Document of
The World Bank

Report No: 56187-PK

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF THE

TAX ADMINISTRATION REFORM PROJECT

CREDIT: 4007-PAK
LOAN: 7264-PAK
GRANT: TF 054392

APRIL 7, 2005

TO THE

GOVERNMENT OF THE ISLAMIC REPUBLIC OF PAKISTAN

AUGUST 19, 2010

Governance and Public Sector Management Unit
South Asia Region

ABBREVIATIONS AND ACRONYMS

BP	Bank Procedures
DfID	Department for International Development (UK)
EMP	Environmental Management Plan
FBR	Federal Bureau of Revenue
GoP	Government of Pakistan
GDP	Gross Domestic Product
GST	General Sales Tax
HRM	Human Resource Management
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
ISP	Information System Plan
IT	Information Technology
ITMS	Information Technology Management System
LTU	Large Taxpayer Unit
MoF	Ministry of Finance
NTN	National Taxpayer Number
OP	Operational Policies
PDO	Project Development Objective
PKR	Pakistani Rupee
PMU	Project Management Unit
PRAL	Pakistan Revenue Automation Ltd
RTO	Regional Tax Office
SASGP	Governance and Public Sector Management Unit (South Asia Region)
SDR	Special Drawing Right
TA	Technical Assistance
TARP	Tax Administration Reform Project
TFC	Taxpayer Facilitation Center
VAT	Value Added Tax

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Task Team Leader:	Daniel Alvarez-Estrada

PAKISTAN
TAX ADMINISTRATION REFORM PROJECT

CONTENTS

Restructuring	Status: Submitted to SECPO
Restructuring Type: Level one	
Last modified on date : 08/15/2010	

1. Basic Information

Project ID & Name	P077306: Tax Administration Reform Project
Country	Pakistan
Task Team Leader	Daniel Alvarez Estrada
Sector Manager/Director	Joel Hellman
Country Director	Rachid Benmessaoud
Original Board Approval Date	12/07/2004
Original Closing Date:	12/31/2009
Current Closing Date	12/31/2010
Proposed Closing Date [if applicable]	12/31/2011
EA Category	C-Not Required
Revised EA Category	B-Partial Assessment-Partial Assessment
EA Completion Date	
Revised EA Completion Date	

2. Revised Financing Plan (US$m)

Source	Original	Revised
BORR	23.10	23.10
DFID	23.00	23.00
IBRD	24.40	0.12
IDA	78.50	50.78
Total	149.00	97.00

3. Borrower

Organization	Department	Location
ISLAMIC REPUBLIC OF PAKISTAN		Pakistan

Organization	Department	Location
Federal Board of Revenue	Tax Policy and Reform	Pakistan

5. Disbursement Estimates (US$m)		
Actual amount disbursed as of 08/20/2010		**32.68**
Fiscal Year	**Annual**	**Cumulative**
2010	0.00	32.68
2011	0.00	32.68
	Total	**32.68**

6. Policy Exceptions and Safeguard Policies	
Does the restructured project require any exceptions to Bank policies?	N
Does the restructured projects trigger any new safeguard policies? If yes, please select from the checklist below and update ISDS accordingly before submitting the package.	Y

Safeguard Policy	Last Rating	Proposed
Environmental Assessment (OD 4.01)		X
Natural Habitats (OP 4.04)		
Forestry (OP 4.36)		
Pest Management (OP 4.09)		
Physical Cultural Resources (OP 4.11)		
Indigenous Peoples (OD 4.20)		
Involuntary Resettlement (OP 4.12)		
Safety of Dams (OP 4.37)		
Projects in International Waters (OP 7.50)		
Projects in Disputed Areas (OP 7.60)		

7a. Project Development Objectives/Outcomes

Original/Current Project Development Objectives/Outcomes

The objectives of the Project are: (a) to improve the effectiveness, responsiveness, efficiency, integrity and fairness of tax administration; (b) to promote compliance with tax laws and broaden the tax base; and (c) to promote trade facilitation

7b. Revised Project Development Objectives/Outcomes [if applicable]

The project development objective is to improve the effectiveness of Pakistan#s revenue administration

PAKISTAN - TAX ADMINISTRATION REFORM PROJECT

RESTRUCTURING PAPER

A. SUMMARY

1. The proposed restructuring of the Tax Administration Reform Project (TARP - IDA Cr. 4007-PAK, IBRD Ln. 7264-PAK, Grant no. TF 054392) addresses challenges resulting from changes in the Federal Bureau of Revenue's (FBR) reform implementation plan, other changes in governance realities on the ground and a hitherto slow pace of project implementation. The proposed restructuring will:

- Sharpen the Project Development Objective (PDO) and modify the project results indicators to reflect changed ground realities, enable better tracking of implementation progress and improve the possibility of sustainable achievement of development outcomes;
- Realign project activities to conform to current revenue administration modernization and reform priorities included in an Action Plan adopted by the FBR with clear implementation benchmarks to improve project performance and achieve sustainable outcomes within a realistic time frame. Since its adoption in October 2008, the Action Plan has proven to be an effective management tool for tax administration reform;
- Cancel an amount of US$ 49.095 million[1] from the IBRD Loan (US$ 24.278 million) and IDA Credit (US$ 24.817 million) to reflect changes in the FBR's information technology (IT) and automation strategy;
- Reallocate remaining credit and grant proceeds to match revised project activities and costs;
- Improve FBR project management through the appointment of well-trained and committed staff and consultants to considerably strengthen implementation capacity;
- Classify the project as environmental category "B" and introduce measures to ensure compliance with OP/BP 4.01 (Environmental Assessment); and
- Extend the closing date to December 31, 2011 to support the renewed reform momentum on tax administration, improve revenue collection performance against the backdrop of the ongoing fiscal challenges, and increase the overall likelihood of achieving the PDO.

2. The proposed restructuring comes in response to: (a) GoP's renewed commitment to key revenue administration reforms and more effective project implementation (the urgency of such reforms coming in response to Pakistan's recent macroeconomic challenges); and (b) Bank management's commitment to support the Pakistan authorities' efforts to increase tax compliance and revenue collection. The GoP has committed to a

[1] GoP requested cancellation of US$49.217 million on the assumption that the IBRD Loan amount of US$24.4 million was available for cancellation. However, a front end fee of US$ 0.122 million was charged by IBRD. Therefore, the amount to be cancelled from the Loan is US$ 24.278 million.

significant increase in tax revenues of 2 percentage points of GDP by 2012-13[2] from the level of 2008/09, and is proceeding with renewed vigor with both tax policy and administration reforms to make this possible. This includes introduction of a proposed broad-based VAT or reformed GST[3], reintroduction of tax audits, and strengthened enforcement measures. This tax revenue increase is necessary to allow total expenditures as a share of GDP to be maintained at the current level and thereby provide sufficient resources for planned investments in social and physical infrastructure. The increased urgency of revenue administration reforms coupled with the FBR's demonstrated actions to enhance project performance (such as the Integrated Management System to monitor taxpayer compliance, electronic filing of returns, and extensive cross-checking of information) provide a strong justification for the proposed restructuring to support the achievement of the revised PDO.

B. PROJECT STATUS

3. TARP has been in problem status since 2007 due to: (a) implementation issues leading to long delays and/or quality problems in TARP-financed activities; and (b) policy issues that weakened the potential impact of TARP on the desired project outcomes.

4. Implementation problems arose due to an overly ambitious initial project design, FBR management and capacity issues, and insufficient pro-activity by the World Bank and DfID to respond to emerging and ongoing problems. Key implementation bottlenecks included: (i) frequent changes in Project Management Unit (PMU) staff that undermined continuity of project management, weakened implementation monitoring, slowed procurement, and hindered financial management; (ii) weak technical specifications and quality of bid documents for key IT procurements; (iii) lack of follow-up on physical verification and tagging of assets and resolution of outstanding significant audit observations leading to delays in disbursements; and (iv) an initial misclassification (since corrected) of the project as environmental category C instead of B which led to insufficient attention to full compliance with Bank OP/BP 4.01 on environmental assessment.

5. Policy issues also impacted project performance. First, the momentum for tax administration reform weakened during the economic "boom" years as modest increases in tax buoyancy reduced the urgency for fundamental changes in tax administration performance. Progress particularly slowed in areas such as audit and enforcement. The reform momentum was resuscitated in response to the fiscal challenges that confronted Pakistan in 2008. Second, prolonged policy indecision by the FBR on an IT modernization strategy (i.e. off-the-shelf acquisition vs. in-house development) and on the roll-out of Customs automation led to a delay of more than two years in implementing the procurement plan, and left an undisbursed balance of nearly US$50 million at the original closing date. Third, slow progress on the functional integration of income, sales, and excise taxes during most of the lifespan of TARP undermined the potential effectiveness of improvements introduced through the project such as the introduction of

[2] At appraisal, the envisaged annual increase in revenues was estimated at 0.2 percent per annum.
[3] Subject to necessary legislation for VAT and amendment of the existing law for GST.

new business processes, IT systems, and an improved physical infrastructure for the integrated network of Regional Tax Offices (RTOs) and Large Taxpayer Units (LTUs) – all of which were designed to support a more functionally integrated tax administration. Fourth, excessive focus on TARP implementation problems diverted attention from the more important policy dialogue between the GoP and the World Bank on tax administration reforms, while FBR management lacked a consistent and coordinated approach to managing the internal reform process.

6. Meanwhile, TARP has so far helped achieve the following significant results and outputs:

a) Introduction of a Universal Self-Assessment System for income tax;
b) Implementation of a single national taxpayer number for all taxpayers;
c) The operation of Taxpayer Facilitation Centers (TFCs) within the network of Large Taxpayer Units (LTUs) and Regional Tax Offices (RTOs);
d) Merger of six Medium Taxpayer Units and refurbishment of nine Model Customs Collectorates;
e) Introduction of a new set of user-friendly tax forms, guides and a modern web site to improve taxpayer facilitation;
f) Development of IT systems to support core tax administration functions (data warehouse, e-portal, payments and refunds, taxpayer account, traffic management supervision);
g) Development of an integrity strategy, including a taxpayer charter and a code of conduct and ethics; and
h) Refurbishment of 21 Taxpayer Facilitation Centers; a Passenger and Trade Facilitation Center; upgrading of Directorates of Training and construction of 13 Staff Transit Accommodation buildings.

7. However, these outputs have not led to the desired outcome of enhanced revenue performance. Though revenue performance has been affected by a number of variables – not least of which is the slowdown in economic growth associated with Pakistan's macroeconomic challenges – it has also been clear, from evidence on the number of non-filers and stop-filers, that genuine improvements in tax administration reform have so far been limited. And the new systems and infrastructure put into place under TARP have not been utilized effectively. During the last twelve months, tax administration reform in Pakistan has gained momentum under new FBR leadership and close oversight of the Finance Minister. Noteworthy progress includes: (i) a major reorganization of the FBR towards an integrated function-based tax administration; (ii) re-introduction of taxpayer audits; (iii) strengthening of tax enforcement; and (iv) the launch of an electronic refund system.

8. Moreover, due to the passage of time, some reform priorities have changed and other priorities have emerged. In August 2008, the Minister of Finance requested high-level technical assistance (TA) on tax administration reform from the Bank, outside of the TARP framework, to help develop an Action Plan to speed up reforms and advise on options for the future of TARP. A TA team of international tax administration experts, funded through a DFID Trust Fund, provided a comprehensive review of progress on tax administration reforms, including measures supported through TARP. A detailed Action

Plan was agreed with the FBR and adopted in October 2008 to serve as a monitoring framework for the reform process, including enhanced focus to support integration of income, sales and excise taxes. It was, *inter alia,* recommended to revise the TARP budget and extend the date of final disbursement for World Bank project funds beyond December 2009. Significant reform achievements arising from these initiatives, which now require urgent support through TARP, include: (i) re-introduction of taxpayer audits (with a new national audit plan and a new audit workflow); (ii) further strengthening of tax enforcement; (iii) full implementation of the electronic refund system; (iv) change management and human resources reform to support the implementation of the new organizational structure and integrated functional mode of the FBR; (v) roll out of a new centralized IT system; and (vi) refinement of the "White List" initiative to ensure delivery of envisaged enforcement benefits.

9. Internally, too, World Bank management of TARP was shifted to a newly formed dedicated Governance and Public Sector Management Unit (SASGP) in July 2008. The new management team proceeded to explore options for an early closure or restructuring of TARP, which had been scheduled to close on December 31, 2009. By June 2009, the Government of Pakistan submitted a request to extend TARP for an additional two years until December 31, 2011 and to reduce the IBRD loan amount and IDA credit by US$49.095 million to reflect the final decision to proceed with in-house development of key IT systems. The Bank granted a three month extension to TARP until March 31, 2010 to allow for sufficient time to process a proposed project restructuring to the Bank's Board of Executive Directors for a full two-year extension of TARP.

10. However, a Request for Inspection to the Bank's independent Inspection Panel filed by officers of the Customs and Excise Group Association in January 2010 delayed processing of project restructuring. The Inspection Panel's decision on April 6, 2010 not to pursue further investigation of the Request and its recommendation to strengthen support for more effective implementation of the FBR's organizational reforms has now enabled the processing of TARP restructuring. In anticipation of the submission of a Restructuring Paper, a temporary extension of the closing date until December 31, 2010 was approved by the Country Director. This has enabled continuation of ongoing procurements and disbursements.

11. Given the renewed urgency of the tax reform agenda, the GoP and the World Bank agreed in May 2010 to consider an extension of the closing date to December 31, 2011, to provide adequate time to complete project activities and enable the achievement of a revised PDO and results framework.

C. PROPOSED CHANGES

12. The proposed restructuring is designed to produce a more focused project, with a clearer, results-oriented development objective and relevant results indicators in line with the FBR's own Action Plan and prioritized activities. The proposed restructured TARP emphasizes the following areas critical to achieving more effective revenue results, including: (i) actions to strengthen enforcement and resume audits; (ii) organization and

management for increased efficiency; (iii) responsive IT systems; and (iv) project and program management. The changes comprise:

a) Modification of the PDO to read "The project development objective is to improve the effectiveness of Pakistan's revenue administration". The modification will conform to reform priorities and FBR's Action Plan.
b) Revision of the project results indicators as indicated in Annex 1. This change reflects changed ground realities and will enable more effective measurement of project results;
c) Realignment of project activities to conform to the FBR Action Plan (including internal adjustments in activities) – these have been reflected in the revised project cost and the updated Procurement Plan;
d) Reduction of the overall IBRD Loan amount to reflect changes in the FBR's IT and automation strategy, and reallocation of loan, credit and grant funds to finance the revised project activities and costs;
e) Classification of the project as environmental category "B", to fully conform to OP/BP 4.01 (Environmental Assessment), and inclusion of measures to ensure safeguard compliance;
f) 100 per cent financing of eligible expenditures from IDA Credit and the DfID Grant, for all expenditure categories. (This is in recognition of the constraints posed by the current fiscal challenges in Pakistan and the paucity of counter-part funds)[4];
g) A single disbursement category to simplify disbursements under previous expenditure categories within the overall amounts available under both the IDA Credit and the DfID Grant, to avoid further amendments in the legal agreement; and
h) Extension of the closing date until December 31, 2011.

13. The total savings for TARP are estimated at US$49.095 million. The Government has requested that the full outstanding unwithdrawn amount of the IBRD loan, equivalent to US$24.278 million[5], and a partial outstanding unwithdrawn amount of the IDA credit, equivalent to US$24.817 million, be cancelled. This cancellation will be effective as of June 23, 2009, the date on which the GoP's request letter was received by the Bank.

- Project's Development Objectives

14. *Proposed PDO*: "The project development objective is to improve the effectiveness of Pakistan's revenue administration".

15. *Initial PDO*: "The objectives of the Project are: (a) to improve the effectiveness, responsiveness, efficiency, integrity and fairness of tax administration; (b) to promote compliance with tax laws and broaden the tax base; and (c) to promote trade facilitation[6].

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[4] The revised costing of the project has taken into account 100% financing proposed under the restructuring.

[5] The original amount of the IBRD loan was US$24.4 million, from which an amount of US$0.122 million was deducted on account of the front-end fee, leaving an unwithdrawn IBRD balance of US$24.278 million.

[6] As per the Development Credit Agreement, dated March 9, 2005.

- Results/indicators (*See Annex 1: Results Framework and Monitoring)*

- Components

16. In line with reform priorities, the existing components are proposed to be re-organized into four components for simplification and more effective implementation and monitoring:

A. Enforcement (including audit)
B. Organization and management for increased efficiency
C. Information Technology
D. Project management and implementation

17. Some new activities are being proposed under the above components in line with the Action Plan adopted by the FBR (see *Annex II*).

18. The TARP Procurement and Implementation Plans have been updated. All these activities are expected to enhance tax revenue in the medium term.

- Safeguards

19. The project's environmental category is proposed to be changed to "B" and OP/BP 4.01 (Environmental Assessment) has been triggered owing to the construction of some transit facilities (temporary housing) for FBR staff in different cities in Pakistan, financed by TARP. These activities may result in low-level, temporary environmental impacts, which can easily be mitigated through good house-keeping practices. GoP has consequently prepared an environmental management plan (EMP) with adequate institutional arrangements proposed to implement the plan. The document was disclosed locally on May 7, 2010 and submitted to InfoShop for disclosure on June 7, 2010.

- Institutional arrangements

20. Some aspects of project management have already been strengthened as a result of restructuring discussions with the FBR. These include: (i) engagement of a full-time Project Management Unit (PMU) Director; and (ii) continuous interaction of the PMU with all Wings and Members of FBR to ensure rapid implementation. The restructuring will not affect current arrangements for procurement and financial management. The PMU had been depleted with the departure of the Project Director, Procurement Specialist and Finance Advisor due to prolonged uncertainty about the closing date of the project. However, the FBR is in the process of filling these positions on a fast-track basis, which will considerably strengthen project management, procurement and financial management. In addition, in view of the infrastructure investments, the FBR proposes to engage a Project Director with qualifications/experience in civil engineering.

- Financing

21. *Project Costs.* The proposed restructuring will reduce overall project costs to US$ 73.90 million after cancellation of project savings of US$ 49.095 million. The revised project cost is summarized in Table 1. Total disbursements as of August 9, 2010 per the Bank's records are: US$ 39.48 million in total, comprising US$ 32.56 million of the current IDA allocation, US$ 0.12 million[7] of IBRD loan proceeds, and US$6.80 million of the DFID grant.

Table 1
Revised Project Costs
(USL million)

	Original Estimate at Appraisal				**Revised Cost Estimate**			
	IDA	**IBRD**	**DFID**	**Total**	**IDA**	**IBRD**	**DFID**	**Total**
Works	18.00		-	18.00	31.04	-	-	31.04
IT Systems: Software and hardware	41.60	24.40	10.00	76.00	6.86	-	16.85	23.71
Consultant Services	6.10		8.00	14.10	5.11	-	2.16	7.27
Training	5.00		5.00	10.00	2.37	-	3.99	6.36
Vehicles	2.40	-	-	2.40	2.11	-	-	2.11
Incremental Administrative and Operational Costs	2.50	-	-	2.50	3.29		-	3.29
Front End Fee						0.12		0.12
Total	**75.60**	**24.40**	**23.00**	**123.00**	**50.78**	**0.12**	**23.00**	**73.90**

Notes:

1) *The original estimate included the refund for the Project Preparation Advance of US$2.9 million, bringing IDA financing to US$78.5 million and donor funding to US$125.9 million.*
2) *The Front End Fee of US$0.122 million, which has already been charged, has been included in the project cost above.*
3) *Flexibility for financing within the revised cost estimate will be available to the extent permissible under TARP Revised PC-I approved by the GOP and earlier agreed with the Bank.*

- Reallocations

22. The FBR has proposed reallocation of funds as follows:

- In order to further extend the tax administration operational network and achieve a more balanced work load, the FBR proposes to increase the number of RTOs from 12 (as initially envisioned in the project) to 13 and Model Customs Collectorates from 6 to 9. This will be essential for successful implementation of a broad-based VAT or reformed GST, which covers both goods and services. As a result of this increase in the scope of work of infrastructure development plus escalation in cost over the past

[7] The actual amount is $US 0.122 million, but this is rounded up.

four years, the budget for infrastructure development is proposed to be increased from US$18 million to US$ 31.04 million.

- Based on FBR's new IT strategy and lesser reliance on externally developed solutions, the FBR now estimates its total requirements for this category at US$ 23.71 million.
- The FBR has revised the allocation for training from US$10.0 million to US$ 6.37 million on the basis of actual requirements.
- The FBR proposes to reduce the allocation for consulting services from US$14.10 million to US$ 7.27 million. This reduction is mainly due to FBR using more in-house resources such as in the development of the Information Technology Management System (ITMS) through the Pakistan Revenue Automation Ltd. (PRAL), slower than expected progress in strengthening the audit function, in-house handling of appeals, dispute resolution, customs and tax fraud, and partly due to delays in selection of consultants.
- As a result of the proposed extension of the closing date, as well as strengthening the results tracking and reporting arrangements, incremental administrative and operating costs (project management) will increase from US$2.5 million to US$ 3.29 million. In addition, due to the appreciation of the SDR vis-à-vis PKR, the allocation for vehicles has been reduced from US$2.4 million to US$ 2.11 million.

- Cancellations

23. The proposed restructuring will reduce overall project costs to US$ 73.90 million after cancellation of project savings of US$ 49.095 million. The revised project cost is summarized in Table 1.

- Closing date

24. The project restructuring is seeking to extend the closing date until December 31, 2011 to support the renewed reform momentum on tax administration, improve revenue collection performance against the backdrop of the ongoing fiscal challenges confronting Pakistan, and increase the overall likelihood of achieving the PDO.

D. APPRAISAL SUMMARY

25. None of the proposed changes will have an effect on the original economic, financial, technical, institutional or social aspects of the project as appraised. The restructuring will have no impact on the current financial management and disbursement arrangements. There are no outstanding audit reports or ineligible expenditures.

26. The environmental category of the project is proposed to be changed to "B" and OP/BP 4.01 (Environmental Assessment) has been triggered.

27. The proposed restructuring does not involve any exceptions to the Bank policies.

Pakistan Tax Administration Reform Project

ANNEX I-A:
Results Framework and Monitoring
Linkages between Outputs, Intermediate Outcomes/Indicators and Project Outcomes

PDO: The project development objective is to improve the effectiveness of Pakistan's revenue administration.

Project Outcome Indicators:

1. FBR gross and net revenue collection as percentage of tax revenue target (total for each tax) (*monthly, quarterly, annual)* - Baseline 2009/10 (net revenue collection) Rs. 1,380 bn; Est. target for end of project – Rs. 1,667 bn.[8]
2. FBR total tax collection/GDP (*annual)* – Baseline 2009/10 - 9.4%; Est. target end project – 9.8%.[9]
3. Survey-based user ratings for FBR – Baseline survey conducted in 2007; Next survey planned in FY'11.
4. Stop-filers as percentage of registered active taxpayers (total, type of tax, taxpayer size) – Baseline 2008/09 – Companies 54%; Individuals 40%; end project target - Companies 53%; Individuals 39%.
5. Additional tax paid after audit as percentage of total collection of domestic taxes – Baseline 2009/10 Rs. 7,560m; est. target end project – Rs. 7,700m.
6. Modernized FBR organizational structure fully functional.

Outputs	Intermediate Outcomes	Intermediate Outcome Indicators	Project Outcomes
Organization and management:			
• FBR structure integrated and function based • A new HRM policy and rules for staff evaluation and mobility based on merit implemented • Training program for mid-level staff	• Improved organizational efficiency and effectiveness of revenue administration	• Administrative cost of collection as % of total tax revenues (*annual)* – maintain below 1% • A large number of mid-level staff trained (*annual)* – estimate 5,000 p.a.	1, 2, 3, 6
• An action plan to improve staff integrity implemented		• User ratings for Taxpayer Facilitation Centers through periodic taxpayer surveys (actual experience and perceptions) (*annual)*	3
• A new set of performance indicators with specific benchmarks covering taxpayer registration, filing, audit, enforcement of arrears payment, and appeals – e.g. e-filing and e-payment extended to most income tax taxpayers • Periodic reports on FBR performance to the FBR management, Board, and the public (*annual)*		• Per cent of tax returns filed electronically (by type of tax) (*annual)* – Baseline 2008/09 - 36% End project target – 45%	1, 2, 5

[8] Assumptions: Economy grows by 4.5% p.a. and VAT or reformed GST is implemented

[9] Same assumptions as above

Outputs	Intermediate Outcomes	Intermediate Outcome Indicators	Project Outcomes
		udit:	
• Implementation of the new taxpayer ledger	• Improved compliance and enforcement, including audit	• Percentage reduction of tax arrears *(annual)* 1. Less than 6 months 2. More than 6 months – Baseline (2009/10) – less than 6 months – 73,335; more than 6 months – 35,164	1, 5
• GST operations adapted to VAT/reformed GST[10]			1, 2, 3, 4
• VAT/reformed GST enforcement and compliance activities implemented[1]			
• Electronic Refund System implemented		• Reduction of stock of arrears as percent of stock of arrears for previous year *(annual)*	1, 3
• Expanded use of third-party information		• Number of registered active taxpayers (total and by type of main taxes) *(annual)* – Baseline 2008/09 – 2.37m; Target – *10% annual increase*	1, 2, 4
• Enforcement programs using single NTN as taxpayer identification number and targeting taxpayers with high revenue potential			
• Improved taxpayer registration		• Reduction in the percentage of non filers, tax arrears, and returns with errors *(biannual)*	
• Risk-based audits conducted by FBR staff		• Reduction of the tax gap *(annual)*	1, 4, 5
• Action plan to strengthen the appeals function implemented		• Reduction on average number of days to complete administrative appeals process *(annual)* – Baseline 2009/10 – 60 days	3, 6
	Information Techno	**gy:**	
• IT applications integrated under a single structure	• Improved integrity and fairness of tax administration	• Strengthened FBR information systems and their management operational *(by Dec. 2011)* • Effective use of the IT systems by FBR field offices *(by Dec. 2011)*	1, 5, 6
• Action plan for IT systems in field offices implemented			
• An integrated taxpayer/tax type accounting adopted			
• ISP 2011-2012 prepared			
• Regular business process reviews and adjustments			
• A disaster recovery data center implemented			
• Quarterly/Annual progress reports	• Project management and implementation on track	• Timely project implementation, including adherence to procurement schedules	1, 3

[10] Subject to necessary legislation for VAT and amendment of the existing law for GST.

Pakistan Tax Administration Reform Project
ANNEX I-B
Results Framework and Monitoring
Comparison between original PDO, Outcome Indicators and Proposed PDO and Outcome Indicators

PDO		Project Outcome Indicators		Use of Project Outcome Information	
Current	Proposed	Current	Proposed	Current	Proposed
The objectives of the project are: (a) to improve the effectiveness, responsiveness, efficiency, integrity and fairness of tax administration; (b) to promote compliance with tax laws and broaden the tax base; and (c) to promote trade facilitation.	The project development objective is to improve the effectiveness of Pakistan's revenue administration.	Total tax revenues collected by CBR/GDP. Tax revenues collected by sector. Perception of enterprises regarding the nature and severity of impediments to private sector development, if any, imposed by the tax administration. Average time taken by new businesses to register for tax purposes	1. FBR gross and net revenue collection as % of tax revenue target (total, for each tax) 2. FBR total tax collection to GDP ratio 3. Stop-filers as % of regd. active taxpayers (total, type of tax, taxpayer size) 4. Additional tax paid after audit as % of total collection of domestic taxes 5. Survey-based user ratings for FBR 6. Modernized FBR organizational structure fully functional		1) Enables adjustment of reform focus through user ratings of revenue administration. 2) Enables assessment of tax compliance and broadening of tax base 3) Enables assessment by authorities of effectiveness improvements in revenue administration. 4) Facilitation of stakeholder consensus on, and adoption by FBR of, performance indicators for revenue administration. 5) Guides and sustains further revenue administration reforms and capacity building. 6) Enables assessment of organizational effectiveness

Intermediate Outcomes		Intermediate Outcome Indicators		Use of Intermediate Outcome Monitoring	
Current	Proposed	Current	Proposed	Current	Proposed
Improving organizational efficiency and effectiveness of revenue administration	Improved organizational efficiency and effectiveness of revenue administration	Average number of days taken to identify and notify taxpayers who fail to file tax declarations or pay taxes. Number of taxpayers / number of tax administration employees. Reduction in the overall ratio 'Employees at officer level / employees at staff level'. Reduced number of complaints to the tax administration. Average number of days taken to process a sales tax refund. Percentage of tax returns filed electronically.	1. Administrative cost of collection as % of total tax revenues 2. Percent of tax returns filed electronically (by type of tax) 3. A large number of mid-level staff trained 4. User ratings for Taxpayer Facilitation Centers through periodic taxpayer surveys		• Monitor component progress and manage sub-component activities. • Disseminate factual data to the public on FBR efficiency, and thereby improve FBR credibility. • Periodic taxpayer and staff surveys

Intermediate Outcomes		Intermediate Outcome Indicators		Use of Intermediate Outcome Monitoring	
Current	Proposed	Current	Proposed	Current	Proposed
Improving compliance management through strengthened audit and enforcement capacity and transparent and high-quality tax service.	Improved compliance and enforcement (including audit)	Number of registered active taxpayers. Ratio 'Amount of taxes paid on time / Total amount of tax assessed'. Ratio 'additional taxes collected after tax audit / number of tax audits conducted'. Amount of tax arrears recovered in a fiscal year / total amount of arrears at the beginning of the fiscal year. Perception of taxpayers regarding the quality of service provided by CBR measured by periodic surveys. Performance against agreed standards for responding to telephone, personal, and written inquiries.	1. Number of registered active taxpayers (total & by type of main taxes) 2. Percent reduction of tax arrears: - Less than six months - More than six month 3. Final stock of arrears as percent of stock of arrears for previous year 4. Reduction in the percentage of non filers, tax arrears and returns with errors 5. Reduction of the tax gap 6. Average number of days to complete administrative appeals process		• Monitor component progress and manage sub-component activities. • Disseminate factual data to the public, and thereby improve compliance and enforcement. • Focus taxpayer facilitation activities based on user feedback

Intermediate Outcomes		Intermediate Outcome Indicators		Use of Intermediate Outcome Monitoring	
Current	Proposed	Current	Proposed	Current	Proposed
Improving trade facilitation through modern and internationally accepted customs procedures	Improved integrity and fairness of tax administration	Using the risk based approach, reduce the number of import declarations selected for physical inspection at designated sites to 20 percent. Reduce the average customs clearance time at border to under 1 day by the end of 2006, and by to under 4 hours by the end of the project, at designated sites. Perception of traders and other stakeholders regarding the quality of services responsiveness to complaints and integrity of customs administration as indicated by periodic surveys.	1. Strengthened FBR information systems and their management operational 2. Effective use of the IT systems by FBR field offices		• Monitor component progress and manage sub-component activities • Monitor effective use of newly deployed IT system by field offices

Intermediate Outcomes		Intermediate Outcome Indicators		Use of Intermediate Outcome Monitoring	
Current	Proposed	Current	Proposed	Current	Proposed
Improve integrity and fairness of tax administration	Project management and implementation on track	Public perception of revenue administration integrity as measured by periodic surveys. Staff perception of integrity as measured by periodic surveys. Average number of days to complete administrative appeals process.	1. Timely project implementation, including adherence to procurement schedules		• The FBR will be able to monitor component progress and manage sub-component activities.

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ANNEX II:
Proposed Component Restructuring

Original Components	Revised Components
1. Management and Institutional Development i. Organization and Policy ii. Human Resource Development iii. Internal Audit iv. Internal Affairs and Vigilance Units v. Change Management **2. Improving Revenue Operations** i. Direct Tax ii. Sales Tax and Central Excise iii. Customs **3. Strengthening Revenue Services** i. Audit ii. Voluntary and Enforced Collection Appeals and Dispute Resolution iii. National Intelligence and Risk Management iv. Customs and Tax Frauds **4. Creating a Tax Compliant Culture** i. Taxpayer Education and Facilitation (communications, internet facilities, call centers) ii. Taxpayer Identification and Registration **5. Adopting Responsive IT Systems.** (Note: This has been merged within the revised components).	**1. Enforcement (including audit)** – Carrying out measures to ensure compliance with registration, filing and payment requirements i. Registration/e-registration ii. E-filing and e-payment – Implementation of the reformed GST /VAT – Extension of the automated refund system to other LTUs/RTOs for GST, Income Tax and proposed VAT / reformed GST – Carrying out of audits (post, targeted, composite and desk) including annual audit plans; third-party matching; risk-based prioritization of cases (e.g. audit, follow-up, compliance); detecting tax fraud – Carrying out of a workflow review and automation of the appeals/disputes process. – Collection of arrears (outstanding debt) – Carrying out of studies to determine the tax gap – Training staff on risk-based audits and skills update – Carrying out of measures for taxpayer facilitation and education on fulfillment of tax obligations. – Carrying out of business process review for the enforcement function.

6. Infrastructure Up-gradation and Development (Note: This has been merged within the revised components). 7. **Program Management and Implementation**	**2. Organization and Management for Efficiency** - Implementation of organizational change management - Upgrading of human resource policies and management - Upgrading of infrastructure and adoption of responsive IT systems to improve efficiency - Diagnostic study and independent assessment of mid-term modernization requirements for Customs, including IT systems. **3. Information Technology** - Adopting responsive IT systems **4. Program Management and Implementation** - Change management, communications, outreach – internal and external - Surveys of taxpayers (companies and individuals) and publication/ dissemination of results - Incremental operating costs

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ANNEX III:
Supervision Plan and Budget

Following the May 2010 Implementation Review Mission, FBR/GoP and the Bank have agreed that henceforth the Bank will field integrated missions. These integrated missions will combine the task team of the TARP project with the members of the DfID-funded Technical Assistance team which has been providing advice on tax policy and administration issues since September 2008.

Given the problems associated with project implementation since 2007, Bank management has also agreed to provide intensive supervision until the end of the project (December 31, 2011). A Lead Public Sector Specialist (Revenue) is currently being recruited to be based in the Islamabad office to manage the implementation of TARP and the broader policy dialogue on revenue issues.

Bank management is in discussion with the DfID Islamabad Office to arrange for supplementary budget for enhanced supervision during the next 18 months. Since September 2008, DfID has provided a Trust Fund which has been used to finance the cost of the Technical Assistance team; however, the initial Trust Fund is expiring on December 31, 2010.

In recognition of the additional funds required for intensive project supervision, the Bank is providing, in FY11, US$ 245,000 which is almost twice the normal budget allocated for a single project. For the Bank and DfID to maintain the same level of supervision and technical assistance provided during the last two years, a budget of about US$ 886,000 (about GBP 600,000) is being requested from DfID. This additional budget will finance quarterly missions of the four-member TA team, plus the cost associated for an additional consultant for the enhanced supervision for calendar year 2011.

In addition to these integrated missions, the Bank may need to respond to special ad-hoc requests from the GoP, particularly relating to assistance with drafting of the regulations and implementation of VAT/reformed GST. For these ad-hoc requests, a supplementary budget will be required.