

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC87345

Project Name	Mobilize Domestic Revenues by Strengthening Tax Systems as Development Tools and Building Tax Policy Analysis Capacity
Region	SOUTH ASIA
Country	Pakistan
Lending Instrument	IPF
Project ID	P161463
Borrower Name	The Islamic Republic of Pakistan
Implementing Agency	Federal Board of Revenue
Environment Category	C - Not Required
Date PID Prepared	11-Jan-2017
Estimated Date of Approval	30-Jan-2017
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Pakistan's economy is struggling to slowly recover from a low investment, low-growth trap. This has been characterized by a weak external position; and a consistently weak fiscal position stemming largely from poor revenue mobilization. The Government of Pakistan (GoP) has recognized the urgency of the economic situation and has launched Economic Reform Program (ERP) which includes the creation of fiscal space as one of its objectives.

A Multi-Donor Trust Fund for Accelerating Growth and Reforms (TAGR) has been set up to support the Government's ERP by filling knowledge gaps and strengthening the capacity of key institutions to design and implement the overall reform agenda. The Revenue Mobilization pillar of TAGR adopts a holistic approach to resource mobilization and includes tax policy reforms and tax administration modernization efforts. This component envisages a series of analytical and advisory activities and places a great emphasis on the modernization of IT systems.

From a very low baseline, revenue mobilization has substantially increased during the first year of TAGR program implementation supported by strong commitment from the authorities. Tax-to-GDP ratio has steadily risen from the 2013-14 baseline of 10.5% of GDP to 12.4% in 2015-16. While this progress is encouraging, Pakistan's tax capacity is estimated at 22.3% of GDP.

The TAGR was built on lessons learned from the 2005-11 Tax Administrative Reform Project (TARP). The success of the TARP Project was limited by inadequate technical assistance, a limited local presence, and low prioritization of tax policy reforms. TAGR has provided on-demand technical assistance at the federal and provincial levels, a significant local presence, and high availability of technical assistance complement results-based lending instruments.

Revenues increases have been supported by a concerted program of technical assistance provided by development partners. To sustain these gains and close the tax gap, longer-term tax administration improvements are required to meet the 14.5% tax-to-GDP ratio target by 2020.

Sectoral and Institutional Context

Project Rationale and Alignment with National Plans

Fiscal research and tax policy analysis are powerful instruments that will help informing the policies to increase fiscal space and provide for a more effective, efficient, and equitable tax system. Good analytical capacity will allow for 1) a better establishment of revenue targets, 2) an improved understanding of loopholes and tax fraud patterns, and 3) a better understanding of tax system complexities.

To generate the required information for policy analysis, IT systems are increasingly used as management tools. However, the existing FBR infrastructure purchased with the last TARP project completed in 2010 is outdated and unable to fulfill growing demands. FBR recognizes that technology can be both a facilitator and driver of change, and therefore has focused in the implementation of an ICT strategy. A strategic vision that not only describes the technologies and characteristics that need to be provided but also implements the necessary governance structures that allow leveraging the vision towards a cycle of incremental improvements over time. FBR wants to follow best practices that aims to transform FBR from a process-oriented to an analytical-driven organization that uses information to achieve its projected business goals.

Automation is critical for the goal of expanding the taxpayer base and controlling data analytics accuracy as documented in the FBR ICT strategic plan. To achieve an effective automation, the FBR is proposing a five-year strategic plan that will shift the organization towards the use of analytic and business intelligence. This shift, however, requires substantial change in the organization, and this change must be supported by a Change Management Program. This program details a general strategy to consolidate 100% electronic transactions in a paperless organization to increase the effectiveness of the tax collection system. The Change Management Plan identifies three areas of interest: Electronic Operations, Integrated Systems and Effective Governance and Software Development Management.

Despite the strategic importance of data and analysis, FBR lacks both modern data centers and the institutional set-up and capacities to convert data into intelligence. As such, there is a critical need 1) to modernize data centers and 2) to set-up dedicated research and analysis units with the mandate of performing analytical studies on revenue forecasting, compliance gaps, compliance and administrative costs, and the impact of tax policies.

The proposed project is aligned with the objectives of the Government vision 2025. The third pillar of this vision covers a new governance paradigm civil service reforms, judicial, police, and tax reforms. The main emphasizes of tax reforms is promoting tax compliance, improvement of IT Data and Systems for boarding tax base, and improving accountability and transparency.

Relationship to CAS/CPS/CPF

There is a holistic approach to domestic revenue mobilization which is aligned with the World

Bank's current Country Partnership Strategy (CPS) for Pakistan. It reflects strong links between tax policy design and tax administration modernization efforts and the need to take into account both the revenue and expenditure side of the fiscal policy equation. Moreover, when it comes to tax administration reform, there is a strong focus on outcomes/results that should materialize in a greater fiscal space to fund quality social expenditure.

II. Project Development Objective(s)

Proposed Development Objective(s)

The PDO is to support policy-makers to make informed decisions to mobilize domestic revenues.

Key Results include

- 1) Enhanced information management systems;
- 2) Tax Intelligence Unit and Market Monitoring and Intervention Unit set up, and
- 3) Analytical reports produced on a regular basis for decision-making.

Key Results

Project Proposed Activities

Component 1 - Updating Tax Administration data center to strengthen FBRs Capacity in IT

The project will update the Data Centers, including Storage, Servers and Network Equipment, and support the implementation of the change management program. The expected outcome is an integrated ICT data center that effectively conveys information to decision makers. This project will completely update Data Centers into Private Cloud Data Center. The new Data Center will not only reduce physical equipment, save power consumption and reduce administrative cost, but it will also increase effectiveness and generate business intelligence from extensive utilization of analytics and transforming data collected. It will also allow the use of specialized tools for centralized monitoring and data management. Moreover, this will optimize the infrastructure, automate service delivery that will be able to respond more quickly to business demands. By doing cross-data analysis and intelligent reporting, FBR will be able to identify opportunities to close the gap of non-compliers, and deploy collection methods and effective risk-based audit analysis. This effective data mining would help FBR to analyze data of thousands of taxpayers and identify common attributes and trends.

FBR wants to update the data center to meet the growing requirements. It is expected that this project will support the implementation of the Change Management program, which will efficiently increase the Tax revenue several fold. FBR is focusing on revolutionizing information systems, particularly in Income Tax, Sales Tax and Customs. FBR is in dire need to implement following technologies in the data centers: 1) establish the Active-Active Cloud Data Center, 2) Migrate the services and application to Cloud rendering the IT resources agile and elastic; and 3) introduce automatic and intelligent Data Center providing unified management. The data center update will require the acquisition of servers, SAN and network equipment as well as software installation and system upgrading. Among the eligible expenses include software, data center servers, and storage and backup clouds and networks.

The modernization of new data centers will contribute to a larger fiscal space and domestic revenue mobilization through increased compliance. The project will provide better working environment for the FBR/PRAL officials thus result in an enhanced efficiency. This will provide better online facilities to the taxpayers at accessible locations and an increase of number of taxpayers due to the easy access. This will ensure increase in tax collection through broadening of tax base at the grass root level, and through voluntary compliance. Overall, there will be a positive impact on the taxpayer community through better facilitation.

III. Preliminary Description

Concept Description

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	4.9	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
DFID/Bank Partnership for Education Development			4.9

VI. Contact point

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