Report Number: ICRR0022243

1. Project Data

Project ID	Project Name
P127807	Tax Administration
Country	**Practice Area(Lead)**
Tajikistan	Governance

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-H8100	31-Dec-2017	16,378,618.59
Bank Approval Date	**Closing Date (Actual)**	
31-Oct-2012	31-Dec-2019	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	18,000,000.00	0.00
Revised Commitment	18,000,000.00	0.00
Actual	16,378,618.59	0.00

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2. Project Objectives and Components

a. Objectives

According to the Financing Agreement (page 6), the program development objective of the Tajikistan Tax Administration Reform Project was “to reform the tax administration in order to: (i) enhance the level of voluntary compliance; (ii) strengthen the effectiveness of the Tax Committee to fight tax evasion; (iii) strengthen the institutional and human capacity in order to improve the professionalism of tax officials and reduce the avenues for corruption; and (iv) modernize the processes that would help reduce administrative cost for the government and compliance burden for taxpayers.”

The Project Appraisal Document (PAD) (pages ii and 7) and the Restructuring Paper (page 13) stated the project development objective differently: "The project development objective is to reform the tax administration to become more efficient and effective in collecting revenue, enhance the level of voluntary compliance, and improve the quality of taxpayer services. Specifically, the project aims to: (i) reduce the administrative cost of collecting revenue to make the Tax Committee a more efficient institution; (ii) strengthen the effectiveness of the Tax Committee to fight tax evasion and reduce the size of the shadow economy; (iii) reduce contact between tax officials and taxpayers to reduce avenues for corruption and create conditions for increased level of voluntary compliance; and (iv) provide good quality taxpayer services that would help reduce the compliance burden for taxpayers, thus improving the business environment and competitiveness."

The ICR (page 8) states that "the substance and desired outcomes [of the two statements] are generally the same" but assesses the project based on the statement of the objective in the Financing Agreement. This ICR Review uses the project development objective in the Financing Agreement.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

The project had four components.

Institutional Development (US$2.2 million estimated at appraisal, US$1.94 million disbursed) supported the: (a) development of strategic planning and restructuring of offices of the Tax Committee, the agency responsible for tax administration in Tajikistan, to enhance capacity in modern tax organizational structure and to increase efficiency through the provision of consultants' services and training; (b) improvement of human resources policies, workforce planning, and staff transition plan as part of the modernization process, through the provision of consultants' services; (c) installation of a Human Resources Management Information System through purchase of equipment, and training to enhance capacity in human resources management; (d) development of training policies and strategy, curriculum, and e-learning and distance learning, through provision of consultants' services; and (e) establishment of regional training facilities through purchase of equipment, and training to enhance capacity of the training institute to deliver e-learning applications.

Operational Development (US$1.8 million estimated at appraisal, US$1.42 million disbursed) involved: (a) strengthening the analytical capacity of the Ministry of Finance and the Tax Committee for tax policy; (b) augmenting skills of Tax Committee inspectors in auditing for detection of fraud; (c) enhancing the capacity of Tax Committee staff to enforce collection; (d) improving internal controls and internal audit; (e) revamping taxpayer services, including establishment of a modern call center; and (f) supporting the development of an independent tax appeals systems with a database for tracking of appeals cases, through the provision of consultants' services, purchase of equipment, and training.

Information and Communication Technology (ICT) Infrastructure and System Modernization (US$12.4 million estimated at appraisal, US$10.94 million disbursed) supported: upgrading the ICT in the Tax Committee to automate the processing of returns, calculation of taxes, desk audits, and other tax administration functions, through the provision of equipment, including the development of an Integrated Tax Management Information System (ITMIS) and the establishment of data centers.

Project Management (US$1.6 million estimated at appraisal, US$2.08 million disbursed) involved strengthening the Tax Committee's capacity to provide project implementation, through the provision of consultants' services and incremental operating costs.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The project was estimated to cost US$18 million at appraisal. The final project cost was US$16.38 million, the lower amount largely due to the depreciation of the SDR against the U.S. dollar during project implementation.

Financing: The project was financed by an SDR 11.9 million (US$18 million equivalent) grant from the International Development Association. The amount disbursed was SDR 11.7 million (US$16.38 million equivalent) by project closing, or 98.6 percent of the grant.

Borrower Contribution: There was no financial contribution by the Republic of Tajikistan to the project.

Dates: The project was approved on October 31, 2012, became effective on February 8, 2013, was restructured on February 8, 2017, and closed two years behind schedule on December 31, 2019.

Restructuring: The restructuring in February 2017, with US$7.76 million disbursed (47 percent of the final disbursement amount): (a) revised some results indicators, including targets; (b) revised the project implementation schedule, extending the original closing date of December 31, 2017 by two years.

3. Relevance of Objectives

Rationale

The project objectives were substantially relevant to the development priorities of the government at project appraisal. The "National Development Strategy of the Republic of Tajikistan for the Period to 2015" cited the "more effective management of government finances and the improvement of tax administration" as priorities to "improving the public administration system and macroeconomic development." The "Poverty Reduction Strategy of the Republic of Tajikistan for 2010-2012" advanced four "functional blocks" for promoting sustainable economic growth. Of these, the second, "Macroeconomic Development", prioritized, among others, tax reform, including by improving and simplifying tax administration. The "Public Finance Management Strategy of the Republic of Tajikistan for 2009-2018" recognized that tax revenue remained low in part due to tax exemptions, weaknesses in tax administration, and high tax arrears. The document advocated improving tax administration to increase tax revenues and improve "budget predictability."

While this project focused on tax administration reform, tax policy reform in Tajikistan was concurrently addressed by the government with the separate assistance of the International Monetary Fund (IMF). A three-year arrangement under the Extended Credit Facility (ECF) for SDR 104.4 million (US$116 million), approved by the IMF in April 2009 and augmented in June 2010, imposed a floor on tax collection through 2012 as an indicative target and a floor on the overall cumulative fiscal balance of the general government (excluding foreign-financed public investment program and related grants) as a quantitative performance criteria. Importantly, the IMF program required the submission to the Cabinet of a "strategy for reform of the tax regime" as a structural benchmark for September 2011, and the submission to the Cabinet of a "revised tax code consistent with IMF recommendations" as a structural benchmark for March 2012. Focused on a simplification of the tax regime, the new "Tax Code for the Republic of Tajikistan" was approved by Parliament in December 2013 and adopted by the government in January 2014.

The project objectives remained substantially relevant to the development priorities of the government at project closing. The "National Development Strategy of the Republic of Tajikistan for the Period Up to 2030" emphasized the continued improvement of tax administration with the aim of improving tax collection, reducing the administrative burden of paying taxes, and increasing the transparency and predictability of the tax system.

The government continued to pursue the tax policy reform agenda at project closing. According to the IMF Article IV Consultation with the Republic of Tajikistan, which concluded in January 2020, the next priorities for tax policy reform include: "broadening the tax base"; "gradually phasing out tax incentives"; and "fiscal consolidation measures to put debt on a downward trend." Accordingly, the government has drafted a new Tax Reform Program for 2020-25. Adoption of these new reforms may require additional revisions to the Tax Code.

The project objectives were aligned with the country strategy of the Bank Group in Tajikistan at project appraisal. The “Country Partnership Strategy for the Republic of Tajikistan FY10-FY13” (CPS) articulated three objectives: (a) reducing the negative impact of the crisis on poverty and vulnerability; (b) paving the way for post-crisis recovery and sustained development; and (c) mainstreaming core governance reforms. The project objectives were aligned with the first CPS objective, particularly with the expected result to “maintain fiscal stability”, and the third CPS objective, specifically with the results to “strengthen incentives for better performance of civil servants” and to “improve transparency and accountability in public financial management.”

The project objectives remained aligned with the country strategy of the Bank Group in Tajikistan at project closing. The “Country Partnership Framework for the Republic of Tajikistan for the Period FY19-FY23” (CPF) supports the country’s development priorities in three “focus areas”: (a) human capital and resilience; (b) public institutions and sustainability; and (c) enabling private sector growth and creating markets. The project objectives were aligned with the second CPF focus area, specifically with the objective “to improve the effectiveness of the tax and the statistics offices.”

Rating
Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To enhance the level of voluntary compliance.

Rationale

The degree of achievement of this objective is assessed as high.

Theory of change: The review of business processes at the Tax Committee, purchase and customization of an off-the-shelf ICT solution, purchase of software and equipment for the Data Center and Data Recovery Center, and training of Tax Committee staff on data analytics would enable the Tax Committee to install and deploy an ITMIS for the electronic filing of tax returns (e-filing) and the online payment of taxes by taxpayers and the computerization and digitalization of many Tax Committee functions and services. A fully functional ITMIS, supported by data centers and operated by trained staff, would allow taxpayers easy access to their tax information, enable them to file returns and make payments online, and lessen their contact with tax offices, thus helping raise their voluntary compliance with their tax obligations. A higher level of voluntary compliance would be reflected in an increase in the number of taxpayers and in the percentage of taxpayers using the new electronic filing and online payment system.

Outputs: The project achieved two output targets.

- The ITMIS was implemented, meeting the target. Acquired off-the-shelf but customized for the Tax Committee, the ITMIS was launched and deployed in July 2019. The ITMIS provides a single-window taxpayer-service platform for taxpayer registration, the filing of tax returns, the payment of taxes, and access to personal taxpayer information, including tax obligations and notifications. The system was rolled out in stages with the last four of 40 modules, made available in January 2020, relating to Tax Committee functions and covering risk-based audit, internal audit, tax arrears management, and appeals management.
- The Data Center in Dushanbe and the Data Recovery Center in Khujand were made operational in 2015, meeting the target. Between 2015 and 2019, the data centers offered a suite of interim electronic services until the ITMIS was launched and made operational in 2019. The interim system allowed for the beginning of e-filing, using e-tokens, some 2,000 of which were distributed free to taxpayers. E-filing, which was not available in 2013, progressed from some 4 percent of all tax filings in 2015 to 90 percent by 2017.

Outcomes: The project exceeded two outcome targets.

- The total number of taxpayers more than doubled from 160,000 in January 2013 (baseline) to 326,492 in December 2019 (closing date), exceeding the target of 201,500 taxpayers. The ICR (pages 12 and 61) provides details of the headline number. The number of individual entrepreneur taxpayers increased from 137,265 to 295,563 and legal entity (or incorporated) taxpayers from 23,543 to 30,929. The number of active value-added tax (VAT) taxpayers slightly declined slightly from 5,202 to 5,148, after the VAT registration threshold (the value of “taxable supplies” --- the value of sales or supply --- at and above which persons are required to register and account for VAT) was raised from Tajikistani somoni (TJS) 200,000 in the baseline to TJS 500,000 in January 2013 and TJS 1,000,000 in January 2017. But the number of corporate income tax (CIT) taxpayers rose significantly by 114 percent from 2,367 to 5,080.

- The percentage of taxpayers (incorporated legal entities) filing tax returns electronically rose from zero percent in the baseline to 98.9 percent by the project closing date, exceeding the target of 70 percent. According to the Taxpayer Survey of 2019, some 81 percent of survey respondents were aware of the new e-filing system, 68 percent reported using the system, and 98 percent expressed satisfaction with the system. Nonetheless, the survey also indicated that the e-filing system was less-used by individual entrepreneurs, including farmers, who had limited access to the Internet.

Rating
High

OBJECTIVE 2

Objective
To strengthen the effectiveness of the Tax Committee to fight tax evasion.

Rationale
The degree of achievement of this objective is assessed as substantial.

Theory of Change: The purchase of point-of-sale terminals and their integration into the ITMIS, the development of risk-based audit techniques and their linkage with the ITMIS, and the development of methodologies for tax revenue modeling, tax policy analysis, and impact analysis would result in a functional e-invoicing system, a risk-based audit system, and stronger policy analytic capacity at the Tax Committee, enabling the agency to strengthen its effectiveness in combating tax evasion. The outcome would be evidenced by reductions in the tax gap measures, reductions in tax arrears, increases in tax adjustments as a result of audits, and increases in the share of revenue collected by the Large Taxpayer Inspectorate.

Outputs: There was no output indicator defined for this objective, although the ICR (page 16-17) notes that the four project activities related to this objective were all completed.

- E-invoicing was installed at the Tax Committee during project implementation. E-invoicing had been developed outside of this project but its deployment was supported by this project through: the purchase of point-of-sale terminals; the distribution of the terminals to small and medium-size enterprises; and the integration of the VAT e-filing system into the ITMIS.
- Following support provided by the International Finance Corporation for a risk-based auditing system, this project assisted with the development of a risk-based plan for tax inspections of business entities. For this purpose, the ITMIS had, beginning in June 2019, allowed the automated exchange of data with commercial banks, the National Bank of Tajikistan (the central bank), the Customs Service, the Social Protection Fund, the Property Register, and the Public Procurement Agency following agreement with third parties on an information exchange protocol. The Data Analytics Center at the Tax Committee, supported by this project, studies data that are warehoused at the Center.
- The software to manage tax arrears, initially supported by the International Monetary Fund, was expanded under this project and integrated into the ITMIS. The system helps with the Tax Committee's debt collection efforts.

- This project helped produce recommendations for the Ministry of Finance to improve revenue forecasting, tax policy formulation, and impact assessment analysis. The recommendations are yet to be implemented, but are expected to be considered in future reform efforts.

Outcomes: The project achieved three of five outcome targets.

- VAT revenue productivity (defined as net tax revenue to final consumption divided by the statutory tax rate) increased from 0.37 in 2013 to 0.41 in 2019, nearly achieving the target for an increase to 0.42.
- CIT revenue productivity (net tax revenue to GDP divided by the statutory tax rate) increased from 0.03 to 0.06, meeting the target for an increase to 0.06.
- The amount of tax arrears as a percentage of total annual tax collection decreased from 13.8 percent to 5.2 percent, exceeding the target for a reduction to 10 percent.
- Adjustments as a result of audit, measured on a per-auditor basis, increased from TJS 184 million to TJS 516 million, exceeding the target for an increase to TJS 280 million.
- The share of revenue collected by the Large Taxpayer Inspectorate rose from 43.6 percent to 58.8 percent in 2018 (its highest rate during the implementation period), before dropping to 50.6 percent in 2019, missing the target for an increase to 60 percent by the project closing date. Collections by the Large Taxpayer Inspectorate are sensitive to changes in tax policy, especially tax exemptions, which are the focus of the next set of tax policy reforms (see Section 3). In November 2019, the government decided to exclude medium-sized taxpayers from the Large Taxpayer Inspectorate.

Rating
Substantial

OBJECTIVE 3

Objective
To strengthen the institutional and human capacity in order to improve the professionalism of tax officials and reduce the avenues for corruption.

Rationale
The degree of achievement of this objective is assessed as modest.

Theory of Change: A review of human resource (HR) policies at the Tax Committee, improved workforce planning, the automation of HR management and performance evaluation, and the development of internal controls and risk-based audits would create an effective HR management system. In addition, the planning and development of a training policy and training curriculum, including the equipping of training centers and provisions for e-learning would strengthen the capacities of the Tax Committee staff. A stronger institutional and human capacity would improve the professionalism of tax officials and help reduce the avenues of corruption, which would be reflected in increased taxpayer satisfaction with the professionalism of tax officers and the quality of tax services.

Outputs: The project delivered two output targets.

- The Human Resource Management Information System (HRMIS) for the Tax Committee, which the agency did not have in the baseline, was operational in all offices of the Tax Committee by January 2019, a year ahead of the closing date, after being launched in September 2017. The HRMIS covered all 1,800 employees of the Tax Committee.
- The training strategy for 2015-20 was developed and implemented, meeting the target. The training centers in Khujand, Kulob, Khorog, and Bokhtar were equipped under the project and distance learning was introduced. Advanced training for tax officers and continuing education were also launched, covering, in addition to tax administration, courses in ICT literacy, ICT security, and computer systems design and maintenance.

<u>Outcome</u>: The project achieved the outcome target for this objective.

- A comparison of the Taxpayers Surveys of 2016 (baseline) and 2019 (project closing) show an improvement in the perception of taxpayers regarding the level of professionalism and honesty of tax administration staff, meeting the outcome target. The 2019 survey indicated that: (a) 70 percent of audited taxpayers rated the professionalism of tax auditors highly (the professionalism of tax auditors had not been covered in earlier surveys, providing no comparison between end-line and baseline values); and (b) 90 percent of visitors to tax officers expressed satisfaction with the quality of tax services and the professionalism of tax officers in 2019, compared to 34 percent in 2016.
- Although the Taxpayer Survey of 2019 reflected improvements in taxpayer responses, the ICR (page 17) also cautions that the indicators may not have been measured consistently over time. Other measures also yield mixed results. The Bank's Enterprise Survey of 2019 reported that the percentage of those firms surveyed that requested to make informal payments dropped from 30 percent in 2013 to 8 percent in 2019, an indicator that "corruption levels in tax administration have decreased." However, Tajikistan continues to rank poorly in Transparency International's Perception of Corruption Index, scoring 25 out of 100 points (0 = highly corrupt, 100 = very clean) and ranking 153rd out of 180 countries in 2019, compared to 22 out of 100 points and ranking 153rd of 176 countries in 2013. And, the country's performance on control of corruption (which "reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests") in the Bank's Worldwide Governance Indicators slid from a score of -1.25 (-2.5 = weak, 2.5 = strong governance performance) and 15th percentile rank (upper bound of 90% confidence interval for governance; 0 = lowest, 100 = highest) of 212 countries and territories in 2012 to a score of -1.42 and 11th percentile rank of 209 countries and territories in 2018.

Rating
Modest

OBJECTIVE 4

Objective
To modernize the processes that would help reduce administrative cost for the government and compliance burden for taxpayers.

Rationale

The degree of achievement of this objective is assessed as high.

Theory of Change: A review and restructuring of the Tax Committee's organizational structure would help improve the organizational structure and modernize business processes at the Tax Committee, enabling the agency to lower the costs of tax administration. The creation of a Contact Center for taxpayers, including the proper equipping of the center, the creation of an electronic database of taxpayer questions and Tax Committee answers, the training of staff to improve taxpayer services, and the development of computer software to help manage the appeals process would help to further modernize business processes at the Tax Committee, enabling the agency to reduce the burden of compliance on taxpayers. A reduced burden of compliance and lower tax administrative costs would be reflected in reductions in the time taken by taxpayers to comply with tax obligations and in higher tax collections by the Tax Committee, measured on a per-tax-official basis.

Outputs: The project achieved two output targets.

- The organizational and workforce reviews of the Tax Committee, the restructuring of the agency following the organizational review, and the redeployment of staff following the workforce review were implemented, meeting the target. Several functional departments were created under the new organizational structure, including the Modernization and Strategic Development Division, the Taxpayer Services Division, and the Complaints Division. Key activities of all functional divisions were documented using business process mapping procedures; operational instructions were developed for the new organizational structure; job descriptions were written up, and (at the time of ICR document preparation) selection was underway for audit officers.
- The Contact (Call) Center for taxpayers was established, meeting the target. Up to ten call center seats were created and staffed at the Contact Center in Dushanbe, and two satellite offices were also established in the regions. The center and satellite offices have been operational since January 2018. According to the ICR (page 15), the Contact Center received 12,000 calls in 2016 and 35,000 in 2019. Moreover, the Taxpayer Survey of 2019 found taxpayer satisfaction with the services provided by the Contact Center to be high at 94.8 percent, compared to 26.2 percent in the Taxpayer Survey of 2016.

Outcomes: The project exceeded two outcome targets.

- The ratio of revenue collected per tax official tripled from TJS 2.1 million in the baseline to TSJ 6 million by the project closing date, exceeding the target for a 35 percent increase to TJS 2.9 million.
- The average time to comply with paying taxes was reduced from 296 hours in 2013 to 224 hours in 2019, meeting the target for a reduction to 237 hours. The indicator was measured by the Doing Business Survey for the year 2018, and published in the Bank's *Doing Business Report* for 2019 (page 208).

Rating
High

OVERALL EFFICACY

Rationale

The degree of achievement of the first objective to enhance voluntary compliance is assessed as high; the second objective to strengthen the effectiveness of the Tax Committee to fight tax evasion, substantial; the third objective to strengthen the institutional and human capacity in order to improve the professionalism of tax officials and reduce the avenues for corruption, modest; and the fourth objective to modernize the processes that would help reduce administrative cost for the government and compliance burden for taxpayers, high. The overall efficacy of the project is rated as substantial.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic Efficiency: Defining the economic benefit from the project as consisting principally of reductions in compliance costs to taxpayers (owing to simplified procedures, lesser incidence of tax inspections, reduced time spent in tax offices), the PAD (page 15) computes the ERR for the project at 21.6 percent. The ICR (pages 44-45) offers a higher ERR, 68 percent, but explains that this number is not comparable with that in the PAD since the ICR uses a different baseline number for compliance hours.

Moreover, defining the financial benefits from the project as consisting of increases in tax revenues (resulting from more effective tax administration), the PAD (page 15) computes the FRR for the project at 54 percent. The ICR (pages 45-46) arrives at a higher FRR, 194 percent. The ICR also states that it uses a different baseline number for compliance hours, and therefore its computation is not comparable with that of the PAD.

Operational Efficiency: The project was implemented in seven rather than five years (the restructuring of February 2017 extended the closing date from December 2017 to December 2019). More time was needed to complete the development, testing, and implementation of the ITMIS, a central project activity, the procurement process for which was derailed in 2015. Two of three bidders failed to provide originals of their financial proposals at bid opening, necessitating a rebid in 2016.

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)

Appraisal	✓	21.60	100.00 ☐ Not Applicable
ICR Estimate	✓	68.00	100.00 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The project objective was substantially relevant to development priorities in Tajikistan and substantially aligned to the Bank Group strategy and partnership framework in Tajikistan at appraisal and closing. The efficacy of the project is rated as substantial. The efficiency of the project is rated as substantial.

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

The risks to the sustainability of the development outcomes of the project are assessed to be moderate.

Political Risk: Political commitment to tax administration reform has been strong, beginning with the adoption by the government of Resolution No. 686 in December 2010 approving the Comprehensive Tax Reform Program for 2012-15. Achievements made under this project have firmed the political commitment to the tax administration reform objectives. At the time of project closing in December 2019, the government issued Decree No. 643 approving a new Program for Tax Administration Development for 2020-25, aimed at, among others, building a tax compliance culture among taxpayers The commitment to the project objectives will likely remain strong as the government and the Bank prepare the proposed Tajikistan Tax Policy and Tax Administration Reform Project, which aims to inform and enhance capacities for implementing comprehensive tax policy and administration reforms emphasizing efficiency, simplicity and equity, and the proposed Tajikistan Tax Reform Project, which aims to improve voluntary compliance and the investment climate.

Institutional Risk: According to the ICR (page 26), more extensive capacity building activity is required to convert the Tax Committee, which is responsible for tax administration, into a full-service tax authority. The next focus should be on developing a comprehensive compliance strategy that utilizes risk-based audit practices. It will also be important to forge stronger linkages between policy setting, revenue forecasting, and tax collection by strengthening institutional relations among the Tax Committee, the Ministry of Finance, which is responsible for tax policy, and the Ministry of Economic Development and Trade, which is responsible for economic policy.

Macroeconomic Risk: An expected deterioration in the macro-fiscal framework in Tajikistan, following economic disruptions caused by the COVID-19 pandemic in 2020, may lead to some erosion of the country's tax base. The International Monetary Fund approved an SDR 139.2 million (US$189.5 million equivalent, or 80 percent of quota) disbursement to Tajikistan under the Rapid Credit Facility in May 2020 to "help meet urgent balance of payments and fiscal needs stemming from the COVID-19 pandemic." Tajikistan also obtained a US$11.3 million grant from the International Development Association in April 2020 and a US$5 million assistance from the U.S. Agency for International Development in June 2020 to help the country respond to health and humanitarian problems stemming from the pandemic. Economic activities supported by these developmental assistance would help mitigate economic and social risks arising from the pandemic.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project design was informed by analytical work produced by the Bank and the IMF, including "Tajikistan: Public Expenditure and Financial Accountability Assessment" (2007) and "Accelerating Tax Administration Reform" (2010). The ICR (page 21) cites complementary support on tax administration reform that were all considered by the Bank during project design --- conveyed through technical assistance by the Asian Development Bank (on business process mapping and re-engineering), the U.S. Agency for International Development (pilot tax office), the European Commission (one-stop-shop for business registration), the International Finance Corporation (tax payer education and risk criteria for audit selection), and the IMF (new tax Code and tax reform measures). Moreover, the PAD (pages 10-11) explains that the Bank incorporated into the project design some 12 lessons learned from successful tax administration reform programs elsewhere, including that investment in an Integrated Tax Management System would provide a best-practice business process for the Tax Committee and that reducing contact between tax officials and taxpayers would help reduce the avenues for corruption.

The PAD (page 14) identified and rated four key risks to implementing the project and advanced mitigation measures. Weakening commitment to the tax administration reform agenda was considered a substantial risk, for which the mitigation measures included reinforcing the priority given to the reform program in the policy dialogue between the Bank and other development and the authorities. Weak institutional capacity --- inadequate skills, staff turnover, and problems with the retention of skilled specialists --- was also considered a substantial risk. The PAD recommended more effective training, staff secondment, adoption of a staff retention plan, and internships to build technical capacity at the Tax Committee.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

The Bank fielded qualified staff to supervise the project. There were three Bank task team leaders (TTLs) over the duration of the project. A co-TTL was based in Dushanbe; the last TTL was also based in Dushanbe, allowing for more direct and regular contact between the bank and the authorities.

The Bank fielded regular supervision missions, which filed 15 Implementation Status and Results Reports (ISRs) over the seven-year project implementation period, or two per year, the average for Bank investment financing projects. The Bank also prepared nine Aide Memoires, following many of the supervision missions.

The Bank conducted the Mid-Term Review in November 2015. The Mid-Term Review reported on the overall and individual-component progress of the project, updated the assessment of project risks, assessed the adherence to project covenants, and laid out the next steps for the completion of the project, as evidenced by the Aide Memoire prepared for the review.

The Bank restructured the project in 2017, extending the project duration to allow the ICT contractors and the Tax Committee to complete the development, testing, and implementation of the ITMIS, the procurement for which had been delayed in 2015. The Restructuring Paper revised the results indicators for the project, although a full articulation of the theory of change underlying the project would not be made until the preparation of the ICR.

According to the ICR (page 25), technical assistance provided by the Bank to the implementing agency was crucial in a low-capacity environment and in response to the procurement problems in 2015. Importantly, the Bank provided expert guidance to the Tax Committee on the complex ICT procurement process, covering: (a) the preparation of terms of references and technical specifications; (b) the evaluation of bids; (c) the design of contract negotiation strategies; (d) and the conduct of contract management.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The PAD (pages 19-21) defined six outcome indicators and 12 output indicators to evidence the achievement of the project objectives. According to the ICR (page 24), the PAD lacked a robust discussion of both the project outcomes (the six outcome indicators referred to voluntary compliance, efficiency, quality of taxpayer services, and effectiveness) and the project outputs (the 12 project output indicators were listed by project component rather than project objectives). The lack of clarity with the indicators carried over into the Financing Agreement and resulted in incomplete indicator reporting in the ISRs filed over 2015-17 (before the project restructuring), according to the ICR

The Restructuring Paper (pages 7-13) revised the set of results indicators: (a) changing the targets for two outcome indicators; (b) adding four new outcome indicators; and (c) changing the target for one output indicator. However, according to the ICR (page 23), the Restructuring Paper missed listing the outcome indicator for the third objective "to strengthen the institutional and human capacity in order to improve the professionalism of tax officials and reduce the avenues for corruption" --- the taxpayer satisfaction surveys showing an improvement in the taxpayer perception of the professionalism and honesty in tax administration.

Notwithstanding the lack of a robust discussion in the PAD of how the project outcomes related to the project objectives, they were in fact related as seen in the theory of change expounded in the ICR and used in this ICR Review (see Sections 4 and 14). Thus, the indicators give an accurate picture of the achievement of the project objectives.

The M&E plan also required the Project Implementing Unit, within the Tax Committee, to undertake the M&E for the project. The Tax Committee would prepare quarterly performance reports and annual reports, the latter within four months after the end of each fiscal year.

b. M&E Implementation

The Project Implementing Unit at the Tax Committee implemented the M&E according to plan, except for some early deficiencies. According to the ICR (page 23), there were some deficiencies with the ISRs prepared in 2015-17, with reporting on some outcome and output indicators missing. The project also lacked baseline data on taxpayer satisfaction with the professionalism of tax auditors; the Taxpayer Survey of 2016 did not cover the topic.

Overall, the ISRs prepared after 2017, the Aide Memoires produced for the supervision missions, and the Aide Memoire produced for the Mid-Term Review in November 2015 adequately reported on the results indicators and progress with the project.

c. M&E Utilization

According to the ICR (page 23), the Bank found the M&E data to be useful in its discussion with the Project Implementing Units and with the Tax Committee on the progress with the project and on “corrective actions” to address project implementation issues and problems. This is reflected in the Aide Memoires prepared for the project.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

Environmental and Social Safeguards: According to the PAD (page 18), the project was classified as an Environmental Assessment Category "C" project at appraisal, for which no environmental review was required. Accordingly, the project was not rated for environmental safeguards or for overall safeguards during implementation, and the ICR (page 24) did not cover the topic either.

b. Fiduciary Compliance

Procurement: According to the ICR (page 24), procurement complied with the requirements of the Financing Agreement: (a) procurement plans were updated regularly, reviewed by the Bank, and publicly disclosed; (b) findings and recommendations of ex-ante and ex-post reviews by the Bank were promptly addressed; (c) the development of the procurement plan for the ITMIS package took longer than expected; (d) the cancellation of two large consultancy contracts followed Bank guidelines; and, (e) there was adequate collaboration among procurement staff of the Bank in the field and at headquarters and of the implementing agency. Procurement was rated satisfactory beginning in November 2018, after being rated moderately satisfactory earlier.

Financial Management: According to the ICR (page 24), the bank considered all aspects of financial management --- planning, budgeting, accounting, financial reporting, funds flow, internal controls, and external audits --- adequate and acceptable. Interim financial reports were mostly submitted on time, although small discrepancies were found between expenditures reported in the interim financial reports and the last two audit reports in relation to foreign exchange gains and losses. Financial management was rated moderately satisfactory throughout project implementation.

Audit: The auditor issued clean opinions on the fiscal year 2017 and fiscal year 2019 project financial statements. The audit of the fiscal year 2019 financial statement was not available at the time of ICR preparation. The project had requested an extension of the audit report submission deadline to September 20, 2020 due to COVID-19 related interruptions in operations.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	
Bank Performance	Satisfactory	Satisfactory	
Quality of M&E	Substantial	Substantial	
Quality of ICR	---	Substantial	

12. Lessons

Three lessons are drawn from the ICR (pages 26-27), with some adaptation.

Having a functional integrated tax management information system is a key element in tax administration reform. In this project, an off-shelf ITMIS was procured and customized to meet the Tax Committee's business process requirements. It was also installed over a phased implementation period, allowing for learning. According to the ICR (page 26), the off-shelf package was the appropriate information technology solution (despite the Tax Committee's preference for an in-house solution) as the implementing agency had limited technical capacity and was not fully equipped for an re-engineering task. Moreover, the non-proprietary solution offered a source code for future software modification, an important feature for the sustainability of the IT system moving forward. However it is acquired, an ITMIS is critical to the modernization of tax administration. According to the PAD (pages 10-11), the ITMIS was included in this project, having been an important part of successful tax administration reform efforts elsewhere.

Projects with complex ICT activities should be provided longer lead times for preparation and implementation, as well as more robust technical assistance. In this project, the Bank provided expert technical advice and assistance to the Tax Committee for the ITMIS procurement, including with writing technical specifications and preparing terms of references for services (see Section 8.B). Still, the procurement process was delayed. Beyond procurement, a comparatively longer implementation period is also necessary for the design and implementation of an ICT system, including for testing, calibration, and reconfiguration, if necessary. It also takes time to build up capacity among government staff to work with digital and computer systems. According to the ICR (page 27), it was ambitious to complete this project in five years, the original implementation period.

With tax administration modernization being an ongoing concern, it would be optimal for governments to plan for broadening and deepening tax administration reforms in the medium- to long-term. In this project, with the Tax Committee having acquired basic digital literacy with an ICT-backed system, the government may well consider the next steps to strengthening its tax administration system. The ICR (page 27) lists various next-generation measures that the government can consider: (a) a compliance risk management tool; (b) reductions in advance tax payments; (c) a more independent and transparent Appeals Body; (d) the increased use of automated procedures to select tax audits; and (e) annual taxpayer surveys.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR (page 7) presented a theory of change for the project, that the ICR stated (pages 18, 23) had only been "implicit" in the PAD and Restructuring Paper. Moreover, the ICR uses the statement of the project development objective found in the Financing Agreement to assess the efficacy of the project objective. The project development objective had been stated differently in the PAD (see Section 2.A). The use of the legal document avoids any confusion with linking different project results to different project objectives.

The ICR (pages 12-18) offers a thorough and detailed reporting on the results of the project, citing not only the output and outcome indicators but also the activities and inputs that led to the results. The assessment of the efficacy of the project objectives is candid. For example, the ICR states that: (a) there is less progress to report on revenue forecasting, tax policy formulation, and impact assessment analysis than originally expected; (b) major improvements are still wanting with tax audits; (c) tax exemptions, as well as the exclusion of medium-sized taxpayers from the Large Taxpayer Inspectorate, were major factors accounting for the Large Taxpayer Inspectorate's failure to meet the target on the revenue collection ratio; and (d) the Enterprise Survey of 2019 continued to list "tax rates" and "tax administration" as the top two business environment constraints, notwithstanding the results of the project and the findings of the Taxpayer Survey of 2019.

Three annexes provide more comprehensive reporting and analysis of the project results: (a) Annex 4 - Efficiency Analysis (pages 44-46) offers details on the ICR's calculation of the project ERR and FRR, although it falls short of fully explaining the differences between the PAD and ICR assumptions; (b) Annex 8 - Executive Summary of the 2019 Taxpayer Survey (pages 63-68) goes beyond listing the detailed findings of the survey by submitting recommendations that can be drawn from the results; and (c) Annex 7 - Executive Summary of the Borrower's Report (pages 49-62) provides an even more detailed narrative of the project activities and year-by-year reporting of selected results.

The ICR could have discussed more fully the findings of the tax policy-related analysis supported by the project (see Section 4, Objective 2). A follow-up with the project team after the completion of the ICR revealed that: (a) three manuals on methodologies for tax policy formulation, tax policy impact analysis, and revenue forecasting were developed; (b) staff at Ministry of Finance and Tax Committee were trained in the use of the methodologies detailed in the manuals; (c) the manual on tax policy formulation discussed topics including the objectives of tax policy, the properties of good tax policy, national taxes, and sub-national government revenues; (d) the consultant also submitted recommendations pertaining to various taxes and tax rates, including taxes and tax rates that could be increased or decreased; but (e) the focus of this particular project activity remained that of building the capacity of government staff for tax policy formulation and analysis.

The project team also supplied data, after the completion of the ICR, on taxpayer satisfaction with the Contact Center in the baseline and at end-line (the information had not been included in the ICR).

a. Quality of ICR Rating

Substantial