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Suriname

Component: Revenue and Spending

Module: RM II – Revenue Administration

*REPUBLIC OF SURINAME***PROJECT SUMMARY**

LEAD DEPARTMENT: FAD (FISCAL AFFAIRS DEPARTMENT)

REGION (S): WHD (Western Hemisphere Department)

COUNTRY (S): Suriname

PROGRAM ID: (To be filled out by Secretariat)

PLANNED DATES: FY2024 - 2028

FUNDING PROGRAM TITLE: GPFP (Global Public Finance Partnership) Suriname

PROJECT MANAGERS:

RM II/REVENUE ADMINISTRATION Norris Miller – Revenue Administration 2

PROJECT LEAD MANAGER: Norris Miller – Revenue Administration 2

ESTIMATED BUDGET \$1,407,158

BUDGET FOR ENDORSEMENT \$455,052 (through FY25)

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*REPUBLIC OF SURINAME***I. PROJECT PURPOSE**

The authorities in Suriname have expressed interest in sustained CD from FAD to support reforms to mobilize tax revenue collection and revenue administration modernization. The authorities, with the assistance of the IMF (International Monetary Fund), implemented a fiscal adjustment program, aimed at putting debt on a firm downward trajectory even as expenditures to protect the vulnerable are being prioritized. Efforts are underway to broaden the tax base, increase spending efficiency, improve governance, and address longstanding vulnerabilities in the financial system. The authorities have enacted an amendment to increase VAT revenues and have finalized a framework to assess banks' recapitalization and restructuring plans. However, the revenue administration is weak and poses a threat to future revenue improvement.

This CD project will focus on modernizing the administration of tax and customs. The Ministry of Finance and Planning (MoFP) and the Directorate of Taxes (DoT) have embarked on an extensive program aimed at enhancing the efficiency and effectiveness of revenue collection. These initiatives have received crucial support from the Inter-American Development Bank (IDB) and from the IMF on a small scale. The reform calls for the transformation of the DoT into a Semi-Autonomous Revenue Administration (SARA), structured around modern practices—having a unified body, with the integration of all departments, responsible for the administration of both direct and indirect taxes; being organized using a functional model with a dedicated large taxpayer operation; has a sufficiently resourced headquarters to oversee all aspects of the operation, and increased governance from transparent and accountable work processes.

The four-year project has been discussed with the authorities, and the medium-term objectives and outcomes were agreed upon. The estimated budget for this four-year project is \$1,407,158, but endorsement is requested for \$455,052 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

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II. BACKGROUND

Macro-fiscal situation

The Suriname economy continues to recover from deep recession in 2020/21. Real GDP (Gross Domestic Product) contracted by 16 percent in 2020 and by 2.4 percent in 2021, and the recovery in 2022 has been modest—only 2.4 percent growth. GDP is expected to remain below its pre-pandemic levels beyond 2028, lagging global and regional peers. Over the long-term, there are large prospects for growth due to the potential development of large new oil fields.

However, the macroeconomic environment remains challenging. Inflation spiked, reaching over 75 percent in mid-2021 fueled by significant depreciation of the SRD/USD exchange rate. Tighter fiscal and monetary policy have slowed the pace of exchange rate depreciation, and is beginning to bring down inflation, now at 57 percent. Sharp depreciation led to a contraction of imports after 2019 and a stable current account balance since then. Suriname's 36-month Extended Fund Facility arrangement was approved by the IMF's Executive Board in December 2021 to support the authorities' economic recovery plan.

The authorities have pursued an ambitious fiscal adjustment strategy, aiming to enact a 19-percentage point increase in the primary balance from 2019 to 2024. Overspending in 2022 in response to external shocks has been corrected by more disciplined implementation of the fiscal strategy in 2023. The VAT was introduced in January 2023 to replace the sales tax, and the VAT base was further broadened in September 2023. Electricity subsidies are being phased out, while fuel subsidies introduced in 2022 in response to the global energy price shock have been eliminated. The government has committed to lowering the wage bill below 7 percent of GDP and is undertaking public sector reform.

IMF priority areas / cross-cutting themes

Supporting Suriname's digital transformation is a priority under the GPFP. The authorities are implementing a new tax administration information system to support VAT implementation. This system will be enhanced to accommodate all core taxes. The solution became the backbone of the main GovTech initiative integrating tax and customs departments, and taxpayers. Currently, all VAT declarations are filed online. However, most other business processes remain manual. The authorities have asked for support on this modernization journey.

Country engagement and alignment to reform priorities

The CD support is aligned with the government priorities for fiscal reforms as indicated in the 36-month Arrangement under the Extended Fund Facility (EFF). Drawing on efforts to simplify and modernize the tax system and professionalize tax and customs, action plans were developed with an aim at improving revenue by increasing taxpayer compliance, strengthening tax legislation, and monitoring of tax expenditures. The implementation of VAT is a key component of the EFF program to drive reform and to improve Domestic Revenue mobilization. The implementation of the VAT in January 2023, with further amendments to the Act to widen the tax base aimed at assuring increased revenue. However, there are concerns about the small number of VAT registrants and the processing of VAT refunds.

The recent TADAT assessment highlighted few strengths and significant weaknesses across all performance outcome areas. The root causes of the weaknesses emanate from at least four areas: (i) institutional and organizational arrangements, with core taxes being administered by five departments;

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(ii) multiple IT (Information Technology) systems led to operational silos and inefficiencies; (iii) dated legislations, with a principal collection Act of 1869; (iv) governance—no system of reporting to senior management, accountability and transparency framework is weak. These issues have a substantial negative impact on the administration and revenue mobilization. Despite significant weaknesses, the assessment identified strengths in a few key areas, of which three are: (i) the utilization of a modern IT system for the management of the Value-Added Tax; (ii) implementation of withholding and advance payment mechanisms for Income Tax; and (iii) adoption of electronic payment methods for all core taxes. Based on the findings of the assessment, the authorities requested FAD assistance in developing and implementing a medium-term program to support their reforms.

III. PROJECT LEVEL DESCRIPTION

A. Project Scope

The project will aim to improve the revenue through a stronger tax administration and compliance program. The absence of a compliance program resulted in low filing and payment rates across all segments and tax types, and a significant level of aged tax arrears. In addition to filing and tax debt management, core tax functions will be strengthened to include the audit function, which is fragile and lacks modern practices; and the dispute resolution process, which is not working. As part of the Country Strategy Note (CSN) and the IMF program, the government has agreed to strengthen DRM (Domestic Revenue Mobilization), and CD will be deployed to: (i) improve institutional, organizational and management arrangements; (ii) streamline and modernize administrative and technical processes and procedures; (iii) deepen the digital transformation of the revenue administration; (iv) enhance cooperation and data sharing among authorities and other stakeholders; (v) implement a compliance risk management strategy based on third-party information; and (vi) strengthen custom procedures.

This CD project will focus on strengthening revenue administration management and governance arrangements and core tax and customs administration functions. Each of these objectives will be unfolded by the outcomes listed in the annex, which will guide the CD strategy.

The project will support the authorities to transform the DoT into a Semi-Autonomous Revenue Administration (SARA), with proper organizational arrangements and improved core functions. This will require a clear reform strategy that brings the two administrations efficiently into one body, supported by an integrated revenue administration IT system. At the same time, it will be critical to ensure that effective risk management frameworks are put in place to ensure compliance—especially as it relates to continued implementation of the new VAT law. Finally, the core tax and customs administration functions will need to be modernized for the new IT system to ensure that data is being utilized across tax and customs to support tax compliance.

Table 1. Summary of Objectives covered by the Proposal

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

B. Country Engagement

Surname's revenue administration benefitted from four FAD's Capacity Development (CD) interventions over the last 24 months. Support was provided on VAT implementation and a TADAT assessment conducted on the health of the domestic tax system. The VAT CD included assistance provided by the Caribbean Regional Technical Assistance Center (CARTAC). The October 2023 TADAT assessment identified significant weaknesses. The authorities did not implement many of the FAD 2022 VAT Implementation mission's recommendations. The VAT revenue, while showing reasonable performance, is still of concern. With the EFF program ending in 2023, and to ensure that a program is in place to increase revenue and to reduce debt, the authorities commit to provide resources to deliver the reform program.

C. Delivery Modalities

The CD delivery will mainly be in-person activities due to the low capacity of the country, necessitating a more hands-on approach. Virtual deliveries will be used to provide efficiencies to on-the-ground support, including pre-engagement meetings and post-follow-up meetings. The following CD activities will be delivered as a package:

- **Headquarters-led (HQ) missions and staff visits** to provide strategic recommendations, conduct regular follow-ups, assess progress, inspect STX work, coordinate with other CD providers, and adjust reform implementation plans.
- **Short-term expert (STX) visits** to help implement the recommendations delivered by the HQ missions; a limited number of STXs will be assigned to provide specialized assistance in specific areas of revenue administration.
- **Workshops:** workshops/seminars will be organized to share modernization experiences and best practices on specific topics. Workshops will also be used during HQ missions, staff visits or STX missions to discuss with the revenue administration managers and staff their views on the reforms and particular technical subjects.

D. Coordination / Cooperation

The Directorate of Taxes (DoT) and the Minister of Finance are currently receiving support from the Inter-American Development Bank (IADB), the Government of Netherlands and from CARTAC on tax and customs operations. Appropriate linkages with the existing CD programs are defined using the IMF's result-based management (RBM) framework. When designing specific country-based activities and workplans, this program will seek to define the emerging challenges in an integrated and coordinated manner. CARTAC's tax and customs resident advisors will continue to assist the DoT in strengthening and building capacity in targeted core functional areas.

IADB is providing CD support to the DoT to improve overall revenue administration efficiency and effectiveness. Support includes: (i) acquisition of a new building to house the DoT; (ii) acquisition of a new tax administration IT system; and (iii) establishment of a semi-autonomous revenue administration.

This CD will complement the support of the IADB but with a greater focus on strengthening organizational arrangements and capacity building. While there is not a formal DP committee, FAD will assist by setting up meetings with donors during major CD interventions in the country. The

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authorities will be advised on the need to coordinate with various CD providers to seek a more formal arrangement to improve overall cooperation.

IV. RISK ASSESSMENT AND MITIGATION

General or Module	Description	Risk Probability	Risk Impact	Mitigation Measures
External climate/conditions				
General	External events create a more challenging environment to implement reforms.	Medium	Medium	Risk that external events create a more challenging environment to implement reforms.
RM II / Revenue Administration	Government revenue measures adversely impacted the tax ratio	Medium	High	Work with the IMF country team and authorities to monitor revenue measures and impact on tax ratio and propose reform measures to boost collection and tax ratio
Political Support				
General	Lack of political support for reforms inhibits required actions or resources being allocated that are needed to enhancements to fiscal risk management institutions and practices.	High	High	Ensure fiscal risk CD is focused on priority areas and engage regularly with ministers and senior management to ensure government ownership of reforms. Close consultation with the country team to assist authorities in recognizing the relevance of reforms.
Management and Technical Staff Support and Commitment				
RM II / Revenue Administration	Low commitment of management and staff in finance and other ministries to adopt and implement fiscal risk management practices.	High	High	Engage with senior management and technical staff pro-actively and explain the importance of strengthening fiscal risk management.
Resource Adequacy				
RM II / Revenue Administration	Insufficient technical capacity and human resources necessary to implement reforms are limited.	High	Medium	Ensure CD plans include sufficient capacity building and training elements and prioritize CD to priority or highest risk areas where resources are limited
Other risks				
RM II / Revenue Administration	Multiple donors are providing technical assistance on tax administration.	Medium	Medium	Take an active role in engaging with other donors to ensure support is well coordinated.

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V. CD DELIVERY PLAN COUNTRY LEVEL

Table 2. Summary of Indicative CD Delivery¹

CD Modalities (Remote or Field-based CD)	FY24	FY25	FY26	FY27	FY28	Total
RM II / Revenue Administration						
Field-based CD activities						
HQ-led CD mission	-	1	-	1	-	2
STX visits	-	2	2	2	1	7
Staff visit	-	-	1	-	1	2
Interactive Learning	1	1	1	1		4
Remote-based CD activities						
Staff visit	-	-	1	-	1	2
STX visits	-	1	1	1	1	4
Interactive Learning	-	1	1	1	-	3
Total	2	10	6	8	6	32

Table 3. First year workplan

Timing		CD Delivery	Proposed Topics of CD
RM II / Revenue Administration			
FY24 – Q4	CD	2 STX	Build audit capacity (VAT) Strengthen VAT refund process
FY25 – Q1	Strategic CD	1 HQ mission 2 STX	Develop post TADAT reform plan. Strengthen VAT refund process- ICT support. Registration process -Taxpayer segmentation
FY25 – Q2	CD	2 STX	Strengthen audit function – case selection, audit program. Strengthening payment process
FY25 – Q3	CD	2 STX	Custom support Build audit capacity (VAT).
FY25 – Q4	CD	2 STX	Organizational & Institutional arrangements Strengthening payment and arrears process

¹ Based on a 2 week per assignment. However, the number of engagements will be fewer, as some STX will be engaged in extended period.

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VI. PROGRAM FINANCIALS

	FY24 Q4	FY25	FY26	FY27	FY28	TOTAL (USD)
Direct Delivery	52,399	372,884	313,583	395,593	180,642	1,315,101
Module RM I - Tax Policy	0	0	0	0	0	0
Module RM II - Revenue Administration	52,399	372,884	313,583	395,593	180,642	1,315,101
Module SM I - Spending Policy	0	0	0	0	0	0
Module SM II - Managing Public Finances	0	0	0	0	0	0
Subtotal	52,399	372,884	313,583	395,593	180,642	1,315,101
Trust fund management fee (7%)	3,668	26,102	21,951	27,692	12,645	92,057
TOTAL	56,066	398,986	335,533	423,284	193,287	1,407,158

The estimated budget for this four-year project is \$1,407,158, but endorsement is requested for \$455,052 through FY25. Endorsement for future plans will be requested at a later date as funding for the program is secured and reform plans gain traction.

ANNEX I. REVENUE MODULE II – REVENUE ADMINISTRATION

A. Program Objectives

The objective of this module is to help the authorities in Suriname to improve the revenue administration's performance, increase tax compliance, and strengthen revenue collection. The program will strengthen management, governance and institutional arrangements, and core tax and customs operations. The program will include supporting the DoT to address weaknesses identified by the 2023 TADAT assessment.

Objective: Strengthened revenue administration management and governance arrangements:

Organizational arrangements enable more effective delivery of strategy and reforms.

- Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized.
- Corporate priorities are better managed through effective risk management.
- Effective implementation of a new tax or modernized legislation.
- Support functions enable more effective delivery of strategy and reforms.
- Transparency and accountability are more effectively supported by independent external oversight and internal controls.

Objective: Strengthened core tax administration functions:

- A larger proportion of taxpayers meet their filing obligations as required by law.
- A larger proportion of taxpayers meet their payment obligations as required by law.
- Audit and other verification programs more effectively ensure accuracy of reporting.
- Taxpayer services initiatives to support voluntary compliance are strengthened.

Objective: Strengthened core customs administration functions:

Trade facilitation and service initiatives better support voluntary compliance.

Audit and anti-smuggling programs more effectively ensure enforcement of customs laws.

Customs control during the clearance process more effectively ensures accuracy of declarations.

Foreign trade operators better comply with their reporting and payment obligation.

CD activities will focus on:

- Strengthening institutional governance arrangements.
- Develop/enhance medium term reform plan, including started to address weaknesses identified by the 2023 TADAT assessment.
- Enhancing transparency and accountability through improved reporting and disclosure of financial and operational reports and future plans. This will include strengthening external oversight.
- Improving the effectiveness of HQ functions (Corporate, Domestic Tax and Customs Divisions).
- Improving VAT (Value Added Tax) operation and revenue performance.
- Strengthening management of non-filers, arrears, and refund functions.
- Strengthening customs clearance and post clearance audit processes.
- Develop compliance and institutional risks frameworks.
- Building technical capacity.
- Data analytics.

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B. Targeted Logical Framework – REVENUE ADMINISTRATION

Objective	
Strengthened revenue administration management and governance arrangements	
Outcome(s)	Indicator(s)
Organizational arrangements enable more effective delivery of strategy and reforms.	Clear organizational structure along functional lines and/or taxpayer segments established and operating or strengthened. Clear separation of roles and responsibilities between HQ (definition of standard operation procedures, planning, and monitoring) and local branches (execution) adopted.
Capacity for reform increased due to clear reform strategy and a strategic management framework adopted and institutionalized.	Reform management capacity strengthened or in place for reform implementation, including dedicated resources. Multi-year reform implementation plan, with supporting resource plan, adopted and well communicated.
Corporate priorities are better managed through effective risk management.	Improved identification, assessment, ranking and quantification of compliance risks (TADAT POA2-3) Better mitigation of risks through a compliance improvement program (TADAT POA2-4) Improved monitoring and evaluation of compliance risk mitigation activities (TADAT POA2-5)
Transparency and accountability are more effectively supported by independent external oversight and internal controls.	Internal controls covering all key core operations and staff integrity assurance mechanisms strengthened or in place (TADAT 2019 POA9-29)
Digital technologies are better aligned with strategic objectives	Improved ICT strategies and systems support the tax administration
Effective implementation of a new tax or modernized legislation.	New/modernized tax implemented on scheduled date.
Objective	
Strengthened core tax administration functions	
Outcome(s)	Indicator(s)
The integrity of the taxpayer base and ledger is strengthened.	Knowledge of taxpayer base and potential taxpayers improved through robust taxpayer registration policies and procedures (TADAT POA1-2).
A larger proportion of taxpayers meet their filing obligations as required by law.	On-time filing ratio improved (TADAT 2019 POA4-12). Management of filing compliance improved (TADAT 2019 POA4-13)
A larger proportion of taxpayers meet their payment obligations as required by law.	On-time payment ratio improved (TADAT 2019 POA5-17)
Audit and other verification programs more effectively ensure accuracy of reporting.	Appropriate range of tax audits and other initiatives used to detect and deter inaccurate reporting and fraud (TADAT 2019 POA6-19)

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Objective	
Improved customs administration functions	
Outcome(s)	Indicator(s)
Audit and anti-smuggling programs more effectively ensure enforcement of customs laws.	A larger share of trade controlled progressively through a properly designed post clearance audit program. Framework to control special regimes and exemptions strengthened.
Customs control during the clearance process more effectively ensures accuracy of declarations.	Risk-based control selectivity applied more consistently. Effective application of procedures based on international standards for valuation, origin and the tariff classification of goods improved.