Report Number: ICRR0023158

1. Project Data

Project ID	Project Name	
P116696	Tax Administration Reform Project	
Country	**Practice Area(Lead)**	
Kazakhstan	Governance	
L/C/TF Number(s)	**Closing Date (Original)**	**Total Project Cost (USD)**
IBRD-78350	31-Dec-2014	7,066,451.99
Bank Approval Date	**Closing Date (Actual)**	
16-Feb-2010	31-Dec-2021	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	17,000,000.00	0.00
Revised Commitment	10,000,000.00	0.00
Actual	7,066,451.99	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

According to the Loan Agreement (p. 4), the project development objectives (PDOs) were: (i) to reform and strengthen the Borrower's tax administration in order to improve the level of voluntary taxpayer compliance with tax regulations; (ii) to enhance effectiveness to fight tax evasion; and (iii) to increase administrative efficiency and reduce the potential for corruption.

Because the results chains overlap significantly for the three objectives listed in the Loan Agreement, this Review will assess the achievement of one objective that combines these three elements: to reform and strengthen the tax administration in order to improve the level of voluntary taxpayer compliance with tax regulations, enhance effectiveness to fight tax evasion, increase administrative efficiency, and reduce the potential for corruption.

A 2016 restructuring led to the deletion of some results framework indicators, while the targets on other outcome indicators became less ambitious. However, because the efficacy ratings would be the same under both the original and revised indicators and outcome targets, a split rating is not warranted.

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

Yes

Did the Board approve the revised objectives/key associated outcome targets?

No

c. Will a split evaluation be undertaken?

No

d. Components

Component 1: Institutional Development ***(estimated cost: US$4.85 million [Bank funding: US$0.49 million]; actual cost: US$0.46 million [Bank funding: US$0.41 million]).*** This component sought to modernize the organizational structure of the Tax Committee (TC), including human resources aspects. The main activities under this component included a comprehensive review and redesign of the organizational structure of the TC according to good practices, reorganization and consolidation of local offices, strengthening of human resources (HR) services, design and the implementation of a Human Resources Management Information System (HRMIS), and capacity building of tax officials.

Component 2: Operational Development ***(estimated cost: US$14.78 million [Bank funding: US$6 million]; actual cost: US$5.37 million [Bank funding: US$2.5 million]).*** This component sought to modernize the operational framework of tax administration. The activities under this component included the modernization of core operations, such as reengineering of business processes, development of a risk-based audit methodology and cameral control, reform of the departmental appeal system, development of a universal filing methodology, and improvements in enforced tax collection.

Component 3: Information Technology (IT) Infrastructure Development ***(estimated cost: US$27.6 million [Bank funding: US$8.7 million]; actual cost: US$6.45 million [Bank funding: US$2.46 million]).*** This component aimed to modernize the IT infrastructure of the TC to support Component 1 and 2 activities. It aimed to consolidate central, regional, and district centers and tax subsystems, which at the time of project start were fragmented and maintained by different vendors. The main activities under this component were installation of an Integrated Tax Management System (ITMS, a comprehensive, integrated, digitalized solution for tax administration with coverage of key business processes such as registration of taxpayers, reporting, collection, administration of excisable products, audit, and monitoring) and an Integrated Data Base (IDB, an integrated solution to consolidate all data related to taxpayers' transactions and to provide data to the State Revenue Committee [SRC] from other operational systems).

Comment 4: Project Management ***(estimated cost: US$4.2 million [Bank funding: US$1.81 million]; actual cost: US$2.09 million [Bank funding: US$1.69 million]).*** This component was to support project coordination, implementation, and management.

Across five restructurings, project activities were reduced in number and in scope as a result of delays in project implementation and as a portion of the Bank loan was cancelled. The most notable changes in activities included dropping the ITMS from project financing (and shifting it to government funding); removing organizational redesign of the TC due to the government's 2016 decision to merge tax, customs, and investigation functions; dropping the feasibility study for establishing a new training institute and curriculum for tax staff professional development due to the government's decision to reformat existing Customs Training Centers into SRC Training Centers; and elimination of support data processing centers, call centers, and an automated value-added tax refund system due to other changes in government priorities.

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

Cost. The original approved amount for the project was US$56.7 million, including contingencies (US$5.14 million) and a front-end fee (US$0.13 million). The actual total cost was US$7.1 million.

Financing. The project was expected to be financed through an International Bank for Reconstruction and Development (IBRD) loan of US$17 million (IBRD-78350) and a Borrower contribution of US$39.7 million, for total funding of US$56.7 million. US$3.5 million of the IBRD loan was cancelled at a 2017 restructuring due to savings from the significant exchange rate depreciation in 2015. Another US$3.5 million was cancelled at a 2020 restructuring due to the government's request not to finance the ITMS from the loan; the contract was transferred to the E-Finance Center, a company owned by the Ministry of Finance (MOF). The actual amount disbursed by the Bank was US$7.1 million.

Borrower contribution. There was a planned Borrower contribution of US$39.7 million at appraisal. No actual Borrower contribution was made by the project closing date.

Dates. The project was approved on February 16, 2010 and became effective on February 17, 2011. The mid-term review was conducted on January 27, 2014. There were five restructurings:

- December 3, 2014: Delays in project implementation, particularly the information technology modernization activities (Component 3), led to an extension of the closing date by two years, from December 31, 2014 to December 31, 2016.
- September 26, 2016: Further delays in Component 3 activities led to another extension of the closing date, from December 31, 2016 to December 31, 2018. The results framework was adjusted to accommodate shifts in project-financed activities.
- July 20, 2017: Part of the loan was cancelled.
- January 18, 2018: Progress in implementing Component 3, but the need for additional time to complete planned activities, led to another extension of the closing date, from December 31, 2018 to December 31, 2020.

December 7, 2020: The COVID-19 situation delayed implementation of remaining Component 3 activities. Part of the loan was cancelled, and the closing date was extended a final time, from December 31, 2020 to

December 31, 2021. The results framework was again adjusted to accommodate shifts in project-financed activities.

3. Relevance of Objectives

Rationale

At the time of appraisal, Kazakhstan was navigating a period marked by declining economic growth due to the global financial crisis, impacting oil and non-oil revenues and leading to a deterioration in the country's fiscal balance. The country—which had benefitted from strong economic activity in the finance and construction sectors buoyed by strong oil revenues in the period leading to the global financial crisis—was significantly affected by the global financial crisis that resulted in falling commodity prices, and by the tightening of international and domestic financial conditions. As a result, the country's fiscal balance deteriorated from 4.7 percent of GDP in 2007 to 1.1 percent of GDP in 2008 and was projected to be equivalent to -2.1 percent of GDP in 2009, according to the 2009 IMF Article IV report. Meanwhile, the country's non-oil fiscal balance deteriorated from -4.7 percent of GDP in 2007 to -11.3 percent of GDP in 2008 and was projected to be equivalent to -12.9 percent of GDP in 2009. The large volatility in government revenues was largely due to Kazakhstan's relatively undiversified tax base, even when compared with other resource-rich countries, with government revenues mainly derived from the value-added tax (VAT) and the corporate income tax (CIT) across a small group of large firms and in a small set of sectors (*OECD Tax Policy Reviews: Kazakhstan 2020*).

The deterioration in the country's fiscal balance, combined with tightening international and domestic financial conditions that adversely affected the private sector, led the government to embark on a wide-ranging set of structural and institutional reforms in taxation to support government revenues and the business climate. The Government of Kazakhstan considered tax policy reforms targeting a broadening of the tax base and a reduction in the VAT and CIT tax rates (excluding the agricultural sector, on which a special CIT tax rate was applied). While the revenue productivity of Kazakhstan's VAT exceeded the average of countries at the same level of economic development, this largely came from a disproportionate share of imports in GDP, which facilitated collection, with the domestic VAT base considered to be small by international standards, and to have been eroded in the period leading to appraisal by exemptions for housing and infrastructure projects (Volume 1 of the *Tax Strategy Paper*). Meanwhile, Kazakhstan's profit tax rate of 30 percent was the second highest rate among the Cooperation of China and 16 Central and Eastern European countries after China which stood at 33 percent and any increase in capital mobility could have eroded Kazakhstan's tax competitiveness which would exercise downward pressure on the country's CIT rate (Volume 1 of the *Tax Strategy Paper*). Given that the government's tax policy reforms were intended to be tax neutral, tax administration reforms were required to generate additional public revenues through increased voluntary compliance with tax regulations. Voluntary taxpayer compliance was adversely affected by, most notably, unofficial payments to tax officials, taxpayer services being underutilized, rising costs for taxpayers to comply with tax regulations, the audit system being weak, and low taxpayer confidence in the tax appeals mechanism.

A *Tax Strategy Paper* was prepared in June 2008 by Kazakhstan's Tax Committee (TC) through the Bank's Joint Economic Research Program, providing guidelines on tax policy and tax administration reforms. The *Tax Strategy Paper* was comprised of two volumes. *Volume 1: A Strategic Plan for Increasing the Neutrality of the Tax System in Non-Extractive Sectors* took as given the tax reform package that the authorities and stakeholders had designed, proposing additional steps in the medium-term horizon to maximize the benefits of tax neutrality on competitiveness. The proposed tax policy reforms were related to labor (i.e., personal income tax and social tax), capital (i.e., CIT), and consumption (i.e., value-added tax and excise duties). *Volume 2: Tax Administration Reform and Modernization* examined tax administration issues in Kazakhstan with a view to support voluntary taxpayer compliance. As stated in the Executive Summary of Volume 2 of the *Tax Strategy Paper*, “[vo]luntary compliance, like a tripod, rests on three pillars: a sound system of audit (inspection) of taxpayers’ returns (declarations) and records; an efficient system for the collection (including enforced collection), accounting, and recording of all payments due; and a comprehensive taxpayer service and education program that reduces the cost of compliance for taxpayers. All activities of the tax administration apparatus must be judged on the basis of how well they improve performance in these areas.” To this end, it identified functional areas of intervention in the short, medium, and longer-term horizons, which consisted of (i) organizational structure, (ii) human resources and training, (iii) anti-corruption, (iv) taxpayer service and education, (v) large taxpayers, (vi) audit/inspection, (vii) collection, (viii) information technology, and (ix) legal and appeals. Volume 2 included detailed guidelines and timelines for each of the proposed measures under each of these functional areas. On planning, organization, and staffing, for example, it suggested the development of a strategic plan within a medium to long-term framework (from three to seven years) which, taking into account a realistic assessment of current tax administration operations, would provide a detailed modernization plan encompassing investment and organizational changes in key functional areas. On collection, for example, it recommended that the tax code be amended and procedures be promulgated to enable write-off of uncollectible accounts.

The objectives pursued by the project were consistent with the Government of Kazakhstan's vision and national development strategy. The objectives were also consistent with the TC’s strategy, as outlined in both volumes of the *Tax Strategy Paper*. The government's vision outlined in *Kazakhstan 2050* aspires to lead the country to a modern knowledge-based society, with an economy that is well diversified and driven by private sector growth. *Kazakhstan 2050* is being implemented in five-year incremental national development strategies, with the strategy at the time of appraisal centered around five priorities: (i) accelerating the technological modernization of the economy; (ii) improving the business environment; (iii) increasing macroeconomic stability; (iv) enhancing the quality of human capital; and (v) strengthening institutions, security, and anti-corruption efforts. The project's objectives were also consistent with the TC’s Strategy for the Development of the Tax Service released in 2007, which aimed at: (i) ensuring the completeness of tax collection through improvement of voluntary compliance, simplification of tax legislation, and increased efficiency of tax collection; (ii) ensuring taxpayer satisfaction through increased awareness and taxpayer education, reduced administrative burden, and improved quality of taxpayer services; (iii) formation of a highly effective tax service through reengineering of business processes, introduction of a risk management system, and improvement in the use of modern technology; (iv) strengthening of the enforcement function; and (v) improving transparency and the motivation and orientation of staff towards achievement of results.

The objectives were also aligned with all five priorities of the World Bank-supported Country Partnership Strategy (CPS) with Kazakhstan at appraisal FY12-FY17, which included: economic recovery after the 2008 financial crisis; diversification of the economy through industrialization; and advancing public sector reforms to enhance efficiency, transparency, and accountability of public sector officers. With regard to the last, the government intended to make progress on implementing reforms in the areas of public financial management and customs and tax administration. This project was designed to strengthen public finances and the public sector for efficient service delivery. **The project remained aligned with the Country Partnership Framework at closing (CPF, FY20-FY25)**, which stated (p. 7) that "improvements to tax administration will be essential for non-oil revenue mobilization." To promote inclusive growth, the CPF contained an objective to strengthen the environment for private sector development that covered the tax administration reform activities under this project. The CPF also contained a cross-cutting focus area on effective governance and strengthened market and social institutions, with an objective to support evidence-based delivery of public sector reform.

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Reform and strengthen the tax administration in order to improve the level of voluntary taxpayer compliance with tax regulations, enhance effectiveness to fight tax evasion, increase administrative efficiency, and reduce the potential for corruption.

Rationale

The results chain linking proposed activities, outputs, and outcomes was logical. Improving voluntary taxpayer compliance was to be supported by activities related to: (i) introducing compliance risk management to better manage and improve tax compliance; (ii) improving the appeals process to enhance the dispute resolution system; (iii) establishing a comprehensive program of taxpayer education and services; (iv) expanding e-filing and e-payment possibilities; (v) developing and adhering to tax service standards; (vi) undertaking performance feedback surveys and using survey results to improve client service; (vii) improving strategic planning; (viii) reengineering business processes to increase efficiency, transparency, and accountability while reducing opportunities for rent-seeking behavior; (ix) introducing modern, integrated information technology business support; (x) strengthening human resource technical and operational capacity; (xi) improving data exchange between the TC and other enforcement agencies; (xii) strengthening large taxpayer administration; and (xiii) strengthening the core operational functions of the TC. Improvement in the ease and the time for filing tax returns through enhanced education and tax service standards, as well as in the process for resolving tax disputes through the appeals mechanism, constituted critical activities along the results chain toward the achievement of the overarching objective of improving the level of compliance with tax regulations. Further, the introduction of compliance risk management, which could more effectively verify income/sales of a tax entity against third-party information, was essential to improving voluntary taxpayer compliance, if adequate penalties for non-adherence to tax regulations were adopted in parallel. Finally, enhanced administrative efficiency was expected to reduce the likelihood of tax officials being bribed by taxpayers.

Outputs and intermediate outcomes

Until the 2016 restructuring, there were seven key outputs/intermediate outcomes pursued by the project. The project achieved two out of these seven outputs/intermediate outcomes: the reorganization and consolidation of the TC based on functional rationalization, and the development of design and systems architecture for an integrated IT system with major functions. The ICR explains that further organizational review and design of an appropriate organizational TC structure at the headquarters and in the regions was not carried out due to the merger of tax, customs, and economic investigation functions and the creation of the State Revenue Committee (SRC). Similarly, the planned feasibility study for establishing a tax training institute and the curricular needs assessment and recommendations for training programs to meet current and future modernization requirements were also dropped with the reconfiguration of the Customs Training Center into the SRC Training Center. The planned development of the automated risk management system was narrowed to exclude the VAT refund system and the development of data processing centers. The ICR reports that the latter was dropped due to the adoption of the Universal Filing Concept; the project team clarified that the Universal Filing Concept introduced universal declarations to provide 100 percent coverage of all taxes paid by individuals and is legislated under Chapter 71 of the Kazakhstan Tax Code (see unofficial translation at https://adilet.zan.kz/eng/docs/K1700000120). The ICR also reports that it was not possible to assess the depth and the coverage of planned business process reengineering (review and redesign of the business processes of the tax administration), which was expected to lead to increased e-filing and e-payment possibilities.

Tax audits were centralized at the oblast (i.e., regional office) level and eliminated at the rayon (i.e., district) level, and the large taxpayers office was established at the SRC with taxpayer service centers rolled out across the country. The tax appeals unit was moved from the SRC to the Ministry of Finance, with representatives of other state bodies and representatives from the private sector as its members. The ICR reports that despite the progress achieved to date, further improvements are required given that the majority of cases are ruled in favor of the SRC. The number of thematic and complex audits conducted fell by 35 percent relative to the 2016 level, while charges and penalties have increased by 16 percent. About 91 percent of public services are now provided in electronic format.

Outcomes

The ICR reports that there was no monitoring of the PDO level indicator related to the increase in the total number of registered taxpayers. While this indicator was a relevant measure to assess the overarching objective of improving tax compliance, it was not monitored or reported, and there were no outputs or intermediate outcomes linked to a reduction in the shadow economy through, for example, the introduction of compliance risk management to better manage and improve tax compliance. In the absence of evidence to the contrary, this suggests that the outcome was not achieved.

The percentage of returns filed electronically for legal entities increased from 61.2 percent in 2008 to 97.7 percent in 2021, exceeding the original target of 80 percent and the revised target of 96 percent. However, this indicator is not a complete measure of achievement of the objective, with individual taxpayers having been removed from the original indicator at the 2016 restructuring, limiting the measurement of the indicator to legal entities, i.e., entities established in the legal form of joint stock companies, limited liability partnerships, and their branches, as well as public associations. The project team clarified that the indicator was limited to legal entities, given that legal entities are most likely to use electronic means for complying with tax obligations.

The average time taken by taxpayers to comply with tax obligations fell from 271 hours in 2011 to 186 hours in 2020, representing a 32.8 percent decline, falling short of the original target of a 50 percent reduction but essentially meeting the revised target of a 33 percent decline. The baseline and the actual achievement figures for this indicator were based on the Doing Business survey, which was discontinued after Doing Business 2020, and the actual achievement at the time of project closing was not assessed. This indicator constitutes a valid, though incomplete, measure for assessing achievement toward improved voluntary tax compliance, given that an improvement in the average time taken by taxpayers to comply with tax obligations is likely to lead to greater compliance with tax obligations.

The target for the cumulative stock of arrears as a percentage of total tax collected in a year was achieved, with the ratio falling from 1.7 percent in 2008 to 0.88 percent by 2015, below the target of 1.30 percent. This indicator was dropped at the 2016 restructuring, with the Bank arguing that the result for this indicator depended on a range of factors outside of tax administration control, including taxpayers' own calculations of tax accruals or deductions, results of tax audits, insolvency, and appeals.

The percentage of field audits (audits that are carried out at the taxpayer's premises) selected by automated procedure rose from 0 percent in 2008 to 14.7 percent in 2021, well below the target of 50 percent. The restructuring paper explains that risk management systems were not purchased until the 2016 restructuring due to procurement delays.

The average adjustment to reported taxes following tax audits per auditor rose from 35 million tenge in 2013 to 55 million tenge in 2021, well below the original target of 210 million tenge and the revised target of 370 million tenge.

VAT productivity rose from 0.30 to 0.34 by June 8, 2021, falling short of the target of 0.40.

The nominal increase in the average tax revenue collected by each tax official rose from 328 million tenge in 2009 to 448 million tenge in 2015, falling short of the target of 530 million tenge. This indicator was dropped at the 2016 restructuring. The ICR explains that the increase relative to the baseline cannot be attributed to the project's achievement in light of the fact that tax revenues relative to GDP declined significantly over the period, but that this was likely explained by a potential reduction in the number of tax officials. IEG finds that achievement on this indicator cannot be assessed because (i) although the merger of the tax and customs departments at SRC made it look like there was a large increase in the number of tax officials, the Bank does not report the number of officials who had actual responsibility for tax collection, and (ii) there is a difference between changes in tax revenue and changes in tax revenue as a share of GDP, and fluctuations in the tax revenue to GDP ratio do not provide information on fluctuations in nominal tax revenue collections.

The public perception of the quality of taxpayer services fell from 88.5 percent (legal entities: 88 percent; individuals: 89 percent) in 2010 to 87 percent (legal entities: 85 percent; individuals: 89 percent) in 2017 against a target of 89.5 percent (legal entities: 89 percent; individuals: 90 percent).

Many key outcome targets were not achieved. Further, given that many of the project's key activities were dropped, attribution of observed outcomes to project interventions is questionable.

Rating
Modest

OVERALL EFFICACY

Rationale
Given mixed achievement of outcome targets and unresolved questions about attribution of observed outcomes to the project’s interventions, efficacy is rated Modest.

Overall Efficacy Rating	**Primary Reason**
Modest	Low achievement

5. Efficiency

An economic analysis of the project was conducted at the appraisal and ICR stages.

Economic analyses were conducted on the value of time saved filing taxes for legal entities and individuals. For the economic analysis performed for legal entities, the ICR recognizes that the benefits are likely attributable to the amendment to the Tax Code that simplified tax provisions for corporations. For the economic analysis performed for individual taxpayers, the economic analysis measured the reduction in the time spent in tax offices, which it attributes to an improvement in automated processes. The ICR finds net positive benefits in each case.

An economic analysis was also performed on fiscal benefits. The ICR states that "in the case of fiscal benefits, the estimation shows a negative outcome. The NPV of the fiscal benefits at appraisal was KZT 17,727 million and the fiscal benefits estimated at closing are KZT 12,929 million (negative). The main reason for that is that the tax arrears rate was expected to decrease over the implementation of the project evidencing a high level of compliance, more revenue, and a more effective and efficient tax administration. However, as the tax arrears rate ended up higher, this resulted in fewer fiscal benefits" (ICR, p. 20). As part of the ICR Review, the task team clarified that the main factor behind the growth of arrears was the accrual of advance payments on corporate income tax for the period of December 25, 2021, which were paid by individual large taxpayers in January 2022.

Project delays led to extensions totaling seven years. The ICR attributes poor implementation efficiency to: (i) high staff turnover, as well as cumbersome bureaucratic rules and procedures at the SRC and the Project Management Unit (PMU); (ii) delay in the completion of a feasibility study for the IT component (which was not a requirement at appraisal) due to slow adoption of the consolidated e-government digital strategy; (iii) inefficient procurement procedures that made it difficult for the SRC to comply with the government's and the Bank’s procurement guidelines; and (iv) resistance to change by internal and external vested interests.
An assessment conducted on the causes for the procurement delay of the ICT component at the project's mid-term review revealed that procurement arrangements were satisfactory, but that the protracted decision-making process within the SRC explained the delay.

Efficiency Rating

Modest

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	✓	686.00	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

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

6. Outcome

With high relevance, modest efficiency, and modest efficacy, overall Outcome is rated Moderately Unsatisfactory.

a. Outcome Rating

Moderately Unsatisfactory

7. Risk to Development Outcome

The ICR identifies a number of risks to sustaining development outcomes related to the SRC failing to deepen the tax reforms that have been implemented. To reduce this risk, the ICR recommends that the SRC consider: (i) a stocktaking exercise to review and assess the current stage of tax administration in Kazakhstan, including benchmarking it against best international standards and trends; (ii) development of strategies on increased revenue mobilization, including a new compliance risk-based management framework; (iii) stakeholder consultations; and (iv) training of officials, including the completion of a code of ethics.

8. Assessment of Bank Performance

a. Quality-at-Entry

While the Project Appraisal Document (PAD) did not provide a theory of change diagram, it did elaborate on the results chain linking project activities to the achievement of the PDO. IEG finds that quality-at-entry may have been adversely affected by the Bank failing to adequately consider lessons learned despite Volume 2 of the Tax Strategy Paper suggesting that these were considered at project design. For example, one of the key lessons learned consisted of having a “clear vision of the organization’s future state, supported by the government, and well-articulated strategies and comprehensive plans agreed to realize this vision.” The merger of tax, customs, and economic investigation functions and the creation of the SRC derailed many of the project activities under Components 1 and 2, which resulted in a significant reduction in project allocations. Another lesson learned on “appropriate provision for development of human and institutional capacities” was also affected by the failure to conduct an assessment related to the establishment of a tax training institute and the curricular needs assessment and recommendations for training programs to meet current and future modernization requirements due to the reconfiguration of the Customs Training Center into the SRC Training Center. Another key lesson learned that was not adequately captured in project design was the “investment in ICT linked to reengineered business processes and focused on institutional development” which is evidenced in the significant delays in Component 3 activities. It is also not clear how project design took into consideration the tax reform package that may have been implemented in parallel.

The PMU established M&E arrangements, but there were significant shortcomings in the results framework. It lacked outcome-based indicators, limiting the assessment of progress toward achievement of the objectives, and baselines and targets were not clearly set.

Quality-at-Entry Rating

Moderately Unsatisfactory

b. Quality of supervision

The ICR reports that missions were mainly focused on addressing issues with the implementation of Component 3 activities, with the project team providing recommendations to ensure progress toward the achievement of the PDO.

There were a number of major shortcomings, however. At the second project restructuring, the Bank opted to scale back on project activities and reduce and refine indicators, rather than take the opportunity to fundamentally reframe the project's approach in line with constraints to achieving project outcomes. Project implementation was also adversely affected by the co-task team leader's departure from the country that limited the Bank’s ability to supervise implementation, with the last aide-memoire dated March 2-6, 2020.

Quality of Supervision Rating

Moderately Unsatisfactory

Overall Bank Performance Rating

Moderately Unsatisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

M&E design had significant shortcomings.

First, while measurement of progress toward voluntary tax compliance through the increase in the total number of registered taxpayers by 10 percent annually was featured in the PAD, the indicator was not included in the table of arrangements for results monitoring in the PAD's Annex 3 and was consequently not monitored until the 2016 restructuring.

Second, the ICR (p. 24) admits that "in the case of the TARP, the selected IRIs and results were not clear on IRIs' contribution towards achieving the PDO over the life of the project. For example, components 1 and 2 had the following IRIs: 'organizational review and design of appropriate organizational structure at HQ and in the regions,' 'reorganization and consolidation of the TC on functional rationalization,' 'development of design and systems architecture for the integrated IT system with major functions,' and 'development of automated risk management and VAT refund system,' just to mention a few. This seems tautological but did not inform on whether the PDO was under good course or not. Moreover, even though the PAD mentions the IRI 'operational cost/revenue collected,' it was not incorporated into the results framework. This indicator could help better to measure the contributions to the PDO by TARP."

Third, some of the PDO indicators were not well elaborated, such as the indicator on the selection of audits through an automated procedure, where it was unclear whether this referred to the central audit system, the ITMS, or the risk management system. Similarly, the indicator on the number of adjustments in audits was unclear as to how adjustments would be accounted for in a systematic manner.

Fourth, the M&E capacity of the PMU was inadequate, and the fact that the Project Operation Manual was not updated but was nonetheless approved at the project launch adversely affected M&E design

b. M&E Implementation

The 2016 restructuring simplified the M&E framework. The number of PDO indicators was reduced from seven to six, and the number of IRIs was reduced from eight to three. The PDO level indicators on non-oil tax/GDP and the nominal increase in the average tax revenue collected by each tax official were removed, and the IRI on VAT productivity was raised to a PDO-level indicator. The three IRIs were limited to the reorganization and consolidation of the TC on functional rationalization, the development of design and systems architecture for the integrated IT system with major functions, and the development of automated risk management. However, this streamlining "did not imply a more meaningful M&E framework" (ICR, p. 24), with most of the shortcomings noted in design continuing to apply.

c. M&E Utilization

M&E utilization was limited by the shortcomings identified under M&E design and implementation.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

The project is classified Category C for environmental safeguards. No safeguard policies were triggered.

b. Fiduciary Compliance

The project's performance in financial management was rated Satisfactory. The ICR indicates that this is evidenced by assessments conducted by the World Bank, as well as by external auditors. The project's performance in following procurement procedures was rated Moderately Satisfactory across all ISRs. This performance was largely explained by delays in the procurement of information technology equipment under Component 3. An assessment to identify the underlying causes of procurement issues during the mid-term review revealed that while procurement arrangements were satisfactory, decision-making processes within the SRC explained much of the delays in procurement processes.

c. Unintended impacts (Positive or Negative)

The ICR notes that while the project was not gender tagged, the majority of users of the taxpayers' center of Nur-Sultan were women seeking clarifications, as evidenced during an ICR field mission. Furthermore, this field mission found that the majority of tax officers working at the help desks at the tax centers were women.

The ICR indicates that digital platforms supported by the project allowed taxpayers to fulfill their tax obligations during the COVID-19 pandemic, and that the taxpayers' database allowed the government to provide income transfers to the sectors that were most adversely affected by the pandemic.

d. Other

None noted.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	
Bank Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	
Quality of M&E	Modest	Modest	
Quality of ICR	---	Modest	

12. Lessons

The IEG concurs with the lessons drawn from the ICR, which included:

1. The instrument used should reflect the nature of the change sought. In this case, Development Policy Financing might have provided greater incentives for the government to implement reforms, compared to Investment Project Financing.
2. The M&E framework should be not only well designed but carefully monitored to provide early alerts when project implementation is being confronted with challenges.

Further, IEG finds that the adoption of an ITMS should carefully consider any institutional and political factors that may delay or prevent its adoption. In this case, the merger of the tax and customs services limited SRC's ability to design and to launch the process, along with the adoption of the e-government digital strategy that was a pre-requisite to the completion of a feasibility study for the IT component.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The quality of the ICR is rated Modest due to the relatively low quality of analysis. Given the multiple issues at the design and implementation stages, which ultimately resulted in five project restructurings and significant delays in closing the project, the ICR could have incorporated detailed analysis on gaps between the recommended guidelines of Volume 2 of the *Tax Strategy Paper* and the activities that were implemented through the project. Further, the ICR fails to discuss the tax reform package that may have been implemented in parallel and how such reforms were considered or may have impacted project design and implementation.

a. Quality of ICR Rating
Modest