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The World Bank

Report No: ICR00001345

IMPLEMENTATION COMPLETION AND RESULTS REPORT  
(IBRD-73427)

ON A

LOAN

IN THE AMOUNT OF EURO 31.90 MILLION  
(US\$ 34.15 MILLION EQUIVALENT)

TO THE

REPUBLIC OF BULGARIA

FOR A

REVENUE ADMINISTRATION REFORM PROJECT

December 30, 2009

Poverty Reduction and Economic Management Department  
Central Europe and the Baltic Countries Department  
Europe and Central Asia Region

## CURRENCY EQUIVALENTS

(Exchange Rate Effective June 30, 2009)

Currency Unit = Euro

1.00 = US\$ 1.41

US\$ 1.00 = Euro 0.71

FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

CAS	Country Assistance Strategy	MOU	Memorandum of Understanding
CIDA	Canadian International Development Agency	NGOs	Non-governmental Organizations
CIT	Corporate Income Tax	NHIF	National Health Insurance Fund
DFID	British Department for International Development	NPV	Net Present Value
ECA	Europe and Central Asia	NRA	National Revenue Agency
ERR	Economic Rate of Return	NSSI	National Social Security Institute
EU	European Union	PAS	Procurement Accredited Staff
GDP	Gross Domestic Product	PAD	Project Appraisal Document
GOB	Government of Bulgaria	PCU	Project Management Unit
GTD	General Tax Directorate of the Bulgarian Ministry of Finance	PDO	Project Development Objective
HRM	Human Resources Management	PIP	Project Implementation Plan
IBRD	International Bank for Reconstruction and Development	PIT	Personal Income Tax
IMF	International Monetary Fund	PHARE	Poland and Hungary Assistance for Restructuring the Economies (EU Program)
FAD	Fiscal Affairs Department, IMF	PHRD	Policy and Human Resources Development Fund (Japanese)
IOTA	Inter-European Organization of Tax Administrations	RARP	Revenue Administration Reform Project
ISR	Implementation Status Report	RMS	Revenue Management System
IT	Information Technology	SA	Special Account
LTSSCD	Large Taxpayer and Social Security Contributor Department	SOE	Statements of Expenditure
MTSSCD	Medium Taxpayer and Social Security Contributor Department	SOGEMA	Société de Gestion et de Management
MOF	Ministry of Finance	TD	Tax Directorate
		URA	Unified Revenue Agency
		VAT	Value Added Tax

Vice President: Philippe Le Houérou

Country Director: Theodore Ahlers

Sector Manager: Ronald Myers

Project Team Leader: Stella Ilieva

ICR Team Leader: Carlos Ferreira

**REPUBLIC OF BULGARIA**  
**Revenue Administration Reform Project**

**CONTENTS**

Data Sheet

- A. Basic Information
- B. Key Dates
- C. Ratings Summary
- D. Sector and Theme Codes
- E. Bank Staff
- F. Results Framework Analysis
- G. Ratings of Project Performance in ISRs
- H. Restructuring
- I. Disbursement Graph

1. Project Context, Development Objectives and Design.....	1
2. Key Factors Affecting Implementation and Outcomes .....	10
3. Assessment of Outcomes .....	15
4. Assessment of Risk to Development Outcome.....	24
5. Assessment of Bank and Borrower Performance .....	24
6. Lessons Learned.....	27
7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners.....	29
Annex 1. Project Costs and Financing (a) Project Cost by Component (in EUR Million) .....	30
Annex 2. Outputs by Component.....	31
Annex 3. Economic and Financial Analysis .....	46
Annex 4. Bank Lending and Implementation Support/Supervision Processes.....	50
Annex 5. Beneficiary Survey Results .....	52
Annex 6. Stakeholder Workshop Report and Results.....	55
Annex 7. Summary of Borrower's ICR and/or Comments on Draft ICR .....	56
Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders .....	69
Annex 9. List of Supporting Documents .....	70

MAP

<b>A. Basic Information</b>			
Country:	Bulgaria	Project Name:	Revenue Administration Reform Project
Project ID:	P073427	L/C/TF Number(s):	IBRD-46990
ICR Date:	12/30/2009	ICR Type:	Core ICR
Lending Instrument:	SIL	Borrower:	MINISTRY OF FINANCE
Original Total Commitment:	USD 34.2M	Disbursed Amount:	USD 26.8M
Revised Amount:	USD 19.9M		
<b>Environmental Category: C</b>			
<b>Implementing Agencies:</b> National Revenue Agency			
<b>Cofinanciers and Other External Partners:</b>			

<b>B. Key Dates</b>				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	12/19/2001	Effectiveness:	08/07/2003	08/07/2003
Appraisal:	03/03/2003	Restructuring(s):		
Approval:	06/05/2003	Mid-term Review:	12/15/2005	06/21/2006
		Closing:	06/30/2009	06/30/2009

<b>C. Ratings Summary</b>	
<b>C.1 Performance Rating by ICR</b>	
Outcomes:	Satisfactory
Risk to Development Outcome:	Moderate
Bank Performance:	Highly Satisfactory
Borrower Performance:	Highly Satisfactory

<b>C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)</b>			
Bank	Ratings	Borrower	Ratings
Quality at Entry:	Satisfactory	Government:	Satisfactory
Quality of Supervision:	Highly Satisfactory	Implementing Agency/Agencies:	Highly Satisfactory
<b>Overall Bank Performance:</b>	Highly Satisfactory	<b>Overall Borrower Performance:</b>	Highly Satisfactory

<b>C.3 Quality at Entry and Implementation Performance Indicators</b>			
<b>Implementation Performance</b>	<b>Indicators</b>	<b>QAG Assessments (if any)</b>	<b>Rating</b>
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	No	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Highly Satisfactory		

<b>D. Sector and Theme Codes</b>		
	<b>Original</b>	<b>Actual</b>
<b>Sector Code (as % of total Bank financing)</b>		
Central government administration	85	85
Compulsory pension and unemployment insurance	10	10
Sub-national government administration	5	5
<b>Theme Code (as % of total Bank financing)</b>		
Administrative and civil service reform	33	33
Law reform	17	15
Participation and civic engagement	17	17
Tax policy and administration	33	35

<b>E. Bank Staff</b>		
<b>Positions</b>	<b>At ICR</b>	<b>At Approval</b>
Vice President:	Philippe H. Le Houerou	Johannes F. Linn
Country Director:	Penelope Jane Aske Williams	Andrew N. Vorkink
Sector Manager:	William Leslie Dorotinsky	Helga W. Muller
Project Team Leader:	Stella Ilieva	Carlos D. C. Ferreira
ICR Team Leader:	Carlos D. C. Ferreira	
ICR Primary Author:	Michael Engelschalk	

## **F. Results Framework Analysis**

### **Project Development Objectives (from Project Appraisal Document)**

The project development objective is the implementation of a sustainable revenue collection system for Bulgaria through the establishment of an economically efficient public revenue collection system that facilitates private sector development and complies with requirements for EU accession. A complementary objective is to assist the

government in preparing for the separation of central and municipal revenue collection functions as an integral part of the institutional rationalization and modernization process.

The project would achieve its developmental objective through a comprehensive program of reforms focused on:

1. maximizing community voluntary compliance,
2. increasing effectiveness and efficiency,
3. establishing a professional workforce, which will help reduce the opportunity and motivation for corruption,
4. improving equity and fairness in the administration of the tax and social contribution collection system, and
5. reducing the taxpayer/contributor compliance burden.

**Revised Project Development Objectives (as approved by original approving authority)**

**(a) PDO Indicator(s)**

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
<b>Indicator 1 :</b>	Total Tax Revenue Collected, % of GDP			
Value quantitative or Qualitative)	18.0%	N/A (there is no target value as the indicator depends also on the levels of tax rates)		23.8%
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	No target value. The indicator is highly dependent on tax rates. Nevertheless, the completion value points to a solid gain by the project.			
<b>Indicator 2 :</b>	Social Security Revenue, % of GDP			
Value quantitative or Qualitative)	9.5%	N/A		7.7%
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	No target value. The indicator is highly dependent on tax rates. Nevertheless, the completion value points to a solid gain by the project.			
<b>Indicator 3 :</b>	Value Added Tax (VAT) Compliance Rate			
Value quantitative or Qualitative)	77%	83 %		92%
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments	This is a great achievement for the project with compliance rates at par with the			

(incl. % achievement)	best tax administrations in the EU.			
<b>Indicator 4 :</b>	Corporate Income Tax (CIT) Compliance Rate			
Value quantitative or Qualitative)	55%	63%		68.2%
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	The project performed better than expected. Structural social problems cause informal payment of part of salaries affecting compliance of PIT and CIT.			
<b>Indicator 5 :</b>	Personal Income Tax (PIT) Compliance Rate			
Value quantitative or Qualitative)	80%	88%		87%
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	The project was close to target but structural problems continue to make it difficult for the administration to achieve progress in this area until the policy environment is improved.			
<b>Indicator 6 :</b>	Social Security Contributions Compliance Rate			
Value quantitative or Qualitative)	80%	88%		87%
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	The NRA implemented uniform collection of social security and income tax withholding, hence compliance rates and collection issues tend to be the same.			
<b>Indicator 7 :</b>	Tax Revenue Predictability (actual revenue collected over planned collection--the indicators shows ability to plan and to implement the plan)			
Value quantitative or Qualitative)	99%	100% '+or-'5% (estimated revenue within 5% of actual)		96.1%
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	The revenue plan is set by Parliament in consultation with the MOF, in a political process. The NRA participation is minor in spite of its high analytical capacity. Measured predictability does not indicate the NRA capacity.			
<b>Indicator 8 :</b>	Social Contribution Revenue Predictability (actual revenue collected over planned collection--the indicators shows ability to plan and to implement the plan)			
Value quantitative or Qualitative)	96%	100% '+or-' 5%		114.4%
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	This revenue stream is also set by Parliament in consultation with the MOF and NSSI, as part of a political process with only minor participation by the NRA. As above, the indicator does not measure the NRA ability to predict revenues.			
<b>Indicator 9 :</b>	Collection Costs (as % of Revenue) (refers to cost of collection for taxes only in 2002 and for taxes and social contributions for 2008)			

Value quantitative or Qualitative)	1.4%	0.8%		0.8%
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	Target achieved. Bulgaria has achieved a level of efficiency among the highest in the EU.			
<b>Indicator 10 :</b>	Quality of Audit Selection (% of audits resulting in adjustment) (taxes only for 2002 and taxes and social contributions since 2006)			
Value quantitative or Qualitative)	58.3%	65%		78.9%
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	High quality business processes have enabled this substantial gain in spite of weaknesses in automation of the processes. Overachieved by 21%.			
<b>Indicator 11 :</b>	Perception of taxpayers and other stakeholders regarding the level of professionalism of revenue administration staff (scale 1 (worst) to 10 (best))			
Value quantitative or Qualitative)	5.87	improvement		5.88
Date achieved	12/31/2003	12/31/2008		12/31/2008
Comments (incl. % achievement)	Taxpayer views on professionalism of the agency were stable. Substantial gains were noted though for the large and medium taxpayers, which is not well reflected in the indicator. See ICR annex 5 for survey results.			
<b>Indicator 12 :</b>	Perception of taxpayers and other stakeholders regarding the level of integrity of revenue administration staff (scale 1 (worst) to 10 (best))			
Value quantitative or Qualitative)	4.77	improvement		4.45
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	The last value of the indicator points to an unusual decrease in the perception of integrity. The survey for the previous year had a 5.23 value for the question.			
<b>Indicator 13 :</b>	Municipal taxes and fees, % of GDP(collected by NRA until 2005 and thereafter collected by municipalities.			
Value quantitative or Qualitative)	0.7%	N/A		1%
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	No target values were set for this indicator as indicator dependent on rates of municipal taxes and fees.			
<b>Indicator 14 :</b>	Revenue to revenue staff (thousand BGN)			
Value quantitative or Qualitative)	749	1461		2277
Date achieved	12/31/2002	12/31/2008		12/31/2008



Comments (incl. % achievement)	Baseline value refers to taxes only while target and actual refer to taxes and social contributions. Overachieved by 56%.			
<b>Indicator 15 :</b>	Total tax and social contribution revenues, exc. municipal taxes and fees (BGN million)			
Value quantitative or Qualitative)	9408	15040		21053
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	overachieved by 40%			
<b>Indicator 16 :</b>	CIT revenues (million BGN)			
Value quantitative or Qualitative)	976	962		2416
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	overachieved by 151%			
<b>Indicator 17 :</b>	PIT revenues (million BGN)			
Value quantitative or Qualitative)	1052	1428		1951
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	overachieved by 37%			
<b>Indicator 18 :</b>	Total social contribution revenues (million BGN)			
Value quantitative or Qualitative)	3076	5474		5148
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	Partially achieved (94% of the target) due to cuts in social contribution rates and introduction of social insurance thresholds by profession and economic sector.			
<b>Indicator 19 :</b>	Amount of tax arrears at year end, exc. noncollectable/Total revenues assessed, exc. noncollectable(Percentage)			
Value quantitative or Qualitative)	32	17		13.7
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	overachieved.			
<b>Indicator 20 :</b>	Estimated share of grey economy, %			
Value quantitative or	35	30		20

Qualitative)				
Date achieved	12/31/2002	12/31/2008		12/31/2007
Comments (incl. % achievement)	Latest estimates available for 2007 only.			
<b>Indicator 21 :</b>	Total tax revenues (exc. municipal revenues), million BGN			
Value quantitative or Qualitative)	6332	9566		15904
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	overachieved by 66%.			
<b>Indicator 22 :</b>	VAT revenues, million BGN			
Value quantitative or Qualitative)	2688	4490		7485
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	overachieved by 67%.			
<b>Indicator 23 :</b>	Tax revenues paid on time, exc. arrears/total tax revenues assess, %			
Value quantitative or Qualitative)	80.1	N/A		86.7
Date achieved	12/31/2003	12/31/2008		12/31/2008
Comments (incl. % achievement)				
<b>Indicator 24 :</b>	Number of appealed audit acts/number of all audit acts during the year, %			
Value quantitative or Qualitative)	18.9	10		19.3
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	Partially achieved due to legislative restrictions for evidence collection. However, the amount of appealed adjustments declined significantly (from 62% in 2002 to 22% in 2008).			
<b>Indicator 25 :</b>	Number of complaints over an anti-corruption hot-line			
Value quantitative or Qualitative)	35	N/A		18
Date achieved	12/31/2005	12/31/2008		12/31/2008
Comments (incl. % achievement)	improvement (no target value)			
<b>Indicator 26 :</b>	Number of tax declarations received on time/number of tax declarations received during the year			
Value	97.2%	N/A		99.4%

quantitative or Qualitative)				
Date achieved	12/31/2002	12/31/2008		12/31/2008
Comments (incl. % achievement)	improvement (no target)			
<b>Indicator 27 :</b>	Annual number of forced VAT registration/Total VAT registrations during the year			
Value quantitative or Qualitative)	0.3	0.5		0.8
Date achieved	12/31/2003	12/31/2008		12/31/2008
Comments (incl. % achievement)	overachieved			

**(b) Intermediate Outcome Indicator(s)**

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
<b>Indicator 1 :</b>	VAT Compliance Rate at Mid-Term Review (one year into the operations of the National Revenue Agency)			
Value (quantitative or Qualitative)	77%	78%		86.8%
Date achieved	12/31/2002	12/31/2005		12/31/2005
Comments (incl. % achievement)	overachieved			
<b>Indicator 2 :</b>	CIT Compliance Rate at Mid-Term Review			
Value (quantitative or Qualitative)	55%	60%		59.5%
Date achieved	12/31/2002	12/31/2005		12/31/2005
Comments (incl. % achievement)	achieved			
<b>Indicator 3 :</b>	PIT Compliance Rate at Mid-Term Review			
Value (quantitative or Qualitative)	80%	84%		80.9%
Date achieved	12/31/2002	12/31/2005		12/31/2005
Comments (incl. % achievement)	partially achieved (96% of the target)			
<b>Indicator 4 :</b>	Social Security Contribution Compliance Rate at Mid-Term Review			

Value (quantitative or Qualitative)	80%	84%		80.9%
Date achieved	12/31/2002	12/31/2005		12/31/2005
Comments (incl. % achievement)				
<b>Indicator 5 :</b>	Total tax and social contribution revenues, million BGN			
Value (quantitative or Qualitative)	9408	11686		13733
Date achieved	12/31/2002	12/31/2005		12/31/2005
Comments (incl. % achievement)	overachieved by 17.5%.			
<b>Indicator 6 :</b>	CIT revenues, million BGN			
Value (quantitative or Qualitative)	976	763		1204
Date achieved	12/31/2002	12/31/2005		12/31/2005
Comments (incl. % achievement)	overachieved by 58%			
<b>Indicator 7 :</b>	PIT revenues, million BGN			
Value (quantitative or Qualitative)	1052	1170		1247
Date achieved	12/31/2002	12/31/2005		12/31/2005
Comments (incl. % achievement)	overachieved by 7%			
<b>Indicator 8 :</b>	Total social security contributions, million BGN			
Value (quantitative or Qualitative)	3076	4306		4241
Date achieved	12/31/2002	12/31/2005		12/31/2005
Comments (incl. % achievement)	partially achieved (98% of the target)			
<b>Indicator 9 :</b>	VAT revenues			
Value (quantitative or Qualitative)	2688	3353		4757
Date achieved	12/31/2002	12/31/2005		12/31/2008
Comments (incl. % achievement)	overachieved by 42%.			

## G. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	10/21/2003	Satisfactory	Satisfactory	0.36
2	11/06/2003	Satisfactory	Satisfactory	0.96
3	06/29/2004	Satisfactory	Satisfactory	1.03
4	12/27/2004	Satisfactory	Satisfactory	3.17
5	05/20/2005	Satisfactory	Highly Satisfactory	4.22
6	11/23/2005	Satisfactory	Highly Satisfactory	7.80
7	07/14/2006	Highly Satisfactory	Highly Satisfactory	23.81
8	10/28/2006	Highly Satisfactory	Highly Satisfactory	24.44
9	03/20/2007	Highly Satisfactory	Highly Satisfactory	25.13
10	01/22/2008	Highly Satisfactory	Satisfactory	26.02
11	05/13/2008	Highly Satisfactory	Satisfactory	27.69
12	08/18/2008	Highly Satisfactory	Satisfactory	28.04
13	01/23/2009	Highly Satisfactory	Satisfactory	28.53

## H. Restructuring (if any)

Not Applicable

## I. Disbursement Profile



## **1. Project Context, Development Objectives and Design**

### **1.1 Context at Appraisal**

In the course of transition to a market economy, and in reformulating the role of government, the Republic of Bulgaria confronted mounting evidence that its revenue collection administration needed a major institutional overhaul to enable it to mobilize effectively and efficiently revenues, as well as to accede to the EU. This perceived need for an overhaul applied in particular to the administration of direct and indirect taxes. This perception was underscored by a joint IMF/Bank mission in 2000, an EU review based on the EU blueprints carried out by the Intra-European Organization of Tax Administrations (IOTA), and diagnostic studies on organization, human resources and taxpayer compliance by the Canadian consultants SOGEMA, financed by CIDA. While changes had been introduced into the tax administration, such as the introduction of functional arrangements, a large taxpayer office, and new concepts incorporated in a Tax Procedure Code in December 1999, the tax administration continued to be characterized by: (i) a crisis approach to management, with continuous encroachment by headquarters on the collection activities of the tax offices, resulting in loss of focus by management on the development and implementation of strategic and future planning, direction, and control of the organization; (ii) the lack of a credible human resource management function or strategy. As a consequence the tax administration suffered from limited workforce planning, poor recruitment, selection, and compensation arrangements, and an inadequate focus on executive, manager and staff learning, development, and capacity-building; (iii) an operational strategy that, while having some focus on self-assessment, lacked the necessary supporting strategies or processes to service and support taxpayers. Operations were based on outdated business processes with little in the way of cohesive information technology support, and no credible compliance or risk assessment strategy or function as support; (iv) a fragmented and dysfunctional national network of offices, spans of control and layers of management, exacerbated by the need to collect both national taxes and local taxes and charges; (v) inadequate internal controls, and claims of taxpayer harassment and internal corruption; and (vi) inadequate information systems and weak information technology management, systems development, and operational capacity.

In October 1999 the Government of Bulgaria decided to establish a Unified Revenue Agency (URA, later renamed NRA – National Revenue Agency) for the primary purpose of modernizing its tax administration. An important part of the modernization effort was the integration of the General Tax Directorate (GTD) and the collection function of the National Social Security Institute (NSSI) for the purpose of simplifying tax and social contribution administration. In so doing, the government realized that the initiative would be highly challenging and not without some risk. On June 29, 2000, the Council of Ministers approved a concept paper for a URA and launched the first stage of an implementation plan. This included: starting joint audit operations, strengthening GTD and NSSI, especially GTD's information technology systems; improving GTD and NSSI coordination; and developing a detailed implementation strategy for the subsequent two stages, including a realistic timetable and cost estimates. The IMF provided a full-time advisor for 12 months, to October 2001, to assist the Government in this effort.

The Government subsequently worked on the implementation plan for the reform. Launch of the URA was planned for 2003. However, while a reasonable level of achievement occurred, lack of support by some members of the previous government and the former GTD executive, coupled with a lack of local experience in major project development and management, slowed progress. Moreover, the Government could not build on initial gains from joint activities, because of the lack of a legislative basis for information-sharing between GTD and NSSI.

At the same time, pressure from the EU to ensure more efficient revenue collection in order to meet accession standards was increasing. The 2002 progress report monitoring reforms for EU accession noted that the reform of the Bulgarian tax administration had made little progress and that tax discipline had scarcely improved. The 2003 progress report reiterated that Bulgaria needed to improve the capacity of its tax administration significantly to be able to apply the *acquis communautaire* in full.

The Government decided to embark on a new initiative for revenue administration reform. In 2002, the Government passed a law establishing a new agency, the National Revenue Agency, and asked the Bank to consider a revenue administration reform project to be executed over six years.

The project was in accordance with the Bank's FY03-FY05 Country Assistance Strategy (CAS) for Bulgaria, which focused on promoting competitive private sector led growth, strengthening public administration and anti-corruption initiatives, and supporting the EU accession process. A major part of the CAS structural reform program was directed towards improving markets' functioning and efficiency, and the implementation of CAS objectives hinged crucially on the capacity of the administration to sustain macroeconomic stability. In the context of the CAS strategic objectives, the Revenue Administration Reform Project was designed to: a) establish the necessary institutional and regulatory base for sound fiscal performance and sustained macroeconomic stability through consolidating the collection functions of the tax, social and health insurance administrations into one agency (NRA); b) eliminate market malfunctions due to distorted price signals reflecting non-compliance; c) strengthen governance capacity and reduce corruption; and d) secure more room for further reductions of taxes and non-wage labor cost through increasing compliance and collection rates.

## **1.2 Original Project Development Objectives (PDO) and Key Indicators**

The project's main objective articulated in the Project Appraisal Document (PAD) was to implement a sustainable revenue collection system for Bulgaria through the establishment of an economically efficient public revenue collection system that facilitates private sector development and complies with requirements for EU accession. A complementary objective was the separation of central and municipal revenue collection functions as an integral part of the institutional rationalization and modernization process.

The project sought to maximize the level of taxpayer voluntary compliance by: (a) further developing the current system of self assessment and introducing risk management as a key element of operations; (b) simplifying laws and procedures; (c) establishing a comprehensive program of taxpayer/contributor education and services; (d) reengineering, integrating and automating business processes; (e) instituting a comprehensive compliance strategy and selective audits and investigations; (f) enhancing

collection activities; and (g) transforming the thinking and behavior of NRA officials and taxpayers to one of mutual trust and cooperation in the administration of, and participation in, the tax and social benefit systems.

The project sought to promote effectiveness and efficiency by: (a) adopting a model for strategic management as the basis to develop the role and capacity of NRA headquarters; (b) creating a vision, values, and plans for reform and ongoing revenue administration improvements; (c) establishing processes and structures for planning, accountability, and corporate governance; (d) providing mechanisms for external transparency and accountability, and for input from external stakeholders; (e) redeveloping functional organizational arrangements, and restructuring and consolidating the national revenue organization; (f) providing modern accommodations and environment for staff and taxpayers; (g) perpetuating and continuing to sharpen the special focus on large taxpayers and contributors; (h) separating and enabling a future transfer of responsibility for the administration of local taxes and charges to local governments; (i) reengineering business processes to increase efficiency, transparency, and accountability while reducing opportunities for rent-seeking behavior; (j) introducing modern, integrated, information technology business support; and (k) adopting the Bulstat (nationally assigned number) as the common taxpayer identifier and introducing electronic interfaces with other government agencies (e.g., Customs and State Receivables Agency).

The project sought to establish a professional workforce and approach by: (a) establishing a comprehensive human resource management function and strategy; (b) establishing a modern and relevant code of conduct and ethics; (c) increasing the professional capacity of the executive, middle managers and key operational staff; (d) establishing a comprehensive learning, development, and training capacity; and (e) developing the internal control system to monitor integrity and organizational outcomes.

The project sought to reduce the potential for corruption by: (a) increasing the separation between taxpayers and tax inspectors; (b) reengineering work procedures to reduce discretion and opportunities for rent-seeking behavior; (c) simplifying and increasing taxpayer understanding of tax laws and procedures; (d) carefully directing audit activities to firms and individuals whose tax returns are questionable; (e) increasing community participation through taxpayer associations, and (e) developing an internal control system to monitor integrity and enforce the code of ethics.

The project sought to improve equity and fairness in the administration of the tax and social contribution system by: (a) creating a modern Charter of Taxpayer and Contributor Rights; (b) promoting community understanding of the system, laws, administrative procedures, and rights and obligations; (c) promoting the development of private taxpayer advisory services; (d) adopting uniform approaches and interpretations throughout the country; and (e) ensuring that dispute resolution mechanisms are expedient and impartial.

The project sought to reduce the taxpayer compliance burden by: (a) harmonizing and simplifying tax and social legislation and their respective codes; (b) developing, simplifying, and integrating to the extent possible, tax and social contributor processes and services; and (c) maximizing electronic interchange with taxpayers and contributors.

The project sought to indirectly foster economic growth by: (a) enabling a reduction of tax rates through broadening the tax and social contribution base; (b) enabling a fairer



private sector environment by increasing the overall level of compliance, and providing a more uniform and equitable tax and social contribution system; (c) reducing compliance costs through easier and more efficient declaration and payment of liabilities; and (d) reducing taxpayer exposure to corruption and administrative abuse.

Key PDO indicators included:

**(i) Macro Indicators**

- Total revenue collected
- Revenue collected by type
- Share of the gray economy

**(ii) Compliance**

- Aggregate compliance rates
- Number and amount of PIT declarations filed
- Number of tax declarations received on time/total number of tax declarations filed
- Revenues paid on time/revenues assessed

**(iii) Revenue Predictability**

- Revenue collected/revenue target by category (annually).

**(iv) Efficiency and Effectiveness**

- Cost of collection
- Number and amount of audit adjustments/number of audits
- Average number of days taken to process a VAT refund request

**(v) Enforcement**

- Annual number of forced VAT registrations/total VAT registrations
- Amount of arrears at year end compared to amount of arrears at end of previous year
- Arrears recovered during the year/total revenues collected

**(vi) Integrity**

- Public perception of tax administration integrity as measured by periodic surveys
- Staff perception of integrity as measured by periodic surveys
- Number of complaints over an anti-corruption hotline (or ombudsman's office if one is established).

**(vii) Taxpayer Services**

- Public perception of quality of taxpayer service as measured by periodic surveys
- Performance against agreed standards for responding to telephone, written and personal inquiries
- Average number of days to respond to formal written rulings.

**(viii) Compliance Costs**

- Percentage of taxpayers filing electronically.

**1.3 Revised PDO and Key Indicators, and Reasons/Justification**

The objectives of the project were not revised.

**1.4 Main Beneficiaries, Original and Revised**

The main beneficiaries identified in the PAD and captured in the PDO, as well as other target groups benefiting from successful project implementation include:

a) Taxpayers: The project was expected to reduce compliance costs for taxpayers in a variety of ways and to facilitate the interaction between taxpayers and the tax administration, in particular through improved taxpayer services. Increased compliance was expected to create the necessary preconditions for reducing tax rates and thus lower the tax burden. Taxpayers' rights were expected to be strengthened through improvements in laws and regulations, the preparation of a Charter of Taxpayers' Rights, and a more effective appeals system. Improved accountability and measures to strengthen integrity were expected to reduce the risk of harassment and corruption.

b) Businesses: Reduced tax rates and compliance burden were expected to increase the attractiveness of Bulgaria as an investment location. It was also assumed to contribute to facilitating the formalization of businesses operating in the underground economy. Reduced competition from informal sector businesses was expected to enhance the growth potential of formal sector enterprises. Improvements in tax laws and drafting of clear implementation regulations and manuals were expected to improve the predictability of tax liabilities. Businesses also were expected to benefit from quicker processing of tax refunds and faster registration. Finally, a better targeted tax audit program, focusing on high compliance risks, was expected to relieve compliant businesses from the burden of being subjected to an audit.

c) The whole population of Bulgaria: Increased efficiency of social contributions collection was expected to guarantee sustainable funding for the social security system and permit the Government of Bulgaria to increase social benefits for the poorer part of the population.

d) NRA and its staff: NRA was expected to benefit from modernized business processes and investments in IT infrastructure and applications. Improved capacity to analyze compliance risks and trends was supposed to facilitate effective compliance management. Increased efficiency in collecting revenues was expected to put NRA in a better position to meet collection targets set by the government. NRA staff was expected to benefit from an improved work environment and a fairer and more efficient career management system, rewarding good performance and motivation.

e) Other government agencies, in particular the Ministry of Finance and the NSSI: The government was expected to benefit from more efficient revenue forecasting and collection, leading in turn to more effective budget planning, budget execution, public investment planning/programming, fiscal transfers, and delivery of public services. The NSSI was expected to be able to concentrate better on its core task of administering social benefits.

### **1.5 Original Components**

The project consisted of six components, which were clearly linked to the PDO and key indicators. These components were:

Component 1: Policy Support (US\$ 1.50 million; 2.4%<sup>1</sup>)

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<sup>1</sup> Figures reflect total costs (Bank and non-Bank financing). Bank financing was affected by reallocation as needed and by shifting of the financing of some activities to grant

This component financed technical assistance to build in-house analytical capacity to conduct compliance and economic studies, analyze proposed bills, laws, policies and regulations, review tax laws, improve the legislative and regulatory foundation of the NRA, and address the policy and legislative aspects of the tax and social contributions system. Purpose of the component was to seek a simple, supportive, and well-balanced approach to the collection of direct and indirect taxes, including rates, thresholds, discretions, and exemptions. This component also supported NRA's strategic and operations planning as well as quality assurance. The component had three subcomponents dealing with:

a) *Policy analysis and evaluation*: The subcomponent financed technical assistance and office equipment to build the in-house capacity to evaluate proposed bills and policy changes and recommend program alternatives to policy makers.

b) *Legal framework*: This subcomponent established a comprehensive legal system to ensure compliance with tax and social contribution legislation taking into account taxpayers/insurers/contributor rights and obligations, and, with respect to the issues related to EC harmonization. It also created and strengthened a legal unit to identify legislative gaps and prepare recommendations in the form of amendments to ensure the operational feasibility of tax and social contribution legislation.

c) *Strategic planning and quality control*: This subcomponent financed activities to prepare and annually improve NRA's strategic and operational plan. This plan defined all activities necessary to accomplish the Strategic Planning objectives (specifying duration, sequence, and resources). Activities, in turn, have clearly defined results and performance indicators for gauging accomplishment, efficiency, and effectiveness, together with explicit goals.

#### Component 2: Organization and Management (US\$ 8.05 million; 12.9%)

This component developed strategic focus, created the management structure, built executive and managerial capacity, strengthened human resource technical and operational capacity, developed related management information systems, including customization, and strengthened the integrity of the NRA. An integrated human resource management system was installed, including modules for payroll, human resource management, and performance evaluation. The component had two subcomponents dealing with:

a) *Organizational and management development*: This subcomponent aimed at developing an adequate organizational design for the implementation of the NRA and improving the office infrastructure at headquarters and territorial offices. It also supported the design and implementation of a Management Information System and training related to organization and management.

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sources, e.g. in case of a number of activities in the area of human resource management supported by the Know-How Fund.

b) *Human resources and training*: This subcomponent provided the basis for modern Human Resource Management (HRM) and training systems. Areas included recruitment, selection, and hiring procedures, compensation policies and practices, performance incentive systems, workforce strategic planning, management development, and support for training centers, curricular development to meet short and long term needs, and training infrastructure for training centers. NRA HRM policies and procedures manuals were developed and standardized and a Code of Ethics and Conduct prepared and disseminated to all staff. The subcomponent also aimed at strengthening employee retention by developing career streams to match the needs of the NRA.

### Component 3: Increasing Operational Efficiency (US\$18.80 million; 30%)

The Government's decision to create a new agency to be responsible for both social contributions and tax collections required the definition of new combined and streamlined business processes as well as business requirements, the design and implementation of new information systems to support the core business functions. This included the integration of tax and social contribution collection, the acquisition and installation of new computer and network equipment, and the creation of a department for system and technology support. This component has four subcomponents:

a) *Business processes*: The objective of this subcomponent was to introduce integrated business processes to support the redesigned business operations of the NRA. The project supported NRA with technical assistance to: (i) establish a Business Development Office for the coordination of redesign activities, technical assistance, and training; (ii) review and document NSSI's existing business processes and review and update GDT's business processes; (iii) define NRA's uniform business processes based on the previous activities' results and develop and implement new business processes countrywide; and (iv) improve specific operational processes.

b) *Application software*: The objective of this subcomponent was to support the businesses processes through the appropriate application systems. In addition to the central operational database, a data warehouse for studies and decision-making information was established.

c) *Information technology infrastructure and implementation*: The subcomponent supported the development of technical specifications, procurement, and installation of computer and networking equipment, including central and regional equipment, internet gateway servers, and systems software (including business software and development tools), and a number of portables for audit work.

d) *Organization of information and communication technology department*: The subcomponent supported the creation of an Information and Communication Technology Department for systems development and technology support, initially to carry out subcomponents b and c, to support the systems and technology once in place, and to provide end user support in the future.

### Component 4: Outreach and Participation (US\$1.70 million; 2.7%)

The process of creating the NRA included shifting the institutional culture towards engaging with the citizen and noncitizen taxpayers and contributors as stakeholders and clients of the NRA. The project financed technical assistance and equipment to improve

client participation and education, improve assistance and introduce a service orientation, as well as lower the cost of compliance through uniform approaches, simplified tax/contribution procedures and payments, and improved appeals mechanisms. The component had two subcomponents:

*a) Taxpayer services:* This subcomponent aimed to increase the transparency and accountability of NRA and to provide assistance to taxpayers and contributors to fulfill their legal obligations. Activities included the establishment of a Community Participation and Services Department, the design and promotion of a Taxpayer and Contributor Charter of Rights, the provision of services through the internet, the provision of personal and remote assistance, the development of a management and quality control system and of a permanent taxpayer time and cost-monitoring system, the establishment of a call center, the design and development of an automated complaints and suggestion monitoring system, the definition of client service standards, the promotion of private taxpayer advisory services, and the development of mechanisms for transparency and accountability.

*b) Communication and public relations:* This subcomponent promoted community understanding of the system, laws, administrative procedures, and rights and obligations of the clients through a comprehensive program of taxpayer/contributor education, as well as an internal communications campaign, including the establishment and strengthening of the Public Relations Department in the NRA, the strengthening of internal and external communications, and the development of mechanisms for transparency and accountability.

#### Component 5: Office Upgrading (US\$30.80 million; 49.1%)

The objective of this component was to establish an adequate working environment for the NRA through the rehabilitation and renovation of buildings and workspaces at HQ and in the Territorial Directorates in Sofia, Plovdiv, Varna, Burgas, and the Large Taxpayer Directorate. These Directorates together represent 91% of revenue collection. The component envisaged providing modern facilities for staff and taxpayers/contributors, with offices linked through information networks, in order to enhance the efficiency of NRA.

#### Component 6: Project Management (US\$1.80 million; 2.9%)

The component consisted of two subcomponents:

*a) Project coordination unit:* This subcomponent aimed at establishing the Project Coordination Unit (PCU) for the RARP, including recruiting the project manager and advisors, in order to ensure financial management and procurement integrity to meet World Bank Guidelines and international standards of accountability and transparency. Project audits also were carried out within this sub-component. The PCU office was trained and provided with the critical skills of project management, procurement, and disbursement.

*b) Change management:* The Change Management sub-component was intended to ensure that all changes that take place to form the new NRA are based on common understanding of the purposes of the changes. Moreover, the changes would be carried out using established change management approaches that seek to build commitment of

all staff in the change process. Staffing of the Change Management Unit was expected to include a highly experienced revenue administration expert, a change planning expert establishing the Unit, and a change management specialist experienced in the field. Change management software was purchased to assist in the management of change throughout the project life cycle, which can be used subsequently by the NRA planning and management team. Training was provided in principles and practices of change management, including attendance at conferences and study tours.

### **1.6 Revised Components**

The components of the project were not revised.

### **1.7 Other Significant Changes**

The major change in the scope of the project relates to the implementation of project component five (Office upgrading). The architectural design for the NRA headquarters building in Sofia was developed and financed from the Loan. It was originally planned that the civil works contract for the rehabilitation of the building would be procured through International Competitive Bidding and financed partly with loan funds (Euro 6.5 million). Due to high inflation of construction costs in the country, a repeat of the pre-qualification procedure was held in 2005 as cost of the building more than tripled compared to the estimate at time of appraisal. This required a much higher contribution from the Government budget. Despite optimization of architectural design and bill of quantities, the actual bids exceeded the allocated budget by more than 70%. The Management Board of the NRA, headed by the Minister of Finance, took a decision to repeat the bidding procedure, cancel the unused loan funds (EUR6.7 million, including civil works and related activities), and finance the building with state funds only. The Bank has been reassured that the Government is committed to the consolidation of NRA activities in Sofia and a new procedure will be initiated with the contract financed entirely by the state budget. The new Government is searching for a new solution to the consolidation of NRA activities in Sofia in view of the substantial fiscal tightening taking place in response to the economic recession in the country.

Project component 3 (Increasing operational efficiency) envisaged the design of a comprehensive Revenue Management System (RMS) as the main information system of NRA, providing the functionalities required by the Agency to collect taxes and social security contributions. While the core functionalities of the RMS required by the NRA were developed under the contract, the development of some more sophisticated applications such as audit selection, enforcement management, and non-filers control, was cancelled by mutual agreement in March 2009 because the contractor was unable to present a final detailed implementation plan for the functionality, and it became impossible to have such a functionality developed before project closing. To ensure full IT support for its new business processes, the NRA needs to put in place the remaining functionalities of the RMS as quickly as possible to maintain the momentum towards increased efficiency and effectiveness of the Agency.

No formal restructuring has been done of the project. In January 2006, a reallocation of proceeds from consultants' category of around 5.6% of original loan amount was

approved to cover the shortfall on the goods category for costs of software licenses under ongoing contract.

The project implementation schedule was changed due to delays in loan effectiveness. As the project became effective only on August 7, 2003, eight month later than the originally planned, efforts were made to make up for the delay. The procurement and implementation of project activities was accelerated in years one and two of the project. Project implementation was extremely efficient. At the time of the mid-term review in June 2006, most planned project activities were either completed or under execution, with only three new activities envisaged for the remaining two and a half years of the project. The project benefited from government commitment and unwavering support and determination from all ministers of finance involved.

## **2. Key Factors Affecting Implementation and Outcomes**

### **2.1 Project Preparation, Design and Quality at Entry**

Project preparation built on extensive assistance for the development of the reform strategy provided by the IMF, with a resident IMF expert in place from October 2001 providing full time assistance to the URA project preparation team. The project also built on previous Bank work in Bulgaria. Since 1996, the Bank had been engaged in a project to improve the performance of the NSSI, which included strengthening the collection of social security contributions. This project developed and implemented a modern payroll tax collection system and audit strategy capable of managing the unified administration of collection of contributions in the social sector. The collection of contributions and the collection of information about persons insured for the various social insurance risks was automated, and a central register was established, including information on all NSSI clients. The modern audit system installed under the project enabled a complete redesign of the previous inefficient manual audit selection processes and the development of risk profiles enabling auditors to target the employers most likely to be in violation of compliance. The RARP was expected to incorporate concepts and outcomes of the NSSI project.

The project was designed with clearly defined objectives linked to specific, measurable, and ambitious indicators. Project design reflected lessons learned from Bank revenue administration reform projects in ECA and other regions. It also incorporated lessons from other countries which have integrated the collection of tax and social contributions. Specific lessons reflected in the project design included:

- (i) The need for clear evidence of sustained political commitment and support for the reform. *Government commitment to support the reform process was demonstrated throughout the project preparation stage and visualized in particular with the preparation of the NRA law in 2002.*
- (ii) The administration and project has competent, committed, and dynamic leadership. *A competent reform team had been established which provided excellent support, so that project preparation could be accelerated. Senior NRA management actively supported the reform process.*
- (iii) There is a clear vision of the organization's future state, supported by government, and there are well-articulated strategies and comprehensive plans to realize this vision.

*Role and status of the NRA had been outlined in the Government's reform strategy approved by the Council of Ministers in June 2000 and specified in the NRA law. A detailed reform strategy was developed with IMF assistance and documented in the tax administration strategic plan 2004-2008.*

(iv) Arrangements are put in place to develop executive, middle management, and institutional capacities. *Management responsibilities were streamlined with the reorganization of the revenue administration, and project design included an extensive training program for NRA management and expert staff.*

(v) An appropriate legislative basis has been established to support the reform proposals, or has been modified accordingly to do so. *The law establishing a unified revenue agency had already been passed by Parliament in 2002. Implementation of the reforms required in addition the adoption of a tax and social security procedural code, which was passed in 2005.*

(vi) All elements of the reform are addressed in an integrated way, including participation of and relationship with external stakeholders, such as other agencies, and professional and community associations. *External stakeholders have been extensively involved in project preparation and in the steering arrangements for the modernization process.*

## **2.2 Implementation**

The ratings of project performance reflected in Implementation Status and Results reports (ISRs) demonstrate a consistently successful implementation of the RARP. Overall implementation progress was rated 'satisfactory' from the beginning of project implementation to 2005 and changed to 'highly satisfactory' from 2005 to 2007 and 'satisfactory' thereafter. The rating reflected the high quality of the implementation progress for the areas of the project which had already reached the operational stage. Implementation progress by project component was rated 'highly satisfactory' for all components in all ISRs since 2006 except for the office upgrading component.

Project implementation benefited from strong commitment to achieving the project development objectives by all key stakeholders, in particular the Ministry of Finance, the NRA, the GTD, and the NSSI. Strong support for project implementation was also provided by all donors offering technical assistance in the area of revenue administration reform in Bulgaria, in particular the Government of Japan, the Kingdom of the Netherlands, UK DFID, US Treasury, and the IMF. Important examples are the IMF assistance for modernizing the legal framework for revenue administration, and the EU PHARE support for the establishment of an NRA call center. The Bank team actively pursued an ongoing dialogue and information exchange with other donor agencies, and excellent donor coordination contributed significantly to the quick and smooth progress in project implementation.

An efficient PCU contributed substantially to successful project implementation, and the change management approaches established were highly efficient. In 2003 a special Strategic Planning and Change Management Department was established. Thus the outcome of the change management subcomponent of the project was its full institutionalization with the strategic planning unit. This exemplifies international best practice and was the main reason why the transition process occurred smoothly, as overlapping teams were created and strategic plans developed and followed according to a mutually agreed blueprint.



A major milestone in project implementation was the establishment of the NRA, which started operating from January 2006. The timely launch of NRA activities was put at risk due to delays in finalizing the legal framework for NRA operations. The Tax and Social Security Procedural Code finally was adopted by Parliament on December 21, 2005, which made it possible to start NRA operations on January 3, 2006.

*Mid-term review:* The mid-term review of the project took place in June 2006. The review concluded that the development objective of the project to a large extent had already been achieved. In particular the collection of taxes and social contributions had been merged, central and municipal revenue collection functions had been separated, the structure and operational strategy of the revenue administration had been modernized with an appropriate focus on ensuring a high level of voluntary tax compliance and providing high quality services to taxpayers. Tax revenue collection had increased by 4.1 points of GDP between 2002 and 2005, and the efficiency of operations had increased through streamlining of the office network and revenue administration workforce. The only pending issue highlighted was the finalization of the arrangements for the start of the NRA Sofia building renovation. In addition, the mid-term review noted that the implementation of the new Revenue Management System (RMS) on January 1, 2007 would be crucial for NRA to achieve the next step of improvements in efficiency and effectiveness. However, both activities were not implemented as originally planned.

*Rehabilitation of the NRA Administrative Building:* As an exception to all other project activities, procurement procedure for the rehabilitation of the NRA administrative building in Sofia became politicized and took much longer than expected, resulting in substantial increases in civil works costs leading to a repeat of the pre-qualification procedure and bids exceeding the allocated budget by more than 70%. The Management Board of NRA, headed by the Minister of Finance, decided to cancel the bidding procedure under Bank guidelines, cancel the unused loan funds, and finance the building renovation with state funds only. As a result, this is the only planned project activity that was not executed.

*Revenue Management System:* It became clear in mid-2006 that the contractor in charge of developing the RMS would not be able to deliver the full integrated product by end 2006. It was therefore decided to break down deliverables into two phases, with the second phase scheduled for the end of 2007. Later in 2006, it became clear that even phase one had become risky as initial acceptance procedures had pointed to serious problems with the delivered modules of the RMS. A pilot for modules developed under phase one started in November 2006 and was completed in December 2006 just in time for deployment of the core system as of January 2007. The full implementation of all RMS phase one modules was only completed in 2008, which included all core functionality required for revenue management. The remaining modules of the RMS will now be implemented by NRA outside the scope of the RARP.

*Project risks:* The number of critical risks identified and listed in the PAD is small compared to other revenue administration reform projects. Project implementation shows that risk mitigation measures generally have been identified correctly and implemented properly. The key critical risks and risk mitigation measures were: (i) the risk that the MOF would retain a level of control over the NRA impeding the required level of administrative and financial independence needed to implement and sustain the reform

was mitigated by soliciting a Letter of Commitment signed by the Minister of Finance and confirming the commitment of the Government to provide the NRA with sufficient authority to manage its budget, human, and IT resources. An NRA Management Board was established acting as the Project Steering Committee under the Chairmanship of the Minister of Finance and consisting of high level and balanced representation of all stakeholders affected by the implementation of the NRA, including the NSSI and the NHIF (ii) the risk that the implementation of the NRA would not proceed smoothly because of institutional incompatibilities and a lack of political will was mitigated by a highly efficient change management program and early and full involvement of all stakeholders in the reform process guaranteeing full support for the reform process, in particular from the MOF and the NSSI; (iii) the risk that internal/external "losers" in the modernization process would impede progress toward modernization and full functioning of the NRA was mitigated by managing staff redundancies in a transparent and fair way and implementing an active outreach communication strategy which contributed to ensuring a high level stakeholder support for the reform process.

### **2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization**

A detailed results framework was developed during appraisal. The indicators identified generally proved relevant in monitoring progress during implementation and evaluating overall performance towards achieving project development objectives. A comprehensive set of realistic, measurable indicators were clearly linked to project components. Modification and replacement of indicators during project implementation was kept at a minimum; however a small number of indicators had to be revised as either monitoring progress towards achieving the indicator targets proved excessively difficult, or the relevance of the indicator had declined. Nevertheless, the key PDO indicators remained unchanged. A revised set of performance indicators was discussed and agreed with the Bank in July 2008. The revisions aimed at streamlining the number of indicators from over 150 indicators to a more manageable and meaningful set of indicators reflecting the changed institutional environment and availability of data, particularly because of policy changes that affected the ability of the NRA to capture the data, namely: divestiture of the responsibility for collection of local taxes to local governments; and transfer of the responsibility for collection of excise taxes to Customs. With the start of NRA operation in 2006, some of the indicators that were monitored separately for taxes and social contributions had to be shown on an aggregate basis to reflect the integrated collection of taxes and social contributions. At the same time, some other indicators – mainly based on surveys of taxpayers and NRA staff – were further detailed to better illustrate the different aspects of perceptions of level of professionalism and integrity of NRA staff. The monitoring of a third set of indicators was agreed to be discontinued due to the unavailability of data. Such indicators pertain to performance against agreed standards for responding to taxpayers' inquiries and the time it takes to identify and notify non-filers and non-payers. With the introduction of the NRA Call Center the response time was expected to improve significantly. The information for these indicators was based only on legal requirements while the existing state of the RMS did not permit gathering information on actual performance.

A Policy Analysis and Support department was established at NRA headquarters in 2003, which assumed responsibility for monitoring and updating the results framework.

Updates of indicators were prepared regularly and in a timely manner for use in project supervision.

An important result of the project is that major parts of the results framework have been institutionalized and are now used for monitoring the performance and developing the annual plans of the NRA. This is a major change in revenue administration planning and performance evaluation, as the success and performance of the NRA is no longer based exclusively on collection results and meeting revenue targets, but on a broad set of performance indicators including meeting service standards, improving integrity, and reducing taxpayer compliance costs. Feedback surveys from taxpayers and NRA staff have been introduced by the project and will continue to be conducted on a regular basis after project closure.

#### **2.4 Safeguard and Fiduciary Compliance**

*(focusing on issues and their resolution, as applicable)*

The Project triggered no safeguard polices. The project included rehabilitation of tax office buildings in Varna and Sofia (financed with Loan proceeds) and in more than other 10 locations financed entirely from state budget funds. Rehabilitation of offices was carried out in compliance with the Bulgarian environmental standards, which have been aligned with those of the EU. National standards do not require environmental assessment for rehabilitation works.

There were no fiduciary compliance issues. The project's financial management arrangements were highly satisfactory considering the very good internal control procedures in place, disbursement, staffing, reporting and auditing arrangements. The PCU employed a financial specialist responsible for all financial management and disbursement issues. All records under the project were kept under a specialized project management software (PAIS), which was developed and customized by a Bulgarian company. Quarterly unaudited financial monitoring reports were generated by the PAIS automatically. The PCU had adequate internal controls for the project, including regular reconciliation of bank accounts, adequate segregation of duties, and performed monthly reconciliation of the Bank's disbursement summaries with project accounting records. The PCU used a comprehensive set of accounting policies and internal control procedures in accordance with the Bulgarian legislation and the project financial management manual. The counterpart financing received from the Government has been satisfactory during the project life.

#### **2.5 Post-completion Operation/Next Phase**

The key outcome of the project was the establishment of NRA as a modern, client-oriented revenue collection agency with responsibility for the collection of both national taxes and social contributions. Strategic management and planning processes have been introduced at all levels, and NRA is now implementing its second corporate plan (2008 – 2013). The project supported the development of the plan and the initial phase of its implementation. NRA is now planning to continue implementing the plan and pursue initiatives to further increase operational efficiency and reduce the taxpayer compliance burden. A key element of the next stage of the reform process will be the finalization and

full roll-out of the remaining RMS modules. A number of functionalities still need to be developed with priority, in particular the automatic selection of taxpayers for audit.

The NRA Strategic Plan 2008 – 2013 builds on the accomplishments of the RARP and aims at ensuring the sustainability of project benefits. In addition, NRA benefits from technical assistance provided by the IMF as needed in order to further advance its reform process. Major next steps identified by the IMF in a May 2009 technical assistance report are the strengthening of the Large Taxpayers and Social Security Contributors Directorate (LTSSCD), improving the risk-based compliance management approach, and further consolidation of the office network. Attesting to the institutional capacity for strategic planning and managing change, NRA management has already announced its decision to pursue these recommendations and plans to increase the coverage of the LTSSCD to collect at least 60-70% of total domestic revenues, and to further consolidate the 29 territorial Tax Directorates into 5 Directorates and one LTSSCD. Further reforms are also envisaged in the HR management area with further staff reductions and the introduction of a more transparent pay structure. Already during implementation of the RARP the NRA staffing level has been reduced from 9,975 in 2004 to 7,542 in 2008, mainly as a result of the transfer of tax administration staff to municipalities and transfer of staff to the Customs Agency. Further staff reduction will be possible due to continuing office consolidation and computerization of business processes. There are clear indications that the NRA has established a solid capacity for continuous improvement that will serve it well in adapting to ever evolving market challenges. On the organizational side, the establishment of the Strategic Planning and Change Management Department as a core department in the NRA headquarters structure ensures that the planning, change management and reform monitoring capacity introduced by the project will be maintained to further steer the modernization process.

Performance indicators and the performance monitoring system introduced by the project have been incorporated into NRA's own strategic planning and performance monitoring process. Many indicators have been broken down by regions to provide headquarters management with the ability to compare the performance across offices; and to give office managers the ability to prepare their own strategic plans considering the performance of peers. Exchange of successful approaches to collection is stimulated and apparently are supported by headquarters. This is also true for client and staff perception surveys, so that it can be expected that the regular collection and analysis of feedback from taxpayers and NRA staff introduced by the project will continue.

### **3. Assessment of Outcomes**

#### **3.1 Relevance of Objectives, Design and Implementation**

The objectives of the RARP continue to be highly relevant in the context of the Bulgarian economy. Improvements in voluntary tax compliance and increased efficiency in revenue collection created the basis for Bulgaria to reduce its tax and social contribution rates in order to ensure competitiveness as an investment location in the region, which was the main priority in the government's National Strategic Reference Framework 2007 - 2013. It also allowed the Government of Bulgaria to address the problem of the size of the informal economy, which was estimated at over 30% of GDP before EU accession and which constituted one of the main constraints to investment and growth in Bulgaria.

Lower tax and social security rates and increased control intensity introduced by the Bulgarian government since 2003 in combination with continued credit and FDI-based economic growth have reduced the share of the informal economy by some 30% between 2002 and 2008. A more efficient revenue collection system has allowed Bulgaria to better absorb the impact of the global economic crisis on the state budget, and collection results as a percentage of GDP remained well above the 2005 and 2006 levels (22.2% and 20.7% respectively) in 2008 with total revenues collected amounting to 23.8% of GDP. The RARP now serves as a model for further reforms in the revenue collection system, in particular with regard to the modernization of customs administration. The RARP also has become a model for similar reform efforts in other countries in the ECA region and beyond.

### 3.2 Achievement of Project Development Objectives

Project Development Objectives were fully met by the close of the project, and results achieved substantially exceeded expectations in most areas as shown by select indicators out of close to 150 indicators that were tracked during the lifetime of the project.

Total tax and social contribution revenues more than doubled between 2002 and 2008 and exceeded the target by 40%. VAT revenues almost tripled in six years with tax rate kept unchanged, while CIT and PIT revenues were in 2008 close to double their levels in 2002 despite significant reductions in tax rates. All of these revenues exceeded the target by 67% for the VAT, 151% for the CIT, and 37% for PIT. Only social contributions revenues were 6% below the target reflecting substantial cut in rates (by 9.2 percentage points between 2002 and 2008) and introduction of social insurance thresholds by profession and by branch. The share of grey economy declined from an estimated 35% in 2002 to 20% by 2007.

**Table 1. Selected Key Performance Indicators**

KPI	Baseline (2002)	Target (2008)	Actual (2008)
Total tax and social contribution revenues collected, million BGN	9408	15040	21053
Total tax revenues, million BGN	6332	9566	15904
CIT, million BGN	976	962	2416
PIT, million BGN	1052	1428	1951
VAT, million BGN	2688	4490	7485
Total social contribution revenues, million BGN	3076	5474	5148
Estimated share of grey economy, %	35	30	20 (2007)

The aggregate *voluntary compliance* rate with tax and social contributions payment obligations increased by 11 percentage points from 74.3% in 2002 to 85.7% in 2008 and VAT compliance of 92% now is at the level of advanced EU member countries. The compliance targets for personal income tax (PIT) and social contributions have only been marginally missed; however visible improvements have also been realized in ensuring the

payment of these taxes. Social contributions and PIT compliance increased from 80.0% in 2002 to 87.0% in 2008, which is 1 percentage point below the target of 88%.

Major achievements have been made in *increasing administrative effectiveness and efficiency*. The successful transfer of local tax collection to local governments allowed a consolidation of the number of field offices from 340 to 29 (a further consolidation reducing the number of full-fledged regional offices to only 5-6 is now envisaged as the next step in the reform process). The start of NRA operations led to significant economy of scale. Revenues collected per staff member more than tripled in 2008 compared to 2004 (BGN2,277 thousand in 2008 compared with BGN982.9 thousand in 2004). Administering tax and social contribution collection is currently being done with only 75% of staff that used to collect taxes only with cost of revenue collection declining from 1.4% of revenues in 2002 to 0.8% in 2008.

Progress has been slower in implementing the move to an e-tax system, as more taxpayers need to be convinced to file their tax returns electronically. Taxpayer and staff perception surveys reveal some progress regarding the *establishment of a professional workforce*, and the overall satisfaction of taxpayers and contributors with the level of professionalism and integrity of NRA has improved in all taxpayer/contributors groups. Improvements have also been achieved with regard to public perception of the overall quality of taxpayer/contributor services; however, not all taxpayer segments benefit equally from quality enhancements achieved, and large taxpayers/contributors seem markedly more satisfied with service quality than small businesses and individuals (see annex 5 for more details). New policies for recruitment, selection, hiring, promotion and career development of NRA staff, which are in line with international good practice, have been introduced, and a targeted training strategy has been developed. Regular staff rotation has been introduced in areas with a particularly high corruption risk, such as tax audit. Computer-based random selection of auditors is implemented countrywide to reduce opportunities for corruption. Soundness of NRA decisions, an indicator for increased professionalism, has been reflected in the marked decrease in percentage of cases lost in court (13.7% in 2008 as compared with 24% in 2005).

*Equity and fairness of the tax system* have been increased in particular through the broadening of the tax net and the reduction of tax evasion by businesses operating in the informal economy. Revenue gains made possible consistent reduction of the tax burden and social contribution rates to one of the lowest in the EU. The consistency of the application of tax laws has been improved as a result of preparing clear guidelines for tax inspectors and computerizing business processes and making available database of the appeals results reflecting the corporate interpretation of tax laws, rules and regulations. Satisfaction rates with administrative improvements have improved for all taxpayer segments (See Annex 5)—mostly for large taxpayers and contributors for which special service is provided but also for small business and individuals.

Results from taxpayer surveys (see Annex 5) point to perceived progress in *reducing compliance burden*, although a precise measurement of compliance costs has not been made. A number of reforms have contributed to reducing the time and cost of compliance. In particular, use of third party information reduced the reporting

requirements for taxpayers and reduced the number of visits to tax offices. The introduction of e-filing and the establishment of the Call Center reduced the necessity for physical visits to tax offices and eliminated queue time. Simplified income tax declarations were introduced in 2008 reducing the reporting requirements for taxpayers by cutting almost by half the number of pages of the declaration. The number of tax payments has been reduced from 27 in 2005/06 to 17 in 2006/07. Nevertheless, the “Doing Business – Paying Taxes” analysis still rates Bulgaria as a country requiring a comparatively high compliance time. With a total of 616 hours (40 hours for CIT, 288 hours for labor taxes, and 288 hours for VAT) Bulgaria has one of the highest compliance time indicators in Europe (average compliance time according to Doing Business 2010 is 194.1 hours for OECD countries, and 336.3 hours for countries in Eastern Europe and Central Asia). Additional efforts will therefore be required in order to achieve a noticeable improvement in reducing the taxpayer compliance burden. For example, tax returns of taxpayers who do not have electronic signature, can prepare their tax return electronically but need to send a printout to the NRA, which does not fully exploit the cost savings potential of e-filing.

Finally, the expected improvements in the tax environment for *fostering economic growth* have been achieved. Tax rates have been reduced for direct taxes and for social contributions, the overall level of tax compliance has increased, and the transparency of the tax system has improved. This supported a steady economic growth of close to 6% per year between 2002 and 2008 and in 2007 Bulgaria joined the EU. Unemployment was reduced to record low levels while sizable FDI inflows supported strong investment growth following a decade of under-investment. Revenue over performance was saved and fiscal accounts were in surplus of close to 3% of GDP between 2004 and 2008.

### **3.3 Efficiency**

The project contributed to achieving efficiency gains in several areas:

*Reduction in the tax burden:* The Government was strongly committed to encouraging investment and employment creation by reducing direct taxation and applying exemption and depreciation incentives. In this context, fiscal balance depended increasingly on the capacity of the revenue administration to improve collection and compliance rates. The tax burden for both businesses and individuals was lowered several times during project implementation. As a result of these reforms, Bulgaria was listed as one of the top reformers in the tax area in the Doing Business 2008 report. According to report, the total tax rate as a percentage of business profits has been reduced from 36.7% (Doing Business 2008) to 31.4% (Doing Business 2010).

**Table 2. Tax and Social Contribution Rates, 2002-2008**

	2002	2003	2004	2005	2006	2007	2008
CIT	23.5%	23.5%	19.5%	15.0%	15.0%	10.0%	10.0%
Dividend income tax	15.0%	15.0%	15.0%	15.0%	7.0%	7.0%	7.0%
PIT (Maximum rate)	29%	29%	29%	24%	24%	24%	10%
Social Insurance Contribution	35.7%	35.7%	35.2%	35.2%	28.7%	28.2%	26.5%

Increased efficiency of revenue collection by NRA ensured that the impact of rate reductions on actual revenue collection was curtailed. Net revenues collected by GTD and NSSI (and from 2006 by NRA) increased from BGN9.78 billion in 2002 to BGN21.1 billion in 2008.

*Reduction of informality.* Improvements in revenue compliance management was one of the core elements of the Government's strategy to reduce the size of the informal economy. The introduction of more efficient risk analysis and collection systems in NRA has substantially improved tax compliance rates. The aggregate compliance rate increased from 74.3% in 2002 to 85.7% in 2008, while estimated share of informal economy declined from 35% in 2002 to 20% by 2007. The combination of a reduction in the tax burden, simplified compliance procedures, and increased efficiency in detecting non-compliance has improved incentives for business and labor formalization.

*Reduction of compliance costs.* No clear estimates can be made about the reduction in compliance costs achieved. The introduction of e-filing, particularly for VAT, has significantly reduced the need for physical visits at tax offices. Tax forms have been simplified and implementation of new taxpayer service programs, such as the operation of an NRA call center, has facilitated access to information. However, irrespective of these improvements, the Doing Business 2010 report assumes that the total time required for compliance with the tax system remained unchanged at a high level of 616 hours per year.

*Reduction of administrative costs.* Costs of revenue collection have been reduced from 1.4% (for the tax administration only) in 2002 to 0.83% for NRA in 2008. With such an efficiency ratio Bulgaria has reached the level of advanced OECD countries. The increase in collection efficiency can be translated into cost savings amounting to BGN56.2 million or EUR28.7 million in the first year of NRA operation. Total project costs of EUR42.3 million thus were compensated for in the second year of NRA operation.



### 3.4 Justification of Overall Outcome Rating

Rating: Satisfactory.

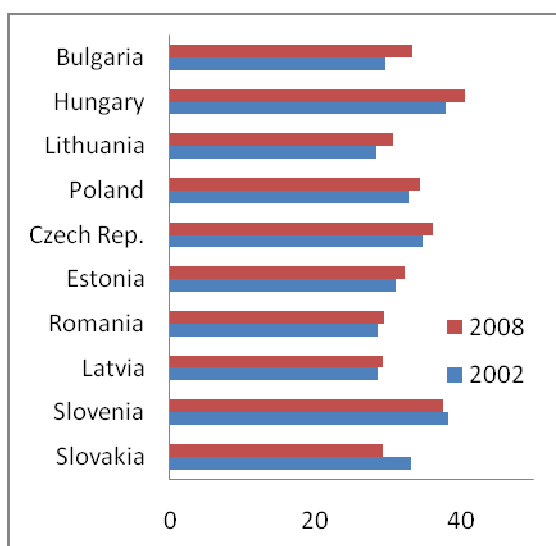
Project development objectives have been achieved and exceeded. A modern, integrated revenue collection system has been put in place, which has considerably increased the efficiency and effectiveness of revenue collection. The project has increased the level of voluntary compliance and created the necessary preconditions for a substantial reduction in the tax burden for citizens and businesses. In particular:

- Total tax and social contributions revenues have increased by 5.0 percentage points of GDP between 2002 and 2008 to 31.6% of GDP, the highest revenue gain achieved during this period compared to all other EU10 countries (Figure 1) while tax rates in Bulgaria have been reduced to one of the lowest levels in the EU (Figure 2). Total tax and social contribution revenues exceed the target value (measured in million BGN) by 40%.
- VAT revenues as a percentage of GDP increased by 3.0 percentage points between 2002 and 2008 and now account for close to 12% of GDP, which is the highest within the EU.
- Municipal revenues increased from 0.8% of GDP in 2004 when the transfer of revenue collection to municipalities started to 1% of GDP by 2008.
- Compliance rates have improved for all tax types, supporting an improved level playing field for firms. VAT compliance with 92% in 2008 (an increase of 15 percentage points compared to the 2002 level) exceeded the target under the project (83%) and is comparable to best performing countries in the EU. Corporate income tax compliance rate increased from 55% in 2002 to 68.2% in 2008 and exceeded the target by 5 percentage points. Compliance rates for personal income tax and social contributions increased by 7 percentage points between 2002 and 2008 and at 87% is just 1 percentage point below the target.
- Cost of collection has declined sharply (as targeted) with the start of operation of NRA and the transfer of the collection responsibility for local taxes to municipalities, which allowed a consolidation of the field office network from over 340 in 2002 to 29 in 2008. Combined with additional improvements in collection efficiency collection costs have dropped from 1.4% of revenues in 2002 to 0.8% of revenues in 2008, which is lower than in many other EU and OECD countries (e.g. France 0.97%; Italy 1.16%; Netherlands 1.11%; UK 1.10%).
- The percentage of firms that see tax administration as a problem for doing business declined from 34% in 2002 to 31% in 2005 and to 15% in 2009 according to the Business Environment and Enterprise Performance Survey (BEEPS), one of the lowest now among the EU10 countries.
- A large majority of taxpayers report not facing any significant administrative obstacles for tax compliance. This is the case in particular for large businesses with 82% of respondents not having identified any major administrative compliance problems in 2008; the response rate is somewhat lower, however still impressive, for SMEs with 65% and for individuals with 68%.

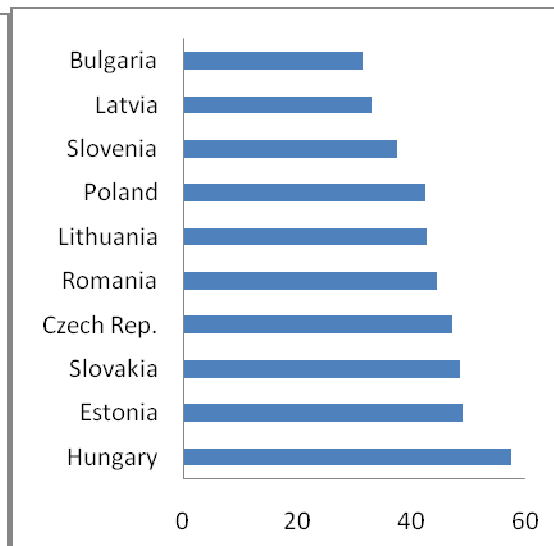
- Bulgaria rates better than most countries in the region in terms of perception of corruption--only 6.58% of firms reported that gifts were expected to be given to tax officials in Bulgaria compared to 12.85% in the region according to the 2009 Enterprise Survey.
- The effectiveness of audits and appeals have improved with close to 79% of audits leading to additional revenues in 2008 compared to 58% in 2002 (the baseline), exceeding the target under the project of 65%. The amount of adjustments per audit in 2008 is more than triple the targeted under the project. While the number of appealed audit acts was reduced marginally between 2002 and 2008, the share of appeals lost in court declined markedly during this period—from 17.6% to 13.7%.
- Arrears as percent of total revenues collected were reduced to below to 13.7% in 2008, below the target of 17%.
- Increased provision of electronic services and expanded information to taxpayers are contributing to reducing the compliance costs to taxpayers. The e-filing of VAT increased from 23% in 2006 to 68% by Jun-09 (Table 8) and saved taxpayers nearly 100,000 visits to the NRA offices per month. Legal requirements for e-signature to file online has kept e-filing rate comparatively low, especially for PIT filing. Nevertheless, close to 96% of the returns are filed in electronic form—online or on a diskette.

**Figure 1. Total tax and social contribution Revenues, % of GDP** **Figure 2. Total tax rate, % of profit**

**Revenues, % of GDP**



Source: Eurostat



Source: Doing Business 2010

As a result of the successful reforms Bulgaria became one of the top reformers in the tax area according to the Doing Business 2008. The RARP was one of the winners in the World Bank 2008 competition “Improving the Lives of People in ECA”, and the

Taxpayers Association of Europe awarded the 2009 Taxpayers Prize to Prime Minister Borissov, recognizing that the successful tax reform efforts in Bulgaria have increased the pressure for reform in other EU member countries. Project results supported the achievement of Bulgaria's requirements for EU accession, and Bulgaria is operating today one of the most efficient VAT systems in the EU. A highly efficient change management program contributed to the successful implementation of all major reforms envisaged by the project and to changing the mindset of revenue administration staff, so that a service culture and dialogue with taxpayers and other stakeholders could be introduced. The project had positive impacts beyond NRA, as it improved mobilization of revenues for social security and contributed to increasing the efficiency of local tax collection.

The RARP has become a model for successful integration of tax and social contributions collection. Strong commitment from the Government and from senior management in NRA and NSSI in combination with the institutionalization of key reform results, such as the creation of a permanent strategic planning and project coordination directorate in NRA headquarters and the introduction of a broad-based performance monitoring system contribute to guaranteeing the sustainability of the reforms. Project development objectives were achieved and in most instances exceeded even without the completion of the rehabilitation of the NRA building in Sofia and the remaining modules of the IT system. Their completion and the reforms currently undertaken by the Government (further consolidation of NRA territorial offices from 29 to 6) are expected to solidify the achievements under the project and ensure additional improvements in effectiveness and efficiency of revenue administration in Bulgaria.

### **3.5 Overarching Themes, Other Outcomes and Impacts**

#### **(a) Poverty Impacts, Gender Aspects, and Social Development**

The project did not specifically target poverty impacts or social development. It did, however, aim at improving the collection efficiency of social contributions, so that a sustainable resource mobilization would be ensured to finance social benefits distributed to the poorer segment of the population. In addition, the reduction in the PIT and social contributions burden should facilitate the formalization of labor and thus the access of workers to acquiring pension and health insurance rights. Finally, by promoting a stronger relationship between taxpayers and the revenue administration, the project would instill more confidence in government, lead to greater social inclusion, and increase equity and transparency.

#### **(b) Institutional Change/Strengthening**

The project entailed fundamental changes in the organizational structure as well as in the institutional culture of the revenue administration. Organizational changes have been initiated and capacity has been created to transform the revenue administration from an organization focused on meeting current revenue collection targets to a forward looking government agency with clearly identified strategic objectives and priorities and the capacity to analyze compliance trends and behavior and respond to strategic challenges in a proactive way.

A key project objective was to transform the administrative mindset and institutional culture of the revenue administration from a control approach to a modern service-oriented culture able to master and fully enforce tax laws under a voluntary compliance-based system of tax collection. A system of full self-assessment of taxes in line with international good practice is now in place in Bulgaria. Key elements of an efficient taxpayer service and information program have been put in place, such as the establishment of a call center and the introduction of e-tax features (in particular the establishment of a high quality web portal and introduction of electronic filing of tax returns) as well as the establishment of a dedicated taxpayer services department to improve client orientation of the NRA and of taxpayer service units in all structures of the tax administration. The strategic plan 2008-2013 envisages continuing and deepening the service focus of NRA, which documents the sustainability of changes introduced by the project.

Restructuring of the revenue administration resulted in major streamlining benefits and efficiency gains. The network of field offices was reduced from 340 to 29, and revenue collected per staff member increased from BGN1,915 thousand in 2006 to BGN2,277 thousand BGN in 2008.

The project introduced new accountability mechanisms and strengthened transparency and integrity of NRA operations. Clear reporting requirements and a key role of the NSSI in monitoring NRA performance were introduced by placing the NSSI Governor in the NRA Board. An outreach program targeting the private sector was implemented, and private sector representatives were invited to participate in the steering committee for the modernization program, recognizing the important role of the private sector among the revenue administration stakeholders. The necessary organizational and procedural changes were introduced to reduce opportunities for corruption, and perception surveys are being conducted on a regular basis to measure improvements in the level of integrity.

The transfer of the responsibility for collection of social contributions from the NSSI to the tax administration also resulted in changing and strengthening the NSSI, which was able to build a stronger focus on establishing individual entitlements and efficiently paying them out to recipients. The project created the preconditions for NSSI to further develop its organizational culture and processes aligned to this role. The risk that the somewhat counter-intuitive responsibility for collections compromises both the collection efficiency and the provision of benefits has been eliminated.

Finally, the project also had a positive impact on strengthening fiscal federalism and local governments in Bulgaria. Responsibility for collection of local taxes and fees was transferred to local governments, which increased the responsibility and accountability of local governments. Local government administrative capacity was built by transferring 1310 experienced tax administration staff to local government authorities. An additional contribution to strengthened fiscal federalism was the increase in the collection efficiency of local taxes, which increased from 0.7 percent of GDP in 2002 to 1% in 2008 and thus equipped local governments with more own-sourced revenues.

**(c) Other Unintended Outcomes and Impacts (positive or negative)**

The remarkable success of the integration of tax and social contributions collection has now caused the Government of Bulgaria to also consider integrating the tasks of the State

Receivables Agency (SRA) into the NRA and explore possibilities of an integration of tax and customs administration. However, it is questionable whether the integration of the SRA function into the NRA will increase the overall efficiency of revenue collection and debt management. Revenues generated from enforced debt collection by SRA are minimal compared to revenues collected by NRA, and the tasks and collection approach of SRA differ fundamentally from the compliance management approach of NRA, which is – and needs to be – based on enhancing voluntary compliance. There is therefore a risk that such a merger would actually distract NRA from fulfilling effectively its core revenue generation tasks. Also international experience with the integration of tax and customs administration has been mixed, and a careful approach should be chosen to avoid burdening NRA with tasks not related to revenue collection. However, the government may wish to consider moving the responsibility for collection of other taxes, such as excise taxes, to the NRA.

### **3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops**

None

## **4. Assessment of Risk to Development Outcome**

Rating: Moderate

With the accession to the EU, Bulgaria has committed to introducing an efficient revenue collection system and counteracting corruption in the public sector. All reforms envisaged by the RARP have been incorporated in the NRA institutional structure and it is highly unlikely that they would be reversed after the project has closed. The preparation of a five-year strategic plan has now become part of the culture of NRA management, and clear accountability mechanisms to all stakeholders have been developed. Private sector support for the reforms is substantial, as the reforms have permitted a reduction in the tax burden and resulted in increased fairness of the tax system. However, there is a risk of negative publicity campaigns against the NRA, as was the case in early 2009, which could reduce taxpayer confidence in the agency. The agency continues to be threatened by corrupt social and political groups linked to the informal economy who have an interest in undermining public confidence in the agency and on its ability to protect the confidentiality of tax records. The negative publicity campaign against the NRA, following the resignation of the NRA executive director, in early 2009 is a good example of such threat. It is important, therefore, that the government continues to support NRA operations and demonstrates that the agency is able to operate fairly and efficiently without political interference.

## **5. Assessment of Bank and Borrower Performance**

### **5.1 Bank Performance**

#### **(a) Bank Performance in Ensuring Quality at Entry**

Rating: Satisfactory

A detailed analysis of the political, economic and institutional framework for the reform was carried out prior to project design. Critical risks were identified and addressed

appropriately. In particular a major emphasis was put on ensuring support from the NSSI for the reform process, which was crucial for achieving the results expected. Excellent analytical capacity, including ability to manage the project indicators, was instituted prior to project launch. A solid change management program was designed to ensure support from tax administration management and staff for the reform process. A number of other donors (in particular the EU and the IMF) were active in the area of tax policy and administration reform in Bulgaria when the project was designed, and excellent donor coordination avoided a duplication of technical assistance and ensured that support provided by the various actors was mutually reinforcing.

**(b) Quality of Supervision**

Rating: Highly satisfactory.

Several factors contributed to the supervision performance. The composition of the Bank supervision team appropriately reflected the key project components and implementation challenges of the RARP. The team assembled experienced experts in the areas of tax administration, human resource management and training, tax administration IT design, financial management and procurement. The team composition remained almost unchanged from the launch until the closure of the project, which contributed to building an excellent working relationship with counterparts. Supervision missions were conducted regularly with two missions taking place each year. Supervision missions always highlighted crucial challenges and core tasks for project implementation and identified steps to address these challenges and accomplish the task. There were regularly discussed also with the Minister of Finance and in some cases with Budget Committee in Parliament. Follow-up was ensured and all team members were available for consultations with the NRA reform team -- not only during but also in between supervision missions. Supervision included regular contacts with other stakeholders, and coordination of RARP activities with technical assistance provided by other donors was excellent.

**(c) Justification of Rating for Overall Bank Performance**

Rating: Highly satisfactory

The project provided a well designed, timely and highly effective contribution to improved revenue management in Bulgaria. An appropriate analysis of reform requirements and risks combined with an excellent design of project components contributed to the results achieved. Project design incorporated a number of best practices for Bank tax administration reform projects, such as the particular emphasis on developing capacity for policy analysis and compliance risk monitoring, the strengthening of private tax advisory services, and the strong focus on efficient change management. Project design and scope also appropriately reflected the implementation capacity of the revenue administration, so that delays and implementation problems were minimal. The Bank consulted and cooperated with the international donor community throughout project preparation and implementation, and technical assistance provided to the tax administration and NRA therefore was extremely well coordinated. Also cooperation with the implementing agency was excellent. Implementation has shown,

however, that the inclusion of office building constructions or renovations in revenue administration reform projects considerably increases the risks for timely and full accomplishment of all project components and activities, and therefore should be avoided to the extent possible.

## **5.2 Borrower Performance**

### **(a) Government Performance**

Rating: Satisfactory

Overall, the Government provided strong support for the project. The Government had a clear vision regarding the scope and content of reforms needed in order to establish an integrated revenue collection authority. The necessary initial step to create the legal basis for the reforms, the preparation of an NRA law, was undertaken in the second half of 2002, as agreed during pre-appraisal of the project. The Government committed to guaranteeing the requisite budgetary authority and accountability by the NRA over essential operational and technical areas and decisions. Required counterpart financing to implement the reforms was made available as needed and agreed. The Government demonstrated its support to the reform process throughout the implementation of the project. The Ministry of Finance played an active role in the NRA Management Board, overseeing the implementation of the reform program. The mid-term review of the RARP noted that MOF support to the project was exemplary by providing both guidance and the necessary resources for project execution. The Minister of Finance was consistently available to discuss supervision mission findings.

The only project activity where Government support was less than adequate was the rehabilitation of the NRA headquarters building in Sofia. Following a procurement plagued with false starts and political and economic attempts to distort the evaluation process, the Government decided to request the cancellation of the planned rehabilitation under the project because bids were substantially above allocated funds. A public private partnership approach for these civil works (bypassing the country's procurement laws) was agreed with the Council of Ministers in 2008 but recently failed also. The activity, which is very much necessary to further improve NRA efficiency and reduce taxpayer compliance costs will now have to be completed, probably using Government funds.

Also, the MOF could have been more protective of its agency when a negative publicity campaign was conducted against NRA shortly before project closure, which risked reducing taxpayer confidence in the agency exactly at a time when the taxpayer propensity to pay taxes is suffering because of the economic crisis. It is therefore crucial that the Government makes every effort to restore taxpayer trust in the NRA in particular and on Government's use of revenues in general, by eliminating any reasons for taxpayers to perceive revenue collection is being used for political purposes.

### **(b) Implementing Agency or Agencies Performance**

Rating: Highly Satisfactory

The overall management of the project has been carried out with the highest standards. Over the years of project implementation, the project team addressed all project related issues in a very professional manner. The team built-in and maintained a strong management capacity and the way the project was managed can be considered as best practice. The team shared several times their experience not only with other agencies in Bulgaria, but also internationally. Teams from several countries from within and outside the region visited NRA to learn and exchange experience on overall project management. In addition, each team member grew in their area and gained a lot of knowledge and real life experience in the relevant areas of project, procurement, contracts and financial management. On June 1, 2009, as part of the changes to the organizational structure of the NRA and in view of the forthcoming closing of the project, the PCU was renamed to Projects Coordination department and was integrated into the new directorate —Strategic Planning and Project Coordination. The Project Coordination Department is now in charge of planning and coordination of all projects being launched in NRA.

### **(c) Justification of Rating for Overall Borrower Performance**

Rating: Highly Satisfactory

The Borrower's overall performance is rated as highly satisfactory. The project could build on a clear and comprehensive revenue administration reform strategy developed by the Government. Reform management capacity was created early in the process with the establishment of a unified revenues administration (URA) reform team. All 58 project activities, with only two exceptions, were completed fully and on time. Contractor problems and repeated delays in developing the Revenue Management System for NRA were addressed proactively and efficiently by NRA management leading. Though the activity was later cancelled, the process to select the contractor for the refurbishment of the NRA Sofia building was successfully carried out by the NRA under difficult circumstances, and the integrity of the process was maintained. Project management structures and performance monitoring systems have been institutionalized and contribute to the sustainability of project results. Necessary capacity was built and strategies developed to deal with potential project risks and change management challenges. A sustainability program was instituted in the Agency's Strategic Plan to ensure project gains would not be disrupted.

## **6. Lessons Learned**

The project represents the first substantial Bank lending operation focusing specifically on supporting the integration of tax and social contributions collection in a newly established national revenue agency. Creating a unified revenue administration for tax and social contributions collection in recent years has become a popular measure to increase the efficiency of revenue collection and reduce compliance costs in particular in ECA countries, but also in other regions. The lessons learned from the implementation of the RARP therefore are of particular importance to subsequent Bank operations with similar objectives. They also provide guidance more generally to countries contemplating or planning a tax – social contributions collection merger exercise. Key lessons include:



- (i) *Early confidence building is crucial.* With the transfer of collection responsibility to the revenue administration, the social security agency loses control over its revenue generation. To avoid resistance from the agency, confidence must be built and instruments (such as protocols, MoUs and service level agreements) must be put in place to ensure that social contributions collections will be transferred fully and immediately and that the social security agency receives appropriate information in a timely manner.
- (ii) *Integration is a process which involves a multitude of stakeholders. It is important to involve these stakeholders actively in the design and monitoring and active management of the reform process.* The RARP had strong project management and steering structures, which involved all relevant government and private sector stakeholders and offered stakeholders an active role in guiding the NRA in its reform process and reviewing progress made.
- (iii) *It is important that strong performance standards are set in relation to collection performance for both tax and social contributions and early measures taken to collect and analyze performance data.* The RARP defined a list of core performance indicators with challenging targets for NRA not only with regard to tax administration reform, but also with regard to improving the efficiency of social contributions collection.
- (iv) *Transferring the collection responsibility for local taxes to municipalities is a crucial precondition for achieving substantial efficiency gains in national tax revenue collection.* OECD comparative analysis of tax administration reform has shown that office consolidation is a core element of a strategy to increase tax administration efficiency. Such consolidation proves difficult in practice, however, when field offices are in charge of local tax collection. Under the RARP the transfer of collection responsibility for local taxes to local governments was accomplished in the early stage of reform implementation, which created the necessary conditions for a substantial reduction in the number of tax offices.
- (v) *Continuity in the leadership of the tax agency provides an important contribution to successful implementation of the reform process.* The implementation of the RARP was considerably facilitated by the fact that NRA was provided with a stable and efficient senior management team. In addition to avoiding a leadership vacuum and disruptions in a period where strong management of the reform process is required, this facilitated communication and trust building between senior management and the Bank team.
- (vi) *Tax administration reform and integrating the collection responsibility for social contributions is a multi-year process. A medium to long-term strategic vision, owned by the implementing agency, is a prerequisite for the successful completion and sustainability of the reform process.* The development of strategic planning capacity was one of the core priorities for the first phase of the RARP. A five-year strategic plan 2004-2008 was prepared and provided a strategic basis for the reform process. The establishment of a Strategic Planning and Change Management Department (SPCM) ensured the expertise needed to keep all aspects of the reform on track, on schedule, and aligned with project development objectives and related activities in all components.
- (vii) *Business process re-engineering and related automated applications must be fully (though gradually) integrated throughout the tax administration, with appropriate management of the organizational transition – including human resource and training aspect – as a central part of the process.* Business process capacity was properly integrated into the headquarters functions of the NRA, and plans to sustain the function

have been prepared and are being executed so as to guarantee the ongoing quality and efficiency of NRA's work process and procedures. Simultaneously a change management process was launched to build commitment of all staff to the change process.

(viii) *Moving to an e-tax system is an essential process for reducing the compliance and administrative burden and the risk of corruption. Increasing the use of electronic tools, in particular e-filing, by taxpayers therefore is important. This requires, in addition to providing incentives for e-filing, to eliminate obstacles and create the necessary legal framework for the use of e-tax.* The implementation of the RARP has shown that the promotion of e-filing through a system of tax incentives does not produce the expected results as long as legal or practical obstacles hamper the efficient use of an e-filing system. In addition to offering incentives, priority must therefore be given to early studies to identify such obstacles and constraints and propose project activities to mitigate them. This need was not sufficiently recognized in the RARP design.

(ix) *Tax administration reform frequently requires changes in the legal framework. These changes must be initiated as early as possible in order to ensure a clear and sufficient legal basis for the reform.* In Bulgaria, in addition to input provided by the RARP, project technical assistance provided by EU Phare and by the IMF have contributed to a quick and full implementation of a stable procedural legislation and tax laws with the aim of harmonizing the tax base for integrated revenue collection.

(x) *Need for setting realistic, measurable performance targets.* The project established a large number of key indicators at appraisal. These indicators proved to be important for the NRA to measure its own performance and for NRA to be able to monitor and analyze the performance of its office network. The NRA established from the beginning an analytical office that monitored performance during the life of the project. The use of performance indicators for project monitoring was one of the key features of the project. Nevertheless, under the RARP a few indicators proved elusive and difficult to achieve because of external constraints, as it was the case with electronic filing being affected by the electronic signature law, or the tracking of local taxes after decentralization to local governments. It is important to avoid the use of key indicators that have fundamental external dependencies that are not under the control of the implementing agency.

(xi)ii) *Avoid construction works/renovations which often contribute to delays in institutional development projects.* Large civil works activities are often difficult to procure under institutional development projects. Procurement is complex with additional steps such as architectural design and prequalification which can extend the procurement for over one year. In addition, national interests and perception of corruption influence, which seem to be common to this type of procurement, often disrupts the procurement process. Whenever possible, it is best to avoid this type of activity where the Bank team and the implementing agency do not have substantial experience in executing the activity.

## **7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners**

### **(a) Borrower/Implementing Agencies**

#### **(b) Cofinanciers**

None

#### **(c) Other Partners and Stakeholders**

## Annex 1. Project Costs and Financing

### (a) Project Cost by Component (in EUR Million)

Components	Appraisal Estimate (EUR millions)	Actual/Latest Estimate (EUR millions)	Percentage of Appraisal
1. POLICY SUPPORT	1.40	0.74	53%
2. ORGANIZATION AND MANAGEMENT	7.51	0.35	5%
3. INCREASING OPERATIONAL EFFICIENCY	17.53	20.89	119%
4. OUTREACH AND PARTICIPATION	1.58	2.09	132%
5. OFFICE UPGRADING	28.72	17.06	59%
6. PROJECT MANAGEMENT	1.68	0.85	51%
<b>Total Baseline Cost</b>	58.42	41.98	72%
Physical Contingencies	0.00		
Price Contingencies	0.00		
<b>Total Project Costs</b>	58.42	41.98	72%
Front-end fee PPF	0.00		
Front-end fee IBRD	0.32	0.32	100%
<b>Total Financing Required</b>	58.75	42.30	72%

### (b) Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (EUR millions)	Actual/Latest Estimate (EUR millions)	Percentage of Appraisal
Borrower		26.85	20.65	77%
International Bank for Reconstruction and Development		31.90	21.65	68%

## Annex 2. Outputs by Component

Objective	Key Performance Indicator	Comments
C.1. Policy Support	Appropriate changes in the legal and regulatory framework for made to support the reforms introduced by the project and accession to the EU	A modern tax and social security procedural fully compliant with EU requirements has been introduced. All major tax laws have been revised with tax policy changes supporting a simplified revenue administration.
	Tax policy unit staffed and made operational with capacity to analyze administrative performance, and economic efficiency and effectiveness of the NRA.	A policy analysis and support department was established in NRA headquarters in 2003. Capacity was built to analyze compliance trends and various simulation models were developed for tax incidence analysis and revenue forecasting. The department also tracked project performance and maintained all performance indicators.
	Improved revenue forecasting models and methodologies implemented.	Compliance and revenue estimation capacity has been developed and NRA has introduced an ongoing compliance monitoring process. Revenue forecasting exercises are used to distribute the revenue targets established by Parliament to the office network.
	Revised administrative appeals system fully functional, evaluated, and revised if necessary.	Legal and strategic planning consultancy services have supported the enhancement of the appeals system. Handling appeals has been centralized in five Appeals and Implementation Management Directorates, which has

Objective	Key Performance Indicator	Comments
		contributed to improved appeals management.
	Capacity to analyze how well the NRA implementation of the Tax Code achieves tax policy objectives.	Capacity has been built as part of the support provided to the ‘policy Analysis and Support Department’.
C.2 Organization and Management	Organizational structure at the headquarters and territorial levels rationalized along functional lines, but with a focus on large taxpayers.	Tax administration has been reorganized along functional lines. A dedicated LTSSCD has been established, which administers 682 large taxpayers. However, the allocation of taxpayers to the LTSSCD needs to be reviewed. With the transfer of excise collection to the Customs Agency, revenues collected by the Directorate were reduced to 26% of total revenues, far below the international best practice of 60-75% of revenues. Activities to strengthen large and medium taxpayer administration are now in progress, in particular establishing a revised more dynamic taxpayer base for the LTSSCD and MTSSCD increasing the efficiency of the large taxpayer audit program.
	Territorial offices consolidated.	The number of field offices was reduced from more than 340 to 29. MOF is now planning a further consolidation of the 29 Tax Directorates into 5 Regional Directorates and 1 LTSSCD, with the remaining TDs transformed into client

Objective	Key Performance Indicator	Comments
		service centers.
	Collection of local taxes transferred to local governments.	Responsibility for the collection of local taxes and fees was transferred to local governments throughout 2004-2006 program. To support local governments in revenue collection, more than 1300 tax administration employees were transferred to municipalities.
	Strategic approach to the management of the agency established.	A dedicated directorate for strategic planning and project coordination was established in NRA integrating the strategic planning, change management and PCU established under the Project. A five-year strategic planning cycle has been introduced and two strategic plans for 2004-2008 and 2008-2013 were prepared. Operational plans are being developed on an annual basis with their implementation regularly monitored and analyzed at all levels.
	Improved management systems relating to accountability and authority, monitoring and evaluation, internal control and integrity implemented.	A Consultative Council has been created in 2007 to improve accountability to stakeholders. The Council meets every 2 months and provides feedback on strategic directions of NRA implementation as well as on specific initiatives aimed at simplifying procedures and improving compliance. NRA annual reports are produced and published regularly. A common

Objective	Key Performance Indicator	Comments
		performance assessment framework has been introduced.
	Standardized workflows, in accordance with well re-engineered business processes implemented.	A Business Process Development Office was established early during project implementation to support the BPR exercise. Business processes of the old GTD and the NSSI collection function were reviewed, integrated and reengineered. Consistent and optimized processes were implemented countrywide to promote uniform delivery of the NRA mandates. Business processes were updated to reflect the implementation of the RMS.
	Physical infrastructure of offices covered by the project improved.	The project supported the rehabilitation of the building in Varna, one of the largest TD in the country. As agreed, NRA funds were used to improve physical infrastructure in other key locations. The only activity that was not executed (it was cancelled from the loan) was the rehabilitation of the NRA administrative building in Sofia.
	Regular consultation with key stakeholders implemented.	A Consultative Council was established comprising of the NRA Executive Director and representatives of enterprises, accounting and auditing firms, trade unions, legal representatives, the NSSI, and various

Objective	Key Performance Indicator	Comments
		<p>ministries to provide guidance to NRA in its modernization process and review progress made. The NRA Board as the core management body of the agency consists of the Minister of Finance, the NSSI Governor, the NHIF Director, the Deputy Minister of Finance, and the NRA Executive Director and ensures that key management decisions are taken in a consultative way with substantial input provided by social agencies.</p>
	<p>Responsibility for collection of taxes and social contributions transferred to the NRA.</p>	<p>NRA started operating as a unified tax and social contributions collection agency in January 2006.</p>
	<p>New human resources management, staffing and pay policy -including efficient incentive systems- and training plan adopted.</p>	<p>New policies were developed and implemented for recruitment, selection, hiring, promotion, career development, and termination. Wage, benefits and performance incentive policies were developed using civil service guidelines. Training policy and strategy development included drafting of a new training strategy, development of capacity to prepare and disseminate training materials, and preparation and delivery of training in the short term to meet the needs of the project. A dedicated Professional Training and Development Center was established to</p>



Objective	Key Performance Indicator	Comments
		meet the need for a unified approach to planning and delivering of training.
	Code of Ethics implemented.	A new Code of Ethics for NRA staff was approved in 2006.
	Effective internal audit management and procedures implemented.	A special Internal Audit unit has been established in NRA headquarters. Internal audit procedures have been developed and implemented.
C.3 Increasing Operational Efficiency	Core business procedures reengineered considering international best practice. Business processes streamlined and codified for uniform use throughout the country.	A Business Development Office was established early during project implementation to support business process re-engineering. Business processes of the old tax department (GTD) and the NSSI collection function were reviewed, integrated and re-engineered. Consistent and optimized processes were implemented countrywide to promote uniform delivery of the NRA mandates.
	IT capacity at the Central and territorial level enhanced, and computer systems to support business processes implemented.	The Revenue Management System, covering all core revenue administration functions, was implemented and started operating as the sole system in 2008 following the successful completion of the pilot testing. The contractor informed NRA in March 2009 that he would not be able to complete Stage two functionalities as required by the contract. The contract then was

Objective	Key Performance Indicator	Comments
		terminated by mutual agreement and NRA is pursuing alternative ways to develop additional functionality for the RMS. The contracts to put in place the hardware, system software, and telecommunications network of the NRA were all executed ahead of schedule.
	Communications network implemented making taxpayer information available throughout the administration	A new internal communications portal (NAPNET) was created in 2006 and updated in 2009.
	Electronic filing system implemented.	The possibility for electronic filing has been introduced for all major taxes and contributions. Tax incentives were provided to promote the use of e-filing; however the requirement to acquire an electronic signature imposed by the law on electronic signature creates a major disincentive for taxpayers to move from paper filing to e-filing. Accordingly, although good penetration rates were achieved for VAT, the e-filing take-up rate is lower than desirable for CIT and particularly for PIT.
	NRA Portals and websites implemented.	A new NRA internet portal has been developed and provides a unified entry point to all electronic services.
	Taxpayer advisory services improved.	The establishment of a Call Center has contributed to strengthening the service orientation of the NRA and expanding

Objective	Key Performance Indicator	Comments
		<p>the feedback from taxpayers and contributors. Since its establishment in March 2008 until end-May 2009 the Information Center has received and processed more than 112,000 enquiries from citizens. The Information Centre has become the sole contact point for telephone enquiries and feedback from taxpayers nationwide. A unified NRA hotline is now fully operational. The system, financed with EU PHARE funds in coordination with the project, includes also functionalities for automatic services of information for social and health insurance status of the clients; checking of VAT registration and INTRASTAT liabilities. NRA is now planning to expand the use of telephone services to remind taxpayers of filing and payment deadlines and of unpaid and overdue taxes. In addition, private sector tax advisory services have been supported in several ways, including through participation of major accounting firms in the NRA Consultative Council and specific training provided to large accounting firms on specialized taxation issues.</p>
	Taxpayer service standards developed and implemented	Clear standards for taxpayer services have been introduced and have become

Objective	Key Performance Indicator	Comments
		a part of the NRA performance monitoring system. The quality of taxpayer services is also measured regularly through public perception surveys. Results of these surveys show that in particular the accessibility of taxpayer services has increased considerably since the launch of the project.
	Taxpayer education campaigns implemented on specific topics.	Education campaigns were launched in 2004 and are conducted on an ongoing basis since.
	New audit support systems implemented, including assistance for desk audits, audit selection, and third party information collection.	Outputs have been partly achieved. Due to the problems encountered in developing the RMS, the automated audit selection module as part of the RMS is not yet available. Nevertheless NRA has succeeded to strengthen its risk analysis and achieve very substantial results using RMS reports to feed manual audit selection process on a manual basis. The fact that close to 80% of audits conducted in 2008 resulted in adjustments (compared to only 58% in 2002) and that additional revenue assessed per audit has almost doubled within the last two years demonstrates that NRA has managed to introduce a very efficient partially automated audit selection process, particularly for VAT.

Objective	Key Performance Indicator	Comments
		However, this process is consuming substantial resources and transparency is less than desirable. Full automation of audit selection therefore remains a priority for the organization.
	New arrears management system implemented.	Business processes for arrears management have been reengineered. However, the planned RMS support for arrears management has not yet been implemented. Instead manual processes based on RMS reports are being used by the NRA. Interfaces were developed for exchanging data between RMS and other systems, providing automation of the enforcement and securing database feedback regarding number and amount of due levies, ranges, measures taken.
	Long-term training strategy developed and implemented targeting continuous upgrading of skills.	An NRA training strategy has been developed, including assessment of existing capability and requirements for developing an on-going program of training to meet current and future needs of the agency.
	Improved policies and systems for recruitment, promotion, rotation, performance evaluation, discipline and professional development implemented.	New policies were developed and implemented for recruitment, selection, hiring, promotion, career development, and termination. A staff rotation policy has been introduced in areas with major corruption risks, in particular for tax auditors.

Objective	Key Performance Indicator	Comments
	Legal database of court decisions implemented and available countrywide.	A database of appeals cases was piloted in Sofia in 2006 and then extended to include the remaining four AIM directorates. NRA has now started a process of comprehensive review of appeals cases in order to analyze reasons causing a revision of administrative decisions in the appeals process.
C.4 Outreach and Participation	Community Participation and Services Department established, staff trained	A client services directorate at NRA headquarters was established in 2004.
	NRA Performance Feedback Surveys taken and results used to improve client service.	NRA has started in the first year of operations to conduct surveys of taxpayers and contributors. The surveys provide useful feedback for further improvements in taxpayer services.
	Annual reports prepared and disseminated to Government and stakeholders.	The first annual report of the activities of NRA has been prepared for 2006. Currently bi-annual reports are prepared on a regular basis to improve the transparency and accountability of NRA.
	Private taxpayer advisory services actively promoted	Private taxpayer advisory services have been supported by a variety of initiatives. Key elements are the participation of major accounting firms in the NRA Consultative Council and specific training provided to experts of large accounting firms on specialized taxation issues. Also the NRA manuals

Objective	Key Performance Indicator	Comments
		on the implementation of major taxes have been made available as a tool for private tax advisors to improve their knowledge on practical issues of tax law application and promote a common understanding of the actual practice.
	Internet services available for filing tax returns and related internet-based tax and contributor services established.	The possibility for electronic filing has been introduced for all major taxes and contributions. Tax incentives have been designed to promote the use of e-filing; however the requirement to acquire an electronic signature imposed by the law on electronic signature creates a major disincentive for taxpayers to move from paper filing to e-filing.
	Public education campaign mounted.	Education campaigns were launched in 2004 and are conducted on an ongoing basis since.
	Internal communications plan developed and implemented.	In the course of the project a long term communication strategy was developed that describes the most important strategic goals in the area of internal communications. Based on the approved strategy a communication plan is developed each year. That plan includes the activities required for reaching the internal communication goals. A new intranet portal "Napnet" has been established and is well accepted by NRA staff.

Objective	Key Performance Indicator	Comments
C.5 Office Upgrading	Plans for rehabilitation of NRA offices implemented, with the installation of networks, computers and completion of training.	<p>The project supported the rehabilitation of the building in Varna, one of the largest TD in the country, including fully equipping it with new furniture, security systems, IT equipment and networks. As agreed, the NRA carried out and completed with own resources and funds all the rehabilitation activities, planned under the project, to improve the working conditions of the Territorial Directorates. Procurement for the refurbishment of the NRA building in Sofia was carried out and the proposed award cleared by the Bank.</p> <p>Unfortunately, additional financial required to cover the gap caused by higher than expected bids could not be obtained from the MOF. As a result, the NRA Board requested the cancellation of the activity from the Loan.</p>
C.6 Project Management	Quality assurance and change management methodologies are implemented.	A core change management team was formed at the beginning of the project. A unified approach for strategic and operational planning, inc. manuals, was developed that exemplifies best practice and a model for performance assessment was implemented.
	Good quality Annual Operational Plans	Operational plans are being developed



Objective	Key Performance Indicator	Comments
	prepared in time.	on an annual basis with their implementation regularly monitored and analyzed at all levels—by HQ, TDs and the 5 Appeals and Performance Management Directorates.
	Good quality, semiannual Project Management Reports (PMRs) prepared in advance of supervision missions	During the life of the project, NRA consistently prepared timely project progress reports which were used as a basis for discussions during the supervision missions. All reports were objective, with good quality and provided details about all activities which had taken place during the review period - - usually six months.
	Procurement carried out in a timely manner and in accordance with World Bank Guidelines.	In general, the procurement was carried out in a timely and highly satisfactory manner, and in accordance with the agreed procurement procedures. There were no major issues during the procurement process. With only minor exceptions, all contracts have been completed on time during the project.
	Project financial management carried out in accordance with World Bank Guidelines.	Project financial management was carried out properly according to World Bank Guidelines.
	Annual project audit conducted in a timely manner by independent auditors.	Project audits have been conducted as planned.
	An implementation completion report reflecting the NRA's evaluation of the project prepared before project closing.	NRA presented its implementation completion report to the Bank in September 2009.

### Annex 3. Economic and Financial Analysis

(including assumptions in the analysis)

The PAD had made several assumptions regarding the fiscal benefits of the project. It was expected that fiscal gains would come through a number of channels. The tax base would expand with the shrinking of the shadow economy and the increase in voluntary compliance. On the other hand collection rates would rise due to rising efficiency of audits, higher staff integrity, and improved enforcement and collection of arrears. The following comparison of the present value of these revenues against the present value of the project's cost was made:

**Table 3. Net Present Value of Project's Gains, 2004-2008**

EUR million	2003	2004	2005	2006	2007	2008	Total
GoB financing	8.0	12.5	4.0	2.0	1.0	1.0	28.5
IBRD financing	2.0	7.0	14.0	7.0	3.0	1.5	34.5
Total Project Cost	10.0	19.5	18.0	9.0	4.0	2.5	63.0
Economic benefits from accounting time saved per year due to the project			40.7	40.7	40.7	40.7	162.8
Net project outcome	-10.0	-19.5	22.7	31.7	36.7	38.3	99.8
Net present value (EUR million)							57.9
IRR							70%
Incremental Fiscal Revenues		0.0	127.6	238.3	335.7	450.11	1151.7
Net project outcome	-10.0	-19.5	109.62	229.27	331.72	447.61	1088.7
Net present value (EUR million)							672.4

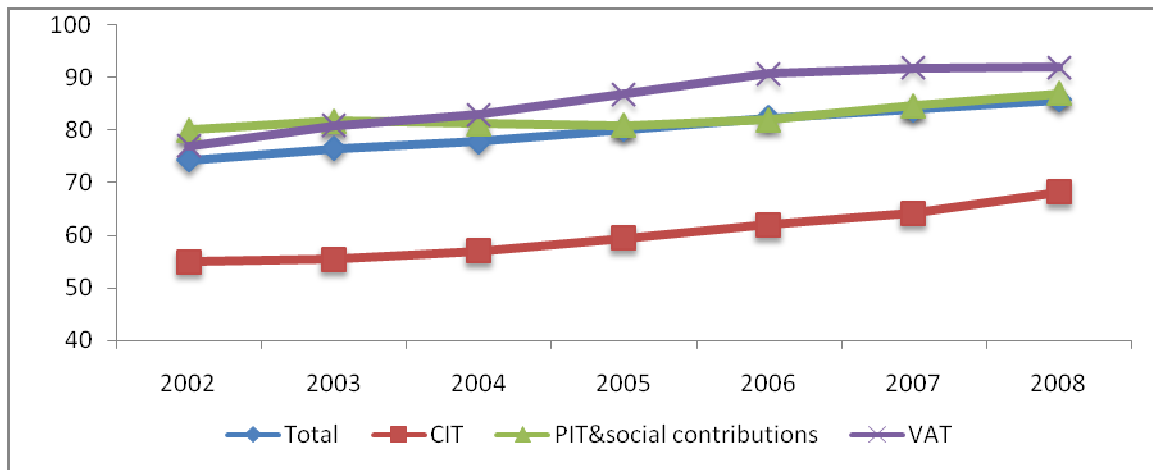
Applying a 10% discount rate, the net present value of the project was expected to be EUR 672 million, resulting in an IRR of 267%.

It is not possible to precisely verify these assumptions, because the tasks and responsibilities of the NRA have changed fundamentally during project implementation. In particular the transfer of responsibility of excise tax collection to Customs and of local tax collection to local governments has had an impact on the overall level of NRA revenue generation and efficiency ratios. It is possible, however, to analyze individual results achieved in specific areas contributing to the overall fiscal performance of the project.

*Expansion of the tax base.* The estimated share of the grey economy has decreased from a high level of 35% of GDP in 2002 to 20% of GDP in 2007. While tax reform is not the only element contributing to increased business formalization, analysis shows that tax-related factors play a key role for the decision to formalize. Country analysis presented at the OECD Global Forum on Competition in February 2009 highlighted that among the core drivers for business formalization were the sizable reduction in corporate and personal income taxes, as well as social security contributions and the integration and modernization of tax collection under the NRA (Competition Policy and the Informal Economy – Document DAF/COMP/GF/WD(2008)49).

*Improvements in tax compliance rates.* Improvements in revenue compliance management was one of the core elements of the Government’s strategy to reduce the size of the informal economy. The introduction of more efficient risk analysis and collection systems in NRA has substantially improved tax compliance rates.

**Figure 3. Compliance rates with major taxes**



The graph shows that substantial compliance increases have been achieved for all major taxes. The overall compliance rate has increased from 74.3% in 2002 to 85.7% in 2008. VAT compliance is among the highest in the EU.

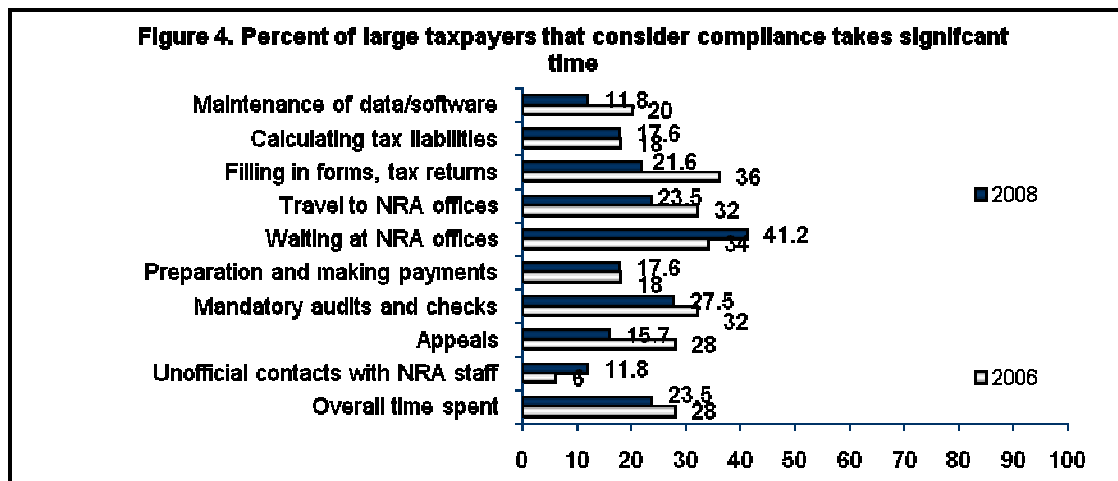
In combination with an overall increase in compliance rates efficiency gains in NRA revenue management have resulted in major improvements in the timeliness of tax payments, thus creating noticeable cash flow benefits to the government. Taxes paid on time (excluding old arrears) increased from 80.1% of all taxes due in 2003 to 90.5% in 2007 and 86.7% in 2008 when the global economic and financial crisis affected liquidity of firms and banks.

**Reduction in the tax burden.** The Government was strongly committed to encouraging investment and employment creation by reducing direct taxation and applying exemption and depreciation incentives. In this context fiscal balance depended increasingly on the capacity of the revenue administration to improve collection and compliance rates. The tax burden for both businesses and individuals was lowered several times during project implementation (see Table 2). As a result of these reforms Bulgaria was listed as one of the top reformers in the tax area in the Doing Business 2008 report. According to ‘Doing Business’ analysis the total tax rate as a percentage of business profits has been reduced from 36.7% (Doing Business 2008) to 31.4% (Doing Business 2010).

**Revenue generation.** Increased efficiency of revenue collection by NRA ensured that the impact of rate reductions on actual revenue collection was curtailed. Net revenues collected by GTD and NSSI (and from 2006 by NRA) increased from BGN9.4 billion BGN in 2002 to BGN21.1 billion in 2008. This growth in net collections has been

achieved despite the fact that responsibility for the collection of certain taxes has been transferred to other agencies during implementation of the RARP (in particular local tax collection to local governments and the collection of excises to Customs). Analysis of individual revenue performance demonstrates continuous improvements in collection performance.

**Reduction of compliance costs.** No clear estimates can be made about the reduction in compliance costs achieved. The introduction of e-filing, particularly for VAT, has significantly reduced the need for physical visits at tax offices. Tax forms have been simplified and implementation of new taxpayer service programs, such as the operation of an NRA call center, has facilitated access to information. However, irrespective of these improvements the Doing Business 2010 report assumes that the total time required for compliance with the tax system remained unchanged at a high level of 616 hours per year. This indicates that the objective of reducing compliance costs did not receive the same level of political and senior management attention and support as the objectives of promoting effectiveness and efficiency of revenue collection and maximizing the level of taxpayer voluntary compliance. Results from taxpayer survey suggest that there is a perceived progress in reducing the time it takes to comply with tax and social security regulations—the share of respondents considering compliance time as significant declined from 28% in 2006 to 23.5% in 2008 as appeals and audits improved and tax returns were simplified. Nevertheless, time spent at NRA’s offices and travel to NRA offices seems to be substantial. Personal visits to tax offices in order to get assistance in filing returns are still frequent, in particular for small and medium sized firms. This added to the difficulties of carrying out business with 15 different tax office locations in Sofia (close to 50% revenues), also contributing to the high compliance costs. While incentives for e-filing have been introduced through changes in tax legislation, the take-up rate of e-filing remains low. Even a majority of large taxpayers continues to file CIT returns on paper instead of electronically. The overall e-filing rate for CIT returns (22%) and PIT returns (4%) is substantially below the rate in most other EU countries.



**Administrative efficiency.** Costs of tax collection amounted to 1.4% of total collections for the tax administration in 2002. NRA has achieved an efficiency ratio of 0.8% in 2008. With such a ratio Bulgaria has reached the level of advanced OECD countries and compares very favorably with other transition countries in Central and Eastern Europe.

*Cost savings through increased collection efficiency.* Combined collection costs of the tax administration and the NSSI prior to the creation of NRA were at the level of 1.2% of total collection. With the creation of NRA total collection costs were reduced to 0.78% in 2006. This increase in collection efficiency can be translated into cost savings amounting to BGN56.2 million or EUR28.7 in the first year of NRA operation. With collection costs remaining at a level of 0.82% in 2007 and 0.83% in 2008, total project costs were compensated for in the second year of NRA operation.

#### Annex 4. Bank Lending and Implementation Support/Supervision Processes

##### (a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
<b>Lending</b>			
<b>Supervision/ICR</b>			
Stella Ilieva	Senior Economist	ECSP2	Task Team Leader
Bogdan Constantinescu	Sr Financial Management Specialist	ECSC3	Financial management
Michael Engelschalk	Consultant	EASPR	Tax policy and administration
Carlos D. C. Ferreira	Consultant	ECSPE	Tax policy and administration and IT Management
Vladislav Krasikov	Senior Procurement Specialist	ECSC2	Civil Works Procurement
Mirela Mart	Consultant	ECSPS	Financial management
William V. Mayville	Consultant	ECSPE	HR and Organization Management
Fatos Qendro	Consultant	ECSPE	IT Management
Ireneusz M. Smolewski	Senior Procurement Specialist	ECSC2	IT Procurement
Antonia G. Viyachka	Procurement Specialist	ECSC2	Procurement

**(b) Staff Time and Cost**

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
<b>Lending</b>		
FY01	1	5.71
FY02	11	135.19
FY03	30	150.57
FY04		0.00
FY05		0.00
FY06		0.00
FY07		0.00
FY08		0.00
<b>Total:</b>	42	291.47
<b>Supervision/ICR</b>		
FY01		0.00
FY02		0.00
FY03		0.00
FY04	26	154.65
FY05	23	108.97
FY06	18	104.32
FY07	11	83.47
FY08	11	92.25
FY09	11	0.00
<b>Total:</b>	100	543.66

### **Annex 5. Beneficiary Survey Results**

Several surveys of stakeholders and NRA staff were conducted during the implementation period of the RARP. The surveys clearly document improvements acknowledged by taxpayers in the operation of the Bulgarian tax system and a very high level of satisfaction with the performance of NRA. Satisfaction rates vary by taxpayer segment, with large taxpayers generally expressing more confidence with administrative improvements than small businesses and individuals. Even for individuals and small businesses the tax system seems to have become substantially more transparent and less complicated, however.

**Table 4. Taxpayers perceiving the tax system as having become more complicated**

	2005	2008
Large taxpayers	76	39
SMEs	73	46
Individuals	71	47

**Table 5. Taxpayers perceiving the social contributions system as having become more complicated**

	2005	2008
Large taxpayers	72	39
SMEs	76	46
Individuals	77	50

Taxpayer feedback has been particularly positive in the area of compliance facilitation and removing obstacles for complying with tax and social contributions obligations. A large majority of taxpayers report not facing any significant administrative obstacles for tax compliance. This again is the case in particular for large businesses with 82% of respondents not having identified any major administrative compliance problems in 2008; the response rate is somewhat lower, however still impressive, for SMEs with 65% and for individuals with 68%. The two most frequently cited compliance obstacles by SMEs and individuals are bureaucracy (listed by 7% of SMEs and 5.6% of individuals) and the slowness of the NRA software (1.7% of SMEs and 2.1% of individuals).

Collection of feedback specifically on what businesses rate as the biggest obstacle in the tax and social contributions system demonstrates that some of the major obstacles taxpayers face in other countries, such as corruption and excessive bureaucracy, do no longer play a major role in Bulgaria. This is particularly remarkable for corruption with less than one percent of respondents in all business categories seeing corruption as the biggest problem in their tax affairs.

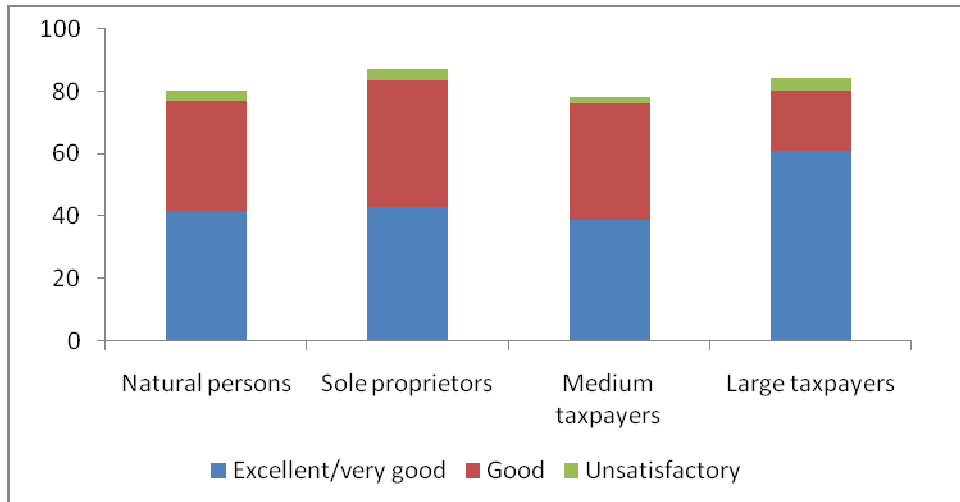


**Table 6. Biggest obstacle to businesses in the tax and social contributions system**

	SMEs	Individuals	Large taxpayers
No big obstacles identified	31.5	32.5	70.6
High tax and contribution rates	11.7	12.4	5.9
Bureaucracy	6.5	3.8	5.9
Constant legal changes	2.6	7.3	0
Corruption	0.4	0	0

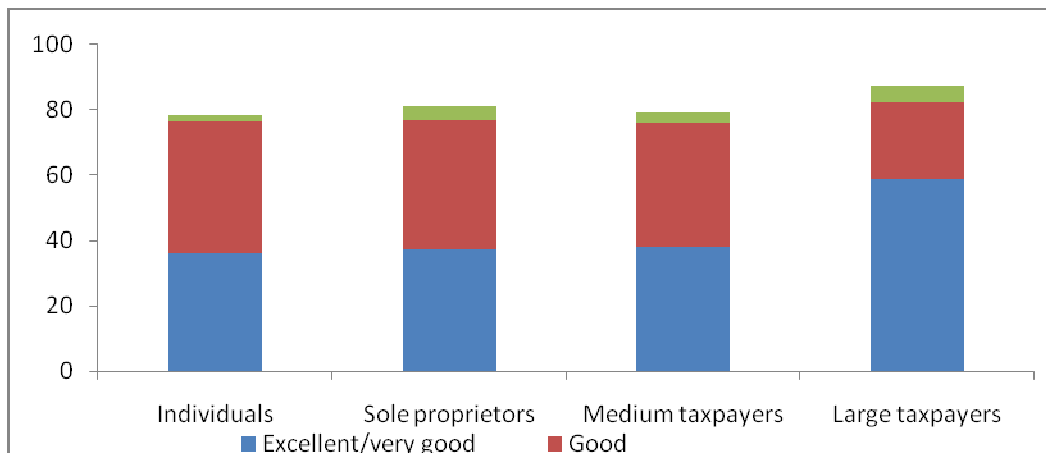
Finally, all taxpayer groups consistently acknowledge the quality of NRA services and the competence of its staff. Dissatisfaction with services and staff is rare and indicates that NRA has become a model for an efficient, service-oriented public sector organization.

**Figure 5. Perception regarding the competence of NRA staff**



High staff competence is combined with a high level of quality of services offered.

**Figure 6. Perception regarding the quality of NRA services**



Similar positive feedback has been received regarding the various aspects of service provision, such as the variety of services offered and the accessibility of the taxpayer service function.

In summary, while the feedback surveys still reflect areas, where the performance and attitude of NRA could be further improved, e.g. further targeted assistance to facilitate small business tax compliance, there have been no areas identified through the survey work which risk putting a particular burden on taxpayers and increasing their compliance burden. Overall the establishment of NRA has had a positive impact on the relationship between revenue administration and its key stakeholders for both of the areas tax collection and social contribution collection.

## **Annex 6. Stakeholder Workshop Report and Results**

None

## **Annex 7. Summary of Borrower's ICR and/or Comments on Draft ICR**

### **1. Introduction**

As part of broader reforms and in preparation for EU accession, the Bulgarian Government has modernized its revenue administration. Central to this modernization program was the establishment and start of operations of the NRA which integrated the functions of the former GTD and the collection and enforcement functions of the NSSI.

### **2. Assessment of Project Development Objectives, Project Design and Quality at Entry**

The development objective of the Revenue Administration Reform Project was to support the Government of Bulgaria in implementing a sustainable and effective public revenue collection system (taxes and social security contributions) that facilitates private sector development and complies with requirements for EU accession. A complementary objective was the separation of central and municipal revenue collection functions as an integral part of the institutional optimization and modernization process. The project aimed at attaining its development objectives through the implementation of a comprehensive reform program, focused on increasing the share of voluntarily paid taxes and social security contributions, enhancing revenue administration effectiveness and efficiency, establishing a team of professionals, reducing the opportunities and motivation for corruption, and improve equity and fairness in the administration of tax and social security contributions' collection. At the same time, it aimed at reducing the compliance burden of taxpayers/contributors as well as reducing the tax and social security burden.

A core element of the project was to support the establishment of the NRA as the central institution in the new public revenue collection system, responsible for the collection of taxes and social security contributions.

Project objectives remained relevant for the entire period of implementation and were not revised, which demonstrates their adequacy. The project implementation period was from August 7, 2003 (date of Loan effectiveness) until originally planned project closing date—June 30, 2009.

Project objectives remain a key part of the NRA Strategic Plan 2008-2013, which lists four strategic goals for the further development of the Agency:

1. Collection of tax and social security contributions at high level of effectiveness and encouraging voluntary compliance.
2. NRA – trustworthy partner in the cooperation with the national and international institutions.
3. NRA – preferred work place.
4. Institutional development of NRA.

Annual Operational Plans are prepared on a regular basis to define the objectives, results and tasks at an operational level for the respective year.

### 3. Project Components

The project consisted of six components:

**Component 1. Policy Support.** This component helped ensure that NRA fully complies with the tax policy framework developed by the Ministry of Finance including:

- build in-house capacity for conducting policy and legislation reviews and analyses;
- development of efficient functions for analyses and revenue estimation;
- improve NRA's interaction with the court system to efficiently manage the appeals procedure;
- preparation of strategic and operational plans.

**Component 2. Organization and Management.** This component helped develop NRA organization and reform the HRM function including:

- development of the organization structure of the NRA and management systems, including modules governing accountability, internal control, and integrity of managerial processes;
- modernizing the HRM function, including training, workforce planning, recruitment, and selection of professionals, career development, performance incentive systems, code of conduct.

**Component 3. Increasing Operational Efficiency.** Under this component the core business processes of the NRA were reengineered with supporting information technology and other systems implemented, including:

- establishment of an Information and Communication Technology Department;
- modernization of core functions, such as registration, payment and return processing, audit, appeals and enforcement;
- implementation of an integrated IT system for the collection of all taxes and social and health insurance contributions as well as building a Data Warehouse with capabilities of information sharing among state institutions;
- integrated business processes for collection of taxes and social contributions;
- procurement of computer hardware, software and related technical support.

**Component 4. Outreach and Participation.** Activities under this component supported the implementation of a range of taxpayers/contributors services, as well as the development of a Charter of Rights and Obligations. Processes were established for assuring citizen voice and participation in shaping the NRA with mechanisms in place for transparency and accountability.

**Component 5. Office Upgrading.** This component helped NRA establish an adequate working environment, both for staff and clients by funding rehabilitation of territorial departments.

**Component 6. Project Management.** This component put in place the necessary project management organization, recognizing that the reform project was a large and complex

undertaking with many inter-related elements. A change management function was established to raise the commitment of staff and other stakeholders for the change process.

#### **4. General Macroeconomic and Institutional Environment Prior to Project Start**

In the course of transition to a market economy, and in reformulating the role of government, the Republic of Bulgaria confronted mounting evidence that its revenue collection administration needed a major institutional overhaul to enable it to mobilize effectively and efficiently revenues, as well as to accede to the European Union (EU). This perceived need for an overhaul applied in particular to the administration of direct and indirect taxes. This perception was underscored by a joint IMF/Bank mission in 1999. While some reforms had been introduced, such as the introduction of functional arrangements, establishment of a large taxpayer office, and new concepts incorporated in a Tax Procedure Code, the tax administration continued to be characterized by:

- A crisis approach to management, with continuous encroachment by headquarters on the collection activities of the tax offices, resulting in loss of focus by management on the development and implementation of strategic and short-term planning, direction, and control of the organization.
- The lack of a credible human resource management strategy. As a consequence the tax administration suffered from limited workforce planning, poor recruitment, selection, and compensation arrangements, and an inadequate focus on executive, manager and staff development, and capacity-building.
- An operational strategy that, while having some focus on self-assessment, lacked the necessary supporting strategies or processes to service taxpayers. Operations were based on outdated business processes with little in the way of cohesive information technology support, and no credible compliance or risk assessment strategy or function as support.
- A fragmented and dysfunctional national network of offices spans of control and layers of management, exacerbated by the need to collect both national taxes and local taxes and charges.
- Inadequate internal controls, and claims of taxpayer harassment and internal corruption.
- Inadequate information systems and weak information technology management, systems development, and operational capacity.

In October 1999, the Government of Bulgaria decided to establish a Unified Revenue Agency, integrating the GTD and the collection function of the NSSI for the purpose of simplifying tax and social contribution administration. On June 29, 2000, the Council of Ministries approved the concept paper for a Unified Revenue Agency (URA) and launched the first stage of an implementation plan. This included: starting joint audit operations, strengthening GTD and NSSI, especially GTD's information technology systems; improving GTD and NSSI coordination; and developing a detailed

implementation strategy for the subsequent two stages, including a realistic timetable and cost estimates. The IMF provided a full-time advisor for 12 months, to October 2001, to assist the Government in this effort.

While a reasonable level of achievement occurred, lack of support by some members of the previous government and the former GTD executive, coupled with a lack of local experience in major project development and management, slowed progress. Moreover, initial gains from joint activities could not be built on because of the lack of a legislative basis for information-sharing between GTD and NSSI.

In this situation, the reform strategy was changed and in 2001 a medium to long-term plan for the establishment of the NRA was launched. On November 14, 2002 the Parliament enacted the Law for the NRA (LNRA) and the NRA headquarters (HQ) was established, which was responsible for the further project implementation. The objectives, scope and benefits for the community and the state from the establishment of the NRA were specified in detail. The basic strategies for achieving the objectives were identified and a detailed action plan was developed and the necessary resources provided. The project received full support of the Bulgarian Government, the business and the public as a whole. A Loan agreement (Revenue Administration Reform Project) between the Republic of Bulgaria and International Bank for Reconstruction and Development was signed and ratified by the National Assembly in a Law, enacted on July 16, 2003.

## **5. Achievement of Outcomes and Objectives**

### **5.1 Objective Achievement as per the PAD Targets – Basic Outcomes and Achievements**

The basic activities of the RARP implementation and establishment of the NRA were outlined in the NRA 2004-2008 Strategic Plan, approved by the Managing Board of the NRA in October 2004. The NRA undertook a number of activities to prepare for the merger of the GTD and the NSSI structures into the NRA. To centralize revenue collection, responsibilities for the collection of local taxes and fees were transferred to municipalities. As a result, 1,310 employees of GTD were transferred to municipalities and the number of offices was reduced from over 340 in 2003 to 29 in the beginning of 2006. Operational costs were optimized as costs for cash security, rents, security, heating, and communications fell. The move to collection of Central Government revenues created opportunities for applying a rotation principle in tax audit function and increasing the mobility of audit teams, thus reducing opportunities for corruption.

The preparation for the start of NRA operations was done in an environment of uncertainty:

- Political support was almost missing with the Tax and Social Security Procedural Code, legislating the integrated collection of taxes and social contributions, adopted by Parliament on December 21, 2005—only two weeks before the start of the NRA while the approval was expected to take place in September 2005.
- Existing resistance and anxiety of employees against the implemented reforms. The NSSI management did not allow NSSI employees who were assigned to be

transferred to NRA to get acquainted with their future work places in NRA. These employees were physically transferred to NRA on January 3, 2006, the first day of NRA operations.

- The 900 staff transferred by NSSI to NRA was insufficient in view of the volume of work transferred to NRA. This led to extraordinary workload of the employees.

Despite of all ambiguities, risks, low motivation and resistance inside and outside GTD and NSSI, the preparation for the merger continued and the NRA started operating in January 2006.

The operation of NRA had an extraordinary impact on revenue collection, on efficiency and effectiveness of the NRA, and on reducing costs of compliance to taxpayers.

### **Revenue Collection**

Revenues from taxes almost tripled in nominal terms between 2002 (the baseline) and 2008, while revenues from social contributions nearly doubled despite significant reduction in tax and social contribution rates. Tax and social contribution revenues increased from 27.5% of GDP in 2002 to 31.6% of GDP in 2008. Municipal revenues in 2008 were more than double their level in 2004 when the transfer of responsibility for municipal revenue collection to local governments started.

In the first year of NRA operation (2006) tax revenues collected were by 8% higher than in 2005 despite an increase of the income tax exemption threshold and a decrease of personal income tax rates. Tax revenues exceeded the target set in the Budget Law by 9.1%. Revenues from social contributions grew by 1.7% compared to 2005 despite a significant cut of social security burden in 2006 by 6 percentage points, which means that increased collection efficiency fully compensated for the revenue loss due to the rate reduction. Increased collection efficiency made possible a reduction of the corporate tax rate to 10% in 2007 and an increase in pension and salary levels from summer 2007.

In 2007 tax revenues (excluding excises) increased by 20% compared to 2006. Legal entities in 2007 declared a taxable profit which was by BGN3.5 billion higher than in 2006, which for the second consecutive year represented a growth of nearly 50%. Also income tax revenues grew nearly twice as fast as wage increase, which indicates a decrease in the level of the hidden economy. Social contribution revenues grew by 13% year-on-year.

In 2008, tax revenues (excluding excises) increased by 14% year-on-year despite slowdown in economic activity in Q4 and introduction of flat rate of 10% for personal income taxes. Social contributions collections increased by 5.5% despite a further cut in social security burden by 3.0 percentage points from October 2007.



## Collection Efficiency

Efficiency of revenue collection was enhanced as a result of modernized business processes, increased use of information technology and optimization of staff. The start of the NRA led to significant economies of scale—revenues are collected now by 25% less staff than in 2002, which led to almost tripling of revenues per revenue staff. Since the start of NRA operations in January 3, 2006 the NRA has undergone a number of staff optimization programs. In January 2006 NRA merged nearly 8,000 GTD employees with 900 employees from NSSI. In April 2006, following a Government-wide optimization of staff program, NRA staff was downsized by 10% based on the workload analysis of territorial departments. Nearly 200 NRA employees were transferred to the Customs Agency (CA) couple of months later as a result of the transfer of excise collection responsibility to customs.

Additional responsibilities were assumed by the NRA without recruitment of new staff. These responsibilities related to Bulgaria's accession to the EU in 2007 or to changes in tax legislation, e.g. the collection and control of the VAT from intra-community trade, which previously was a responsibility of the Customs Agency, or the administration of tax credits for child allowances. In addition, increases in economic efficiency created the necessary preconditions for decreasing the tax and social security burden and thus achieving one of the objectives of the Revenue Administration Reform Project.

**Table 7. Revenues and Staff**

	2004	2005	2006	2007	2008
Staff (average on payroll)	9,975	8,987	7,724	7,646	7,542
Collection (BGN million)	4,940	4,838	7,529	11,448	13,106
Revenues collected per staff member (BGN thousand)	495.2	538.4	974.7	1497.2	1737.7

Note: The difference in the data for revenue collection between this table and the key performance indicators of the project is due to two reasons: (1) social contributions revenues collected by NSSI until 2005 are included in the key performance indicators, while the table above only lists revenues collected by the Tax Administration (NRA since 2006), and (2) revenues from VAT from imports are included in the key performance indicators—those revenues are collected by the Customs Agency but the NRA is responsible for refunding of VAT.

Operating and maintenance costs declined and tax and social contributions revenues, previously collected by two agencies are now collected at lower cost to the state budget—

operations and maintenance expenditures of NRA in 2008 were only 88% of the expenditure allocated in 2005 (in nominal terms), prior to the start of the Agency.

### **Compliance Costs**

Increased use of electronic exchange of information with other agencies and expansion e-services provided to taxpayers/contributors led to substantial reduction in cost of compliance to taxpayers/contributors. Both e-payment and e-filing rates increased but legal requirement for e-signature needed to file online has kept filing of personal income tax declarations low (the PIT filing rate presented in the table below refers to annual PIT declarations made by self-employed). Online filing VAT returns saved taxpayers nearly 100 000 visits to the NRA offices per month. As of June 2009 more than 67% of VAT registered companies filed VAT documents online compared to 23% in 2006. E-filing of Declaration 6 (monthly declaration by employers on personal income tax and social contributions) is steadily growing.

**Table 8. Growth in the use of electronic services, 2006- June 2009**

	2006	2007	2008	2009
VAT filing	22.6%	43.3%	60.0%	67.7%
CIT filing	0.5%	6.9%	16.7%	22.1%
PIT filing	0.02%	0.39%	1.8%	3.6%
Declaration 6	13.5%	20.6%	37.4%	43.0%

### **Key Performance Indicators**

Most of the project's KPIs have been achieved. During project implementation some indicators were changed, while others were dropped. Main reasons for modifying the list of KPIs were:

- To take account of changes in the legal framework for NRA operations (for example the transfer of collection responsibility for excise duties entirely to Customs Agency);
- To take account of delays in the development of some modules of the revenue management software and mainly of establishing the Data Warehouse, which was supposed to provide data for a number of indicators;
- To respond to differences in the interpretation of information provided by the NSSI and by the GTD.

### **Specific Comments on Individual Groups of Indicator**

#### ***Indicators related to the establishment of an economically efficient public revenue collection system***

Revenues by sectors have not been reported and will be analyzed regularly once the Data Warehouse is established. Currently the analysis is limited to sectors with a high risk of noncompliance.

It is difficult to assess adequately in the objective to reduce the share of gray economy from 35% in 2002 to 30% in 2008 is fulfilled due to the lack of consistent time series on gray economy in Bulgaria. There are no official estimates available while estimates produced by various research institutes and NGOs vary by a large margin. A relatively consistent set of estimates shows that estimated share of grey economy declined to 20% in 2007. The shrinking of the grey economy is confirmed by the increase in the aggregate voluntary compliance (from 74% in 2002 to 86% in 2008). Therefore, a conclusion can be made that the target has been achieved.

A target value for the aggregate level of voluntary compliance (excluding excises) has not been set explicitly in the PAD. Combining target values for specific types of taxes would point to an expected overall compliance level of 83.6%. In this case NRA has reached the target one year prior to project closing – the aggregate level of voluntary compliance in 2007 was 83.9% and continued to increase in the last year of the project to reach 85.7%. In particular, the VAT compliance rate is significantly higher than targeted under the project. Very close, although slightly below the target is the level of voluntary compliance with the personal income tax and compulsory security contributions (reviewed together). The reasons for not reaching the target are the delayed start of NRA operations, and the introduction of flat tax on PIT without non-taxable income, which led to an increase of tax burden for taxpayers with low incomes. Without these developments the target probably would have been reached.

#### ***Indicators on taxpayer voluntary compliance***

An indicator which became obsolete is the percentage of disputes on hand in relation to total. A legislative change was introduced in 2003, under which all appealed acts were considered “affirmance of the appeal by default” in case the administration does not issue a statement in a certain period on the taxpayers’ appeal against the audit act.

#### ***Indicators on equity and fairness in the administration***

The PAD sets a target of 10% for the indicator share of appealed audit acts. The reported value for this indicator for 2008 is nearly 19%. There are basically two reasons for the higher value: (1) a higher amount of additional assessments per audit (as a result of the policy of NRA to conduct an audit in case of suspicions of evasion of large amounts of taxes or social contributions); and (2) more restricted opportunities for evidence collection (as a consequence of the rights removed by the legislation in 2005 for NRA bodies to ransack and seize evidence). The effectiveness of appeals and audits has improved with amount of appealed adjustment declining from 62% in 2002 to 22% in 2008 and share of cases lost in court declining to 13.7% in 2008.

## **5.2 Basic Outcomes Achieved by Component**

### **Component 1. Policy Support**

- Set up tax policy analysis unit with capacity to monitor and analyze NRA’s performance at aggregate and at territorial level.
- Developed changes in the legal and regulatory framework in support of reforms introduced by the project and in support of EU accession
- Improved models for revenue forecasting

- Set up data base for court decisions and appeals available countrywide

### **Component 2. Organization and Management**

- Rationalized organizational structure at central and local levels by functional lines, focusing on large and medium taxpayers.
- Transferred responsibility for collection of local taxes and fees to municipalities.
- Established strategic approach towards the management of the agency.
- Responsibility for collection of the taxes and social security contributions transferred from NSSI to NRA
- Acceptance of the new human resources management, employment, and remuneration policies – including effective incentive systems – as well as a training plan
- Code of Ethics developed

### **Component 3. Increasing Operational Efficiency**

- Business processes revised and directorate for their constant update established
- Developed and implemented revenue management software – phase 1 with core functionalities
- Established system for electronic filing of documents.

### **Component 4. Outreach and Participation**

- Establishment of specialized units for taxpayers' services and training of the respective personnel
- Conducted surveys regarding the work of the NRA with results used for improvement of client services
- Prepared annual reports distributed to the government and to stakeholders
- Introduced new services to taxpayers
- Publicly announced new services for taxpayers
- Created internal portal and a website of NRA
- Developed and implemented standards for taxpayers' services
- Conducted educational campaigns for the taxpayers on concrete themes.

### **Component 5. Office Upgrading**

- Renovated offices of NRA and installed networks and computers.

### **Component 6. Project Management**

- High quality project management based on transparency and full participation of stakeholders implemented
- Methodologies for guaranteeing quality and change management introduced.
- Timely prepared high quality project progress reports for the supervision mission of the Bank.
- Timely prepared high quality financial monitoring reports for the WB
- Timely conducted procurement procedures in compliance with the World Bank Guidelines
- Timely conducted yearly financial audits of the project by independent auditors.

### **5.3 Impact of the Project on the NRA Institutional Development.**

A number of structural and institutional changes were made during the project implementation period to achieve the project development objectives. In particular the NRA was established by law and NRA headquarters were set up as the major structural unit responsible for the RARP implementation, and the GTD as well as the social security collection functions of NSSI and the health insurance contributions were merged into NRA.

## **6. Major Factors influencing Project Implementation and Outcomes**

### **6.1. Factors Outside the Control of the Government and the Implementation**

#### **Agency**

- Price increases for constructions led to bids unacceptable for MoF for the reconstruction of the NRA building in Sofia. The bid procedure was terminated, and the respective amount from the Loan was canceled.
- Insufficient capacity of the company developing the RMS. The contractor was not in a position to cope with the task of developing remaining modules of the RMS; due to expiry of the term of the Loan Agreement the contract was terminated.

### **6.2. Factors Controlled by the Government and Implementing Agency**

- Major factor for the successful project implementation was the support of the World Bank, MoF and the NRA management. MoF provided an important contribution by ensuring the financial and operational independence of NRA in implementing the project activities. The NRA Management Board assumed its oversight functions and responsibilities for taking important project decisions. The support by the MoF with regard to the timely provision of the necessary funds for the project implementation played a crucial role for the successful implementation of the project.
- The decision regarding the provision of a building for the NRA in Sofia is a responsibility of the MoF. NRA has communicated details with respect to the functional requirements for the building to the MoF.
- The bid procedure for developing the remaining modules of the RMS is under preparation.

### **6.3. Cost and Financing**

- Original cost estimates for project implementation were in the amount of Euro 58.56 million. Actual implementation cost amounted to Euro 42.30 million.
- In January 2006 a reallocation of loan proceeds was made to purchase software licenses under ongoing contracts. The project amount for the category *Goods* was increased by Euro 1.8 million on the account of the categories *Consultant services* (Euro 1.4 million) and *Unallocated funds* (Euro 0.4 million).

- Euro 10.24 million were canceled from the Loan amount of Euro 31.90 million effective May 26, 2009. The cancellation resulted from the canceled bid procedure for the construction of the NRA building in Sofia, the partial completion of the RMS contract and savings made in project implementation. The cancellation of the funds had no impact on achieving the project objectives.
- All contracts were completed on time; there are no pending payments and unsettled issues. All payments were processed one month prior to project closing.
- The annual audits of the project were conducted on time, including the final audit, by independent auditors. No grace period was used.

## **7. Sustainability of the Achieved Outcomes and Objectives of RARP**

- The establishment of the NRA as an institution integrating the collection of taxes and security contributions and the transfer of the collection responsibility for local taxes and fees to municipalities as well as the key outcomes achieved by implementing the RARP components are an irreversible process.
- The strategic plan for the further institutional development of NRA for 2008-2013 was based achievements and objectives of the Project. A stable system for the collection of revenues in Bulgaria has been established, supported by the former and the present government. This revenue system provides a key contribution to achieving Government objectives in key social sectors and in upgrading public infrastructure.
- In May 2009 the NRA headquarters structure was changed with Strategic Planning and Change Management Department and Project Coordination Unit merged into a Strategic Planning and Project Coordination Directorate that reports directly to the Executive Director. One of the responsibilities of the new directorate is to provide continuity and sustainability of reforms undertaken under the Project and ensure furthering of results achieved by the RARP in future projects and programs after project closing.

## **8. Implementation by the Bank and the Borrower**

The contribution of the Bank team is highly appreciated by the NRA Management and staff. The constructive dialogue and openness during the supervision missions helped build team spirit and trust between the two organizations. As a result of this NRA considers the Bank as a strategic partner. The broad experience of the Bank in project management and the recommendations made during supervision missions helped improve project management capacity of the NRA staff. The advice and the technical assistance provided to the NRA as well as discussions on important decisions in project implementation, especially in the spheres of IT, financial and administrative management of the project, played a crucial role in achieving the project objectives.

## **9. Lessons Learned**

### **9.1 Organization of the Project:**

It is crucial for successful project implementation to ensure:

- A clear structure for project management with direct reporting to the authorized representatives of the organization.
- Establishment of a Project office for project coordination especially in organizations with numerous projects with the purpose of avoiding overlapping of objectives and outcomes, facilitate reallocation of the funds among the particular sub-projects, ensure regular monitoring of performance.
- Clearly defined levels of subordination of the key staff in the process of project implementation
- Clear systems and channels for reporting and communication
- Clearly defined roles and responsibilities of staff participating in project implementation.
- Establishing of a team with the relevant technical knowledge, with defined responsibilities, oriented towards result and with a good team spirit.

## **9.2 Procurement and Contract Management**

It is necessary to:

- Have clear terms of references (ToRs) and selection requirements for contractors
- Keep a close look on the evaluation committee's progress and assisting them when needed
- Prepare scenarios for negotiations
- Include detailed list of the deliverables due in the payment clauses in the contracts
- Include unit prices in contracts in order to avoid increase of the price of the contract through decreasing the volume of the work done
- Monitor the achievement of implementation results
- Keep track of the progress in contract implementation.

## **9.3 Change Management**

Early identification of risks and monitoring of implementation is key for ensuring adequate change management. Keeping an open communication channel to management and key stakeholders helps address effectively arising issues and provides useful information to decision makers.

## **9.4 Project Team**

- To be able to address delays in project implementation it is important to set up qualified teams with the necessary number of experts.

- Strengthening team spirit and commitment is crucial. Assigning tasks to individual experts and grouping experts in teams of two might increase team efficiency.



**Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders**

**NONE**

## Annex 9. List of Supporting Documents

### Project Preparation

1. Information Systems Strategy, Unified Revenue Agency, Information Systems Architecture, January 2002, Deloitte & Touche.  
  
Janev & Janev Ltd are on file.
2. SOGEMA's report on Project Design and Feasibility Study, 2001
3. A USTDA Grant for about \$100,000 financed the development of the functional specifications and competitive bidding requirements for the Revenue Management System. The report from the consultant Clapp and Mayne is on file.
4. Crotty, Kloeden, and Zarnowieki. *Bulgaria: Tax and Customs Administration Reform*. International Monetary Fund, Fiscal Affairs Department, August, 1996.
5. Bodin, Brondolo, Schlotterbeck, and Lortie. *Bulgaria: Tax Administration Reforms, Priorities for Next Steps*. International Monetary Fund, Fiscal Affairs Department, November 1998.
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9. *Feasibility Study Report - The Diagnostic (CIDA Grant)*. CRC SOGEMA: May 2000.
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12. *Bulgaria: The Dual Challenge of Transition and Accession*. World Bank Country Study, May 2001.

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17. *Study of Taxpayer Compliance and Law Enforcement--Final Report (PHRD Grant TF 026692)*. CRC SOGEMA: June 2002.
18. *Self-Assessment of Administrative Barriers to Investment: Results of the Administrative and Regulatory Cost Survey*. Foreign Investment Advisory Service (FIAS), November 2002.
19. RARP Project Concept Document, December 19, 2001
20. RARP Project Appraisal Document, May 9, 2003

### **Project Supervision and Completion Reporting**

1. Project ISRs from 2003 to 2009
2. Supervision Mission Aide-memoires: August, 2003 Mission, December 2003, May-June and December 2004, April-May and September-October 2005, Mid-term review June 2006 and September-October 2006, February June-July 2007, June and November 2008, June 2009
3. National Revenue Agency Act: 1<sup>st</sup> issue as of 29.11.2002, latest issue 05.06.2009
4. Project Implementation Reports
5. NRA Annual (or Bi-Annual) Reports
6. Project Key Performance Indicator Reports
7. Copies of awards received by the NRA until end of 2009.

8. Correspondence to the Bank justifying the cancellation of bidding for the NRA Sofia Building.
9. Correspondence to the Bank requesting cancelation of amount corresponding to the NRA Sofia Building and savings.
10. Doing Business 2008—Bulgaria. Washington, D.C.: The World Bank Group, 2008.
11. “Paying Taxes 2008: The Global Picture.” Results of Doing Business Project. Washington and London: The World Bank and PriceWaterhouseCoopers [2008].
12. Doing Business 2010—Bulgaria. Washington, D.C.: The World Bank Group, 2009.
13. Tax Administration in OECD Countries; Comparative Information Series (2004). Paris: Centre for Tax Policy and Information, October 2004.
14. Transparency International Corruption Perceptions Index 2003 - 2009
15. IMF / FAD May 2009 Technical Assistance Report
16. Bulgaria National Strategic Reference Framework 2007 – 2013
17. Country analysis presented at the OECD Global Forum on Competition in February 2009
18. Competition Policy and the Informal Economy – Document DAF/COMP/GF/WD(2008)49
19. NRA Strategic Plan 2008-2013



