ICR Review
Operations Evaluation Department

Report Number : ICRR11562

1. Project Data:		Date Posted :	09/10/2003	
PROJ ID :	P035759		Appraisal	Actual
Project Name :	Public Finance Management Project	Project Costs (US$M)	94.2	78.46
Country:	Turkey	Loan/Credit (US$M)	62	44.18
Sector(s):	Board: PS - Central government administration (100%)	Cofinancing (US$M)		
L/C Number:	L3942; LP273			
		Board Approval (FY)		96
Partners involved :	A Japanese Grant was used for preparation	Closing Date	06/30/2000	12/31/2002

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2. Project Objectives and Components

a. Objectives

The original overall objective of the project was to enhance the fiscal consolidation and reform efforts of the Government of Turkey by improving the overall efficiency and effectiveness of tax administration, expenditure and personnel, management, and customs operations . Specific objectives included:

(a) **Tax Administration :** Strengthen the compliance, enforcement, and policy formulation capabilities of the tax authorities in order to broaden the tax base and increase tax revenues while ensuring a more equitable distribution of the tax burden.

(b) **Expenditure and Personnel Management :** Improve the framework for the preparation, revision, execution, monitoring and accounting of the central government budget to strengthen the role of the budget as an instrument of policy implementation and to reinforce budget discipline including the budgeting of public administration positions and payroll.

(c) **Customs Modernization :** Advance changes in the national customs organization required for Turkey to be able to enter a customs union with the European Union, and reduce transaction costs to allow Turkish exporters and importers to more effectively compete after the forthcoming union .

The project was formally restructured in March 1998. In addition, a second set of adjustments were made in September 2000 through amending the Legal Agreement. Following the revisions, the objectives were revised as follows:

(a) **Tax Administration :** Same objectives as above, but the scope was limited to (i) undertaking studies relating to the organizational and informational technology needs of the General Directorate of Revenue (GDR); (ii) establishing a tax policy unit in the GDR; and (iii) training.

(b) **Expenditure and Personnel Management :** This objective was also narrowed in scope to focus on implementing a new budget classification structure and Chart of Accounts (CoA) compliant with Government Finance Statistics (GFS) and designing and implementing new automated systems for budget preparation and execution .

(c) **Customs Modernization .** This objective remained the same as above .

(d) **Debt Accounting and Cash Management :** (i) Modernize debt accounting procedures and practices; and (ii) train Treasury Controllers who are responsible for the audit of World Bank projects and of State Owned Enterprises to improve the quality and timeliness of audits .

In addition, an objective to **Modernize Audits of the Turkish Court of Accounts** was added in 1998, and then canceled in the 2000 revision.

b. Components

The original components of the project were:

(a) **Tax Administration** (Cost: US$14.9 million; Bank Financing: US$8.9 million): (i) Restructure the management and administrative organization of the General Directorate of Revenue (GDR); (ii) develop and implement modern automated systems for core tax administration and management functions; (iii) develop and implement an enhanced third party tax information system that would progressively broaden the tax base and increase revenues; (iv) develop and implement a more aggressive and complete audit strategy, focusing on increasing the number and yield of audit operations through training in computer assisted audits, strategic audit selection and identification and assessment of all forms of non-compliance with financial legislation including social security and other withholding taxes; (v) strengthen tax policy formulation through the establishment of a permanent Policy Analysis Unit, including providing training and introducing modern simulation techniques and models; (vi) increase voluntary compliance by eliminating steps in filing and payment procedures, simplifying forms, improving response to taxpayer inquiries; (vii) enhance the role of the banking system in routine tax administration processes and speed transfer of tax payments through the banking system; and (viii) undertake needed training to support the above initiatives.

(b) **Expenditure and Personnel Management** (Cost: US$11.06; Bank Financing: US$8.6 million): (i) Strengthen the budget preparation and execution by substantially reducing the number of off-budget spending entities, tightening the relationship between the budgeting and planning processes, and improving the links between the current and investment budgets; (ii) make spending agencies more accountable by rationalizing the budget and accounting systems, remove ex-ante controls while improving ex-post audit capabilities; (iii) strengthen budget decision-making by introducing a more appropriate budget code structure for economic analysis; (iv) streamline procedures for commitment authorizations and monitoring; (v) modernize payments processes and cash management.

(c) **Customs Modernization** (Cost: $68.3 million; Bank Financing US$44.4 million): (i) Streamline customs procedures to eliminate duplication, excessive paperwork and physical controls; (ii) upgrade computerization to full automation of customs procedures and capacity to enforce legislative and other EU requirements; and (iii) restructure and downsize the customs organization.

The components were later revised; Customs Modernization represented about 88% of the revised project costs, as opposed to 72% of original project costs.

(a) The **Tax Administration Component** (Cost: US$2.35 million; Bank Financing US$2.02 million) was downsized to (i) studies relating to the organizational and informational technology needs of the GDR; (ii) establishing a tax policy unit in the GDR; and (iii) training activities.

(b) **Expenditure and Personnel Management** (Cost: US$1.8 million; Bank Financing US$1.6 million): The scope of this component was cut back to focus on the design of a financial reporting system, and the implementation of a budget classification and financial ledger system to enable the MOF to monitor execution of the budget.

(c) **Customs Modernization** (Cost US$68.4 million; Bank financing US$48.44): The scope was expanded to cover further modernization of the Ipsala, Kapikule and Derkoy border posts in addition to the original activities.

(d) **Debt Accounting and Cash Management** (Cost: US$5.07 million; Bank Financing US$4.7 million): (i) Improve cash management by automation of the internal payments accounts office in the Treasury; and (ii) design and implement an automated accounting system for state debt and guarantees.

In addition, the following component was added in the 1998 revision, and canceled in the 2000 revision:

Audit modernization of the Turkish Court of Accounts : (i) Improve audit management; (ii) improve information technology; and (iii) assist in the re-organization of the TCA.

c. Comments on Project Cost, Financing and Dates

When it became clear that the original scope of the project was too ambitious, the project was restructured. Subsequently, $5 million of the loan was canceled, and $12.81 million of the loan was undisbursed and canceled at closing. The closing date was also extended from 6/30/00 to 12/31/02.

3. Achievement of Relevant Objectives:

The project achieved a number of its revised objectives, most notably the improvements in customs. In addition, basic automation infrastructure for improving public expenditure management and debt management has been developed. However, while the original objectives and outputs were too ambitious, the revised objectives and outputs were lowered considerably. While this meant that most of the revised objectives were achieved, the relevance of some of them was diminished. In particular:

(a) **Tax administration :** Objectives were watered down considerably from making improvements in compliance, enforcement, and policy to carrying out a few studies; in addition, the recommendations were generally not adopted. Relevance and achievement of this objective were negligible.

(b) **Expenditure and Personnel management** : Objectives were narrowed extensively from an original goal of improving the preparation, revision, execution, monitoring and accounting of central government budget to assisting in the implementation of a budget execution system. While this objective was met, its relevance was diminished considerably. The "say 2000i system" which was implemented represents only a part of the originally envisioned integrated financial management system which would tie together information from numerous Government entities, and is currently being used by multiple agenceies. However, the revision of the loan to exclude budgeting of public administration positions and payroll will make rationalization of public administration more difficult to carry out.

(c) **Customs:** These objectives were met. Customs Administration has been reorganized, Customs Operations have been automated, and a new Customs Law and regulations was passed to bring the Customs regulations in line with EU requirements. This component has improved efficiency of customs and decreased opportunities for corruption.

(d) **Debt Accounting and Cash Management :** This component has improved debt accounting. However, the Government is not making full use of the systems provided for cash management.

4. Significant Outcomes/Impacts:

- Reorganization and automation of customs, combined with improved customs legislation, have increased the efficiency of customs as well as reducing the opportunity for corruption.
- Debt Accounting has improved.
- The "say 2000i system" has improved budget management and control.

5. Significant Shortcomings (including non-compliance with safeguard policies):

- The original project design and appraisal report included extensive work on improving tax administration and expenditure management. Yet, despite the extensive preparation, there appears to have been inadequate Government commitment to these components. In addition, the complexity and difficulty of implementing components across agencies appears to have been underestimated. Given that two restructurings were required, and the restructurings were primarily due to implementation and commitment issues rather than changes in conditions or project needs, quality at entry is deemed unsatisfactory.

- During the first restructuring, a component for the Audit modernization of the Turkish Chart of Accounts was added. This component was formally canceled in the second amendment to the loan, two years after it was added; this further raises questions on the quality of the preparation of that component.

- The Customs component, while implemented successfully, took much longer than anticipated. For example, the original dated covenants indicated that new Customs regulations would be issued by December 31, 1996. The new Customs Law was not passed until October 1999, at which point new regulations were developed. The law and regulatory framework went into effect on February 5, 2000. Similarly, pilot operations were to have been successfully implemented by December 31, 1996; the first new operations occurred in 2000.

- Although cash management has improved with the implementation of the "say 2001i system", the Treasury still does not rely on the system's data on expenditure and revenues.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	The project completed many of its revised components. However, while the original objectives and outputs may have been too ambitious, the revised objectives and outputs were diminished considerably. While this made it easier to achieve the outputs, the relevance of the objectives was weakened. Even within the context of the revised objectives and components, not all the objectives were achieved.
Institutional Dev .:	Substantial	Substantial	The automation components will be very beneficial in institutional development.

			However, the lack of commitment to implementing recommendations in tax administration or appropriately using the cash management systems indicates that institutional development was not strong across all the components.
Sustainability :	Likely	Likely	The Customs component, which was the largest component, has improved the efficiency of customs, and that improvement seems to be supported by the Government. The other components are not as strongly embraced.
Bank Performance :	Satisfactory	Satisfactory	Quality at Entry was poor, but supervision was satisfactory.
Borrower Perf .:	Satisfactory	Unsatisfactory	The Government, in particular the Customs Administration, the General Directorate of Public Finance in the Undersecretariat of the Treasury, and the General Directorate of Public Accounting in the Ministry of Finance did successfully implement many of the physical components of the project, especially the customs component, which represented 88% of the revised project costs. However, the lack of commitment to the project across multiple agencies required the project to be restructured twice, during which the most difficult policy objectives were removed. In addition, while the Government supported design and implementation of automation, it has not implemented many of the policy recommendations.
Quality of ICR :		Satisfactory	

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

7. Lessons of Broad Applicability:

- The overall design of this project was too ambitious. The larger components in this project, such as Customs Administration, public expenditure management, and tax administration, could each be a separate project.
- Maintaining commitment and implementation support across multiple agencies is difficult. The component which was most successful, Customs, had one primary responsible agency. Components should be designed so that limited counterparts are involved.
- Realistic assessments of commitment and implementation capacity during project preparation are critical.
- Projects with implementation issues should be downgraded to reflect those problems.

8. Assessment Recommended? ● Yes ○ No

Why? The comments accompanying the ICR indicate that this project was designed to complement the public finance components of adjustment loans. Since the objectives set by this stand alone project were modest, it would be useful to review the relevance and efficacy of the entire group of projects.

9. Comments on Quality of ICR:

The ICR gives a clear account of the project's development and subsequent revisions. While the ICR was a bit generous in its evaluation of the borrower performance and project quality at entry, it was very frank about the problems which arose in the project preparation and implementation.