evaluation of bids should be guided by Appendix 2 of GN-2349-9 paragraph 1- 6.
 - b. **Other.** Use of national or other documents than the Bank standard documents for competitive bidding: none.

Table 2. Thresholds (in US\$)

International competitive bidding threshold*		National competitive bidding range ** (complex works and non-common goods)		Consulting services
Works	Goods	Works	Goods	International short list
≥1,000,000	≥100,000	100,000 – 1,000,000	25,000 - 100,000	≥200,000

* When procuring simple works and common goods and their amount is under the International Competitive Bidding thresholds, Shopping may be used.

** When procuring complex works and non-common goods with amounts under the NCB range, Shopping shall be used.

- 4.2 **Procurement supervision – PP and supervision.** The PP for the operation covering the duration of project execution can be accessed through the following [link](#). It indicates the procedures to be used for the procurement of goods, the contracting of works or services, and the method of selecting consultants, for each contract or group of contracts. It also indicates cases requiring prequalification; the estimated cost of each contract or group of contracts; the requirement for ex ante or ex post review by the Bank. The procurement plan will be prepared to cover an initial period of eighteen (18) months and updated annually or whenever necessary, or as required by the Bank (www.iadb.org/procurement).
- 4.3 **Retroactive financing.** The Bank may finance retroactively under the loan, eligible expenses incurred by the Borrower prior to the date of loan approval up to the amount US\$2.1 million (15% of the proposed loan amount), provided that all the requirements substantially similar to those set out in the loan agreement requirements have been met. The eligible expenses will mainly relate to: (i) staffing and office equipment for establishment of PEU; and (ii) training and communication workshops. These expenses must have been incurred on or after March 22, 2019 (approval date of the Project Profile), and under no circumstances shall expenditures incurred more than 18 months prior to the loan approval date be included.

V. FINANCIAL MANAGEMENT

- 5.1 **Programming and budget.** The budget preparation process begins each year with the budget call whereby the MOF distributes a circular outlining the timeline and required forms to be completed by each ministry, department and agency. The Borrower has committed to allocate, for each fiscal year of project execution, adequate fiscal space to guarantee the execution of the project based on information contained in the corresponding annual operating plan.

- 5.2 **Accounting and information systems.** Accounting and reporting for MOF will be facilitated through SmartStream, in accordance with international financial and reporting standards and international public-sector accounting standards when applicable. It is expected that the accounting and reporting system of the project will: (i) facilitate the recording and classification of all financial transactions according to source of funding and categories of investment; and (ii) provide information related to, planned versus actual financial execution of the project, commitments made under the project, the financial plan for a six months period, financial statements, performance reports and any other reports that may be required from time to time by the MOF and/or the Bank.
- 5.3 **Disbursements and funds flows.** In accordance with the norms of the government, a designated bank account within the Central Bank of Belize will be utilized for the receipt of loan resources. For day-to-day operational expenses, the PEU will make payments from the Consolidated Revenue Fund account and on submission of a memo to the MOF, the funds are then reimbursed from the Central Bank Account to that account.
- 5.4 As evidenced from the disbursing norms of loans and the anticipated commitments and obligations of the project, it is expected that the Advance of Funds methodology will be mainly used for the project. The Advance of Funds when used, will be based on the true liquidity needs of the project for a period not exceeding six months. Subsequent advances may be disbursed once 80% of the total accumulated balance pending justification has been submitted and accepted by the Bank.
- 5.5 To request disbursements from the Bank, the following forms and supporting documents will be submitted:

Table 3. Type of Disbursements

Type of Disbursements	Mandatory Forms	Optional Forms/ Information that may be requested by the IDB
Advance of Funds	Disbursement Request/ Financial Plan	List of commitments / physical and/or financial progress reports
Reimbursements of payments made	Disbursement Request/ Project Execution Status/ Statement of Expenses / Reconciliation of Bank Resources	List of commitments / physical and/or financial progress reports
Direct Payment to Supplier	Disbursement Request/ Acceptable Supporting Documentation may include invoices and acceptance of completion of works and/or delivery of goods and services to satisfaction of Government of Belize	List of commitments physical / financial progress reports / evidence that goods and services have been satisfactorily received

- 5.6 **Internal control and audit.** The PEU will assume the responsibility for designing and implementing a sound system of internal control for the project. The details of this system should be documented in the POM.
- 5.7 **External control and reporting.** Given the capacity constraints of the OAG, an eligible private audit firm will be hired to conduct the annual and final financial statement audits.
- 5.8 **Financial supervision plan.** The initial financial supervision plan of the project will focus on: (i) activities related to the implementation and follow-up of arrangements and systems being implemented for the fiduciary management of the project; (ii) follow-up on the implementation status of risk mitigating measures; and (iii) capacity building of PEU personnel in the Bank's procedures and requirements.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/19

Belize. Loan ____/OC-BL to Belize
Strengthening of Tax Administration

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 Belize, as borrower, for the purpose of granting it a financing to cooperate in the execution of a project for the Strengthening of Tax Administration. Such financing will be for the amount of up to US\$14,000,000 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 __ _____ 2019)