



1. Project Data

Project ID

P129770

Program Name

VAT Improvement Program (VIP)

Country

Bangladesh

Practice Area(Lead)

Governance

L/C/TF Number(s)

IDA-54260

Closing Date (Original)

30-Jun-2020

Total Program Cost (USD)

40,015,185.31

Bank Approval Date

09-May-2014

Closing Date (Actual)

30-Jun-2021

IBRD/IDA (USD)

Grants (USD)

Original Commitment

60,000,000.00

0.00

Revised Commitment

45,839,931.41

0.00

Actual

40,015,185.31

0.00

Prepared by

Shahrzad Mobasher
Fard

Reviewed by

Paul Holden

ICR Review Coordinator

Jennifer L. Keller

Group

IEGEC (Unit 1)

2. Program Context and Development Objectives

a. Objectives

The program development objectives (PDOs) of the Bangladesh Revenue Mobilization Program for Results: VAT Improvement Program (VIP) were to support the Government of Bangladesh in improving revenue mobilization and transparency in the value-added tax (VAT) administration. For the purposes of the ICRR, the unpacked PDOs are: (i) improve revenue mobilization; and (ii) improve transparency in the VAT administration.



The high-level outcomes or key results of the program are: (i) PDO Indicator 1: Increased VAT revenues; and (ii) PDO Indicator 2: Greater transparency of the tax administration. PDO Indicator 1 was changed from "VAT revenue collected as a percentage of GDP" to "Increase in VAT revenues (Number in thousands of local currency)". The ICR document indicates that the former posed challenges due to the delay in the publication of national accounts data. PDO Indicator 2 was also changed from "Compliance with the availability of information listed in the RTI rules and regulation" to "Greater transparency of the tax administration". PDO Indicator 2 was modified because of the passing of the *Right to Information (RTI) Act* which made transparency in tax administration more measurable (i.e., measured through indicators such as the website providing information on e-services, regulations, forms, frequently asked questions, and enabling structures, systems, processes, and designated RTI officials). (Table 1)

Table 1: Modifications to the PDO-Level Results Indicators

Original PDO Results Indicators	Revised PDO Indicators
PDO Indicator 1: VAT revenue collected as a percentage of GDP	Increase in VAT revenues (number in thousands of local currency)
PDO Indicator 2: Compliance with the availability of information listed in the RTI rules and regulation	Greater transparency of the tax administration

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

Yes

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

No

c. Will a split evaluation be undertaken?

No

d. Components

The program was comprised of the following four components:

Component 1: Operational modernization of the VAT Wing within the National Board of Revenue

This component aimed to achieve a higher level of compliance with the VAT system by the National Bureau of Revenue (NBR). Streamlining and simplifying processes and the establishment of a service system responding efficiently to taxpayer needs was expected to reduce the compliance burden for taxpayers. This component covered core VAT functional areas: (i) registration, return processing, tax payments, taxpayer accounting and tax refunds; (ii) tax audits; (iii) collection and enforcement; (iv) tax appeals; and (v) taxpayer services. The main activities included under this component, included, most notably, the development of procedures for taxpayer registration and e-registration, including for dealing with inactive and non-registered taxpayers, develop new procedures for refund management, develop operational manual of audit and investigation, improve techniques and procedures for recovery of tax arrears, and develop users and procedure manuals and forms for taxpayer services. These activities were expected to increase the ability of the tax administration to detect tax evasion and to collect the full amount of taxes due through the automated system using risk analysis based on all available internal and external data. Introducing new functional business processes in the VAT Wing within the National Board of Revenue (NBR) was also



expected to increase transparency and reduce the discretion of tax officials. This component was also expected to contribute to facilitating the registration process and improving the reliability of information in the tax register. Furthermore, it was expected to promote new electronic systems for registration, filing and tax payments, which were expected to reduce administration and compliance costs. It was also anticipated to improve the capacity of the tax administration to verify tax refund requests aiming at reducing a major risk area for tax fraud. This component was also expected to support VAT arrears management, an important part of any compliance management system.

Component 2: Introduction of an Integrated VAT management

Component 2 provided for procurement and implementation of the Integrated VAT Management system based on the COTS software and associated consulting services to support modernized tax administration operations in the NBR. The NBR decided that each of the three tax types (i.e., income tax, VAT and customs) would be developed through a separate application software, rather than an integrated revenue management system for all taxes. On March 4th, 2013, a decision was taken by the NBR to purchase a configurable web-based Commercial off the Shelf (COTS) VAT administration system, instead of developing it in-house. Supporting the long-term agenda of harmonization and avoiding further enhancement of silos, the VAT and Income Tax applications were expected to share a common database platform. The same platform, using the new unique Tax Identification Number (TIN) as the single identifier for all taxpayers, would facilitate integration and harmonization between wings at the database level, enabling “systems to talk to each other.” The system was planned to be based on a centralized platform to which all VAT tax offices as well as Call, Data and Processing Centers would have access. The Invitation for Tender, which was written with strong technical advisory support from the World Bank, IMF and IFC, clearly stipulated the requirement from the potential vendors to use “Oracle.” The COTS IT package, which had already been advertised and evaluated and awaiting approval, was estimated to be below the US\$20 million ceiling for IT procurements under the PforR operational policies. Several options were considered in the event that the actual value of the tender exceeded the threshold, such as (a) negotiating with the winning technical bid to remove any non-core requirements for the system; and (b) requesting an exception to the threshold.

Component 3: Institutional strengthening and capacity building

This component supported VAT Wing reorganization along functional lines and training to enable staff to utilize the new integrated VAT system and business processes. All NBR VAT Wing staff were expected to be provided with adequate training and support to enable them to undertake their roles given the changes to the law and rules to the NBR VAT Wing organizational structure, as a result of the administrative processes and information technology that were to be put in place as part of the Program.

Component 4: Program management

This component consisted of two parts. The first part supported managing the implementation of the program and providing expert advice on program management, IT, procurement, financial management and disbursement. The second part supported change management and a comprehensive taxpayer communication and education program to build internal and external support for the reform.

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



The program was approved on May 9, 2014, and became effective on January 11, 2015. The program's original closing date was June 30, 2020, which was extended to June 30, 2021.

The original commitment amount was US\$60 million. SDR exchange rate fluctuations reduced the total Program cost to US\$52.33 million. The commitment amount was revised down to US\$45.8 million due to implementation challenges. The actual disbursement was US\$40.0 million.

3. Relevance

a. Relevance of Objectives

Rationale

Weak revenue mobilization was a longstanding problem for Bangladesh. Among other things, this constrained investment in physical infrastructure and human capital, undermining efforts to transition to middle-income status by 2021, a key dimension in the country's development strategy—the Sixth Five Year Plan FY2011-FY2015. Although tax collection had improved from 8.3 percent of GDP over the 2004-2009 period to 10.4 percent of GDP in 2012, it was lower than most other South Asian countries.

The main challenges to revenue mobilization included: (i) an inefficient tax administration due to a “type of tax” organizational structure, poor management, weak human resources and lack of skilled staff, poor support systems, scope for discretionary behavior, and poor physical infrastructure, which lead to weak compliance; (ii) a narrow tax base due to the informal structure of the economy (there were around 3.7 million registered income taxpayers, of which only half filed tax returns, and just 50,000 registered businesses that paid VAT (this had risen to 80,000 taxpayers by mid-2016); (iii) a complex and non-transparent tax system; and (iv) corruption and tax evasion enabled in part by the relatively low compensation of tax officials.

The Tax Modernization Plan (2011- 2016) was developed by the government to address key constraints to revenue mobilization. The Plan was endorsed by Parliament in June 2011 and adopted by the NBR. The Plan recognized the critical need to increase tax revenue to achieve the national development plan's medium-term tax-to-GDP target of 12.2 percent by FY2016. To this end, it outlined nine strategic areas of tax policy and administration reforms required, namely: (i) tax policy reform; (ii) business process reform; (iii) automation of tax processes; (iv) redefining the status and regulatory power of NBR; (v) restructuring NBR according to function and size; (vi) strategic communication and outreach; (vii) enforcement improvement program; (viii) human resource program; and (ix) infrastructure development program.

As part of the Tax Modernization Plan, a new VAT law was passed by Parliament in November 2012, designed to address many of shortcomings of the 1991 VAT law, in order to increase the VAT tax yield, broaden the tax base, and contribute towards the establishment of a modern and service-oriented VAT administration. Furthermore, the new law provided a simpler VAT regime, with fewer exemptions. While it was due to come into effect in July 2015, the Government of Bangladesh later decided to pause the implementation of the Act for a period of two years.



The Bangladesh Revenue Mobilization Program for Results: VAT Improvement Program (VIP) 2014-2019 was intended to support the Government of Bangladesh with the implementation of the new VAT law. The new law sought to help modernize tax administration, and combine administrative and policy improvements in support of greater revenue mobilization. The adoption of an automated Integrated VAT Administration System (IVAS) was expected to raise online tax filings and returns, as well as e-payments, for all taxpayers. Enhancing VAT collections was viewed as being important to raising overall taxes, with VAT collections equivalent to 3.2 percent of GDP compared to total tax collections (across income, VAT and customs tax revenues) of 10.4 of GDP. The low Internet penetration rate in Bangladesh, which was less than 10 percent of the total population when the program was approved suggests a limited relevance for this measure to the country's context, however. As noted in the ICR, the government continues to rely on the parallel paper-based processes.

In addition to enhancing revenue mobilization, the VIP supported greater transparency of the VAT administration, with the VAT Wing envisaged to become fully compliant with the Right to Information (RTI) Act, 2009. The VIP was expected to support more effective proactive disclosure (as required under the rules and regulations of the RTI Act) and additional voluntary disclosure of key performance indicators, including, information such as the actual VAT collected, taxpayer satisfaction survey results, the proposed new contact (or call) center and processing center performance reports.

The program was closely aligned with the World Bank's Country Assistance Strategy (CAS) 2011-15, the CAS Progress Report (Report No. 73983-BD of November 20, 2013, approved January 14, 2014) and the government's development priorities. The CAS progress report recognized that weak governance in Bangladesh posed major challenges for sustaining economic growth and social development, and that improving governance is a theme that cuts across all activities, including tax collection. The linkage to the revised CAS results framework is presented in Table 2 below.

Table 2: Relationship to the CAS Results Framework FY11-15

Strategic Objective	CAS Outcomes FY11-14	Revised CAS Results Framework FY11-15	VIP Outcomes FY13-FY19
Pillar 4. Improved governance	4.2 Enhanced transparency and accessibility of public services	Enhanced transparency and accessibility of public services	Improved transparency of VAT administration, and improved taxpayer services with annual public disclosure of performance and taxpayer satisfaction results.

The Program supported the CAS governance objective by enhancing transparency and improving taxpayer services through the IVAS, which was expected to augment online tax filing and returns as well as e-payment. The CAS 2011-15 and the CAS Progress Report also identified revenue generation as a focus area for the Bank's engagement over the medium term. The adoption of a plan to implement the new VAT



and modernize the administration was also supported by the 3-year arrangement under the IMF's Extended Credit Facility.

The ICR concludes that the PDO statement was “relevant at design and throughout Program implementation”. The Program supports the World Bank's Country Assistance Strategy, (CAS, 2011-2015) governance objective of “*enhanced transparency and accessibility of public services*”. And while revenue mobilization was not an explicit objective of the first CAS, its rising importance led to its inclusion in subsequent strategies. The GOB needed to revamp the institutional and organizational setup for VAT administration to improve low revenue collection. It needed to retool infrastructure (hardware and software) to facilitate an automated return filing and payment system for taxpayers.

The ICR Review concurs that the PDOs were consistent with Pillar 4 of the CAS, 2011-2015, on governance and enhanced transparency and accessibility of public services, as well as the objective of revenue mobilization presented in the CPF, 2016-2020. However, it was noteworthy that enhancing revenue mobilization was not an explicit objective in the strategy in place when the project was design and approved. As such, the relevance of the PDOs are rated as High.

Rating

Substantial

b. Relevance of DLIs

DLI 1

DLI

VAT Implementation Plan on track.

The baseline for Disbursement Linked Indicator (DLI) 1 consisted of the Minister of Finance endorsing the VAT Implementation Plan on July 1, 2013. The target consisted of the VAT registration, collection, refund and audit systems setup under the IVAS by June 30, 2020.

Rationale

This indicator sought to ensure that the new VAT Law came into effect on July 1, 2015. It is the only process indicator included in this program.

The targets for this DLI were broken down into six phases reflecting the underlying results chain. The specific annual results for this DLI were aligned with the milestones and benchmarks featured in the IMF-supported arrangement under the ECF. The milestones were also constructed around key procurement activities.

This DLI remained highly relevant as the implementation of the new VAT Law constituted the first step toward attaining the overarching objective of revenue mobilization. The relevance of this DLI is rated Substantial.



Rating

Substantial

DLI 2

DLI

Number of active VAT taxpayers.

Rationale

This DLI sought to increase the number of registered taxpayers, from a baseline of 80,000 on July 1, 2016, to 104,000 by June 30, 2020.

This was to be accomplished through the launch of a campaign for VAT field office staff to visit businesses in order to register them as taxpayers. The new administrative system would also support the identification of stop-filers (i.e., taxpayers who have filed VAT returns in previous fiscal years, but not in the current fiscal year) and initiate reminders and proactive visits to keep filers active. The number of stop-filers was also monitored under the Results Framework but was not considered as a separate DLI. The relevance of this DLI is rated as Substantial given that it supports an increase in the number of registered taxpayers, which would help in attaining the overarching objective of revenue mobilization sought by this program. It is, however, not clear to what extent the increase in the number of active taxpayers may be attributable to other factors beyond the scope of this program.

Rating

Substantial

DLI 3

DLI

Percentage of taxpayers who filed online

Rationale

The development of a new electronic access for taxpayers which was supported by the program was expected to reduce compliance costs for taxpayers and also ease the processing of taxes at the central processing center. This DLI was later dropped. The ICR indicates that “given their similarities, the previous DLI 3: Number of taxpayers who filed online and DLI 4: Percentage of VAT Large Taxpayer Unit taxpayers who paid online were merged as “DLI 3: Percentage of large taxpayers submitting online returns and tax payments.” DLI 3 and 4 are, however, target different groups of taxpayers, and can therefore be seen as being complementary. The interview with the ICR task team reflected the idea that DLI 3 was dropped because large taxpayers account for 80 percent of VAT collected and that the targeting of online filing and payment of VAT among small taxpayers was costly relative to the small share of VAT taxes they accounted for. Furthermore, the task team indicated that delays in the publication of national accounts data posed a challenge. This is a reasonable adaptation and a more efficient way of mobilizing revenue. The Program Document could have, however, included information to the portion of VAT revenues collected from large taxpayers versus smaller taxpayers.



Rating

Not Rated/Not Applicable

DLI 3 REVISION 1

Revised DLI

Percentage of large taxpayers submitting online returns and payments.

Revised Rationale

The baseline figure for this indicator is 0 percent as of July 1, 2016, to an original target of 90 percent as at June 30, 2020, which has been formally revised to 60 percent as of January 14, 2021. The interview with the ICR task team revealed that the target for the DLI was downwardly revised due to the more limited progress made relative to what was initially expected due to the adverse impact of the pandemic. The ICR document notes that “the COVID-19 pandemic led to intermittent countrywide shutdowns since March 26, 2020. The shutdown delayed Program implementation and affected the disbursement rate. There was a risk that the Program would fail to complete the rollout of the IVAS modules, thus jeopardizing the remaining DLIs and threatening the progress made toward the PDO achievement. The NBR team, supported by the World Bank, responded by preparing a new implementation plan with forecast expenditures, necessitating a Program restructuring in November 2020.” (ICR, p. 12) The submission of online returns and payments is justified by the reduced time to process and issue VAT refunds, and increased taxpayer satisfaction.

Revised Rating

High

DLI 4

DLI

Percentage of large taxpayers who pay on-line.

Rationale

DLI 4 was replaced by revised DLI 3.

Rating

Not Rated/Not Applicable

DLI 5

DLI

Greater transparency of the tax administration.

Intermediate Result Indicator 2.2: Greater taxpayer satisfaction with services had a baseline of 0 percent as of June 30, 2014. The target was 75 percent as of June 30, 2020. However, simply confirming greater taxpayer satisfaction with tax filing processes, without any questions on taxpayers' views on whether or not there has been any improvement in the transparency in the tax administration due to the disclosure requirements under



the Right to Information Act, is not a measure of greater transparency of the tax administration. Furthermore, since there was no taxpayer satisfaction survey conducted under the baseline, it is difficult to know how taxpayer satisfaction evolved with program implementation.

Rationale

This DLI sought to ensure that data on the performance of the tax administration were publicly available. Data which would have been made publicly available included: (i) actual tax collected annually; (ii) annual contact center and processing center performance reports, including number of calls handled successfully and number of taxpayer accounts managed annually; and (iii) the disclosure of the results from the periodic taxpayer satisfaction surveys. The relevance of this DLI is rated as Negligible as Intermediate Result Indicator 2.2 only measures greater taxpayer satisfaction, which is linked to improved processes rather than to a greater transparency in the tax administration. Furthermore, since there was no taxpayer satisfaction survey conducted under the baseline, it is difficult to know how taxpayer satisfaction evolved with program implementation.

Rating

Negligible

DLI 6

DLI

Improved fiduciary environment.

Intermediate Result Indicator 2.1: Fiduciary Action had a baseline of at least 50 percent of the Program's competitive bidding contracts (measured in terms of number of contracts rather than value of contracts) granted during the first fiscal year has been carried out through electronic government procurement (e-GP); During the first fiscal year a fund utilization report had been submitted by the NBR to the Finance Division on a quarterly basis; Audit observations considered significant have been resolved in a satisfactory manner within 6 months from the reception of the annual reports as of June 30, 2015. The target consisted of 75 percent of National Competitive Bidding (NCB) contracts are done through electronic Government Procurement (eGP); All significant audit objections resolved in 6 months; Submit quarterly fund utilization report to FD & complete fund release processes after each quarter as of June 30, 2020.

Rationale

This DLI was related to the adoption of several key procurement and financial management processes to support the performance in the use of: (i) electronic government procurement (e-GP) for national procurements; (ii) timely submission of fund utilization reports quarterly; and (iii) resolution of all significant audit objections within 6 months. Although the improvement in the fiduciary environment was important, this DLI is not relevant to the achievement of the overarching objective of improved transparency of tax administration. As such, the relevance of this DLI is rated as Negligible.

Rating

Negligible



OVERALL RELEVANCE RATING

Rationale

The relevance of one DLI is rated High, two DLIs is rated Substantial, and two DLIs is rated Negligible (with DLI 4 not being rated/not applicable). DLI 5 and DLI 6 were not related to the objective of achieving greater transparency in tax administration. As such, the overall relevance rating for the DLIs is rated **Modest**.

Rating

Modest

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Improve revenue mobilization

Rationale

Result Indicator 1 on increased VAT revenues was exceeded. VAT revenues rose from 686.8 billion Taka on June 30, 2017, to 1.04 trillion Taka in FY21 according to data shared by the ICR task team with the IEG based on the Ministry of Finance Fiscal Bulletins. (rating of RI1 = **High**)

Intermediate Result Indicator 1.1/DLI 1 ("VAT Implementation Plan on track") to setup the VAT registration collection, refunds, and audit systems was partially met, with 13 out of 16 IVAS modules implemented becoming operational, with the remaining three awaiting policy decisions to "go-live". The Results Framework in the ICR indicates that "the VIP PIU indicated that some functional requirements needed to be modified or dropped to comply with the latest amendment of the VAT and Supplementary Duty Act, 2012." (ICR, p. 24). The ICR also indicates that "the NBR is yet to make policy decisions on three partially completed modules but not yet "live" (audit, risk management, and objection and litigation). (ICR, p. 13) The ICR does not elaborate on why the three IVAS modules failed to comply with the amendment of the VAT and Supplementary Duty Act, 2012, and how program objectives may have been impacted as a result of this shortcoming. Furthermore, the ICR indicates that "taxpayers reported difficulties in using a few modules for transactions such as online filing of tax returns, inability to amend tax submissions online, and the unavailability of e-payment system. The call centers could not handle technical queries. Overall, there was room for improvement toward making an optimally user-friendly IVAS." (ICR, p. 13) At program completion, it was assessed that more than 100,000 VAT returns were being processed every month. At the time of the ICR, approximately 287,500 VAT taxpayers were registered and eligible to file their VAT tax returns online. According to IRI 1.4, the value of VAT e-payments stood at 2.6 billion Taka. This is about 0.3 percent of the total VAT revenue collected as reported by the ICR task team. Nevertheless, the increase in the number of



VAT registrations does provide a foundation for larger VAT collections in the future. Intermediate Result Indicator 1.1 was supported by DLI 1. (rating of IRI 1.1 = **Modest**)

Intermediate Result Indicator 1.2/DLI 2 ("Number of active taxpayers") was met, with the baseline rising from 80,000 taxpayers on July 1, 2016, to 184,710 taxpayers on May 31, 2021, against a target of 104,000 taxpayers. Intermediate Result Indicator 1.2 was supported by DLI 2. (rating of IRI 1.2 = **High**)

Intermediate Result Indicator 1.3/revised DLI 3 ("Percentage of large taxpayers submitting online returns and VAT payments") was met, with the share rising from 0 on July 1, 2016, to 60.9 percent on April 30, 2021, against a target of 60 percent. 67 out of 110 registered Large Taxpayer Units were reported to be submitting returns and making payment online on April 30, 2021. Intermediate Result Indicator 1.3 was supported by DLI 3. (rating of IRI 1.3 = **High**)

Intermediate Result Indicator 1.4 ("Value of VAT e-payment") was met, with payments rising from 0 on June 29, 2018 to 2.6 billion Taka on May 31, 2021 (amount collected between December 2020 and May 2021), against a target of 1.1 billion Taka. E-payments can be made through 11 commercial banks, with coverage expected to increase when more banks are connected to the national payment gateway. (rating of IRI 1.4 = **High**)

Intermediate Result Indicator 1.5 ("Number of VAT stop filers") was met with the number falling from 99,999 on June 29, 2018 to 0 on June 9, 2021, against a target of 77,777. The ICR indicates that the NBR is in the process of finalizing a methodology for IAS to track stop filers systematically. (rating of IRI 1.5 = **High**)

Intermediate Result Indicator 1.6 ("Average time to process and issue tax refunds") was reduced from a baseline of 120 days on June 29, 2018, to 90 days on June 9, 2021, meeting the target of 90 days. (rating of IRI 1.6 = **High**)

Intermediate Result Indicator 1.7 ("Percent of audits per year resulting in additional tax assessments") calling for an increase from a baseline of 20 percent on December 23, 2018, to a target of 25 percent was not met. The Audit Module that is under development was dropped from disbursement requirement. The percentage of audits resulting in additional tax assessments could not be determined because section 19 sub-section 2 of the new VAT Act 2012 requires a VAT manual to carry out any VAT audit. (rating of IRI 1.7 = **Negligible**)

In all, the efficacy of Objective 1 is rated **Substantial**, with Result Indicator 1 and five out of the seven Intermediate Result Indicators having been achieved. The targets were missed only on Intermediate Results Indicators 1.1 and 1.7.

Rating
Substantial

OBJECTIVE 2

Objective



Improve transparency in the VAT administration. The objective sought to ensure that under the VIP, the government is committed to proactive disclosure (as required under the rules and regulations of the RTI Act) and additional disclosure of key performance indicators, including actual VAT collected, taxpayer satisfaction survey results, the proposed new contact (or call) center and processing center performance reports.

Rationale

Result Indicator 2 ("The website provides information on e-services, regulations, forms, FQs, & enabling structures, systems, processes, and designated Right to Information (RTI) official") was met, with the level of transparency of VAT administration increasing in compliance with the 2009 RTI Act's disclosure requirements. By June 9, 2021, the NBR website featured information on e-services, regulations, forms, FQs, enabling structures, systems, processes, and designated Right to Information official. Total VAT tax collections were disclosed on the NBR website. Result Indicator 2 was to support DLI 5, with the cumulative VAT collection amounts being disclosed on the NBR website, along with the refund amounts. (rating of RI2 = **Substantial**)

Intermediate Result Indicator 2.1 ("Fiduciary Action") consisted of a baseline of three actions: (i) at least 50% of the Program's competitive bidding contracts granted during the First Fiscal Year has been carried out through electronic government procurement (e-GP); (ii) during the First Fiscal Year a fund utilization report has been submitted by the NBR to the Finance Division on a quarterly basis; and (iii) audit observations considered significant have been resolved in a satisfactory manner within 6 months from the reception of the annual reports. The target for this Result Indicator consisted of: (i) 75 percent of National Competitive Bidding (NCB) contracts are done through electronic Government Procurement (eGP); (ii) submit quarterly fund utilization report to FD & complete fund release processes after each quarter; and (iii) all significant audit objections resolved in 6 months. Two of three targeted actions were achieved by project completion with 75% of NCB contracts being done through E-GP and quarterly fund utilization reports being submitted to FD and fund release processes being completed each quarter, while 11 out of 23 outstanding audit observations needed to be settled with the Foreign Aided Project Audit Directorate. Intermediate Result Indicator 2.1 was supported by DLI 6. Despite these achievements, the efficacy of IRI 2.1 is rated Negligible as the indicator does not measure the achievement of Objective 2 on improved transparency in the VAT administration. (rating of IRI 2.1 = **Negligible**)

Intermediate Result Indicator 2.2 ("Greater taxpayer satisfaction with services") was partially met. A survey revealed that 72 percent of taxpayers reported to be more satisfied with services, against a target of 75 percent. According to Taxpayer Satisfaction Survey Report produced in 2017, the following satisfaction index was registered: NBR - 90%, VAT online - 92%, Commissionerate - 59% and Divisional VAT office - 66%. Similarly to Intermediate Result Indicator 2.1, the achievement of Objective 2 related to greater transparency cannot be measured through a taxpayer satisfaction survey that is focused on measuring satisfaction solely based on administrative processes (through measures, such as, the competence and qualifications of the VAT staff, the cooperation of VAT staff, the humility of VAT staff, the honesty of VAT staff and the fairness in evaluation). (rating of IRI 2.2 = Negligible)

In all, the achievement of Objective 2 is rated **Modest**, with Result Indicator 2 rated Substantial and Intermediate Result Indicators 2.1 and 2.2 rated Negligible.

Rating



Modest

OVERALL EFFICACY

Rationale

On Objective 1, DLIs 1, 2 and 4 supported the achievement of the overarching objective of increasing tax revenues along the results chains by monitoring measures related to the VAT implementation plan remaining on track, that the number of VAT taxpayers increased, and that the number of large taxpayers filing online returns and payments increased. Result Indicator 1, and Intermediate Result Indicators 1.2 to 1.6 were met, while Intermediate Result Indicator 1.1 was partially met and 1.7 was not met. Intermediate Result Indicator 1.7 was not met as the Audit Module that was under development was dropped from the disbursement requirement as the VAT manual was required to carry out a VAT audit as per Section 19 Sub-section 2 of the new VAT Act 2012.

Achievement of Objective 2 was not supported by DLIs 5 and 6, nor could the achievement be measured through Intermediate Result Indicators 2.1 and 2.2.

The ICR identifies a number of additional measures which are required to make further progress in the achievement of the objectives along the results chain. It indicates, specifically, that "compliance measures can be enforced through the implementation of the audit, risk management, and litigation modules and integration with the tax and customs systems. The NBR has taken measures to overcome the existing constraints and shift from the parallel paper-based processes to improve efficiency. However, it would require paying greater attention to change management issues to bring both the administrators and the VAT taxpayers on the same page." (ICR, p. 14)

Based on the extent of the results attained toward the achievement of the objectives along the results chain, the overall efficacy of the program is judged to be Substantial.

Rating

Substantial

Primary Reason

Low achievement

5. Outcome

The PDOs were relevant to the country context, and government strategy and plans, as well as Pillar 3 (Governance at Center Stage) of the Country Assistance Strategy covering the FY11-14 period, and their relevance is rated Substantial. The relevance of DLIs is rated Modest. The overall relevance is rated Moderately Unsatisfactory. Given that the achievement of Objective 1 was largely met and is rated Substantial, and the achievement of Objective 2 is rated Modest, the rating on the overall outcome for the program is Moderately Unsatisfactory.

Outcome Rating



Moderately Unsatisfactory

6. Risk to Development Outcome

The risk to the development outcome remains high due to inadequate training, and the shortage of hardware and software.

Finally, slow progress in Internet penetration in Bangladesh may constrain progress in increasing the number of VAT taxpayers who are submitting online returns and payments, or accessing tax information through voluntary disclosures under the RTI Act.

7. Assessment of Bank Performance

a. Quality-at-Entry

The ICR reports that the World Bank team extensively consulted the NBR, ERD, Planning Commission, Finance Division, and IMED on the design and the scope of the program. The Strengthening Public Expenditure Management Program - Bank Executed Trust Fund (SPEMP-BETF) supported gap analysis and proposed a road map for a well-functioning IVAS that included SAP Competency Center (SAP-CC) road map and related training, business process mapping, e-payment process assessment, IVAS system functionality assessment and reforms action, how-to guide on quality control of taxpayer registry, training needs assessment and training plan, and a change management strategy which supported quality-at-entry. However, there were significant shortfalls in the selection of the DLIs.

The assessment of Bank performance with regard to quality-at-entry is rated Moderately Satisfactory.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

The program task team initiated numerous implementation support missions to ensure proper supervision. Three out of 13 implementation support missions were conducted virtually due to the COVID-19 pandemic. While there were four changes of task team leader (TTL) during the implementation of the Program, the TTLs ensured that messages to the NBR remained consistent over time, and that a coordinated approach with other development partners was being followed.

There are a number of specific measures that the task team undertook to support the implementation of the program. This included, most notably:



- In 2016, the government decided to put the implementation of the VAT Act, 2012 on hold for two years, and to continue to operate the VAT administration under the VAT Act, 1991. In August 2017, the task team agreed with the CMU and the NBR that the NBR disentangles the automation and simplification of processes from the implementation of the VAT Act of 2012, and pursue the implementation of the digitized VAT system under the Act of 1991. This effort of the task team supported the NBR to sustain the very first automation reform in the tax administration until now.
- The operation was extended twice, once at the start of the coronavirus pandemic and during the pandemic when there was a complete lockdown. The task team agreed on an action plan each time, held monthly meetings with the senior management of the NBR, and ensured the delivery of a few key modules. Also, the team used the SPEMP-BETF TA to train the VAT Wing staff to plan the future IT requirements and knowledge transfer on the management of the IVAS.
- The Research and Statistics Wing of the NBR lacks the capacity to generate, analyze and disseminate data. The task team provided timely and high-quality support to NBR to strengthen its infrastructure and capacity. Meanwhile, the PDO indicators were restructured to do necessary course correction, strengthen them more robust and measure the status of the implementation. After the restructuring, the PDO indicator 1 read as “the increase in indirect taxes” instead of “tax to GDP ratio”. And PDO indicator 2 was revised to address the transparency of the tax administration as opposed to only focusing on compliance with the Right to Information Act, 2009 of the government.
- The DLIs were restructured to make the results scalable. It was another course correction measure and benefited both the Bank and the NBR.
- Both extensions of the closing date of the program were based on an agreed action plan. That enabled the program to achieve the maximum in a constrained environment, e.g., suspension of the implementation of the VAT and Supplementary Duty Act, 2012 at the beginning of the operation and enactment of a new act in 2019 almost at the closing of the operation.
- The task team negotiated support to the VIP with the SPEMP Multi-Donor TF to address the capacity gap and prepare a technology blueprint for knowledge transfer and sustainability.
- Despite the absence of an Investment Project Finance component to provide technical assistance, the Strengthening Public Expenditure Management Program - Bank Executed Trust Fund (SPEMP-BETF) supported gap analysis and proposed a road map for a well-functioning IVAS that included SAP Competency Center (SAP-CC) road map and related training, Business Process Mapping, e-Payment Process Assessment, IVAS System Functionality Assessment and Reforms Action, How-to Guide on Quality Control of Taxpayer Registry, Training Needs Assessment and Report, and Training Plan.

The assessment of Bank performance with regard to Quality of Supervision is rated Satisfactory.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory



8. M&E Design, Implementation, & Utilization

a. M&E Design

The Program anchored its monitoring and evaluation (M&E) design in the PDO-level Result Indicators, the Intermediate Result Indicators defined in the Results Framework, and the DLIs. The revisions in the PDO-level indicators allowed for the objectives to be more easily measured.

b. M&E Implementation

Monitoring and evaluation implementation was conducted by the Ministry of Planning's Implementation Monitoring and Evaluation Division (IMED). The IMED was charged with the tracking and the reporting on activities and results.

The Program Implementation Unit (PIU) prepared quarterly and annual activity and Program performance reports, which were submitted to the IMED and to the World Bank.

The progress reports prepared by the PIU contributed to the Implementation Status and Results Reports (ISRs) and Aide Memoires prepared by the World Bank team. The Aide Memoires contained matrices with agreed actions with timelines that informed the PIU, NBR, and World Bank about the Program implementation agreements and outstanding tasks.

Independent verification missions to assess the achievement of the DLIs were organized by the Ministry of Finance's Economic Relations Division (ERD). A total of eight independent verification missions were conducted. The findings of these missions provided benchmarks and evidence for the NBR to request funds reimbursement from the Bank.

Under the Eligible Expenditure Program (EEP), the amount in disbursement cannot be larger than the authorities' spending, but advances can be made. Since the authorities did not meet some of the DLIs, the authorities were required to return a portion of the advances which were made. While the task team does not believe that the portion of money returned to the Bank affected the achievement of the program objectives, it believes that it may have led to a deterioration in client relationship, which could have been prevented if authorities were made aware of this condition.

c. M&E Utilization

The World Bank completed 12 ISRs and an equal number of Aide Memoires. The Aide Memoires served as a valuable source of data and evidence to prepare the ISRs. The M&E data informed the program's restructuring, including changes to the DLIs/DLRs and targets.

The table on disbursements of DLIs in the ICR document (Annex 1B) is inaccurate as it shows disbursements as being equivalent to the DLI allocations. The task team indicated that this table was system generated. A corrected table has not been provided to IEG. As such, it is impossible for the IEG to assess to which extent each of the DLIs were met and raises concerns with regard to the utilization of M&E tools against which disbursements were made.



M&E Quality Rating

Modest

9. Other Issues

a. Safeguards

The ICR indicates that the program was compliant with environmental and social safeguards. Environmental safeguards were enhanced through the training of NBR IT staff by the Program Implementation Unit (PIU) on the handling of e-waste. Social safeguards was strengthened through a Grievance Redress Mechanism, with an active call center being established to receive grievances, as well as a user satisfaction survey conducted by the PIU/NBR to gather information on citizens' needs and concerns.

b. Fiduciary Compliance

There were unresolved audit observations between FY2013–14 and FY2019–20. Seven observations from Part A involve reported financial irregularities of US\$1.25 million and six from Part B concern reported financial irregularities of US\$0.04 million. As noted in the ICR, significant unresolved audit issues can hamper approval of a new credit as per the World Bank's policy.

c. Unintended impacts (Positive or Negative)

There were no unintended impacts (positive or negative) from the program identified in the ICR.

d. Other

On disbursement, the ICR notes that "the cumulative program expenditure of US\$43 million adequately covers the World Bank's total disbursement of US\$41 million. As of November 17, 2020, the World Bank canceled an amount of SDR 9,934,380.50 (approximately US\$14 million) from the proceeds of the credit. The value of additional DLRs met during the extension period was used to adjust the remaining advances but was insufficient, leading to US\$2,936,280 unadjusted advance. Per provisions of the Financing Agreement, the GOB shall make the refund to the World Bank." (ICR, p. 19)



On procurement, the VAT Online Program Office prepared procurement plans annually and implemented them accordingly. At the time of the ICR, the PIU was yet to send a detailed update of the post-procurement review carried out by the NBR.

10. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Unsatisfactory	The PDOs were relevant to the country context, and government strategy and plans, as well as the CAS in place at the time, and their relevance is rated Substantial. The relevance of DLIs is rated Modest. The overall relevance is rated Moderately Unsatisfactory. Given that the achievement of Objective 1 was largely met and is rated Substantial, and the achievement of Objective 2 is rated Modest, the rating on the overall outcome for the program is rated Moderately Unsatisfactory.
Bank Performance	Satisfactory	Moderately Satisfactory	The ICRR identified significant shortfalls in the selection of the DLIs, resulting in quality-at-entry being rated Moderately Satisfactory while quality of supervision was rated Satisfactory.
Quality of M&E	Modest	Modest	
Quality of ICR	---	Negligible	The ICR does not provide the country context to justify the selection of the PDOs. The change in PDO indicator was not well justified. It is not entirely clear why DLI 3 was dropped and DLI 4 was slightly reformulated. The allocated and disbursement amounts featured in Annex 1B are identical when they should be different.



11. Lessons

The ICRR concurs with the lessons derived from this program as identified in the ICR:

1. It would have been important to introduce a change management program and communication plan with external stakeholders, including the taxpayers, to promote the online filing of VAT returns.
2. The country's policies, legal framework, and commitments should be aligned with IT implementation. In the case of Bangladesh, the lack of a Statutory Regulatory Order implied that audits, risk management, and objections (or dispute resolutions) and litigations to strengthen large taxpayer compliance were not implemented.
3. Strategies for domestic resource mobilization should be considered to identify issues such as the capacity enhancement on VAT policy and administration and voluntary compliance.
4. Government should be made aware of the conditions underlying a PforR prior to program implementation so that it is not caught off guard having to return money.
5. Accurate data should be collected and reported throughout the program implementation and within the context of the ICR.

12. Assessment Recommended?

No

13. Comments on Quality of ICR

The quality of the ICR is rated Negligible as it does not contain much of the informational content that is required. The ICR does not include a description of the program context and a good overview of the development objectives pursued by the program. The ICR does not include an overview of program components to help reviewers understand how each of the components supported the implementation of the program. The relevance of the two PDO indicators and the associated DLIs is not clearly explained, making it difficult to understand how the DLIs support the achievement of the PDOs along the results chain. As a result of these shortcomings, the ICR Review had to extensively rely on the Project Appraisal Document, and the interview with the ICR TTLs in order to help fill the gaps in the ICR document.

a. Quality of ICR Rating

Negligible