

Document of
The World Bank

FOR OFFICIAL USE ONLY

LN. 3294-TH

Report No. P-5357-TH

MEMORANDUM AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
IN AN AMOUNT EQUIVALENT TO US\$32.0 MILLION
TO THE
KINGDOM OF THAILAND
FOR A
TAX COMPUTERIZATION PROJECT

JANUARY 7, 1991

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

CURRENCY EQUIVALENTS
(as of June 1990)

Currency Unit	-	Baht (฿)
฿ 1	-	US\$0.0388
US\$1	-	฿ 25.8

ABBREVIATIONS AND ACRONYMS

MOF	Ministry of Finance
NCS	New Computer System
p.a.	per annum
RD	Revenue Department
VAT	Value-Added Tax

FISCAL YEAR

October 1 to September 30

THAILAND

TAX COMPUTERIZATION PROJECT

LOAN AND PROJECT SUMMARY

Borrower: Kingdom of Thailand
Amount: US\$32 million equivalent
Terms: 17 years, including 5 years of grace, at the standard variable interest rate.

Financing Plan:

	<u>US\$ million</u>
World Bank	32.0
Government	41.2
TOTAL	<u>73.2</u>

Economic Rate of Return: N.A.

Staff Appraisal Report: Report No. 8931-TH

Map: IBRD No. 22473

MEMORANDUM AND RECOMMENDATION OF THE PRESIDENT
OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED LOAN
TO THE KINGDOM OF THAJLAND
FOR A TAX COMPUTERIZATION PROJECT

1. The following memorandum and recommendation on a proposed loan to the Kingdom of Thailand for US\$32 million equivalent is submitted for approval. The proposed loan would help finance a Tax Computerization Project and would be for a term of 17 years, including a five-year grace period, at the Bank's standard variable interest rate.

2. Background. Taxation is the main source of government revenues in Thailand, accounting in 1989 for almost 90% of total revenues and 16.6% of GDP. Largely due to the country's rapid economic development and improvements being made in the tax administration system (para. 4), Thailand's tax revenues have been increasing rapidly, rising from B 142 billion in 1985 to B 280 billion in 1989. The increases have been particularly large for the Revenue Department (RD) in the Ministry of Finance (MOF), which collects the business tax and corporate and personal income taxes. In 1988 and 1989, RD's tax revenues grew by 25% p.a., compared with an inflation rate of about 5% and a 5.5% increase in the number of taxpayers. Tax revenues are expected to continue to grow at high rates due to the continuation of the country's strong economic performance.

3. The existing tax processing system is not able to handle the current, much less the future, volume of work. The computer now in place is too small to be used for routine activities like mathematical verifications, matching of information, issuance of arrears notices, etc. for taxes other than the personal income tax. Outside of Bangkok, the computer is used only to print pre-addressed labels and prepare tax payment statistics. Currently, only about 38% of the country's 6.5 million tax returns and only 60% of the returns for personal and corporate income taxes are computer-processed. The remainder are dealt with manually, delaying completion of processing well beyond the three-month period prescribed by law. This affects tax compliance, collection of statistics and management of the tax system. Even if the existing system were able to double the number of computer-processed returns by 1991, about 2.2 million returns would still need to be processed manually each year and 10 million other documents would remain unprocessed.

4. Recognizing that an efficient, equitable tax administration system is basic to successful economic development and social stability, in 1988 the Government adopted a policy for tax system restructuring and placed new fiscal priority on improving tax collection management and revenues. The objective was to introduce an improved, decentralized tax administration system. Approval has been given to the general principles for restructuring the Kingdom's tax system, in particular, its legislation, staffing, budgeting, communications and computerization. The proposed project would support these reforms by providing RD with a new computer system (NCS) for the establishment of an integrated computerized system of tax administration.

5. The RD, although constrained by its lack of adequate computer facilities, has shown greatly increased efficiency and effectiveness over the

last few years. Between 1986 and 1989, the amount of taxes collected by RD increased by an average of 27% p.a. and the ratio of the revenue collected to its collection cost increased from about 110 to 185. Overdue tax receivables were reduced from about 21% of tax collections to about 12% and, while the number of taxpayers increased by more than 20%, the number of overdue taxpayers was reduced by 5%. During this period, the tax collected per RD employee doubled from B 6.5 million to B 12.5 million.

6. Rationale for Bank Involvement. The proposed project would support the establishment of a modern tax administration system which would, in line with the Bank's lending strategy for Thailand, increase government revenues, support improved fiscal policies, and ensure efficient and fair tax collection, so that all taxpayers contribute equitably to the country's development. During project preparation, the Bank provided technical advice in the design of a computer-based tax collection system based on the experiences of other countries. During implementation RD would benefit from the Bank's experience in the procurement of computer hardware, software and technical assistance, which is technically complex for a system of this size, as well as from the Bank's use of transparent evaluation methodologies. Bank assistance to the project would also ensure that attention is paid not only to the commissioning of hardware but also to implementation of the overall tax administration system, including institutional development, technology transfer and staff development to sustain system operations.

7. Project Objectives. The project's main objective is to improve the overall tax administration in Thailand through the provision of appropriate hardware, software and systems for tax processing and analysis. The project would assist RD to establish a comprehensive, integrated database management and processing system for all taxes it administers. This will result in faster and more efficient processing and collection of revenues needed by the country. The proposed computerization of RD's tax administration would also facilitate Government's plans for the replacement of the present business tax with a value-added tax (VAT) under the overall tax reform.

8. Project Description. The project includes all hardware and related data-entry processing equipment, software, training and technical assistance required by RD to establish an advanced tax collection and processing system throughout the country. The project components are as follows: (a) hardware to process and audit all major taxes, comprising: two large mainframes, disk and tape systems for Bangkok; 9 medium-sized mainframes at the regional level; 48 smaller computers at the provincial level; and about 1,300 microcomputers at the district level; (b) development and implementation of all software for an integrated tax system, including personal income tax, corporate income tax, withholding tax, business tax and VAT, as well as general software and management information systems; (c) technical assistance to RD for: (i) a study to improve its organization and procedures, as needed, to operate the new computerized tax administration system; (ii) support for a comprehensive training program for all RD staff, particularly those responsible for computer operations; and (iii) project implementation and supervision; and (d) provision of complementary facilities and services, including buildings, air conditioning, and communications.

9. The proposed project would be carried out by MOF. The computer system would be supplied under a turn-key contract, which includes hardware, software, training and operational support. RD's existing and already quite substantial training programs would be continued and expanded throughout the project period. The project cost is estimated at US\$67.9 million equivalent, with a foreign exchange component of US\$51.8 million equivalent (76%) and taxes and duties estimated at about US\$12 million equivalent. The total financing required, including interest during construction, is US\$73.2 million, of which the Bank would finance US\$32 million (56% of the foreign exchange and 44% of the total) and the Government would finance the remaining US\$41.2 million. A breakdown of costs and the financing plan are shown in Schedule A. Amounts and methods of procurement and of disbursements, and the disbursement schedule are shown in Schedule B. A timetable of key project processing events and the status of Bank Group operations in the Kingdom of Thailand are given in Schedules C and D, respectively. The Staff Appraisal Report, No. 8931-TH, dated January 7, 1991, is being distributed separately.

10. Agreed Actions. Since early completion of implementation arrangements is critical for this technically complex project, as conditions of effectiveness of the Bank loan, RD will: (a) appoint one high-level computer specialist for the Project Office; and (b) appoint consultants for project implementation. Assurances were obtained from Government during negotiations on: (a) an Action Plan for project implementation; (b) submission to the Bank for comments by April 30, 1991 of a summary three-year RD Staff Development Plan to ensure adequate expansion and training of RD staff; (c) RD's engagement by July 31, 1991 of a training consultant to assist in preparing a staff training plan and of two local specialists to assist in preparing and implementing training programs under the plan; (d) completion by October 31, 1992 of a study to adapt RD's organization and procedures to the new computerized tax administration system being introduced; and (e) appointment of additional staff for the Project Office by May 1, 1992.

11. Benefits. The proposed project would help improve Thailand's overall tax collection system, increasing its efficiency, effectiveness and equity. Specifically, the project would increase RD's efficiency in processing the growing number of tax returns as well as decentralize the processing of tax returns, improve access to tax records, promote auditability at each level, provide adequate customer records, and facilitate the introduction of a VAT to replace and improve upon the current business tax. The computerized tax system is also expected to reduce tax evasion, improve the equity of the system, and increase the country's tax revenues. The reduced tax evasion is expected to result from system capabilities like cross-checking, faster processing of tax returns, selective and random auditing, and full integration of all taxpayer records, as well as improved voluntary compliance with tax laws and more accurate reporting due to the taxpayers' perception of RD's improved capability to audit and verify data with the new system. Since the project would mainly improve the efficiency of tax collection and result in a transfer of tax revenues, it is not possible to estimate its economic rate of return. The project's financial costs and benefits can, however, be calculated. The NCS has a benefit-to-cost ratio of 18, at a 10% discount rate, indicating an extremely high financial rate of return of 541%. Moreover, the full project cost will be recovered by an increase in tax revenues of just 0.7% in a single year.

12. Risks. The main project risk is associated with the procurement process. In general, the award of large contracts for computer hardware and software is technically complex, controversial and subject to political pressures. This risk has been minimized in the proposed project by establishing a clear, transparent system for procurement of the new computer system, under a turn-key contract. While there is little risk related to overall project implementation, given the rigorous qualifications proposed for the turn-key contractor, there is a risk that RD may not be able to retain adequately trained and qualified staff for the operation and development of its much-expanded computerized tax administration system. This risk is lessened by the massive training programs included in the project (which have provisions for expected staff attrition), the initial operation of the system by the supplier, and the potential to prolong this assistance, if needed.

13. Recommendation. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank and recommend that the Executive Directors approve the proposed loan.

Barber B. Conable
President

Attachments

Washington, D.C.
January 7, 1991

THAILAND

TAX COMPUTERIZATION PROJECT

ESTIMATED COSTS AND FINANCING PLAN

Estimated Project Cost:

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>
	- - (US\$ million) - -		
Hardware and equipment	0.3	34.7	35.0
Software and implementation management	4.4	6.6	11.0
Other computer costs	<u>2.0</u>	<u>2.6</u>	<u>4.6</u>
Subtotal hardware and software	6.7	43.9	50.6
Training of RD staff	1.2	0.0	1.2
Communications and utilities	1.6	0.4	2.0
Buildings and facilities	3.3	0.9	4.2
Project implementation support	0.3	1.1	1.4
Institutional strengthening	0.3	0.3	0.6
<u>Base Cost</u> (December 1990)	<u>13.4</u>	<u>46.6</u>	<u>60.0</u>
Physical contingencies	1.5	1.6	3.1
Price contingencies	1.2	3.6	4.8
<u>Total Project Cost</u> a/	<u>16.1</u>	<u>51.8</u>	<u>67.9</u>
Interest during construction	0.0	5.3	5.3
<u>Total Financing Required</u>	<u>16.1</u>	<u>57.1</u>	<u>73.2</u>

Financing Plan:

World Bank	-	32.0	32.0
Government	16.1	25.1	41.2
<u>TOTAL</u>	<u>16.1</u>	<u>57.1</u>	<u>73.2</u>

a/ Including taxes and duties equivalent to US\$12 million.

THAILAND

TAX COMPUTERIZATION PROJECT

PROCUREMENT METHOD AND DISBURSEMENTS

Project Components	Procurement Method			Total Cost
	ICB	LCB	Other	
	----- US\$ Million ^{1/} -----			
Hardware and Software	57.1 (32.0)	0.0 (0.0)	0.0 0.0	57.1 (32.0)
Training, Communications	0.0 (0.0)	0.0 (0.0)	3.9 ^{2/} (0.0)	3.9 (0.0)
Building and Facilities	0.0 (0.0)	4.6 (0.0)	0.0 (0.0)	4.6 (0.0)
Technical Assistance			2.3 (0.0)	2.3 (0.0)
TOTAL	57.1 (32.0)	4.6 (0.0)	6.2 (0.0)	67.9 (32.0)

^{1/} Figures in parentheses are amounts financed by the Bank.

^{2/} Local services and local training cost.

Disbursements

<u>Category</u>	<u>Amount</u> (US\$ Million)	<u>%</u>
Computer hardware, software, and training	32.0	65% of total expenditures

Estimated IBRD Disbursements

<u>Bank Fiscal Year</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>	<u>FY95</u>
	----- (US\$ million) -----				
Annual	2.0	7.0	11.0	10.0	2.0
Cumulative	2.0	9.0	20.0	30.0	32.0

THAILAND

TAX COMPUTERIZATION PROJECT

Timetable of Key Project Processing Steps

- | | |
|--|--|
| (a) Time Taken to Prepare the Project: | 18 months |
| (b) Prepared by: | MOF with the assistance of consultants, IMF and the Bank |
| (c) First Bank Mission: | February 1989 |
| (d) Appraisal Mission Departure: | June 9, 1990 |
| (e) Negotiations: | September 24-27, 1990 |
| (f) Planned Date of Effectiveness: | April 1991 |
| (g) List of Relevant PCRs and PPARs: | None |

THE STATUS OF BANK GROUP OPERATIONS IN THAILAND

A. STATEMENT OF BANK LOANS AND IDA CREDITS a/
(As of September 30, 1990)

Loan or Credit Number	Fiscal Year	Borrower	Purpose	Amount (\$ million) less cancellations		
				Bank	IDA	Undisbursed
Seventy-five loans and six credits fully disbursed				2,936.55	115.42	-
Of which SECALs, SALs, and Program Loans						
2097	1982	Kingdom of Thailand	SAL I	150.00		
2256	1983	Kingdom of Thailand	SAL II	<u>175.00</u>		
Sub-Total				325.00		
1922	1981	Kingdom of Thailand	Agriculture Research	29.95		4.39
2311	1983	Kingdom of Thailand	Provincial Roads	95.25		1.46
2407	1984	Elec. Gen. Auth. of Thl.	Mae Moh Lignite II	15.00		1.73
2440	1984	Kingdom of Thailand	Land Titling	35.00		9.37
2520	1985	Kingdom of Thailand	Regional Cities	20.33		7.72
2548	1985	Bangchak Petroleum Co.	Refinery I (Bangchak)	85.00		75.03
2795	1987	National Housing Auth.	Third Shelter	21.00		18.79
2872	1988	State Railway of Thl.	Railway Efficiency	13.00		10.02
2894	1988	Kingdom of Thailand	Highway Sector	50.00		33.51
2915	1988	Elec. Gen. Auth. of Thl.	Power Transmission	110.00		22.81
3008	1989	Kingdom of Thl.	Second Highway Sector	87.00		68.78
3220	1989	Elec. Gen. Auth. of Thl.	Power System Dev.	90.00		3.01
3138	1990	Elec. Gen. Auth. of Thl.	Second Power System Dev.	94.00		62.49
3229	1990	Kingdom of Thailand	Highway Sector III	50.00		50.00
3254	1991	Kingdom of Thailand	Land Titling II	<u>30.00</u>		<u>30.00</u>
Total				3,762.08	115.42	399.12
of which has been repaid				<u>1,590.57</u>	<u>6.36</u>	
Total now held by Bank and IDA				<u>2,171.51</u>	<u>109.05</u>	
Amount sold /b 193.91						
of which repaid <u>133.29</u>						
Total undisbursed				399.12	-	399.12

/a The status of the projects listed in Part A is described in a separate report on all Bank/IDA financed projects in execution, which is updated twice yearly and circulated to the Executive Directors on April 30 and October 31.

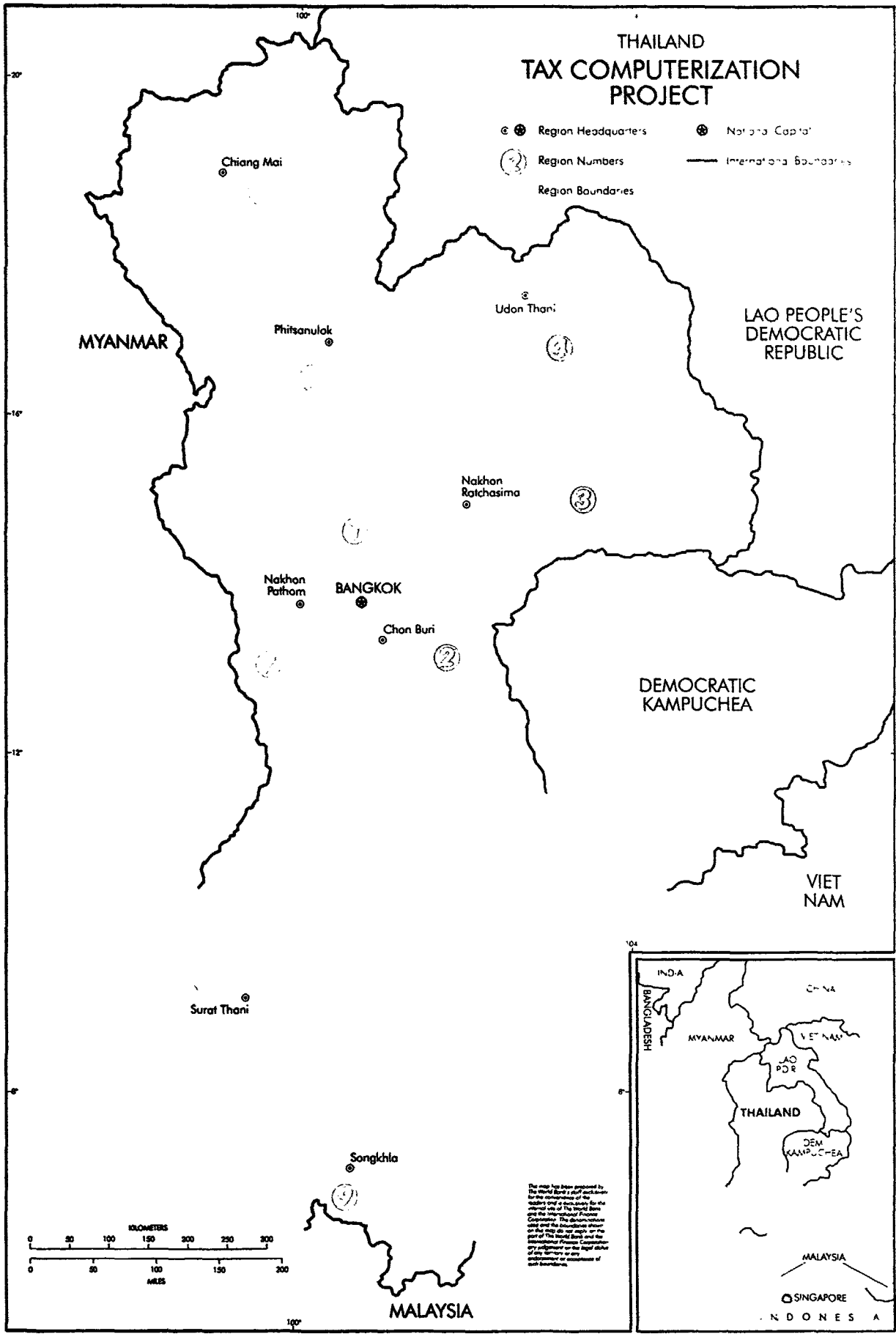
/b Of which \$43.3 million sold to the Bank of Thailand.

B. STATEMENT OF IFC INVESTMENT
(As of September 30, 1990)

Investment number	Fiscal Year	Company	Type of Business	Loan	Equity	Total
				-- (US\$ million) --		
19	1959	Concrete Products & Aggregate Co. Ltd.	Cement & construction materials	0.3	-	0.3
71/185	1964/1971	Industrial Finance Co. of Thailand (IFCT)	Development finance Co.	-	0.4	0.4
147/321/419/475/477/719	1969/1976/1978/1980/1985	Siam Cement Group	Cement & Construction materials	23.3	4.4	32.7
368/2380	1977/90	Mutual Fund Co. Ltd.	Money & capital market	-	0.6	0.6
373	1977	United Sugar Terminal Ltd.	Food & food processing	2.5	0.2	3.7
401	1978	Siam Commercial Bank	Small- & medium-scale industries	2.0	-	2.0
425/504/661	1979/1980/1983	Zangkok Glass Industrial Co. Ltd.	Glass containers	9.9	0.4	10.3
426/562/879/736	1979/1981/1985	Siam City Cement Co. Ltd.	Cement & construction materials	118.1	6.1	124.2
433	1979	Thai Orient. Leasing Co. Ltd.	Capital market	-	0.1	0.1
1024	1983	FMC Polymers	Chemicals & petrochem.	26.0	1.5	27.5
534	1983	Sea Minerals Ltd.	Mining	-	1.6	1.6
712/794	1984/86	National Petrochem.	Chemicals & petrochem.	35.0	0.5	35.5
1100/1057	80-89					
1003	1983	Phansrivivat Co. Ltd.	Oil palm estate	3.6	1.1	4.7
704	1983	Thailand Tantalum	Mining	53.5	3.4	56.9
108	1984	World Aquaculture	Food & food processing	3.2	0.6	3.8
111	1984	Southeast Asia Venture Investment (Seav)	Money & capital market	-	1.0	1.0
800	1986	Mashrum Limited	Mining	-	1.8	1.8
1173	1990	SCB-AL	Money & capital market	-	15.0	15.0
850	1986	Phya Thai II	Health care	4.2	0.8	5.0
219,2267	1987/90	KACL	Tomato paste (Food and food processing)	1.6	0.5	2.1
915,1037	1987	The Thailand Fund	Money & capital market	-	26.3	26.3
1096	1989	Thai Prime	Money & capital market	-	14.9	14.9
1104	1989	Peroxytha	Chemicals & petrochem.	10.7	-	10.7
1166	1990	TFB-AL	Development finance	-	5.0	5.0
1235	1990	Asahi Siam	General manuf. (Glass)	-	9.1	9.1
Total gross commitments				298.9	93.0	391.9
Less cancellations, terminations, repayments and sales				<u>232.8</u>	<u>55.2</u>	<u>288.0</u>
Total commitment now held by IFC				66.1	37.8	103.9
Total undisbursed (including participant's portion)				3.6	26.1	29.7

THAILAND TAX COMPUTERIZATION PROJECT

- ⊙ Region Headquarters
- ⊙ National Capital
- ① Region Numbers
- International Boundaries
- Region Boundaries



The map has been prepared by the World Bank as part of a study for the computerization of the national tax of Thailand and the implementation of the tax computerization project. The demarcation of the regional boundaries shown on this map do not imply on the part of the World Bank and the International Finance Corporation any judgment on the legal status of the boundaries or recognition of such boundaries.