

PROJECT PROFILE (PP)
SURINAME

I. BASIC DATA

Project Name:	Revenue Policy and Administration I	
Project Number:	SU-L1037	
Project Team:	Leslie Harper (IFD/FMM), Project Team Leader; Gilberto Chona (IFD/FMM); Adriana la Valley (CCB/CSU); Musheer Kamau (CCB/CSU); Lourdes Sanchez (FMP/CSU); Rinia G. Terborg-Tel (FMP/CSU); Lucas Hoepel (CCB/CSU); Daniel Sanchez (IFD/FMM); Marina Massini (IFD/FMM); Bernardita Saez (LEG/SGO); Mario Umaña (INT/TIU); and Sandra Corcuera (INT/TIU).	
Borrower:	Republic of Suriname	
Executing Agency:	Ministry of Finance	
Financial Plan:	IDB: Ordinary Capital (OC)	US\$20 million
	Total:	US\$20 million
Safeguards:	Policies triggered:	None
	Classification:	None

II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 **Rationale for intervention and main challenges to be addressed.** Suriname's economy continues to perform comparatively well on most accounts, albeit with some emerging downside risks, especially associated with declining gold prices. Real Gross Domestic Product (GDP) growth in 2012 was around 4%. Notwithstanding the decline in commodity prices, International Monetary Fund (IMF) projects GDP growth reaching 4.5% in 2013, and averaging 4.7% over the medium term.¹
- 2.2 The Government of Suriname (GOS) approach to fiscal policies starting in 2011 improved macroeconomic stability. The authorities implemented some prudent and well-timed tax policies (increased taxes on alcohol, tobacco, and fuel),² calibrated the exchange rate with fundamentals, and upgraded its public financial management system with the Bank's support.³ Current expenditures were around 20% of GDP until the end of 2012. Absorptive capacity increased substantially over the last three years relative to the historical average. A 10% wage increase for public employees and growth in capital expenditures resulted in the fiscal deficit reaching 2.8% of GDP in late-2012, from 1% in 2011.⁴ In the meantime, the country achieved an average primary balance of 0.56% of GDP for 2009-

¹ IMF 2012. Suriname Article IV Consultation. Page 9.

² Idem. Page 4.

³ Programmatic Series Public Expenditure Management (2666/OC-SU, 2862/OC-SU and SU-L1029).

⁴ Central Bank of Suriname and Ministry of Finance. IMF projects the fiscal deficit at 4% in 2012 and 3% in 2013.

- 2012, which GOS projects to grow to 2.2% by 2015 as expenditure efficiency improves and revenue administration strengthens.⁵
- 2.3 Efforts to improve the aforementioned tax policies boosted tax revenues between 2011 and 2012, growing to 26.2% of GDP.⁶ The risks to fiscal sustainability are moderate given the volatility of non-tax revenues (commodities). In August 2012, S&P, Fitch, and Moody's upgraded Suriname's long-term foreign-currency rating to BB-, BB-, and Ba3, respectively. With recent further tightening on expenditures (including hiring and wage freezes), the fiscal situation is likely to remain on a macro-sustainable path. Notwithstanding, Suriname projects a (fiscal) financing gap of about US\$197 million (4% of GDP) in 2013.⁷
- 2.4 To create more favorable conditions for economic diversification, increase foreign direct investment and delink economic growth from fiscal revenue swings, a simplified and more efficient tax administration and revenue system is necessary.⁸
- 2.5 The GOS seeks to lay the foundation for a modern tax and revenue system. To that regard, the following structural problems need to be addressed:
- a. The legal framework for tax and duties in Suriname is out of date. Tax laws have not been maintained current and regulations to manage tax administration, collection and arrears have not been developed. Income tax, customs, excise, wealth tax, and the legislation to enable tax arrears collection all are in need of revision to align better to modern revenue administration best practices. Customs regulations and operational procedures should be in accordance of the international standards as indicated in the SAFE Framework of the World Customs Organization (WCO) and contemplated in the new Customs Act. Furthermore, IT solutions both at Tax and Customs Administrations are outdated.
 - b. Tax compliance remains low due to irregular enforcement and lack of information about tax obligations and process.⁹
 - c. In case of the Income Tax, the self-employed population has a low compliance rate compared to wage earners, resulting in a perception of unfairness. Unlike the wage tax, the tax on self-employed is not withheld at the source of income, making it possible to evade the tax.
 - d. The GOS has begun the regulatory and operational steps needed to introduce a Value Added Tax (VAT), which will replace the General Sales Tax (GST) over the course of the programmatic series.¹⁰
 - e. The Corporate Income Tax rate is currently at an excessively high level of 36%. Internationally, such a high rate discourages foreign direct investment

⁵ IMF 2012. Suriname Article IV Consultation.

⁶ IMF 2012. Suriname Article IV Consultation.

⁷ Idem. Page 31.

⁸ IDB/CARTAC 2005. Suriname Tax and Customs Administration Diagnostic. Page 8.

⁹ Idem. Page 9.

¹⁰ Idem. Page 15.

and affects competitiveness. Domestically, loopholes hinder revenue generation as the effective marginal rate is low.

- f. Collections legislation, dating from the 19th century, inhibits modernization of the tax collections process demanding paper processes, manual signatures, and preventing merging collection activity across various revenue types.
- g. Taxpayer services are fragmented across each tax type and deal largely with reactive administrative issues.¹¹
- h. The existing Information Technology (IT) systems are outdated and data for economic performance is difficult to obtain and is unreliable.¹² In the case of customs, with the demise of the former customs operational system Automated System for Customs Data (ASYCUDA) 2.7 in July, 2012, the GOS currently has no operational computer system to facilitate customs transaction processing and data gathering.¹³
- i. The Customs Department currently lacks staff to carry out the tasks of the Special Operations Team.

2.6 **Areas of expected results and options for solutions.** Three areas where the government has recently been taking action to address the above mentioned challenges include:

- a. **Tax Policy.** The GOS has a broad legislative framework review in progress. Several proposals will be presented to Parliament in the form of: collections legislation, tax administration legislative changes and Income Tax and Wealth Tax amendments. In addition, the GOS has made a strong commitment to eliminate the GST and replace it with a modern VAT regime for which legislation is under review. Finally the GOS will develop a modernized Customs Act, improved Entertainment Tax legislation, and legislation to consolidate Excise Taxes.
- b. **Tax Administration.** This will include strengthening activities such as the procurement of a new IT system for VAT implementation. In addition, the government will carry out consultations, a communication campaign and training programs with key stakeholders in order to build support for the reforms and minimize risks associated with upcoming reforms which will be carried out over the course of the programmatic series.
- c. **Customs Modernization.** Following the 2012 diagnostic under the Customs Assessment Trade Toolkit¹⁴, a foundation for customs modernization has been established through the development of an Action Plan and work force renewal. Additionally, the Customs Department has undertaken steps to strengthen its IT operational capacity through the proposal to implement a new IT solution (ASYCUDA World), and its fiscal and para-fiscal controls by initiating the creation of a Customs Special Operations Team.

¹¹ Idem. Pages 65-65.

¹² CARTAC 2010. Suriname. Review of Revenue Administration IT Systems and Public Expenditure IT Systems.

¹³ IDB Orientation Mission June 2013. Interviews with Cornelius van Dijk, P.S Directorate of Tax and Customs.

¹⁴ World Bank Assessment. 2012.

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 **Bank strategy with the country and sector.** The program is aligned with Country Strategy (CS) 2011-2015 (GN-2637-3), which mentions dialogue on the area of tax administration with a view to possible additional lending support. In addition, the program is consistent with the “lending to small and vulnerable countries” target of the GCI-9. In line with this policy dialogue, the GOS seeks to enhance economic efficiency, strengthen competitiveness and increase effectiveness of revenue policy and administration.
- 3.2 The GOS seeks to lay the foundation for a modern expenditure and revenue system. To that effect, the program will support the modernization of tax policy and strengthen tax administration and customs, which will complement the public expenditure reforms currently underway that are being supported by the programmatic series SU-L1026, SU-L1028 and SU-L1029.
- 3.3 **Program objective.** The objective of the program is to strengthen the country’s fiscal position over the short and medium term, through an increase in tax revenue, foreign investment and economic competitiveness. The specific objectives of the program are to increase tax coverage as well as improve efficiency in tax and customs administration.
- 3.4 **Program structure.** The program is structured as a Policy-Based Programmatic Loan series (PBP) with three operations over the next three years. The amount and number of operations under the program are consistent with the government’s financial needs, and the level of political effort required to implement the reforms.¹⁵ The first operation will support the development of the legislation, structure and tools needed to establish the framework for the overall reform. The second operation will formalize the reforms through the tabling of draft legislation in Parliament. Finally, during the third operation the new legislation, tools and procedures will be implemented. This operation will be for US\$20 million dollars and will be disbursed in a single tranche, subject to the provision by the authorities of evidence of compliance with specific policy measures that support the achievement of the program objectives.
- 3.5 **Component I. Macroeconomic stability.** The program requires that the Borrower maintain a sustainable macroeconomic policy framework that is compatible with achieving the objectives of this program. Based on the Independent Macroeconomic Assessment (IMA), the GOS has a macroeconomic policy framework in place that meets these criteria.
- 3.6 **Component II. Tax Policy.** The objective of this component is to broaden and even the distribution of the tax burden to all citizens and businesses of Suriname through policy reforms. The program will support the development of new legislation for: (i) the Tax Collection Act; (ii) the restructuring of the Directorate of Tax and Customs; (iii) the amendment of income and wage taxes; (iv) VAT

¹⁵ The programmatic policy-based modality was selected as the most appropriate financing arrangement given that it is a flexible and effective mechanism to support complex and long term reforms that require sequenced actions for implementation and broader dialogue as is the case with this revenue policy and administration reform.

- implementation; and (v) a revised entertainment tax; (vi) consolidation of four excise tax acts; and (vii) customs.
- 3.7 **Component III. Tax Administration.** The objective of this component is to enhance administrative efficiencies through the restructuring of the Directorate of Taxes and Customs and simplify tax compliance. The program will support: (i) consolidation of tax payer services; (ii) introduction of a self-assessment system for the Wealth Tax; (iii) media plan and consultations on VAT with the private sector, civil society and key political stakeholders; (iv) creation of a new organizational structure; (v) VAT training program; (vi) procurement of a VAT IT solution; and (vii) expansion of the implementation of the excise stamp tax.
- 3.8 **Component IV. Customs Modernization.** The objective of this component is to support the GOS efforts to improve the efficiency and effectiveness of fiscal and para-fiscal controls while having a positive impact on trade facilitation and strengthening its institutional capacity. The program will support: (i) development of an action plan for customs modernization, including a new facility and workforce renewal; (ii) creation of protocols for electronic data sharing within the directorate; (iii) hiring of new officers for the Customs Department; and (iv) creation of the Customs Special Operation Team.
- 3.9 **Expected results and impact.** Over the next three years, the program is expected to have a combined positive fiscal impact. At the end of the series, higher tax collection is expected given a tax policy reform and strengthened tax and customs administration. In addition, the introduction of new electronic systems and streamlined processes will reduce the cost of compliance for the tax payer and decrease distortions, thereby increasing economic efficiency. The program will also create more favorable conditions for foreign direct investment and help diversify the economic base, contributing to the country's competitiveness.

IV. SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1 Given that this is a policy-based loan, there are no associated environmental or social risks. In accordance with the Directive B.13 of the Bank's Environment and Safeguards Compliance Policy (GN-2208-20 and OP-703), no ex-ante environmental impact classification is required given the nature of the program.

V. RESOURCES AND TIMETABLE

- 5.1 Annex V describes the project preparation timeline and prospective activities. Distribution of the Proposal for Operation Development (POD) to the Quality and Risk Review (QRR) is expected by September 16, 2013, Operation Policy Committee (OPC) is expected by October 25, 2013, and Board approval by December 4, 2013. The estimated amount allocated for mission travel and consultancy is US\$58,000.

Annex I

This annex was removed because of its confidential content.

SAFEGUARD POLICY FILTER REPORT

This Report provides guidance for project teams on safeguard policy triggers and should be attached as an annex to the PP (or equivalent) together with the Safeguard Screening Form, and sent to ESR.

1. Save as a Word document.
2. Enter additional information in the spaces provided, where applicable.
3. Save new changes.

PROJECT DETAILS	IDB Sector	REFORM / MODERNIZATION OF THE STATE-REFORM AND PUBLIC SECTOR SUPPORT
	Type of Operation	Policy Based Loan (PBL)
	Additional Operation Details	
	Investment Checklist	Institutional Development Investment
	Team Leader	Harper, Leslie Elizabeth (LESLIEHA@iadb.org)
	Project Title	Revenue Policy and Administration I
	Project Number	SU-L1037
	Safeguard Screening Assessor(s)	Harper, Leslie Elizabeth (LESLIEHA@iadb.org)
	Assessment Date	2013-07-24
	Additional Comments	

SAFEGUARD POLICY FILTER RESULTS	Type of Operation	Loan Operation	
	Safeguard Policy Items Identified (Yes)	The operation is in compliance with environmental, specific women's rights, gender, and indigenous laws and regulations of the country where the operation is being implemented (including national obligations established under ratified Multilateral Environmental Agreements).	(B.02)
		The operation (including associated facilities) is screened and classified according to their potential environmental impacts.	(B.03)
		Operation for which ex-ante impact	(B.13)

		classification may not be feasible. These loans are: Policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, or conditional credit lines for investment projects.	
		Suitable safeguard provisions for procurement of goods and services in Bank financed projects may be incorporated into project-specific loan agreements, operating regulations and bidding documents, as appropriate, to ensure environmentally responsible procurement.	(B.17)
	Potential Safeguard Policy Items(?)	No potential issues identified	
	Recommended Action:	Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s), including B13, for guidance. No project classification required. Submit Report and PP (or equivalent) to ESR.	
	Additional Comments:		

ASSESSOR DETAILS	Name of person who completed screening:	Harper, Leslie Elizabeth (LESLIEHA@iadb.org)
	Title:	
	Date:	2013-07-24

ENVIRONMENTAL AND SOCIAL STRATEGY (ESS)

According to the environmental policy and the safeguards fulfilment established by the Directive B.13, this type of policies sector loan does not qualify. The objective of the programme is to give the country support in its goal of ensuring fiscal sustainability through the improvement of public finances. Therefore, it is not expected that the programme carries negative environmental nor social impacts, and that it is why it is not considered necessary the preparation of an Environmental and Social Strategy for the programme.

BACKGROUND ECONOMIC AND SECTOR STUDIES

Description	Date	Reference or links
CARTAC. Review of Revenue Administration IT Systems and Public Expenditure IT Systems. Peter Menhard, Dick Sansom & John Moore CARTAC Experts Tax, Customs, PFM and IT	03/2010	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37724640
IDB. Suriname Tax Administration IT Modernization and VAT Planning Consulting Report	07/24/2012	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37724623
IDB/CARTAC Suriname Tax and Customs Administration Diagnostic	04/28/2005	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37724640
IMF. Article IV Suriname	10/2012	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37724583
Independent Macroeconomic Assessment	2012	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37190072
World Bank. Doing business 2012 Paying taxes the Global Picture	2012	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37724611
World Bank. Doing Business 2012 Suriname report	2012	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37724604
PEFA	2011	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=37726505

Annex V

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