

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.:PID0002653

Program Name	Revenue Mobilization Program for Results: VAT Improvement Program (VIP) (P129770)
Region	SOUTH ASIA
Country	Bangladesh
Sector	General public administration sector (50%), Public administration- Information and communications (50%)
Lending Instrument	Program for Results
Program ID	P129770
Parent Program ID	n/a
Borrower(s)	The Government of Bangladesh
Implementing Agency	The Economic Relations Division, Ministry of Finance and the National Board of Revenue
Date PID Prepared	January 29, 2014
Estimated Date of Appraisal Completion	January 20-29, 2014
Estimated Date of Board Approval	April, 2014

I. Country Context

Economic growth has averaged around 6 percent over the last decade, but will need to further accelerate to at least 7 percent per annum, if Bangladesh is to achieve its target of middle-income country status by 2021, and weak governance undermines the prospects for such growth.¹ Macroeconomic management has been strong, inflation has typically been below 10 percent, international reserves are currently at 4 months; the public debt to GDP ratio is below 42 percent; and the government is on track with the \$987 million IMF Extended Credit Facility-supported reform program which was adopted in April 2012.² However, several challenges remain. In the Ease of Doing Business indicators for example Bangladesh is ranked 130th out of 189 economies in 2014. Governance challenges include among other a somewhat politicized public administration. Public institutions are consistently rated poorly in citizen surveys despite attempts to improve them.

II. Sectoral (or multi-sectoral) and Institutional Context

Financing the investments needed for the government's development strategy, will require a significant increase in domestic resources, and a widening of the tax base. While total government revenue has improved in recent years, up from 10.9 percent of GDP in FY10 to 12.5

¹ See Bangladesh: Towards Accelerated, Inclusive and Sustainable Growth –opportunities and Challenges World Bank 2012; and Bangladesh: Strategy for Sustained Growth, 2007. The required growth of GDP rate of 7.6 percent assumes the share of remittances in GDP remains constant at 9 percent; for the middle income status benchmark to be realized.

² IMF Country Report No. 13/61, March 2013.

percent in FY12, tax revenue improvements cannot be sustained without improvements in the efficiency of the tax administration, a reduction in the extent of non-compliance, and the introduction of policy reform with simplified tax structures which are easier to administer. The tax base is narrow, and increasing the number of registered taxpayers is important for the revenue targets to be achieved, as well as for strengthening the compact between taxpayers and the government for the delivery of basic services. The National Board of Revenue (NBR) in the Ministry of Finance has made few inroads with improving the tax administration, such as introducing automation projects to improve efficiency, but with limited success. Learning from these experiences the government has adopted a more comprehensive approach to modernization, based on both policy reform, as well as business process improvements, including sharing information and common systems across the tax wings, as well as automating processes.

As a centerpiece of the government's tax policy reform program, a new VAT Law was passed by the National Parliament in November 2012. The new VAT Law addresses many shortcomings of the 1991 VAT, and if properly implemented and effectively administered, it has the potential to increase the tax yield, broaden the tax base and contribute towards establishment of a modern and service oriented VAT administration. The VAT Modernization Program (2014-2018) to support implementation of the new VAT law is being led by the National Board of Revenue (NBR) as part of their Tax Modernization Plan, and it is a central reform under the GoB's Program with the IMF under the three year Extended Credit Facility.

The proposed World Bank VAT Improvement Program is a US\$ 60 million Program for Results operation to support the Government's program to introduce the new VAT Law in July 2015 and to administer it using a modern and efficient administration. The Program for Results financing instrument of the World Bank is a 100 percent results-based operation, meaning the disbursements are directly linked to indicators of progress against key intermediate results, outputs and activities.

III. Program Scope

This proposed operation will support the government's VAT implementation plan, endorsed by the Minister of Finance in 2013, that aims to raise VAT revenues through improved business processes and automation, including the acquisition of a commercial off the shelf administration software, and to improve transparency of the administration. Additional revenues of 1 percentage point of GDP are envisaged by the end of the program.

The VAT Improvement Program prioritizes strengthening the administration of the value added tax (VAT) given its potential to contribute to revenue mobilization, in time for the launch of the new VAT under the 2012 Act which comes into effect in July 2015. The new VAT Law introduced in 2012, if properly implemented and effectively administered, could increase the tax yield, broaden the tax base and contribute towards establishing a modern and service oriented VAT administration. The expected results are: (a) staying on track with the rapid and ambitious VAT implementation plan which was approved by the Minister of Finance last year, which includes business process changes, ICT procurement and deployment, training, change management and communications activities; (b) increasing the number of active (registered and filing) VAT tax-payers; and (c) improving compliance by increasing the number of taxpayers using on-line services to register and file their taxes and through increasing the

proportion of Large Taxpayers who pay their taxes on line. The primary focus of the automation of the NBR is to improve services to taxpayers, reduce administrative costs for taxpayers and improve compliance – through the generation of taxpayer accounts and a system with data that can be used for developing an appropriate audit strategy.

The VAT Improvement Program will be implemented by the National Board of Revenue (NBR) as part of their Tax Modernization Plan 2011-2016 which was endorsed by Parliament. The main governance improvements supported by the VAT Implementation Program are the efficiency improvements from reorganization and modernization, and the development of new eservices which will allow taxpayers to access services online, provide options to limit face to face interaction with local tax officials, and benefit from a contact center to handle taxpayer information needs. Additionally, information on total amount of VAT tax collected, the contact centers performance with respect to handling calls and the results of taxpayer satisfaction surveys are to be disclosed to the public on the NBR website.

IV. Program Development Objective(s)

The Program Development Objective (PDO) is to improve revenue mobilization and transparency in the VAT administration.

V. Environmental and Social Effects

An environmental and social management system assessment (ESSA) was conducted at the Program level in order to review the existing systems for environmental and social management and assess their performance. The Assessment concludes that there are adequate policy, institutional, and legal provisions to ensure that the Program's social and environmental effects are positive

The Program is expected to have negligible environmental benefits, risks and impacts. The Program does, poses no risk to the environment as a result of planned Program activities. Activities planned under the proposed Program will not include any physical interventions such as construction, rehabilitation or renovation works. Hence, these activities are environmentally benign and will not cause any negative environmental effects, any loss or conversion of natural habitats, any changes in land or resource use, or any environmental pollution.

The findings of the ESSA suggest that the overall social impact of the Program is likely to be positive. The Program will benefit the management and staff of the VAT Wing at NBR and the VAT tax filers and taxpayers from improved tax services particularly the ability to register, file and pay on line. There will be no land requirement and loss of access to natural resources as a result of program activities. The nature of investment for automation of systems to improve taxation systems will not lead to any social risk, but care must be taken so that citizens can easily access the new electronic services. – The program will strengthen the existing complaints handling mechanism at NBR, but developing an online system that complements the current system of contact point for complaint management

VI. Financing

EOGP Program Financing Summary, \$ Million

Source	Amount	% of Total
Government	13	18
IDA ^b	60	82
Total Program Financing	73	100

VII. Program Institutional and Implementation Arrangements

The VIP program is to be implemented by the National Board of Revenue. The VIP will be implemented by the VAT project implementation unit led by the Project Director who will be the focal point and is the NBR Board Member for VAT policy from the VAT Wing of the National Board of Revenue. The implementing agency will also have a VAT Implementation Committee to supervise day to day implementation of the program; and the project implementation team will report to a VAT Implementation Steering Committee, chaired by the NBR Chairman to provide overall guidance on and oversight of the VAT program. The Steering Committee will have the authority to make all decisions that affect the implementation of the new VAT Law.

The oversight of the VAT Program will be carried out using the following mechanisms: (a) Project Implementation Unit (PIU) and the oversight mechanisms referred to above; (b) the Bi-annual Implementation Review of the NBR; and (c) bi-annual independent, third party verification of disbursement-linked results organized by the Economic Relations Division of the Ministry of Finance.

The Economic Relations Division of the Ministry of Finance will support the monitoring of results and will have the responsibility for overall complaints reporting to the World Bank.

VIII. Contact point

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Implementing Agencies

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