I. Introduction and Context

Country Context

Romania implemented a broad reform agenda over the last decade aimed at improving incomes and living standards of population and anchored on EU accession. In January 2007 the country joined the European Union (EU). Structural reforms and increased investors’ interest in the country supported acceleration of economic growth and improvements in living standards. Per capita incomes (in terms of purchasing power standards) improved from 26 percent of EU average in 2000 to 46 percent in 2010. Nevertheless, Romania remains the country with the second lowest per capita income in the EU suggesting there are still significant challenges in enhancing productivity and thus raising income levels.

The global financial crisis hit hard Romania, slowed convergence and required changes to Romania’s growth and reform strategy. Output fell by 6.5 percent per year during 2009-11 after growing at 6.5 percent during 2003-08. Fiscal revenues declined and fiscal deficit widened to 7.3 percent of GDP in 2009. The growth model of the past, that relied on consumption proved to be unsustainable. To address the macroeconomic imbalances, restore confidence, and pave the way for economic recovery, the Government of Romania implemented a fiscal consolidation program supported by measures to improve fiscal governance, reform public sector pay, pension system and financial sector regulation and supervision.

The modernization of the revenue administration in Romania is an important component of the new Government’s reform program. Despite nascent economic recovery in Romania, deteriorating external environment in Europe is likely to affect negatively tax revenue collection and thus posing risks to meeting the medium-term fiscal targets. Romania has committed to reduce the fiscal deficit to below 3 percent of GDP in 2012 and exit the Excessive Deficit Procedure in 2012. The medium-term fiscal framework envisages reducing further the deficit to 2.1 percent by 2014. To guard against the consequences of macroeconomic instability, the Government has entered into precautionary financial assistance agreements with the IMF and EU for EUR 2.7 billion and it has requested a complementary agreement with the World Bank in the form of a Deferred Drawdown Option (DDO) Development Policy Loan (DPL) worth EUR 1 billion. Modernization of revenue administration is envisioned as an integral component supported by the DPL.

Sectoral and Institutional Context

Romania has made important steps in recent years to align its revenue collection system with EU benchmarks and best practices as part of the accession process. In 2004, the Government began to implement a tax reform, including the establishment of a unified revenue administration, the National Agency for Fiscal Administration (NAFA), and the enactment of a new tax procedural code. NAFA assumed responsibility for the collection of taxes and a major part of social contributions. In addition, in 2005 the customs administration and the Financial Guard were merged into the NAFA structure. In 2006 Romania met all tax-related requirements for EU accession. The strategic focus of NAFA was strengthened with strategic plans updated regularly since 2007. The current Strategic Plan of NAFA covers the period 2011 to 2014.

The organizational structure of NAFA has been improved. NAFA headquarters were reorganized along functional lines, and the monitoring of field office operations was strengthened. To support compliance management of major taxpayers a special Large Taxpayer Department (LTD) was established; the LTD currently administers tax affairs of 1,434 taxpayers. Special arrangements to administer medium-sized businesses were introduced in 2006. In 2011 NAFA consolidated the number of Tax Administration Units from 386 to 215 and reduced the number of staff positions by 4927. Currently NAFA consists of a Head Office, 42 County General Directorates at judet level, 42 Medium-size Taxpayer Units, 215 territorial units, and a Large Taxpayer Directorate and staff of
II. Proposed Development Objective(s)

**Proposed Development Objective(s)**

The development objective is to increase the effectiveness and efficiency of the revenue administration to collect tax and social contribution revenues and to reduce the cost of taxpayer compliance.

The long-term vision is a revenue administration with streamlined business processes based on self-assessment and supported by risk-based compliance management, strong reliance on electronic communication with taxpayers, and skilled and professional staff, all contributing to an efficient but taxpayer-friendly, client-oriented environment characterized by fairness, honesty, and transparency. The modernized revenue administration will improve business environment and increase country's competitiveness to attract foreign direct investment.

**Key Results**

**Revenue Performance**
III. Preliminary Description

Concept Description

The proposed project would seek to improve the institutional arrangements and management systems to take full advantage of a highly automated, low-discretion, risk-based system. The project will entail an investment over a period of five years needed to achieve the stated government objectives, including the related organizational restructuring and development, management, and infrastructure changes necessary for optimal deployment of an integrated automation system. The project would include financial and technical support for revenue collection methodologies and procedures; information technology and other technological infrastructure; training, and technical assistance to underpin NAFA’s management decisions on organization structure and management, and operational systems refinements necessary to ensure that the economy reaps the full benefits of the investment. Measurement of intermediate outcomes will be integrated into the project in order to provide relevant and timely feedback as to the progress of the project.

Project components would include:

Component 1: Institutional Development. The component would develop a modern organization and management structure, instill a strategic focus and a strong focus on integrity, rationalize the regional structure to increase NAFA’s effectiveness, and strengthen human resource management through targeted professional training and technical assistance. This component would also improve the analytical capacity required to support strategic management of NAFA and would support an improved legal framework and appeals process.

Component 2: Increasing Operational Effectiveness. This component would streamline business processes and work-flows, and invest in the modernization of core IT systems to take full advantage of the possibilities offered by automation in NAFA’s back office operations, as well as in the interaction with taxpayers and contributors. The component would also strengthen the effectiveness of audit and enforcement functions, including the collection of arrears. This will be achieved by: (i) modernizing tax audit functions, intelligence and preventive functions; (ii) upgrading IT management function within NAFA to manage all NAFA IT resources, including staff, countrywide following office consolidation; (iii) re-engineering business processes; (iv) implementing electronic document management and archiving; (v) developing and implementing integrated revenue management system (IRMS); (vi) upgrading NAFA’s information and communications technology (ICT) infrastructure, including developing centralized data processing center, data warehouse and a business continuity center capable of sustaining all NAFA operations with no data loss in case of a disaster.

Component 3: Taxpayer Services and Corporate Communication. This component will finance activities aimed at modernizing taxpayer services; creating mechanisms for transparency and accountability, such as consultative panel and community surveys, to ensure fair community input; modernizing call centers to provide advanced services to taxpayers; promoting community understanding of revenue laws, procedures and rights and obligations of taxpayers; promoting taxpayer efficiency through simplification and provision of electronic services and participation in improving the appeals procedures; and strengthening external and internal communication.

Component 4: Project Coordination and Management. The Project will have (i) a Project Management Unit (PMU) which manages the administrative process related to procurement and financial management and (ii) a Change Management Unit (CMU), which will provide the substantive direction and leadership and will be responsible for managing the change process necessary to implement each component and related activities of NAFA.

Preliminary estimates indicate that the total amount of the project could be approximately $100 million. These estimates are based on the 2010 IMF TA Report, a previously designed Bank Revenue Administration Reform investment project and the December 2010 World Bank identification mission. A more precise cost estimate will be worked on during project preparation. The bulk of the cost will be on IT and operations modernization which will be underpinned by the reforms in organizational management and tax processes and operations. The Government contribution will be discussed with the Ministry of Public Finance.
IV. Safeguard Policies that might apply

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
<th>TBD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Natural Habitats OP/BP 4.04</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Forests OP/BP 4.36</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Pest Management OP 4.09</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Involuntary Resettlement OP/BP 4.12</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Safety of Dams OP/BP 4.37</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Projects on International Waterways OP/BP 7.50</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
<td></td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>

V. Tentative financing

<table>
<thead>
<tr>
<th>Financing Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>0.00</td>
</tr>
<tr>
<td>International Bank for Reconstruction and Development</td>
<td>100.00</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
</tr>
</tbody>
</table>

VI. Contact point

**World Bank**

- **Contact:** C. Bernard Myers  
- **Title:** Sr Public Sector Mgmt. Spec.  
- **Tel:** 5247+362 / 4  
- **Email:** bmyers@worldbank.org

**Borrower/Client/Recipient**

- **Name:** Ministry of Public Finance  
- **Contact:**  
  - **Title:** Minister of Public Finance  
  - **Tel:** (40 21) 410 34 00/410 11 89  
  - **Email:** cabinet.ministru@mfinante.ro

**Implementing Agencies**

- **Name:** National Agency for Fiscal Administration (NAFA)  
- **Contact:** Sorin Blejnar  
  - **Title:** President of NAFA  
  - **Tel:** +40-21-314-7535  
  - **Email:** sorin.blejnar@mfinante.ro

VII. For more information contact:

- **The InfoShop**  
- **The World Bank**  
  - **1818 H Street, NW**  
  - **Washington, D.C. 20433**  
  - **Telephone:** (202) 458-4500  
  - **Fax:** (202) 522-1500  
  - **Web:** http://www.worldbank.org/infoshop