Report Number: ICRR0024154

1. Project Data

Project ID	**Project Name**	
P127734	Tax Administration Modernization Project	
Country	**Practice Area(Lead)**	
Moldova	Governance	
L/C/TF Number(s)	**Closing Date (Original)**	**Total Project Cost (USD)**
IBRD-86250,IDA-58290	31-Dec-2021	20,235,524.30
Bank Approval Date	**Closing Date (Actual)**	
06-Jun-2016	30-Nov-2023	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	20,000,000.00	0.00
Revised Commitment	20,000,000.00	0.00
Actual	20,235,524.30	0.00

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2. Project Objectives and Components

a. Objectives

According to the Financing Agreement (FA) dated June 28, 2016 (p. 5) and the Project Appraisal Document (PAD, p. 11), the Project Development Objective (PDO) was: **To improve revenue collection, tax compliance and taxpayer services in the Republic of Moldova.**

For the purpose of this review, the original PDO has been parsed as follows:

PDO 1: To improve revenue collection;

PDO 2: To improve tax compliance;

PDO 3: To improve taxpayer services.

The project was restructured three times: June 2019, September 2020, and July 2022 with one change in the PDO and no Additional Financing (AF). The 2019 restructuring replaced input-based financing with result-based financing (RBF).

The first and second objectives were dropped during the restructuring No. 2. A revised PDO was introduced: **To support business survival and sustain employment in the context of the COVID-19 pandemic, through temporary tax relief, and improve taxpayer services in the Republic of Moldova,** refocusing the project from development of the Integrated Tax Management Solution (ITMS) towards supporting the government's efforts in mitigating the negative impact of COVID-19, keeping one of the three original outcomes and adding a new outcome area.

The revised PDO has been parsed as follows:

PDO 3: To improve taxpayer services;

PDO 4: To support business survival and sustain employment in the context of the COVID-19 pandemic through temporary tax relief.

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

Yes

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

Yes

Date of Board Approval

01-Sep-2020

c. Will a split evaluation be undertaken?

Yes

d. Components

Component 1: Tax Policy reforms (Approved US$1.5 million; Revised allocation US$0.0; Actual US$0.0). Originally, this component aimed to strengthen the legal framework to facilitate effective and efficient tax administration and to comply with the requirements of the EU-Moldova Association Agreement. Technical assistance (TA) and capacity building activities aimed to align the VAT and Excise Duties legislation with the EU-Moldova Association Agreement, strengthen the national legislation and administrative practices to counter risks and profit shifting and base erosion for the Moldovan tax base, and strengthen the national tax legislation to increase its effectiveness and the efficiency of tax administration.

Restructuring No. 1. The Project shifted from financing inputs to RBF. Under the RBF approach, Component 1 was reorganized to 'Support Tax Policy, Tax Administration Reforms and Operational Development' (Allocation US$3.0 million; Actual US$3.08 million) and new Disbursement-linked Indicators (DLIs) were added with new targets. Two activities related with the 'Overall efficiency of VAT collection' and 'Efficiency of VAT collection by STS' were dropped. Under the restructured Component 1, new DLIs/Performance-Based Conditions (PBC) were added. DLI1/PBC1 focused on 'Increased nominal value of specific and minimal excise rates for all tobacco products under tariff position 240220.' The allocated and disbursed amount for DLI1/PBC1 was US$700,000. DLI2/PBC2 focused on Ensured that supplies of goods by insolvent subjects are taxed with VAT on the reverse charge principle. US$650,000 was allocated and disbursed for DLI2/PBC2. The total allocation and disbursement to tax policy reforms was US$1.3 million (ICR, para 18 and Annex 5, Table 2). The other PBCs that the RBF approach introduced were: PBC 3 (US$600,000) focused on improving the usability of the STS website; PBC 4 (US$300,000) focused on strengthening the capacity of STS staff to deliver taxpayer services by developing a manual on taxpayer services and training the STS staff on its use; and PBC 5 (US$750,000) focused on developing and conducting an electronic taxpayer survey tool.

Restructuring No. 2. DLI1/PBC1 and DLI2/PBC2 were classified as intermediate results indicators (IRIs).

Restructuring No. 3. No change.

Component 2: Institutional development (Approved US$1.2 million; Revised allocation US$0.61 million; Actual US$0.6 million). This component aimed to strengthen the State Tax Service (STS) as an institution for tax service delivery through TA and capacity building activities such as organizational restructuring, strategic management and performance improvement; human resource development, taxpayer's service communication enhancement; and strengthening internal audit capacity.

Restructuring No. 1. The scope of Component 2 was adjusted to exclude TA activities already covered by other development partners, such as the Swedish Tax Agency (STA) and the US Treasury. The activities to be financed were: (a) purchasing and installing technical hardware, software, and training equipment to support current and future IT and communication systems; (b) training activities; (c) administering regular taxpayer satisfaction surveys; and (d) developing a new, more user-friendly STS website with expanded functionality to replace the existing two sites (RES34344, para 17). The funding for Component 2 was reduced from US$1.2 million to US$0.65 million.

Restructuring No. 2. This component remained unchanged.

Restructuring No. 3. Component 2 was further revised to exclude the procurement of equipment for the training center. STS considered that videoconferencing and laptop equipment already delivered by the project was adequate. The funds for Component 2 were reduced from US$0.65 million to US$0.61 million and assigned to Component 3 (RES50197, para 13).

Component 3: Operational development (Approved US$1.3 million; Revised allocation: US$0.0; Actual US$0.0). This component aimed to strengthen STS's operational efficiency by modernizing all key tax collection operational functions including filing declarations, tax payment, risk management and tax audit, collection of tax debts, dealing with tax appeals, and enforcement. TA and capacity building activities would streamline business processes, define business requirements and strengthen the capacity of STS staff to implement the new information systems to support the integrated business functions. They would also strengthen the risk-based compliance management across the STS, including the Large Taxpayers

Office (LTO), improve the capacity of the STS to collect and manage tax debt, streamline the appeals process, ensuring greater consistency in rulings and reducing transactions costs for taxpayers and the tax administration; and build auditor capacity.

Restructuring No. 1. This component was dropped. Full funding from Component 3 (US$1.3 million) was reallocated to the new RBF Component 1.

Component 4: IT infrastructure and system modernization (Approved US$15.0 million; Revised allocation US$1.27 million; Actual US$0.93 million). This component aimed to acquire and implement an ITMS that would unify IT support for all business functions for all taxes administered by the STS. There were no subcomponents.

Restructuring No. 1. The scope of this component was expanded as the government decided to change the approach for the ITMS solution from a Commercial-of-the-shelf (COTS) to a hybrid solution that was a mix of a COTS and a custom development solution building on existing IT systems (RES34344, paras. 1 and 19). Funds for Component 4 were increased from US$15.0 million to US$15.76 million.

Restructuring No. 2. The 2020 restructuring substantially reduced the scope of Component 4 (with total funding of US$1.18 million) because STS would develop new IT modules and ensure their integration with the rest of the system using the government's own funds (ICR, para 20). Funds originally intended to procure the ITMS solution were reallocated towards a new component titled 'Maintaining employment and business survival in the context of the COVID-19 pandemic' with an allocation of US$15.0 million and an actual disbursement of US$15.53 million to support the government's efforts to mitigate the impact of the COVID-19 pandemic. Two new DLI/PBC indicators were added: PBC 6 (US$12.0 million) supported the continuity of business operations and sustained employment and PBC 7 (US$3.0 million) supported the effective and transparent implementation of the programs, ensuring the introduction of a public awareness campaign, and using grievance mechanisms.

The revised Component 4 would instead fund the purchase of a Remote Monitoring System (RMS) for enabling the STS to continue the provision of services during the pandemic (RES41570, para 17). Funding was substantially reduced for Component 4 from US$15.76 million to US$1.18 million.

Restructuring No. 3. The scope of Component 4 was revised further. Activities related to the procurement of equipment, the remote monitoring system, and a data loss prevention solution were dropped and funds reallocated two new activities: (i) an IT Capability Gap Assessment; and (ii) development of technical specifications for ITMS. At the end, US$1.27 million was allocated to the revised Component 4.

Component 5: Project management and change management (Approved US$1.0 million; Revised allocation US$0.12 million; Actual US$0.09 million). This component focused on: (i) capacity building activities to support the government in implementing the activities in Components 1 to 4 above, including awareness campaigns and training activities, and the establishment of a private sector advisory panel for citizen engagement; and (ii) operations of the Project Implementation Unit (PIU) in project implementation, monitoring and evaluation.

Restructuring No.1. The original Component 5 had minor adjustments in scope.

*Restructuring No.2. T*he scope of this Component 5 was revised, and the cost allocation was reduced from US$0.59 million to US$0.17 million on grounds that it was not necessary to finance consultants for the PIU because of significantly reduced procurement and use of STS in-house capacity.

Restructuring No.3. With a further reduction in activities limited to i) capacity building activities supporting change management related to Components 1 to 4; and ii) project implementation, monitoring and evaluation, the allocation was reduced to US$0.12 million.

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

Project cost. The estimated cost at appraisal was US$20.0 million. The actual cost was US$20.23 million. The difference is due to exchange rate fluctuations.

Project Financing. The project was financed with an International Development Association (IDA) Credit (IDA-58290) of US$7.42 million and an International Bank for Reconstruction and Development (IBRD) loan (IBRD-86250) of US$12.58 million, for a total WBG financing of US$20.0 million. The actual disbursed at closing was US$7.3 million against the IDA credit and US$12.8 million against the IBRD loan, for a total of US$20.23 million.

Borrower contribution. The Republic of Moldova had not planned and did not provide counterpart funding.

Dates. The project was approved on June 6, 2016, became effective on January 25, 2017, and had an original closing date of December 31, 2021, which was extended to November 30, 2023. The Mid-Term Review (MTR) was held virtually from July 9 to July 15, 2020, as originally scheduled.

Restructurings. The project underwent a total of three level 2 restructurings in June 2019, September 2020, and July 2022 with one change in the PDO and no Additional Financing.

Restructuring No. 1*: Level 2 restructuring in June 2019* aimed to improve the project's performance and better align the project activities with STS's ongoing tax modernization activities. Several activities were dropped, a new RBF approach was introduced, and the closing date was extended by 23 months from December 31, 2021, to November 30, 2023 (Report No. RES34344, p. 7). The PDO remained unchanged, and although there were significant changes to PDO-level indicators and results framework (RF), due to the introduction of the RBF approach, the scope of the project did not change. By the time of the first restructuring, US$0.89 million, or 4.4 percent of WBG funds had been disbursed (RES34344, p. 3).

Restructuring No. 2*: Level 2 restructuring in September 2020* aimed to support the government in implementing critical tax relief measures that would support business operations, sustain employment levels in the context of the COVID-19 pandemic and improve taxpayer services. The restructuring expanded the results-based orientation of the project and changed the PDO from "to improve revenue collection, tax compliance and taxpayer services in the Republic of Moldova" to "*support business survival and sustain employment in the context of the COVID-19 pandemic, through temporary tax relief, and improve taxpayer services in the Republic of Moldova,"* (Report No. RES41570, p. 7). The RF was revised accordingly. By the time of restructuring No. 2, US$1.91 million, or 9.6 percent of the WBG funds had been disbursed (RES41570, p. 3).

Restructuring No. 3*: Level 2 restructuring in July 2022* further modified the project's scope and changed the RF, including PDO-level indicators due to the discontinuation of the Doing Business Report. By the time of restructuring No. 3, US$18.79 million or 94.1 percent of the total project amount (RES50197, p. 3) had been disbursed.

During the three restructurings, allocations (in USD millions) across components changed as follows:

Components	Cost at appraisal	2019 Restructuring 1	2020 Restructuring 2	2022 Restructuring 3	Actual at closing
C1: Tax Policy Reform	1.5	0 – dropped			0
RBF approach to C1 after 1st restructuring: Support tax policy, tax administration reform, and operational development	n/a	3.0	3.0	3.0	3.08
C2: Institutional development	1.2	0.65	0.65	0.61	0.60
C3: Operational development	1.3	0 - dropped			0
C4: IT infrastructure and system modernization	15.0	15.76	1.18	1.27	0.93
C4 after 2nd restructuring with new component: Maintaining employment and business survival in the context of COVID-19.	n/a	n/a	15.0	15.0	15.53
C5: Project management and change management	1.0	0.59	0.17	0.12	0.09
Total	**20.0**	**20.0**	**20.0**	**20.0**	**20.23**

Source: ICR, Annex 3

Split rating.

A split rating approach is applied because the project's PDO and key associated outcome targets changed during restructuring No. 2.

3. Relevance of Objectives

Rationale

The project was designed to support the Government of Moldova in improving policy, performance, processes, infrastructure technology, and transparency in STS.

Country/ Sector Context: At the time of project appraisal, Moldova's economy, heavily reliant on agriculture, faced severe setbacks from droughts and restrictions on agro-food imports by Russia and Ukraine. These factors led to a 4.6 percent GDP contraction in 2014 and a 0.5 percent decline in 2015. A

2013 survey conducted by the government highlighted significant discrepancies between the public's expectations and the actual delivery of administrative services. Corruption remained a major impediment to business and development.

Revenue collections had declined for three consecutive years, reaching a five-year low of 30.2 percent of GDP in 2014. This poor performance was attributed to structural and capacity constraints within tax administration. STS suffered from an inefficient organizational structure and administrative support, which hindered revenue collection. Moreover, taxpayers perceived the STS as ineffective and corrupt. To boost revenue collection, the STS needed enhanced operational effectiveness.

The project aimed to address these issues by supporting institutional reforms designed to improve revenue collection, tax compliance, and taxpayer services. Key reforms included modernizing revenue collection methodologies and procedures, investing in information technology and technological infrastructure, building capacity and training in modern tax administration and audit practices, and providing technical assistance to support STS's management decisions on organizational structure.

On March 17, 2020, the parliament declared a state of emergency. Non-essential businesses were ordered to stop operations, and exports of medical equipment and supplies were suspended. The government implemented a pandemic preparedness plan, including social distancing, quarantine, and restrictions on transportation and mobility. To reduce the economic impact of these restrictions, the government introduced several emergency measures to help business survival, such as tax relief, income tax payment deferral, suspension of tax inspections and tax subsidy programs. Following restructuring No. 2, the project aimed to support the government's implementation of the tax subsidy programs.

Alignment with World Bank Group Country Partnership Framework (CPF)

The project was aligned with the WBG CPF FY14-17 at appraisal, particularly its competitiveness pillar, which emphasized: (i) enhancing competitiveness through continued institutional reforms in the business environment and governance. The CPF proposed a tax administration reform project to support this competitiveness objective by improving the business climate and strengthening governance.

The CPF FY18-21 identified the Tax Administration Modernization Project (TAMP) as one of the engagement instruments under CPF Objective 2A: Increased efficiency and quality of selected public services. The Performance and Learning Review for CPF FY18-21, which extended the CPF period through FY22, highlighted the restructuring of TAMP to support firms during an economic emergency as one of the CPF's adjustments to facilitate a COVID-19 response under pillar 3 (Ensuring Sustainable Business Growth and Job Creation) at the relief stage.

At project closure, the revised PDO "to support business survival and sustain employment in the context of the COVID-19 pandemic, through temporary tax relief, and improve taxpayer services in the Republic of Moldova" remained highly relevant for the CPF for 2023-2027 which included under HLO 1 an objective to increase the competitiveness of Moldovan enterprises (objective 1.1) and decrease the regulatory burden (objective 1.2) and included strengthening systems and institutions, including through digitalization and capacity-building, as a cross-cutting objective (Report 177939-MD, p. 15).

Alignment with the Government of Moldova's Tax Administration Reform Strategy

At appraisal, the project was fully aligned with the Government of Moldova's Tax Administration Reform Strategy 2011-2015, which sought to restructure and modernize the tax administration system through changes in operating procedures, reallocation of staff and investments in information technology, and capacity building. The draft Law on the State Fiscal Service outlined a legal framework for the new STS, emphasizing the promotion of voluntary tax compliance and uniform regulatory policies. This reform was a prerequisite of the WBG for the effectiveness of the project. At closing, the 2020 Presidential and 2021 Parliamentary elections provided a significant opportunity for deeper reforms as they made possible the formation of a pro-EU parliament majority and government. The government's program included a broad range of reform efforts including strengthening both policies and institutional capacity to improve governance and reducing corruption.

The project adapted to remain relevant to the government's evolving priorities, and the support of other technical partners during the COVID-19 emergency. Restructuring No. 2 shifted the project focus to support the government of Moldova in implementing critical tax relief measures that would support business operations and sustain employment levels during the COVID-19 pandemic. This required restructuring the project for a second time.

In summary, TAMP remained highly relevant during implementation and post restructuring. The original and revised objectives were relevant according to the alignment with the WBG CPFs at appraisal and closing, Moldova's Tax Administration Reform Strategy 2011-2015, the government's more ambitious reforms after presidential and parliamentary elections in 2020 and 2021, and the government's emergency program on tax relief measures to support businesses and employment during the COVID-19 pandemic. The project was the financing source for the temporary subsidy programs.

The relevance of the original and revised objectives is rated High.

Rating
High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1
Objective
PDO 1: To improve revenue collection.

Rationale
The project originally aimed to address issues related to revenue collection, primarily focusing on legal and operational challenges. Planned activities included strengthening the legal framework to reflect best practices and alignment with the EU-Moldova Agreement, identifying sources of profit shifting and base erosion, drafting a procedure manuals and processes for the collection function, implementing the ITMS to improve tax collection operations, improving the regulation to reduce tax arrears, and establishing a permanent training program for auditors and debt collectors. The objective to improve revenue collection was originally measured by two indicators related to VAT efficiency: 1) PDO indicator 1: an increase in the overall efficiency of VAT collection (C-efficiency of the VAT), and 2) PDO indicator 2: increase in efficiency of domestic VAT collection

by the STS (efficiency of VAT netting out imports) (PAD, p. 11 and 25). These indicators were dropped during Restructuring No.1. As the government received TA and capacity-building support to improve revenue collection from other partners [1], the project funded only a limited set of activities: a taxpayer satisfaction survey, the purchase of communication equipment and licenses, a new STS website, and staff training to deliver taxpayer services.

[1] DFID, EU Delegation, IMF, STA, and the US Treasury.

During Restructuring No. 1, the project shifted from financing inputs to RBF and introduced Disbursement -Linked Indicators (DLIs) and PBCs to measure the achievement of PDO 1.

- **DLI1/PBC1**: Increased nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220, for the year 2021 by at least 15 percent compared to the excise rates from 2020. Baseline: Specific and minimum rates by types of tobacco products as set up in the Tax Code of Moldova in 2017. Target: Increased specific rates came into effect on January 1, 2021. Actual: PBC1 was achieved, the new rates became effective from January 1, 2021 **(DLI1/PBC1 Achievement: High).**

The government had been increasing tobacco taxes every year since 2016, with the goal of achieving the EU tobacco tax directive minimum rate of 90 EUR/1,000 cigarettes by early 2030s, per its Associate Agreement with the EU.

- **DLI2/PBC2**: Ensuring that the sale of goods by insolvent subjects are taxed with VAT on the reverse charge principle. Baseline: Due to gaps in legal provisions, insolvent entities do not remit the VAT collected to the government. Target: Goods sold by insolvent entities are taxed using the VAT reverse charge mechanism. Actual: PBC 2 was achieved in early 2020 following Parliament's approval of amendments to the Tax Code in December 2019. These changes took effect on January 1, 2021, implementing the reverse charge principle as planned **(DLI2/PBC2 Achievement: High).**

IRI 4 under the new RBF component was as follow:

- **IRI 4**: Decrease in tax arrears. Baseline: 8.5 percent decrease. Revised target: 6.5 percent. Actual: Tax arrears decreased to 3.9 percent in 2023 measured as the share of tax arrears at the end of the year of tax revenues collected during the year **(IRI 4 Achievement: High).**

Both DLI indicators and IRI were achieved. In addition, IEG found that the ratio of tax revenue to GDP in Moldova, as reported in the WBG's World Development Indicators Database, increased from 17.7 in 2017 to 18.9 percent in 2022. While there is no specific information on the project's contribution to this increase, it is reasonable to conclude that the project contributed significantly to this outcome.

The project's contribution was significant as it helped to move forward with unpopular reforms, like the excise rate increase (ICR, para 26). The necessary steps to increase the excise rate included: 1. Drafting the amendments to the Tax Code; 2. Government approval; 3. Adoption by the Parliament (ICR, Annex 7). The introduction of the RBF approach provided assurance to Parliament and the government that their tax policy reforms were on the right track by demonstrating alignment between their strategy and project activities (ICR, para 67). The project incentivized the adoption of the laws that paved the way for improving revenue collection as verification protocols and milestones/DLRs for both DLIs/PBCs 1 and 2 required the proof of parliamentary approval. The project generated MDL42.2 million over 2021-2022 that would otherwise not have been generated from: an increase in excise rates for tobacco products for the year 2021; businesses that were able to retain their employees due to subsidy programs; and VAT from the sale of goods by insolvent subjects taxed with VAT on the reverse charge principle (ICR and additional information obtained during the ICR review).

The efficacy of PDO1 is rated as High.

Rating
High

OBJECTIVE 2

Objective
PDO 2: To improve tax compliance.

Rationale
According to the original Theory of Change (ToC), tax compliance was low due to inefficient risk management, limited focus on large taxpayers, outdated audit practices, and lack of expertise in addressing complex tax issues. The activities to address these issues included: develop and enforce updated tax legislation to counter base erosion and profit shifting, implement the ITMS to automate risk assessment, audit trails, and transaction tracking, implement risk-based compliance management, and provide training on compliance risk management, audit practices, and handling complex tax issues. These activities were to improve tax compliance, measured by PDO indicator 1 for tax compliance which measured the increase in additional tax assessed per audit, and PDO indicator 2 for tax compliance which measured the increase in the share of active taxpayers filing income declarations out of the total registered taxpayers (PAD, p. 12, p. 24). A third indicator (PBC3/ DLI3) was added during restructuring No. 1 to measure the improvement in the usability of the STS website.

During Restructuring No. 2 in 2020, PDO outcome indicators 1 and 2 for tax compliance were dropped. However, the ICR (para 30) notes that while there was no achievement to report as of project closing in 2023, there was data on achievement for calendar year CY2019 before the 2020 restructuring.

- **PDO indicator 1** for tax compliance: An increase in additional tax assessed per audit (annual targets increased, except the end target level). The CY2019 target value (+20 percent) was not achieved. **(PDO indicator 1 for tax compliance Achievement: Negligible for 2019; and Negligible for 2020-2023 as data is not available).**
- **PDO indicator 2** for tax compliance: The ratio of active taxpayers/economic agents (legal entities) filing income taxes to all active taxpayers (legal entities). The CY2019 target value (86 percent) for the indicator was slightly over-achieved at 86.88 percent. **(PDO indicator 2 for tax compliance Achievement: High for 2019; and Negligible for 2020-2023 as data is not available).**
- During restructuring No. 1, the project added PBC 3/DLI 3 related to “improving the usability of the STS website.” However, the ICR notes (para 30) that before the remapping of PBC3 to another outcome area, the target value for improving the usability of the STS website had not been

established because the STS was still in the process of procuring the firm to develop the single website. **(PBC3/DLI3 Achievement: Negligible).**

During Restructuring No. 2, PBC 3 was moved to PDO 3 (improve taxpayer services).

Based on these original PDO indicators for tax compliance**, the efficacy of PDO2 is rated Negligible.**

Rating
Negligible

OBJECTIVE 3

Objective
PDO 3: To improve taxpayer services.

Rationale
This outcome area is the only one that remained from the original PDO at project closing. Improvement in taxpayer services was expected to result from the implementation of a number of activities and reforms including an IT capability gap assessment, procurement of hardware and software for the ITMS, taxpayer survey, and consolidating the two STS websites into one and improving the website content and accessibility features. The project's scope was significantly revised to only support a taxpayer satisfaction survey, the purchase of communication equipment and licenses, a new STS website, and staff training to deliver taxpayer services.

The outcome was initially to be measured by PDO indicator 5: decrease in time required to comply with taxes as reported by Doing Business from 186 hours to 165 hours (PAD, Annex 1). However, this indicator was dropped due to the discontinuation of the Doing Business Report during Restructuring No. 3. Additional indicators were introduced to measure the deployment of the STS website, staff training to deliver taxpayer services, capacity building for taxpayer satisfaction surveys, and an increase in taxpayer satisfaction. The causal links between project activities, outputs, and outcomes were logical, and the intended outcomes were monitorable.

- **PDO Indicator – PBC 3.** (post Restructuring No. 2). Improve the usability of the STS website. This indicator was added during Restructuring No. 1 to PDO 2 and moved during Restructuring No. 2 to PDO 3. Baseline: There are two websites, but not fully functional (one for information only and one for filing tax declarations by taxpayers) in 2019. Target: New STS website is used by the taxpayers. The website has at least the following new features: accessible to people with special needs; tax filing; automated information exchange with state websites; final version of legal documents, and online (chat) assistance service. Actual: Target was met. The STS single website is operational since 2022 with enhanced features. **(PBC 3 Achievement: High).**
- **PDO Indicator - PBC 4.** Strengthening the capacity of STS staff to deliver taxpayer services. Baseline: There was no Manual on taxpayer services. Staff had no training. Target: Manual is implemented and eligible STS staff in all offices is trained. Actual: Target was met. The STS developed the Manual on Taxpayer Services and 709 staff from all offices completed the Manual-based training in October 2020. **(PBC 4 Achievement: High).**

- **PDO Indicator - PBC 5.** Introduce an Electronic Taxpayer Survey Tool. Baseline: No tool for taxpayers' feedback. Target: The tool is implemented. Actual: The e-taxpayer survey tool is in operational use. 175 tax officials were trained on the tool's use. 11 surveys were conducted through this tool and STS introduced improvements to the STS's internal processes. In addition, 80 laptops were procured with project funds. **(PBC 5 Achievement: High).**
- **PDO Indicator 5.** Taxpayer satisfaction. Baseline: 76.3 percent of legal entities and 69.2 percent of individuals were satisfied with STS services. Revised Target: Satisfaction increase by 10 percent compared to baseline. Final survey conducted with data disaggregated by gender. Results and suggested actions of the STS to address weaknesses are published on the STS website. Actual: **Target was not met**. In the 2023 taxpayer survey, the satisfaction of legal entities decreased by 0.6 percent to 75.9 percent and that of individuals (disaggregated by gender) increased by 2.8 percent to 71.1 percent. The survey results and STS's action plan to address the weaknesses revealed are published on the STS website. **(PDO Indicator Achievement: Negligible).**

PBC 1 and PBC 2 were moved from PDO 1, to improve revenue collection to PDO 3, to improve taxpayer service when the former was dropped. These indicators were achieved. Additionally, the targets for three IRIs below were met, while one was partially achieved.

- **IRI 1**. The Training Distance Learning System for the most important workflows developed. Baseline: The list of training programs is not identified. Revised target: All identified distance learning courses to support the most important workflows are developed and updated. Actual: Target met for 12 courses developed and set on the MOODEL platform. Three out of twelve identified training programs were developed by STS with support from development partners, including the US Treasury (on Taxpayer Service Manual) and SIDA (under the Institutional Cooperation Project (2018-2021). At project closure, the number of online training materials (including video guides; course materials; video recordings of the training sessions, etc.) increased to 347 **(IRI 1 Achievement: High).**
- **IRI 2**. Number of hits to the STS website. Baseline: 3.5 million. Revised target: 7.15 million. Actual: 10.4 million **(IRI 2 Achievement: High).**
- **IRI 3**. Set the foundation for future STS digital modernization strategy. Baseline: No evidence-based analysis to inform future IT modernization strategy. Target: IT Tax Capability Gap Assessment for the tax administration, and technical specifications for a new ITMS are prepared. Actual: IT Capability Gap Assessment was completed with the inception report accepted by the STS and a draft of the final Assessment report was prepared. The STS was not fully satisfied with the report even after its several revisions and given the upcoming project closure, terminated the contract in November 2023 **(IRI 3 Achievement: Modest).**
- **IRI 4**. Decrease in tax arrears. Baseline: 8.5 percent decrease. Revised target: 6.5 percent. Actual: Tax arrears decreased to 3.9 percent in 2023 measured as the share of tax arrears at the end of the year of tax revenues collected during the year **(IRI 4 Achievement: High).**

Although the ITMS was not implemented, and taxpayer satisfaction fell short of the project target, the project enhanced the usability of the STS website, strengthened STS staff capacity to deliver taxpayer services through training, and developed tools for electronic taxpayer surveys. **The efficacy of PDO 3 is rated Substantial.**

Rating

Substantial

OBJECTIVE 4

Objective

PDO 4: Support business survival & sustain employment in context of COVID-19 through temporary tax relief.

Rationale

This outcome area was introduced under the revised PDO. The project aimed to support the government's efforts to mitigate the negative fiscal impact of social distancing, quarantine, and other COVID-19 restrictions. Temporary tax relief partially funded by the project included payroll subsidies and a VAT refund program, designed to support business survival, boost liquidity, and sustain employment levels. This objective was to be measured by an indicator measuring the share of companies that received subsidies under the payroll and expanded VAT refund mechanisms and continued operating and maintained at least a 60 percent employment level until December 2020 (refer to PBC 6 below).

- **PBC 6**. Maintained employment and business survival in the context of the COVID-19 pandemic, by temporarily providing tax relief. Baseline: No government programs to support business continuity and sustain employment in the context of the COVID-19 pandemic. Target: 75 percent of beneficiary companies that received subsidies under the payroll and expanded VAT refund mechanisms continued operation and maintained employment at 60 percent level compared to April 2020. According to the MoF: i) 96 percent of beneficiaries of the Payroll Subsidy Program (or 399 firms) continued to operate and maintained employment at 99.8 percent as of December 2020 compared to April 2020, and ii) 94.6 percent of beneficiaries (657 firms) of the VAT Refund Program continued to operate and maintained employment level of 85.8 percent in December 2020 compared to April 2020 (target exceeded). **(PBC 6 Achievement: High).**
- **PBC 7**. Established legal frameworks and transparent mechanisms for implementing temporary tax relief to businesses to mitigate the negative fiscal impact of the COVID-19 pandemic. Baseline: Legal frameworks not available. Target: Legal frameworks are established and reports on implementation of Payroll Subsidies and VAT Refund programs are available. Actual: Legal frameworks were established. Report on payroll and VAT subsidies programs were made public in English and Romanian (achieved). **(PBC 7 Achievement: High).**

The tax relief program helped to reduce the impact of COVID-19 restrictions on businesses. There is sufficient evidence to attribute the reported outcomes to the project's timely interventions. **The efficacy of PDO 4 is rated High.**

Rating

High

OVERALL EFFICACY

Rationale

Overall efficacy under the original PDO statement (before revision of the PDO) **is rated as Substantial**. Objective 1, improving revenue collection, is rated **High**. Objective 2, improving tax compliance, is rated **Negligible.** Objective 3, improving taxpayer services, is rated **Substantial**.

Overall Efficacy Rating

Substantial

OVERALL EFFICACY REVISION 1

Overall Efficacy Revision 1 Rationale

Overall efficacy under the revised PDO statement is rated as Substantial. Objective 3, to improve taxpayer services, is rated **Substantial**. Objective 4, to support business survival and employment through temporary tax relief, is rated **High**.

Overall Efficacy Revision 1 Rating

Substantial

5. Efficiency

Economic Analysis. The economic analysis at appraisal quantified the likely costs and benefits of the project for taxpayers and the STS. For taxpayers, expected benefits included reduced time spent on tax compliance and inspections, while the STS anticipated optimized processes through automation and related tax administration reforms. The ERR was estimated at 23.0 percent and the NPV at US$3.6 million, focusing on direct benefits only. The financial analysis projected increased budget revenues, especially through improved VAT collection and compliance, yielding an IRR of 48.0 percent and an NPV of US$3.0 million. Since the project's scope and objectives changed significantly, the economic analysis conducted at appraisal was no longer applicable to the efficiency analysis at closing.

The TAMP restructuring focused on revenue collection, mainly taxpayer services, to supporting business survival and employment in response to COVID-19. The tax subsidies for businesses and employment would also ensure a sustainable stream of fiscal revenues after the pandemic. The economic analysis quantified direct benefits, specifically the avoided costs of worker replacement, yielding a net present value (NPV) of US$1.9 million and an ERR of 73.0 percent at a 14.0 percent discount rate for 2017-2025. Financially, TAMP was expected to support revenue generation through increased excise taxes on tobacco, VAT collection via reverse charge, and retained employment taxes due to subsidies. The financial analysis, using a 15.0 percent discount rate, projected an NPV of US$28.0 million and an internal rate of return (IRR) of 163.0 percent. Additional unquantified benefits included improved STS website functionality, enhanced data handling confidence, and increased STS staff satisfaction (RES41570, para 37).

The ICR reported high project efficiency based on the project's economic and financial analysis at completion (*ex-post*) using the methodology presented at the time of Restructuring No. 2 in 2020, applying most of the above assumptions, with updated benefits and costs. The financial internal rate of return (IRR) was estimated at 213.0 percent with an NPV of US$8.8 million. The revenue increase was significantly lower than estimated at the time of Restructuring No. 2 in 2020 when the cost-benefit analysis projected NPV at US$28.0 million. The ex-post estimates were lower because the ICR conservatively accounted for only short-term effects (2021-2022) while ex-ante analysis assumed a long-term increase in fiscal revenues. The ICR estimated an ERR at 446.0 percent with an NPV of US$10.8 million. This ex-post cost-benefit analysis estimated higher returns than the analysis at restructuring (ERR 73 percent, NPV US$1.92 million) because subsidies were more successful than anticipated at maintaining employment for beneficiary firms in the short term (ICR, para 38-39).

On **operational efficiency**, IEG notes that while the project took 6 years and 10 months to implement from January 2017 to November 2023, its overall financing remained unchanged at US$20 million. Overhead costs were low and there were no cost overruns. Disbursements were slow but accelerated after Restructuring No. 2 in 2020. Project management costs were 0.5 percent of the loan amount, according to the ICR (para 40), due to STS's decision to rely on in-house capacity. Restructuring No. 1 to 3 required additional resources from the Bank and the STS, but they accelerated disbursements, completion of results and achievement of the PDO. Based on the economic and internal rates of returns presented in the ICR and this discussion, IEG considers the operational efficiency of the project to be Substantial.

Implementation and administrative efficiency. IEG highlights that only 10.0 percent of total funds were disbursed between the project's effectiveness in January 2017 and January 2021, four years into implementation and one year before the original closing date of December 31, 2021. Disbursements increased only after the project was substantially restructured in 2020 reallocating 75.0 percent of the original total project financing from ITMS activities to support the government's COVID-19 economic relief efforts. This disbursement pattern suggests weak government ownership of the original project design that significantly affected the project's administrative efficiency and led to a 23-month extension. Although not formally rated, IEG notes that the administrative efficiency of this project was modest.

The overall efficiency rating is **Substantial**.

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	✓	73.00	100.00 ☐ Not Applicable
ICR Estimate	✓	446.00	100.00 ☐ Not Applicable

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

6. Outcome

The overall outcome rating for the project is Satisfactory. This reflects a **High** rating for the relevance of objectives, a **Substantial** rating for overall efficacy before the PDO revision, a **Substantial** rating for overall efficacy after the PDO revision, and a **Substantial** efficiency rating. The overall outcome rating, applying the split rating method, is shown in the table below.

Rating Dimension	Original PDO before Restructuring No. 2	Revised PDO after Restructuring No. 2
Relevance of Objectives	High	
Efficacy:		
PDO 1: To improve revenue collection	High	N/A
PDO 2: To improve tax compliance	Negligible	N/A
PDO 3: To improve taxpayer services	Substantial	
PDO 4: Support business survival & sustain employment in the context of COVID-19 through temporary tax relief	N/A	High
Overall efficacy	Substantial	Substantial
Efficiency	Substantial	
Outcome rating	Satisfactory	Satisfactory
Outcome rating value	5	5
Amount disbursed	US$1.91 million	US$18.32 million*
Disbursement	9.5%	90.5%
Weight value	0.47	4.53
Total weights	5	
Overall outcome rating	Satisfactory	
*Based on total actual disbursements of US$20.23 million equivalent as of March 31, 2024, which is above the original total financing equivalent of US$20.0 million due to exchange rate gains.		

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

Overall, the project enhanced taxpayer services in Moldova and ensured business continuity during COVID-19. Nevertheless, the acquisition of an ITMS, which was dropped during Restructuring No. 2, remains a crucial element for the long-term sustainability of the development outcome. There is a greater need for an ITMS today than when the project was approved, as the pandemic has negatively impacted economic activity as well as compliance and revenue levels from 2020 forward. Moreover, the sustainability of the project achievements continues to be constrained by external shocks and governance challenges. To strengthen and modernize Moldovan tax administration, future government commitments need to ensure the continuation of supportive policies and adequate budgetary provisions, including the introduction of the ITMS.

8. Assessment of Bank Performance

a. Quality-at-Entry

The design of the project benefitted from the DFID Tax Legislation Review, previous analytical work by the IMF on Moldova, and WBG-financed analytical work on information technology investment needs at STS. The design also benefitted from the experience of the WBG team on tax administration reforms in Ukraine and Bulgaria which had similar country contexts. According to the TTL at project appraisal and during implementation, the team consulted extensively with all core development partners, including the IMF, EU, and bilateral development partners, during project design and implementation on issues related to the tax policy and administration areas. The project's TTL explained the cancellation of TA activities that could be grant-financed by other development partners in 2019 was due to the government's decision to finance TA from grants instead of loans. Funds were reallocated to the RBF model which specified the results to be achieved for tax policy reforms and institutional development of the tax administration. Moreover, the TTL noted that the resident US Treasury Adviser in the STS served as an informal adviser for the TAMP and co-sponsored PBC 4 with its support to the development of the Manual for Taxpayer Services and delivery of training (ICR, para 70).

During project preparation, the team may have overlooked a strategic misalignment between the project's goal to implement a new ITMS and the STS's preference for enhancing its existing system. Although 80 percent of project funds were allocated to improving IT infrastructure, acquiring a new integrated ITMS, and modernizing tax management functions to support this system, the ICR (para 60) notes that STS continued investing in and adding components to its current system, signaling a preference for improving the existing system. Consequently, the government's commitment to a new COTS ITMS was overestimated, leading to multiple strategic shifts—from acquiring a COTS to a hybrid approach combining COTS and customized modules, and ultimately to enhancing the existing system using government funds. Better understanding of beneficiary needs and strategic priorities could have prevented costly delays and inefficiencies.

There were also risks related to the project's ambition against the instability of political coalitions. The project proposed very ambitious activities seeking to improve STS's institutional arrangements and management systems to implement a highly automated, low-discretion, risk-based system at a moment when Moldova was still coping with political and market transitions. **The ICRR rating is Moderately Satisfactory**.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

According to the ICR, the WBG conducted regular supervision of the project, with support missions generating 14 ISRs during the project's lifetime. There was only one change in TTL over an almost seven-year period. Sound handover from project preparation to closure ensured institutional memory, engagement with government authorities, and implementation continuity. There was also a balance between staff based in the WBG headquarters in Washington, D.C., and staff based in Moldova and the Europe and Central Asia region. A Midterm Review was held virtually from July 9 to 15, 2020.

The ICRR considers that the quality of supervision was affected by the weak implementation capacity of the STS. This is acknowledged in the ICR as the reason why the WBG team introduced monthly virtual supervision meetings before the COVID-19 pandemic (ICR, para 62). Progress towards achievement of the PDO was rated moderately unsatisfactory (MU) during Restructuring No. 1 in 2019 due to implementation delays identified during project preparation that materialized during implementation. The WBG's team could have recognized earlier than Restructuring No. 2 when the ITMS solution was dropped that the new STS management was reluctant to pursue a COTS solution for the ITMS. Instead, the WBG team provided additional support for the STS to fully understand the implications of COTS and hybrid solutions through a feasibility study (ICR, para 63). The ISRs could have been better used to report on the challenges in the government's commitment to the ITMS and communicate earlier to management the impact of this delay on achieving the original PDO. IEG considers the overall outcome of the project as Satisfactory, however, this rating was made possible because of the high efficacy of the COVID 19 related objective despite the lower administrative efficiency. The ICRR rating for overall WBG performance is **Moderately Satisfactory.**

Quality of Supervision Rating
Moderately Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
This ICRR concurs with the ICR that although the PAD lacked a TOC diagram, which was not required at the time, the narrative sufficiently detailed how the PDO was to be met. The original results chain between activities, the six intermediate indicators, and the five PDO indicators were clear and understandable. Most indicators were specific and measurable, except for the IRI: "taxpayer satisfaction," due to the lack of a baseline at the time of appraisal which is why the team used a 2018 survey to establish a baseline. This issue worsened when "time required to comply with taxes" was dropped as an indicator because of its use of the discontinued Doing Business Report, and "taxpayer satisfaction" became a PDO indicator. The use of satisfaction surveys can be problematic due to their susceptibility to various factors. Additionally, the project's ICR noted the absence of gender-disaggregated data, which would have been useful to evaluate the impact of temporary tax relief during COVID-19 on different genders.

b. M&E Implementation

The project used in-house resources to staff the Project Implementation Unit (PIU). that During the ICR Review, it was determined that there was no need for a dedicated Monitoring and Evaluation (M&E) specialist as “the indicators were chosen such that they were easy to monitor and/or come from existing reporting mechanisms of the government and would not require special arrangements to collect.” An M&E manual was not required. The ICR noted that M&E data collection and analysis was done in a methodologically sound manner throughout project implementation. The status of M&E during the MTR informed the restructuring of the project highlighting which indicators needed to be revised and/or dropped.

Using government officials to staff PIU can strengthen ownership but cause implementation delays as staff take time to familiarize themselves with WBG procedures. Despite this, the overall M&E data collection arrangements were deemed adequate, and STS provided regular project reports including relevant M&E data, as captured by regular ISRs, which rated M&E for the most part of the project as satisfactory (ICR, para 55).

c. M&E Utilization

The project's M&E framework, supplemented with updated M&E data, guided discussions during the three project restructurings. However, the ICR did not mention if data was also utilized during the MTR, but during the ICR Review, it was confirmed that although a specific discussion of the MTR was not included in the ICR, M&E data guided the MTR and informed the project restructuring. The RF was updated and revised during each restructuring including the revisions such as the modifications in procedures and methodologies to address areas of taxpayer dissatisfaction under the outcome area of improved taxpayer satisfaction.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The project falls under Category C and has not triggered any environmental and social safeguards policies. Since no building or repair activities were undertaken as part of the project implementation, it is considered to have had no impact on environmental and social safeguards.

b. Fiduciary Compliance

The fiduciary risk rating ranged from Substantial to High due to procurement issues, particularly after Restructuring No. 2 when resources were shifted to RBF. Financial management performance was rated Satisfactory throughout the project life cycle.

Procurement performance was negatively affected by the limited experience of STS staff in the project management division, and the absence of a procurement consultant. Procurements were organized in line with WBG procedures and rules but with delays. During the 2019 restructuring, the WBG team proposed to STS to hire a Procurement Specialist and an IT Technical Lead soonest to ensure the supervision of ITMS's development. In the May 2020 ISR, the procurement of services to develop bidding documents for ITMS was suspended, making impossible further progress under Component 3: "Information Technology (IT) Infrastructure and System Modernization" which accounted for US$15.76 million or 78.0 percent of WBG financing before the 2020 restructuring. Procurement performance was rated Moderately Unsatisfactory (MU) before Restructuring No. 2, and then upgraded to Moderately Satisfactory, as project funds were redirected towards PBCs, and eventually upgraded to Satisfactory by the end of the project. However, compliance with the project's procurement procedures, rated Satisfactory, might have been overrated. Despite efforts to mitigate risks, Moldova's procurement system weaknesses led to substantial delays.

c. Unintended impacts (Positive or Negative)

The ICR notes that the project had a significant impact on the institutional strengthening of STS. STS's completion report described how TAMP helped STS implement significant organizational structural changes and the adoption of new tax administration practices, including the unification of the original 35 legally independent local offices into a single legal entity, the upgrade of almost half of STS workstations, and systematic training of STS professional staff (ICR, para 43).

d. Other

N/A

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	Shortcomings in quality at entry and supervision
Quality of M&E	High	Substantial	Observations in implementation and utilization
Quality of ICR	---	Substantial	

12. Lessons

The WBG's experience with the TAMP in Moldova highlights several insightful lessons noted in the ICR which IEG agrees with. This ICRR would like to offer one additional lesson: **While reallocating funds for urgent needs, such as COVID-19 relief, can provide immediate benefits, it can detract from core objectives, leaving critical reform areas, like tax modernization, unaddressed.** With 80.0 percent of project funds initially allocated to IT infrastructure, acquiring a new integrated ITMS, and improving tax process, this project aimed to modernize the tax administration to improve tax collection and compliance. However, the project's disbursement pattern (10.0 percent over the first four years) indicated a lack of government commitment to implementing key planned activities and achieving these objectives. Reallocating funds meant for critical structural reforms to address urgent but unrelated needs detract from addressing critical development challenges.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides a clear, concise, and comprehensive narrative of the project which was very complex with three restructurings and a revised PDO during the restructuring No. 2 in September 2020. A TOC is illustrated in Figure 1 (p. 5) developed by the ICR team ex-post as this was not required during project preparation. Information is presented in a clear and structured manner, helping to understand all three restructurings. Annex 1 presents the RF and Key Outputs and summarizes the status of the achievement of targets at the end of the project.

The analysis was comprehensive and balanced, providing a clear understanding of project outputs and outcomes, both intended and unintended. The lessons learned were clear and they logically flow from the data and analysis provided in the ICR.

a. Quality of ICR Rating

Substantial