



1. Project Data:		Date Posted : 08/01/2001	
PROJ ID: P038572		Appraisal	Actual
Project Name: Tax Administration	Project Costs (US\$M)	27.4	26.9
Country: Russian Federation	Loan/Credit (US\$M)	16.8	16.8
Sector(s): Board: PS - Central government administration (100%)	Cofinancing (US\$M)		
L/C Number: L3853; LP262			
	Board Approval (FY)		95
Partners involved :	Closing Date	12/31/1998	12/31/2000
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components			
a. Objectives			
1. to pilot reforms of the State Tax Service (STS) in two regions with 110 local offices (reduced to 107 during implementation) through (i) reorganization of structures, (ii) introduction of new procedures, (iii) automation of tax systems, and (iv) staff training; and 2. to assist in the institutional development of tax administration by (i) building the capacity of the STS, (ii) preparing for nationwide implementation of reforms in tax administration .			
b. Components			
A. The original components of the project included the following . 1. Piloting Tax Administration Reforms in Two Regions (a) Organization and procedural reform. The project sought to introduce a functional organization in STS local and regional offices and simplify procedures by adopting a self -assessment system and instituting a system for audits. Taxpayer education was to be instituted through dedicated staff and the organization of seminars and a public information campaign. (b) Automation. The project involved (i) computerizing the tax processing of major taxes, specifically, the VAT and profit tax; (ii) simplifying tax forms to make them user-friendly; (iii) acquisition and installation of computer hardware for two regional offices and 110 local offices (later reduced to 107). (c) Staff training. Development and delivery of staff training programs in taxpayer education, audit, tax collection and computerization. Targets of these activities were 32,000 staff-days of training within Russia and study tours outside of Russia for 220 senior tax officials. 2. Institutional Development of Tax Administration . (a) Organizational Development. (i) preparation of a tax administration strategy, plan for reorganization of STS headquarters, strategy and protocol for cooperation among key agencies involved in taxation, taxpayer education strategy, a national audit plan, a national training plan, and a review of the legal and regulatory framework . (b) Preparation for nationwide implementation. (i) independent review of reform implementation in the two regions, (ii) development of national guidelines and standards on tax modernization, (iii) preparation of a national automation strategy, (iv) feasibility study on individual taxes and (v) preparation for expansion of piloted reforms to other regions . (c) Project Management unit support (i) establishment and strengthening the expertise of the Project Management Unit to enable some of its activities (procurement, taxpayer education, EDP development and evaluation) to become permanent features of STS. B. Additional Components added in the course of implementation included the following . (1) Two separate Data Processing Centers (DPCs) were added, one piloting enterprise taxes in Volgograd and one piloting personal income taxes in Moscow (effectively adding the processing of personal income taxes to the project . (2) Headquarters was provided with LAN and a corporate computer network, thereby giving headquarters a stronger stake in project implementation. (3) The TA component was reformulated, partly to include large taxpayer units .			
c. Comments on Project Cost, Financing and Dates			
The project cost US\$26.9 million. It was supported by an IBRD loan for US\$ 17.3 million, of which US\$0.5 million was cancelled. The project was appraised on November 22, 1994, approved by the Board on May 9, 1995, made effective on July 3, 1995, and closed on December 31, 2000, two years behind schedule.			
3. Achievement of Relevant Objectives:			
A. Concerning Piloting of Tax Administration Reform in Two Regions. (1) organization and procedures reform. (a) Functional organizational structures were introduced in all 107 local offices of Nizhny Novgorod and Volgograd. These have been evaluated by Georgia State University and improvements are being made . Self-assessment has			

been introduced but only partly achieved . A system of audits has been implemented . Extensive programs for taxpayer education have been carried out . (2) Automation. (a) processing of the VAT and profit tax have been fully computerized. (b) tax forms have been simplified to make them user-friendly. (c) Computer hardware has been acquired and installed in all 107 local offices. Concerning Additional components/objectives (d) Two Data Processing Centers were established (e) a corporate network was established successfully at headquarters, and (f) six large taxpayer units were computerized . (3) staff training (a) 12,600 persons were trained in functional organization and management of local tax inspectorates, EDP and new functions and procedures of tax administration, supported by IBRD funding and another 17,000 were trained under the project with Ministry funding . 50 officials benefitted from study tours (compared to project objective of 220). B. Concerning Institutional Development of Tax Administration . (1) Organizational Development. (a) preparation of tax administration strategy was achieved on the basis of three progressively refined strategies which were prepared . (b) Organization development at tax administration headquarters was partly achieved with some restructuring, but much more is to be done . (c) A new strategy and protocol for cooperation among key agencies involved in taxation has been partly achieved . (d) taxpayer education strategies have been adopted by the pilot regions . (e) a national audit plan has been developed on the basis of IMF assistance. (f) A national Training plan has been partly achieved . (g) The proposed review of the legal and regulatory framework was superseded by other efforts from the Ministry of Finance, the MOTx, and the Duma . (2) Preparation for Nationwide Implementation (a) Georgia State University reviewed systems implementation on the basis of which software and related procedures were redefined . (b) National guidelines and standards for tax modernization were developed. (c) a national automation strategy was prepared . (d) a feasibility study on individual taxes was implemented.

4. Significant Outcomes/Impacts:

The project has successfully supported pilot reforms in two regions . This has involved hardware procurement, software development, training, taxpayer education, and numerous technical facets of reform . The Borrower comments specify a large number of improvements in the speed and quality with which tax returns are processed in the 107 local offices upgraded by the project . A substantial start has been made on setting up the structures for national implementation, but much work remains to be done at this level .

5. Significant Shortcomings (including non-compliance with safeguard policies):

The project got off to a very weak start largely because the central tax office does not seem to have been heavily involved, and ownership was clearly lacking . This is indeed a seriously significant shortcoming for the project at entry, for which QAG rated the project as unsatisfactory, a rating with which OED concurs . While this was in large measure due to changes in Ministers, it was also due in some part to the fact that the project was structured to heavily involve the regional offices without direct incentives for active participation with the central authorities, a shortcoming in part attributable to the Bank's appraisal . However, during implementation the dialogue with the central authorities improved and the project was modified to engage them more seriously . The outcome is rated as satisfactory, despite this clearly unsatisfactory identification, appraisal, and early implementation stages .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	While institutional development has been substantial in terms of the pilot regions and the objectives of the project, the extent to which reforms are implemented at the national level will be the true test of the extent of institutional development fostered by this project.
Sustainability :	Highly Likely	Likely	There are many risks to sustainability as the pilot project is expanded to the national level. Should serious weaknesses and problems emerge during this process, sustainability would be compromised. However, on the basis of the program developed to date and given the outside reviews as cited in the ICR, a "likely" sustainability rating appears merited.
Bank Performance :	Satisfactory	Satisfactory	Bank performance was clearly less than satisfactory in the early stages of the project, since the project was structured without adequate incentives for implementation by headquarters, but this

			was corrected as the project was modified during implementation.
Borrower Perf .:	Satisfactory	Satisfactory	Performance at the regional level was much stronger than at the national level, where ownership varied with changes in minister. However, recent improvements in performance at the national level have improved the prospects for successful implementation of the reform, and as the original PCU was substantially restructured and strengthened.
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

Projects should be based on clear indications of government ownership . TA projects such as this should not be allowed to proceed unless they receive firm indications of government support . Incentives for successful support need to be structured into projects . TA projects such as this need a careful balance of procurement of goods, organizational development, staff development, and strategic planning for successful implementation .

8. Assessment Recommended? ☐ Yes ☒ No

9. Comments on Quality of ICR:

The ICR is unusually detailed and provides careful explanations .