

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BELIZE**

**STRENGTHENING OF TAX ADMINISTRATION**

**(BL-L1031)**

**PROJECT PROFILE**

This document was prepared by the project team consisting of: Monica Calijuri, Team Leader; Alberto Barreix, Alternate Team Leader; Belinda Perez Rincon; y 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).

Under the Access to Information Policy, this document is subject to Public Disclosure.

## PROJECT PROFILE (PP)

### BELIZE

#### I. BASIC DATA

**Project Name:** Strengthening of Tax Administration  
**Project Number:** BL-L1031  
**Project Team:** Monica Calijuri, Team Leader; Alberto Barreix, Alternate Team Leader; Belinda Perez Rincon; y 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).  
**Borrower:** Belize  
**Executing Agency:** Ministry of Finance (MoF)  
**Financial Plan:** IDB: Ordinary Capital US\$14,000,000  
Total: US\$14,000,000  
**Safeguards:** Policies triggered: B1, B2, B3, and B7  
Classification: C

#### II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 **The economy of Belize is challenged by low economic growth.** During the period of 2008-2014, the average annual growth rate was 2.7%, while in 2015-2018 it decreased to 1.7%.<sup>1</sup> Although the recovery after the recession of 2016, growth expectations for the medium-term remain modest at 2%.
- 2.2 **Low economic growth has been associated with fiscal imbalances and a persistent accumulation of public debt.** Between 2015-2018, total expenditures averaged 26.7% while revenue averaged 25.4% of GDP.<sup>2</sup> This has contributed to recurrent fiscal deficits and increase debt financing. The debt-to GDP ratio increased from 79.3% in 2015 to 94.2% in 2018.<sup>3</sup> The lack of fiscal space has constrained the country to make priority investments to promote economic growth.
- 2.3 **In March 2017, the Government reached a restructuring agreement with private external bondholders on its US\$526 million bond<sup>4</sup> (about 30% of GDP) and initiated a fiscal consolidation program.** As part of the agreement, the authorities committed to a fiscal consolidation program, geared towards the tightening of the fiscal stance by 3.0 percentage points in fiscal year (FY) 2017/2018 and to maintain a primary surplus of 2.0% of GDP for the subsequent three years. As a result of the measures, the primary fiscal balance in FY 2017/2018 increased to a surplus of 1.3% of GDP<sup>5</sup> ([Macro Fiscal Indicators](#)). The bulk of the fiscal adjustment, has been through tax policy measures, such as higher

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<sup>1</sup> [IMF Article IV 2018](#).

<sup>2</sup> World Economic Outlook.

<sup>3</sup> [IMF Article IV 2018](#).

<sup>4</sup> The Government has restructured its external debt to commercial lenders three times between 2007 and 2017. The public debt-GDP ratio reached 93.6% of GDP in 2017/2018.

<sup>5</sup> Excluding the one-off capital transfer.

import duties on selected products and adjustments in General Sales Tax base, as reduced government investment, which probably affected growth.<sup>6</sup>

- 2.4 **In the FY 2018/2019, the Government continues the fiscal consolidation program.**<sup>7,8</sup> The parliament approved revenue-enhancing measures to increase revenues by 0.5% mainly through: (i) broadening the base of GST by removing zero-rated items; (ii) higher excises on fuel; and (iii) higher import duties on selected items. The measures include decreasing on expenditures, mainly the wage bill and capital spending.<sup>9</sup>
- 2.5 **To reach a successful and sustained revenue mobilization the Government requires a strong tax administration (TA).** Revenue mobilization needs to take a more holistic approach that includes a modernization of tax institutions, covering a broad spectrum of legal, technical and administrative measures, and notably increasing the use of automation, information and communications technology.<sup>10</sup>
- 2.6 **In this context, the Government requested an investment loan from the Bank to strengthen tax administration aimed at increasing tax revenues.** This will be done increasing the efficiency and effectiveness of tax collection by improving TA governance, operational processes, technological systems and infrastructure. It is expected that the program will contribute to an additional increase in tax revenue to support the fiscal consolidation in the short and medium term and increase the fiscal space to recover investments expenditures in the long term.<sup>11</sup> The specific problems and causes to be addressed are:

2.7 **Tax Administration Governance:**

- a. **Organizational structure challenges.** Currently there are three departments responsible for managing and collecting taxes, all under the structure of the MoF, the Department of Income Tax (ITD), the Department of General Sales Tax (DGST) and the Customs and Excise Department (CED). The ITD and DGST, which manage domestic taxes, are organized by tax type, instead of by functions,<sup>12</sup> carrying out their operations separately, causing low efficacy and efficiency in the domestic tax collection, low taxpayer compliance<sup>13</sup>, as well as deficiencies in taxpayer services.<sup>14</sup> The CED, which manages international trade tax and GST on imports, has already implemented substantial reforms, including Automated System for Customs Data (ASYCUDA) World in 2013.<sup>15</sup> There is already a draft law<sup>16</sup> to merger DGST and ITD departments which is

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<sup>6</sup> [IMF Article IV 2018](#).

<sup>7</sup> Paper: Assessing debt sustainability in Belize.

<sup>8</sup> Central Bank press release.

<sup>9</sup> [IMF Article IV 2018](#).

<sup>10</sup> Paper: Raising revenue (IMF, 2018).

<sup>11</sup> Paper: Raising revenue (IMF, 2018). Evidence that the strengthening of TA processes and system, could raise tax revenue in 5 low-income countries.

<sup>12</sup> Of 126 countries currently administer VAT, only 10 have separate departments for VAT and income taxes (FAD/IMF 2014 report). In the Caribbean region: Belize and Surinam.

<sup>13</sup> Non-compliance is high. Non-filing average of 76% (ITD) and 85% (DGST).

<sup>14</sup> Cost of collection is 2.4% while the regional average is 0.98% (CIAT, 2018).

<sup>15</sup> FAD/IMF 2014 report.

<sup>16</sup> Tax Administration Procedures Act (TAPA).

expected to be passed in April of current year by Parliament. The government has also prepared some draft bills to promote a digital TA.<sup>17</sup>

- b. **Inadequate internal assurance mechanisms to ensure accountability and transparency.** There are insufficient internal affairs policies and actions, and lack of internal audit to promote transparency in the TA processes.<sup>18,19</sup>

## 2.8 Operational Processes:

- a. **The taxpayer register contains duplicate and incorrect records.** The ITD register contains approximately 26,000 taxpayers, of which less than 30% are active. The DGST register contains 5,000 taxpayers, of which 10% are inactive.<sup>20</sup>
- b. **Limited human resource technical capacity.** The combined staff for both TA departments totals 237 employees, who present lack of training in key areas, such collection and audits.<sup>21</sup> Most of the 50 auditors are not accountants or professionals in related fields.<sup>22</sup>
- c. **Insufficient attention is given to large taxpayers.** 200 taxpayers in ITD and 240 in DGST are responsible for 33% and 55% of revenue collection, respectively. Although a large taxpayer unit was recently implemented, there are no taxpayer segmentation criteria established and the correspondent procedures to be applied.<sup>23</sup>
- d. **Deficiencies in tax auditing process and systems.** Audit programs are mostly based on auditor's opinion. In DGST, each auditor performs 3 to 6 assessments per year, which means that, considering the current staff, it would take approximately 10 years to inspect all taxpayers, which generates a low risk perception.<sup>24,25</sup>
- e. **Insufficient support for taxpayers to comply with their tax obligations in a cost-effective manner.** Taxpayers services are essentially paper-based and walk-in. Only 3% of GST filing declarations and 10% of total payments<sup>26</sup> are made through commercial banks.
- f. **Difficulty to manage the arrears.** The total stock of tax arrears recorded by ITD is BZD\$164 million and DGST is BZD\$78.4 million (62% and 38% of annual revenue, respectively).<sup>27</sup> Write offs of non-collectible have not been used.

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<sup>17</sup> The project team has been discussed with the Governments about these topics. See also Component I.a.

<sup>18</sup> Information provided by DGST and ITD.

<sup>19</sup> Corruption, Taxes and Compliance, 2017 (IMF).

<sup>20</sup> FAD/IMF 2014 report.

<sup>21</sup> Information provided by DGST and ITD.

<sup>22</sup> Belize Tax Administration Modernization Report. September 2018.

<sup>23</sup> Compliance Management of Large Business, 2009 (OECD).

<sup>24</sup> IDB report – Evaluation GST Department, 2018.

<sup>25</sup> Fretes, V. et al. More than Revenue: Taxation as a Development Tool, 2013 (IDB).

<sup>26</sup> Good Practices recommend 100% made electronically (TADAT).

<sup>27</sup> Information provided by DGST and ITD.

- g. **Difficulty to identify inconsistencies in taxpayer's obligations.** Integrated taxpayer account is not in place to provide a taxpayer centric overview for tax control.<sup>28</sup>
- h. **The invoicing process control is ineffective.** It generates inaccurate information. In addition, the refund process is slow due to lack of reliable information to confirm the taxpayer credit.<sup>29</sup>

## 2.9 Technological System and Infrastructure:

- a. **The computerized TA systems (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 updated in 2006. Currently, the functionality remains basically the same, presenting many deficiencies<sup>30</sup>, including low capacity for electronic transactions.
- b. **The technological infrastructure is insufficient to host a new Integrated Tax Administration System (ITAS) and to provide good taxpayer services.** The current data-center processing capacity is insufficient to support a modern ITAS functionality, including storage capacity and telecommunication resources.<sup>31</sup>

2.10 **Objectives.** The main objective of the project is to strengthen tax administration aiming at increasing revenue collection, through the following specific objectives: (i) increasing the effectiveness of the government to collect taxes, through improvement in the tax administration governance; (ii) increasing the tax administration efficiency, through improvement in the operational processes; and (iii) reducing taxpayer compliance cost, through the modernization of technological infrastructure.

2.11 The main beneficiaries will be: (i) the Government with more revenues to implement its public policies; (ii) the taxpayers with more support and digital facilities to fulfill their tax obligations; and (iii) the population with the benefits of the government policies implemented.

2.12 **Component I. Strengthening Tax Administration Governance (US\$1,0 million).** This component will finance the design and implementation of the following:

- a. New business model<sup>32,33</sup> organizational structure and strategy for change management, including communication/dissemination.
- b. Internal control model, comprising management control, internal audit, and internal affairs, which will be supported by ITAS, including also the corresponding manuals.<sup>34</sup>

2.13 **Component II. Improvement of Operational Processes (US\$3,0 million).** This component will finance the development and implementation of the following:

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<sup>28</sup> [2018 Government request for expression of interest for acquisition of ITAS.](#)

<sup>29</sup> FAD/IMF 2014 report.

<sup>30</sup> Considerations to Implement an ITAS report, 2018.

<sup>31</sup> Review of IT Systems of the Tax Administration of Belize report, 2017.

<sup>32</sup> Current business process and To Be business process draft reports (Feb/2019).

<sup>33</sup> Barreix and Zambrano, 2017.

<sup>34</sup> International good practices (TADAT).

- a. Integrated taxpayer registration model, common for all tax departments and systems that facilitate the registration and ensure the adequacy and accuracy of the information, including also data cleansing and data migration to the new ITAS.
- b. Human resource strengthening plan including: (i) identification of skill gaps of the TA personnel<sup>35</sup>; and (ii) permanent training program.
- c. Taxpayer segmentation and risk-based taxpayer compliance management model to identify, prioritize, and mitigate risks in the TA operations.
- d. New audit model making use of wider range of examination and risk-based techniques.<sup>36</sup>
- e. Collection enforcement risk-based model.
- f. Invoicing control model comprising a strategy for further electronic invoice implementation.

2.14 **Component III. Modernization of Technological Infrastructure (US\$10 million).** This component will finance the development and implementation, including training, of the following:

- a. Information and Technology (IT) strategic plan, comprising: (i) basic software; (ii) hardware, servers, storage, telecommunication; (iii) information and cyber security; and (iv) e-tax portal.
- b. New ITAS<sup>37</sup> that allows the integration with other government systems, including customs,<sup>38</sup> comprising: (i) registration; (ii) declaration processing and monitoring fillers; (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. Large taxpayers will pilot the new systems before their rollout to the broader population.

2.15 **Impact and outcomes.** The impact indicator is tax revenue. The expected outcomes, among others, are tax filing compliance rates is our outcome indicator for TA effectiveness, auditing performance measured by number of audits per auditor over a year is our indicator for the tax collection efficiency and the share of tax returns and payment made electronically is the chosen inverse indicator for taxpayer compliance cost.

2.16 **Strategic alignment.** The program is consistent with the Institutional Strategy Update 2010-2020 (AB-3008), and the development challenge of productivity and innovation, through digitalization and simplification of processes, and institutions and the rule of law, by strengthening tax revenue and using cutting-edge technologies to improve tax revenue performance. It will also contribute to the

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<sup>35</sup> The employees will be relocated in new functions. No dismissal is planned.

<sup>36</sup> Audits have a sustainable effect deterring future evasion among audited firm. See: Pomeranz, Dina (2013). "No Taxation without Information: Deterrence and Self-Enforcement in the Value Added Tax". Harvard Business School.

<sup>37</sup> The modality of acquisition is COTS (commercial off the shelf). The security will be defined for all functions.

<sup>38</sup> ITD, DGST, Customs, and treasury are within MOF.

Corporate Results Framework 2016-2019 (GN-2727-6) by increasing tax compliance. In addition, the operation is consistent with the Strategy on Institutions for Growth and Social Welfare (GN-2587-2) and the Fiscal Policy and Management Sector Framework Document (GN-2831-2), particularly through the strengthening of tax administration. The program is aligned with the Country Strategy with the Belize 2013-2017 (GN-2746), that aims at “fostering export-led growth and grater trade integration by strengthening the economic efficiency and simplicity of the tax system and reducing non-tax barriers”.

### **III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE**

- 3.1 The Bank has ample knowledge of tax administration, which will be used for providing technical advice to guide the design and implementation of the current investment loan operation.<sup>39</sup> The Bank implemented the Macroeconomic and Public Financial Sector Reform Program (1817/OC-BL) aiming to restore Belize's macroeconomic and financial stability, which included the improvement of the tax system and will use its lesson learned for the preparation of this operation. In addition, a Technical Cooperation BL-T1114 is under preparation, mainly to support the development of the technical specification of the IT products, general terms of reference, studies and the preparation of bidding documents.
- 3.2 The MoF will be the executing agency. A Project Executing Unit, established in the MoF, will be responsible for the fiduciary management of the project and the inter-departmental coordination.

### **IV. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING**

- 4.1 According to the Bank's environment and Safeguards Compliance Policy (OP-703, B3), the program is classified as Category C. The insufficient experience of MoF in execution of projects will be minimized through the assistance of the Bank and training.
- 4.2 The Bank may finance retroactively under the loan, eligible expenses incurred by the Borrower prior to the date of loan approval, up to 20% of the proposed loan amount, provided that all the requirements substantially similar to those set out in the loan agreement requirements. These expenses must have been incurred or on after the 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. OTHER ISSUES**

- 5.1 The high risk of sustainability of intervention after the end of the project will be mitigated through permanent training program to staff, including specific IT training to personnel who will be involved in the systems implementation, and requirement for extended systems maintenance in the bidding documents. Also, the project includes a change management product to promote a new institutional culture for

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<sup>39</sup> The Bank supported Jamaica, Suriname, Honduras, El Salvador and Peru to strengthen their tax administration (loans 3511/OC-JA, 4112/OC-SU, 3541/BL-HO, 3852/OC-ES and 4725/OC-PE, respectively).

the long-term sustainability of the project. Eventually delay to merger the TA departments doesn't interfere in the Components I and II.

## **VI. RESOURCES AND TIMETABLE**

- 6.1 The expected preparation timeline that includes: (i) distribution of the Proposal for Operation Development (POD) to the Quality and Risk Review (QRR) by April 12<sup>th</sup>; (ii) approval of the Draft Loan Proposal (DLP) by the Operation Policy Committee (OPC) on May 17<sup>th</sup>; and (iii) presentation to the Committee of the Whole (COW) by June 26<sup>th</sup>, 2018. Approximately US\$78,020 will be used for mission travel and consultancy.



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# Safeguard Policy Filter Report

## Operation Information

Operation		
BL-L1031 Strengthening Tax Administration		
Environmental and Social Impact Category	High Risk Rating	
C		
Country	Executing Agency	
BELIZE	BL-MOF - MINISTRY OF FINANCE PERMANENT SECRETARY	
Organizational Unit	IDB Sector/Subsector	
Fiscal Management Division	REVENUE ADMINISTRATION	
Team Leader	ESG Primary Team Member	
MONICA CALIJURI		
Type of Operation	Original IDB Amount	% Disbursed
Loan Operation	\$14,000,000	0.000 %
Assessment Date	Author	
6 Mar 2019	marianac Project Assistant	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	28 Feb 2019	
QRR (Estimated)	12 Apr 2019	
Board Approval (Estimated)	26 Jun 2019	
Safeguard Performance Rating		
Rationale		



# Safeguard Policy Filter Report

## Potential Safeguard Policy Items

[No potential issues identified]

## Safeguard Policy Items Identified

### B.1 Bank Policies (Access to Information Policy– OP-102)

The Bank will make the relevant project documents available to the public.

### B.2 Country Laws and Regulations

The operation is expected to be in compliance with laws and regulations of the country regarding specific women's rights, the environment, gender and indigenous peoples (including national obligations established under ratified multilateral environmental agreements).

### B.3 Screening and Classification

The operation (including [associated facilities](#)) is screened and classified according to its potential environmental impacts.

### B.7 Supervision and Compliance

The Bank is expected to monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.

## Recommended Actions

Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.

## Additional Comments

[No additional comments]



## Safeguard Screening Form

### Operation Information

Operation		
<b>BL-L1031</b> Strengthening Tax Administration		
Environmental and Social Impact Category	High Risk Rating	
C		
Country	Executing Agency	
BELIZE	BL-MOF - MINISTRY OF FINANCE PERMANENT SECRETARY	
Organizational Unit	IDB Sector/Subsector	
Fiscal Management Division	REVENUE ADMINISTRATION	
Team Leader	ESG Primary Team Member	
MONICA CALIJURI		
Type of Operation	Original IDB Amount	% Disbursed
Loan Operation	\$14,000,000	0.000 %
Assessment Date	Author	
6 Mar 2019	marianac Project Assistant	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	28 Feb 2019	
QRR (Estimated)	12 Apr 2019	
Board Approval (Estimated)	26 Jun 2019	
Safeguard Performance Rating		
Rationale		

### Operation Classification Summary

Overriden Rating	Overriden Justification
Comments	



## Safeguard Screening Form

### Conditions / Recommendations

No environmental assessment studies or consultations are required for Category "C" operations.

Some Category "C" operations may require specific safeguard or monitoring requirements (Policy Directive B.3). Where relevant, these operations will establish safeguard, or monitoring requirements to address environmental and other risks (social, disaster, cultural, health and safety etc.)

The Project Team must send the PP (or equivalent) containing the Environmental and Social Strategy (the requirements for an ESS are described in the Environment Policy Guideline: Directive B.3) as well as the Safeguard Policy Filter and Safeguard Screening Form Reports.

### Summary of Impacts / Risks and Potential Solutions

### Disaster Risk Summary

Disaster Risk Level

**C**

Disaster / Recommendations

### Disaster Summary

Details

Actions

Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.

## **SOCIAL AND ENVIRONMENTAL STRATEGY**

### **I. PROJECT DESCRIPTION**

- 1.1 Based on Directive B.3 of the Policy Environment and Safeguards Compliance Policy (OP-703), this operation is classified as Category C. This is consistent with the evaluation of the project team because it is an institutional modernization operation of Tax Administration. Consequently, the preparation of an environmental strategy is applicable to this project.

## INDEX OF SECTORIAL WORK

Studies/Technical Documents	Description	State	Electronic Reference
Diagnostics	FAD – IMF report Next Steps in Modernizing Revenue Administration	Completed October 2014	Mimeo Not publicly available
	Is There a Caribbean Sclerosis? Stagnating Economic Growth in the Caribbean Ruprah, Melgarejo and Sierra 2014	Completed 2014	<a href="#">Link</a>
	Trade and Tax Reform in Belize Cambridge Resources International Inc. prepared for IADB	Completed February 2016	Not publicly available
	Review of IT Systems of the Tax Administration of Belize Report prepared by IADB Tarraf, Patrick; Zambrano, Raul	Completed July 2017	Not publicly available
	Repositioning Small States for New Global Realities: Prospects and Challenges - Assessing Debt Sustainability in Belize 49 <sup>th</sup> Annual Monetary Studies Conference Presented by Ford, Emory A.; Roberts, Lylia I.	Completed November 2017	<a href="#">Link</a>
	Consideration to Implement an Integrated Tax Administration System (ITAS) Report prepared by CARTAC	Completed February 2018	Not publicly available
	Analysis GST Department – control activities Report prepared by IADB Beltrand, Ivan	Completed April 2018	Not publicly available
	IMF Article IV 2018 report	Completed October 2018	<a href="#">Link</a>

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