



<b>1. Project Data:</b>		<b>Date Posted :</b> 08/10/2000	
<b>PROJ ID:</b> P008496		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Tax Administration Modernization Project	<b>Project Costs (US\$M)</b>	55.6	51.47
<b>Country:</b> Hungary	<b>Loan/Credit (US\$M)</b>	29	24.60
<b>Sector(s):</b> Public Financial Management	<b>Cofinancing (US\$M)</b>		
<b>L/C Number:</b> L3635	<b>Board Approval (FY)</b>		94
<b>Partners involved :</b>	<b>Closing Date</b>	06/30/1997	06/30/1999
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
<b>2. Project Objectives and Components</b>			
<b>a. Objectives</b>			
To help strengthen tax administration in line with the ongoing tax reform to achieve sustainability of revenues, in light of Hungary's newly introduced set of taxes (the VAT, personal income tax, and enterprise profits tax ) more suited to a market economy and the huge increase in the number of tax returns for private enterprises .			
<b>b. Components</b>			
(1) Institutional development through the financing of 18 months of short-term experts to provide advice on specific improvements in tax administration and improvements in administration and work management; (2) development and implementation of a new information technology system, including : (a) technical assistance to guide the development of a tax applications systems software, to operate on new computer systems; (b) mainframe computers for the Tax and Financial Controls Office (APEH) headquarters and Budapest branch office, minicomputers and microcomputers for county offices, associated peripheral equipment; (c) software development tools; and (d) administrative software packages; and (3) training in development and the use of applications systems .			
<b>c. Comments on Project Cost, Financing and Dates</b>			
The project cost US\$51.47 million, of which US\$24.6 million was financed by the IBRD loan, and US\$26.87 million was financed by the government. The project was appraised in December, 1992, made effective on January 12, 1994, and closed on June 30, 1999, 2 years later than the original closing date .			
<b>3. Achievement of Relevant Objectives:</b>			
The overall objective of the project to strengthen tax administration and achieve sustainability of revenues was achieved. More specifically, it showed the following progress on individual components : (1) Institutional Component. Among the specific improvements assisted by the project's short -term experts were development of standardized payment forms, redesigning tax return forms, development of selection criteria for VAT audits . APEH operations were improved by introduction of a new methodology of documenting workflow procedures, improved management of documents and administrative processing, and a core information system for tax processing to assist decentralized tax account management, a comprehensive taxpayer registration system, systems to support audit selection, and improved quality assurance capacity . (2) Information Technology Component. APEH's computer equipment was modernized with minicomputers, large servers, desktop and laptop computers of APEH staff, and new software and software development tools, and (3) Training included successful completion of a decentralized training system, preparation of numerous manuals, courses offered, etc ., so that over 4,000 staff were trained in the training programs of the project.			
<b>4. Significant Outcomes/Impacts:</b>			
APEH is now able to process quickly tax returns, inform taxpayers about their debts with accuracy and timeliness, promptly identify those who could be evading large tax obligations, process tax collection information and statistical data quickly and accurately, organize countrywide training programs . APEH also had the institutional framework to develop and implement future organizational and applications development based on its current structure and the new capacity of the IT systems and applications .			
<b>5. Significant Shortcomings (including non-compliance with safeguard policies):</b>			
The project experienced serious implementation difficulties as noted in the QAG evaluation on the quality of supervision conducted in July/August 1999. The GAQ evaluation raised the following issues: The design of the project did not take into account the degree			

of commitment to the project that the agency in charge of implementing it might have. The project was plagued with internal strife among the executing agencies' staff that resulted in frequent reversions in the direction of the modernization efforts. The counterpart funds did not support the Bank assisted components. The audit process was not in compliance with loan conditions. The task team noted suspicions of irregularities (possibly fraud and corruption) but no legal action was taken. M&E system was not put in place. In FY99, the project team consistently rated the project as satisfactory while it was in "deep trouble".

The ICR recognized most of the above concerns and provides a longer lists of additional concerns with project design and implementation. In all cases, the project team appeared to have made a sincere effort at resolving the difficulties and moving the project forward. Some of these difficulties were clearly beyond the task team's control e.g. changes in the political regime and the top management of the tax administration agency. Rapid changes in the tax regime and internal resistance to assimilation of new technology made the task even harder. The QAG evaluation documents their failings. The borrower also notes that the project lost its focus on tax administration and instead concentrated on information technology. However, the project set fairly clear goals focused on improving tax processing and tax information and was successful in achieving most of these though with a delay of two years. The project registered significant gains in processing and dissemination of tax information and upgrading the IT systems.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	Substantial	Substantial	
<b>Sustainability :</b>	Highly Likely	Highly Likely	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	Borrower performance overall was satisfactory although commitment varied with changes in the Government during implementation.
<b>Quality of ICR :</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

#### 7. Lessons of Broad Applicability:

(1) For projects with a large range of detailed components as in this project, it is important to have a mix of professionals in supervision which can keep a focus on implementation priorities and sequencing . (2) Detailed planning is important at the preparation stage for projects with large IT components to increase the realism of implementation plans and timetables. (3) IT departments should not manage the process of change, but should be guided by professional tax administrators who can draw on IT and other perspectives .

**8. Assessment Recommended?**  Yes  No

#### 9. Comments on Quality of ICR:

The ICR offers a clear presentation of the project and its context and achievements . It offers substantial detail not only in Annex 1 (key performance indicators) and the Component Completion Status Summary following Annex 5, which is then admirably compressed and prioritized and presented in the body of the text . This reflects considerable care and thought in preparation of the ICR . The ICR also explains very clearly changes in government views of the project over time and the steps taken by the Bank to continue to work closely with the government through these times to successfully support project implementation, albeit with some delay . The ICR incorrectly reports QAG ratings for this project. The QAG in July-August 1999 rated the project "unsatisfactory" in supervision quality. In addition, the PSR dated June 7, 1996 rated the project unsatisfactory and at risk . Had it not for this misreporting, the ICR would have been rated "exemplary" by OED for its candid discussion of the project's successes and failures .