

**Document of  
The World Bank**

Report No: NCO00003295

**NOTE ON CANCELLED OPERATION**  
(IDA-43610, TF-57847)

ON A

CREDIT

IN THE AMOUNT OF SDR 52.3 MILLION  
(US\$ 80 MILLION EQUIVALENT)

TO

THE SOCIALIST REPUBLIC OF VIETNAM

FOR A

TAX ADMINISTRATION MODERNIZATION PROJECT (TAMP)

September, 21, 2015

Governance Global Practice  
Vietnam  
East Asia and Pacific Region

## CURRENCY EQUIVALENTS

(Exchange Rate Effective: April 9, 2015)

Currency Unit = Vietnam Dong  
USD 1.00 = VND 22,490  
VND 1,000 = USD 0.0444

FISCAL YEAR  
January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

CIT	Corporate income tax
COTS	Commercial-off-the-shelf
CMU	Country management unit
DPF	Development Policy Financing
DPs	Development Partners
GDP	Gross Domestic Product
GDT	General Department of Taxation
ICT	Information communication technology
IDA	International Development Association
IPF	Investment project financing
IT	Information technology
ISRs	Implementation status and results
ITAIS	Integrated tax administration information system
MoF	Ministry of Finance
MTR	Mid-term review
PAD	Project appraisal document
TA	Technical assistance
TAMP	Tax Administration Modernization Project
TASC	Tax Administration Steering Committee
TMS	Tax management system
PforR	Program for Results
PHRD	Policy and Human Resource Development
PIT	Personal income tax
PMU	Project implementation unit
QCBS	Quality-and cost- based selection
QER	Quality enhancement review
RFP	Request for proposal
TOR	Terms of reference
VAT	Value-added tax

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**THE SOCIALIST REPUBLIC OF VIETNAM  
TAX ADMINISTRATION MODERNIZATION PROJECT**

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<b>A. Basic Information</b>			
Country:	Vietnam	Project Name:	Tax Administration Modernization Project
Project ID:	P099376	L/C/TF Number(s):	IDA-43610,TF-57847
NCO Date:	9/21/2015		
Lending Instrument:	SIL	Borrower:	SOCIALIST REPUBLIC OF VIETNAM
Original Total Commitment:	IDA: SDR 52.30M (US\$ 73,335,583) PHRD: US\$ 5 million	Disbursed Amount:	SDR 378,007.05 (US\$ 530,045.27) PHRD US\$ 800,198.40
Revised Amount:	SDR 52.30M		
<b>Environmental Category: C</b>			
<b>Implementing Agencies:</b> General Department of Taxation (GDT)			
<b>Cofinanciers and Other External Partners:</b> Japan (PHRD)			

<b>B. Key Dates</b>				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	03/15/2006	Effectiveness:	06/26/2008	06/26/2008
Appraisal:	01/17/2007	Closing:	06/30/2013	03/31/2015
Approval:	09/25/2007			

<b>C. Ratings Summary</b>	
<b>Performance Rating by NCO</b>	
Outcomes:	Not Applicable
Risk to Development Outcome:	Not Applicable
Bank Performance:	Unsatisfactory
Borrower Performance:	Unsatisfactory

<b>D. Sector and Theme Codes</b>		
	Original	
<b>Sector Code (as % of total Bank financing)</b>		
Central government administration	100	
<b>Theme Code (as % of total Bank financing)</b>		
Tax policy and administration	100	

<b>E. Bank Staff</b>		
<b>Positions</b>	<b>At NCO</b>	<b>At Approval</b>
Vice President:	Axel van Trotsenburg	James W. Adams
Country Director:	Victoria Kwakwa	Ajay Chhibber
Practice Manager/Manager:	Robert Talierno	Barbara Nunberg
Project Team Leader:	Duc Minh Pham	Duc Minh Pham
NCO Team Leader:	Miki Matsuura	

#### **F. Ratings of Project Performance in ISRs**

<b>No.</b>	<b>Date ISR Archived</b>	<b>DO</b>	<b>IP</b>	<b>Actual Disbursements (USD millions)</b>
1	07/15/2008	Satisfactory	Satisfactory	0.00
2	02/27/2010	Moderately Satisfactory	Moderately Satisfactory	0.31
3	08/27/2011	Moderately Satisfactory	Moderately Unsatisfactory	0.46
4	03/21/2012	Moderately Satisfactory	Moderately Unsatisfactory	1.24
5	11/19/2012	Moderately Unsatisfactory	Moderately Unsatisfactory	1.27
6	06/29/2013	Moderately Unsatisfactory	Moderately Satisfactory	1.44
7	04/03/2014	Moderately Unsatisfactory	Moderately Unsatisfactory	1.44

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

### 1.1. Country and Sector Context

1. **Vietnam had increased revenues over the previous two decades.** The revenue increased from 20.5 percent of Gross Domestic Product (GDP) in 2000 to 25.9 percent in 2005. Oil revenue was the major source of revenue, but non-oil revenues were increasing steadily. Value-added tax (VAT) and corporate income tax (CIT) were the two main sources of revenue, contributing 32.5 percent and 28.6 percent, respectively, to total tax collection. Other non-oil tax included export and import tax, natural resource tax, exercise tax, personal income tax (PIT), and agricultural tax.

2. **Non-oil revenue collection faced three major challenges.** These challenges included:

- (i) The greater integration of Vietnam in the international trade system led to a substantial decrease in the collection of revenues from import taxes. The share of tariff revenue in total revenue had dropped from 28.9 percent in 1996 to 14.6 percent in 2005 in spite of a steady increase in international trade.
- (ii) The government's major source of tax revenues had been from state-owned enterprises (SOEs). Revenues from the private sector remained relatively untapped accounting for a meager 12.4 percent of total revenue collected in 2005.
- (iii) Decrease in trade tax revenues was offset by VAT collection. However, this VAT collection could have significantly been reduced by the planned revision of the scheme.

3. **Sustaining the level of overall non-oil revenue collection in Vietnam therefore required strengthening capacity of tax administration.** There was an urgent need to build capacity of the General Department of Taxation (GDT) in the Ministry of Finance (MoF) to respond to a rapidly increasing number of private sector businesses and to ensure their tax compliance. There was also a need to enable the GDT to react efficiently to a changing tax environment and new compliance challenges in promoting voluntary compliance by taxpayers. Ensuring the GDT to respond to these new tax environment needed to address governance deficiencies.

4. **The tax administration reforms were well articulated in the national development strategies.** Vietnam's Socio-economic Development Plan 2006-2010 emphasized tax administration's crucial role in mobilizing resources and creating conducive investment environment for achieving sustainable and equitable development. Accordingly, the Tax Administration Reform Program 2005-2010 specifically set out directions for Vietnam's tax reforms and defined objectives. The program identified five key weaknesses: (i) the fragmentation of the legal framework related to tax administration; (ii) the absence of effective coordination and information sharing between the tax administration and other government agencies; (iii) taxpayers' lack of knowledge about the tax laws and compliance procedures; (iv) inadequate professional skills and staff training; and (v) an outdated Information Technology (IT) system for modern tax administration.

### 1.2. Rationale for World Bank Involvement

5. **The World Bank found added-value in supporting Vietnam to implement tax reforms and to strengthen their tax administration capacity.** First, the Bank could extend its partnership with Vietnam beyond 2010 by providing financing and corresponding technical support to the development of a reform blueprint. Second, the Bank could add value in supporting capacity development for such a complex reform undertaking, and in facilitating access to international experience and good practices in tax administration reform. Third, the Bank's role in supervision would facilitate achievement of expected outcomes. Finally, the Bank could further its role in coordinating other donors' tax reform initiatives at the GDT. The project was listed in the Country Partnership Strategy presented to the Board in 2007 contributing to two of its four

pillars: (i) business-led development, and (ii) strengthened governance system. TAMP was intended to complement other Bank-financed projects in Vietnam, including the Poverty Reduction Support Credits (PRSCs), the Public Financial Management (PFM) reform, and Customs Modernization.

### *1.3. Project Development Objectives (PDOs)*

6. **As approved, the PDOs were:** *to assist the GDT to strengthen governance in tax administration and to increase the level of voluntary compliance with the tax system by improving the effectiveness, efficiency, transparency and accountability of the tax administration. The Project was to have a positive impact on the business climate by building predictable and enforceable tax administration processes and procedures. The sustainability of revenue collection, and greater equity would also be supported through implementation of this project. The PDOs therefore were complementary to two higher-level objectives of the country's four reform pillars, namely business-led development and strengthened governance systems.*

The development objectives of the co-financing Policy and Human Resource Development (PHRD) grant were: *to strengthen governance in tax administration in Vietnam, and to increase the level of voluntary compliance with the tax system through improvements in the effectiveness, efficiency transparency and accountability of the tax administration.* This objective was closely linked with the PDO for IDA specified above.

7. **The PDOs were to be assessed by the following key indicators:** (i) perception of the integrity of staff as measured by periodic internal and external stakeholder surveys; (ii) public perception of the quality of tax administration performance as measured by periodic surveys; (iii) tax revenues paid voluntarily / total tax revenues collected; (iv) number of tax audits resulting in additional taxes assessed and collected / total number of tax audits conducted; (v) number of active taxpayers; and (vi) compliance by major taxes: VAT, CIT, and Personal Income Tax (PIT).

8. Both IDA financing agreement and PHRD grant agreement were amended on September 19, 2012, but no changes were made to the PDOs and key indicators.

### *1.4. Project Components*

#### *Components at Appraisal*

9. **As approved, the project comprised four components:** (i) Component 1: Institutional Development (US\$1.2 million), (ii) Component 2: Operational Modernization (US\$8.4 million), (iii) Component 3: IT Development (US\$70.3 million), and (iv) Component 4: Project Management (US\$4.4 million).

- (i) **Component 1: Institutional Development (US\$1.2 million):** This component was designed to support the implementation of key requirements for good governance in the tax administration. It aimed to increase transparency and accountability of the administration, and to improve the legal framework for tax administration. The component included three sub-components: (i) tax administration regulations and compliance analysis; (ii) anti-corruption and stakeholder relations; and (iii) enhancing the GDT management information systems.
- (ii) **Component 2: Operational Modernization (US\$8.4 million):** This component was designed to strengthen GDT's capacity to ensure a high level of voluntary compliance with tax systems. To reduce compliance burden for taxpayers, this component aimed to streamline processes, establish a service culture that responds efficiently to taxpayer service needs, and build a more efficient dispute resolution system that would contribute to further protecting taxpayers' rights. This component included five sub-components: (i) taxpayer services; (ii) registration, return

processing, tax payments, taxpayer accounting and tax refunds; (ii) tax audit; (iv) collection and enforcement; and (v) dispute resolution.

(iii) **Component 3: IT Development (US\$70.3 million):** This component was designed to support the procurement and implementation of an Integrated Tax Administration Information System (ITAIS). The ITAIS implementation was the main activity in the project. Three other sub-components included (i) procurement, installation and testing of IT hardware and system software, (ii) e-tax applications, and (iii) a pilot data warehouse. These sub-components were planned to be implemented in parallel to the implementation of ITAIS. ITAIS sub-component aimed to facilitate an automation of the full functionality of tax administration and was linked to activities in other components.

(iv) **Component 4: Project Management (US\$4.4 million):** This component aimed to support advisory services and the necessary office infrastructure to assist a project management unit (PMU) in all aspects of the project, and activities managing organizational change at all level of the tax administration.

#### *Revised Components*

10. **After the Mid-term Review (MTR) mission, the financing agreement was amended with streamlined project activities.** The MTR was conducted in June 20–July 1, 2011, and IDA financing agreement and PHRD grant agreement were amended 14 months later on September 19, 2012. Project components were revised as below to focus primarily on the ITAIS procurement and its implementation. Details are described in Section 2.

- (i) **Component 1: Institutional Development:** Carry out a program to strengthen governance in tax administration in Vietnam consisting of:
  - A. Building capacity for tax compliance risk management and analysis
  - B. Undertaking periodic surveys on the Project performance feedback from the taxpayers and tax officers
  - C. Strengthening of the anti-corruption activities of the General Department of Taxation
- (ii) **Component 2: Business Process Re-engineering and Development of Integrated Tax Administration Information System (ITAIS):** Carry out a program to increase compliance and strengthen the efficiency in information technology-based system in tax administration, consisting of:
  - A. Design, procurement and installation of the ITAIS based on re-engineered tax administration processes and procedures, including (i) Tax administration business process re-engineering; (ii) Design, procurement and deployment of the ITAIS; and (iii) Hardware system maintenance
  - B. Procurement and deployment of hardware for e-tax applications
  - C. ITAIS's contract management and quality assurance, and Project change management
- (iii) **Component 3: Project Management:** Carry out a program to support improvement of project management by:
  - A. Strengthening the Project management capacity
  - B. Procuring equipment and facilities to support the Project management

#### *1.5. Financing Plan, Implementation Arrangements and Risk Analysis*

11. **The project was to be financed by International Development Association (IDA) for a total cost of US\$80 million with a total required financing of US\$ 98.3 million.** The project was co-financed

through a PHRD grant of US\$ 5 million from the Government of Japan and the Government of Vietnam provided counterpart funding in the amount of US\$12.5 million (see Table 1). PHRD grant was to support component three and four to strengthening the institutional and capacity of the Government of Vietnam.

**Table 1. Financing Plan**

Project Cost By Component and/or Activity	Government Contribution	Foreign		Total
		IDA	PHRD Co-Financing	
Component 1: Institutional Development	0.2	1.0	0.0	1.2
Component 2: Operational Modernization	1.4	7.0	0.0	8.4
Component 3: IT Development	4.3	63.6	2.4	70.3
Component 4: Project Management	1.0	1.2	2.2	4.4
Duties and Taxes	4.5	0.0	0.0	4.5
<b>Total Baseline Cost</b>	<b>11.4</b>	<b>72.8</b>	<b>4.6</b>	<b>88.8</b>
Contingencies	1.1	7.2	0.4	8.7
<b>Total Project Costs</b>	<b>12.5</b>	<b>80.0</b>	<b>5.0</b>	<b>97.5</b>
IDA Service Charge (0.75%)	0.6	-	-	
Commitment Fee (0.10%)	0.2	-	-	
<b>Total Financing Required</b>	<b>13.3</b>	<b>80.0</b>	<b>5.0</b>	<b>98.3</b>

12. **All project components were designed to be executed by a single Project Management Unit (PMU).** The PMU was established in the General Department of Taxation (GDT), the Ministry of Finance (MoF), with oversight provided by the Tax Administration Steering Committee (TASC). The responsibilities of each agency/committee are summarized below:

- **General Department of Taxation (GDT):** The GDT is a tax administration agency under the supervision of the MoF. The GDT is responsible for the collection of all national taxes in Vietnam. In 2007, the GDT head office had 400 tax administration staff and supervised 64 provincial tax offices and 659 district tax offices. Tax Administration and Modernization Project (TAMP) was managed and implemented by the GDT. The MoF was responsible for ensuring that all TAMP objectives were met.
- **Project Management Unit (PMU):** The PMU was established in the GDT immediately after the project was approved. The PMU was responsible for procurement, loan management and reporting. The PMU coordinated and managed all project activities; the unit prepared contracts, hired consultants and contractors, organized training, and provided other services as necessary for the implementation of TAMP. The PMU was headed by a project director and comprised a deputy director, a project coordinator, a project secretary, procurement specialists, financial specialists, IT specialists, and administrative staff.
- **Tax Administration Steering Committee (TASC):** The TASC was established during project preparation to provide guidance on the project and the tax administration reform. Their responsibilities included: (i) providing guidance to the GDT on policy-related issues; (ii) coordinating with other relevant institutions and business community in relation to the project; and (iii) interacting with the World Bank on policy related issues. TASC was headed by the Vice Minister of Finance and comprised the Director General (DG) and two Deputy Directors General (DDG) of the GDT, leaders of other departments in the MoF as well as other ministries. During project implementation, TASC did not function effectively as the guiding body for the project.

13. **Overall risk was rated high.** Due to its project design, complexity of the operation, political risk, and comprehensive tax IT procurement in particular, TAMP's risk was rated as high throughout identification, preparation and appraisal.

- Quality Enhancement Review (QER) process on November 29, 2006 raised serious concerns on: (i) a large number of quality-and cost-based selection (QCBS) contracts that require time-consuming operation and guarantee little disbursement at the outset of the project implementation; (ii) too ambitious sub-components on ITAIS and change management; (iii) short period of implementation and the project phasing for IT component beyond five years; (iv) complexity and high risk; and (v) cumbersome procedures for large number of QCBS packages. Similarly, decision meeting held on January 17, 2007 addressed additional concerns on government readiness and the need to simplify the project design. The team noted on concerns and recommendations, discussed these issues with the GDT, but emphasized the need to find an appropriate balance for the tradeoff between a failure-prone piecemeal approach to reform, and the risks associated with complexity in project design and implementation.
- The project appraisal document identified three main potential risks: (i) the comprehensive reform with complex interrelationship between individual activities exceeded the implementation and coordination capacity of the GDT; (ii) resistance from certain tax officials and taxpayers, as reforms reduced rent-seeking opportunities; and (iii) possible failure of application software development, early acquired hardware, and delayed IT procurement. The Mid-term Review conducted in June 2011 reassessed these risks and clearly identified “risk of failures/delays in the ITAIS procurement process” and proposed new risk mitigation measures. Detailed risks to PDOs rating, risk mitigation measures and new risks are summarized in Annex 3.

## 2. Post-Approval Experience and Reasons for Cancellation<sup>1</sup>

### 2.1. Main events leading to cancellation

14. **The project transitioned through five distinct stages during the period from project appraisal to cancellation.** These stages included: (i) project approval and start of the development of PIT-IT system; (ii) delays in procurement; (iii) procurement delays leading to legal amendments; (iv) continued delays during and after restructuring; and (v) significant progress in the government-funded PIT-IT system led to project cancellation. Key events associated with each phase are provided in the following paragraphs. Time line of key events are shown in Table 2.

**Table 2. Timeline of Key Events**

<i>Timeline</i>	<i>Key Events</i>
<i>Early 2006</i>	Project identification and preparation
<i>Mid 2007</i>	Drafting of bidding documents started
<i>January 17, 2007</i>	Appraisal started
<i>September 25, 2007</i>	Board approval
<i>November 21, 2007</i>	<b>Approval of PIT Law</b>
<i>March 28, 2008</i>	Financing/Grant agreements signed
<i>June 26, 2008</i>	<b>Project effectiveness</b>
<i>May 26-June 6, 2008</i>	1 <sup>st</sup> Supervision: Task team discovered government’s PIT-IT initiative
<i>September 1, 2009</i>	<b>PIT law implementation took effect</b>
<i>January 11-19, 2010</i>	The Bank and the GDT agreed that the ITAIS would be developed for all modules as designed except for the PIT one
<i>March 2, 2010</i>	First (of three) submission of bidding documents
<i>July 2010</i>	International IT procurement expert recruited
<i>June 20 to July 1, 2011</i>	Mid-term Review
<i>July 22, 2011</i>	Bank issued no objection to ITAIS bidding documents
<i>April 24, 2012</i>	The MoF approved the issuance of the ITAIS bidding documents

<sup>1</sup> The views on main events leading to cancellations are different between the Bank and the borrower. See Annex 5 for details.

September 19, 2012	Financing/Grant agreements were amended
January 2013	Complaints received from the 1 <sup>st</sup> stage bidders
March 13, 2013	GDT submitted a bid evaluation report (BER) for the first stage of the ITAIS procurement to the Bank
June 5, 2013	OPRC meeting
June 24, 2013	Received a conditional no objection for BER
January 10, 2014	GDT submitted 2 <sup>nd</sup> stage bidding documents to the Bank
March 4, 2014	Received a conditional no objection for 2 <sup>nd</sup> stage bidding documents
June 2-10, 2014	12 <sup>th</sup> supervision mission: task team became fully aware of the government's PIT-IT system comprised most of the ITAIS modules
September 17, 2014	Government formally requested cancellation of ITAIS packages

***Stage 1: Project approval and the start of the development of PIT-IT system (from September 2007 to June 2008).***

15. Shortly after the project was approved, the Bank learned the GDT's initiative on developing PIT-IT system. Events are summarized below:

- TAMP was approved by the Board on September 25, 2007<sup>2</sup>, both IDA financing agreement and PHRD grant agreement were signed on March 28, 2008, and became effective on June 26, 2008<sup>3</sup>. One of the covenant requirements in the IDA financing agreement was to complete the recruitment of an ICT procurement expert by September 30, 2008 to assist the PMU to finalize the ITAIS bidding documents. This recruitment took almost two years (see Stage 2).
- **Vietnam's tax reform progressed quickly during the preparation of TAMP.** The National Assembly approved the country's first Personal Income Tax (PIT) Law on November 21, 2007<sup>4</sup> and the law was scheduled to take effect on September 1, 2009. The number of PIT taxpayers were expected to increase substantially and the MoF/GDT saw a need for developing as interim PIT compliance management tool a special IT system for PIT administration.
- **The GDT informed the Bank on their decision to develop PIT-IT system.** During the first supervision mission in May 26-June 6, 2008, the GDT informed the task team; (i) their decision to procure an IT system specifically to handle the PIT in response to the enactment of the PIT law; and (ii) a comprehensive work plan for PIT-IT system; and (iii) implementation was on schedule. This PIT-IT system was also to be funded entirely by the government budget.
- **The Bank and the GDT discussed possibilities to mitigate the risk of a duplication with TAMP's Integrated Tax Administration Information System (ITAIS).** ITAIS was to cover all the taxes including PIT. The Bank openly asked the GDT whether to develop government-funded PIT-IT system or choose ITAIS. The GDT emphasized their wish to continue developing PIT-IT system. The discussion did not reach a solution but the Bank agreed with the GDT to develop a basic PIT-IT system as an interim solution to cover only immediate PIT administration needs and to continue with the procurement of ITAIS as the final integrated IT solution.

***Stage 2: Delays in procurement (from early 2008 to June 2011)***

16. **TAMP suffered from various procurement delays since project effectiveness.** Events resulting in procurement delays are summarized below:

<sup>2</sup> The IDA financing agreement was signed on March 29, 2008 with a closing date of June 30, 2013.

<sup>3</sup> Effective conditions included: (i) Co-financing PHRD Grant Agreement was signed; (ii) Computerized accounting software was installed at the PMU office's computer; and (iii) The GDT (not MoF) adopted a Project Implementation Plan (PIP) including a TAMP plan of actions, the Financial Management Manual, and regulations on structure and operations of TAMP's PMU.

<sup>4</sup> Law No. 04/2007/QH12

- Internal approval processes in the MoF/GDT were more time-consuming than expected. Procurement related documents, including procurement plans, bidding documents and consultant contracts, were first drafted by the PMU and then reviewed by functional units within the GDT. Procurement was cumbersome and some packages were valued at above the threshold requiring several review steps before final submission to the Bank for its no objection issuance.
- WB issued no-objection letter to General Procurement Plan (GPP) and 18 month Procurement Plan on July 24, 2008. The GDT submitted these plans to the MoF on August 26, 2008. MOF finally approved the Project Implementation Plan (PPP) on December 5, 2008. MoF started review on the GPP and 18-PP based on the PPP. In consequence, several procurements had to be delayed. The GDT finally requested the Bank for no-objection on Nov. 12, 2008, and the Bank provided no-objection on January 23, 2009.
- Gradually GDT requested removing a number of consultancy packages such as anti-corruption strategic planning consultancy, tax administration law and guidelines consultancy, from the project. This was partly due to delays in the procurement of these packages, primarily however because the GDT had been able to solicit grant or in-kind technical assistance from other donors for these activities, in particular from JICA, the IMF, and USAID.
- Project management capacity remained weak as several PMU positions including procurement consultants remained vacant for almost two years. This was due mostly to the low salaries offered.
- **Drafting of the ITAIS bidding documents took longer than expected.** This was due to various events as summarized below:
  - A consulting firm prepared a first draft of the ITAIS bidding documents for the GDT during project preparation. The draft was completed in April 2008. However, the GDT regarded the documents to be overly complex and inappropriate for their need. Redrafting of the bidding documents started in mid-2008.
  - The GDT's decision to redraft ITAIS bidding documents required a competent international IT procurement expert to work closely with the GDT/PMU. This recruitment was completed in March 2009. However, the GDT decided to terminate the consultant's contract in May 2009, due to disagreements between the two parties on the consultant's responsibilities and deliverables. The GDT therefore had to start a new recruitment process with the new contract finally signed in late July 2010. **The recruitment of IT procurement expert took almost two years. By then, it became clear that both procurement and deployment of ITAIS could not be completed within the five-year project implementation period.**
  - Numerous mistakes were made in the translations of the bidding documents from English into Vietnamese. Both the government and the Bank therefore required extra time to review and correct errors.
  - The PMU requested modification to the ITAIS bidding documents to expand the specifications for the business process re-engineering component in November 2009.
  - The GDT/PMU and the Bank took a long time to agree on issues such as firm qualifications, price weight, and bid evaluation methodology. **The disagreement created tensions between the task team and the procurement team, and between the task team and the GDT/PMU staff. Frustrations over procurement process built up.**
  - Government PIT-IT project and TAMP were managed by two separate units in the GDT during this period, and continued to be implemented in parallel. In January 2010, the Bank and the GDT agreed that the ITAIS would be developed for all modules as designed except for the PIT one. Revision to the ITAIS bidding documents and obtaining Bank's no objection to the revised documents became necessary.

- Different from standard international practice the State Budget Law of Vietnam had assigned responsibility for managing taxpayer accounts to the Treasury instead of the GDT. The government needed to decide whether to use the process computerization as an opportunity to align the system with international practice and to modify the law and transfer the responsibility to the GDT, or to add the requirement providing access to the ITAIS module on taxpayer accounting to the Treasury (January 2011).
- The rework of the ITAIS bidding documents took almost one and a half year. The GDT submitted bidding documents to the Bank three times<sup>5</sup> before the Bank could issue its no objection on July 22, 2011.

17. **During this period, the ITAIS Discovery Workshop was organized to expedite ITAIS procurement.** The discovery workshop held in May 2009 provided an opportunity for the GDT to deepen their knowledge of IT and available Commercial-off-the-shelf (COTS) information systems for tax administration to facilitate the drafting of the ITAIS bidding documents. The workshop invited four solution providers<sup>6</sup> and facilitated sharing of information and knowledge with GDT officials. It was regarded highly useful for both the GDT and solution providers to better understand the requirements of the government as well as market availability.

***Stage 3: Procurement delays leading to legal amendments (from June 2011 to September 2012)***

18. **A Mid-term Review (MTR) attributed the lack of progress resulting in low disbursement<sup>7</sup> to time-consuming preparation of the ITAIS bidding documents.** The review, conducted from June 20 to July 1, 2011, further highlighted that TAMP was one of ten problem projects in the World Bank portfolio in Vietnam. Despite implementation challenges, the MTR concluded the original PDOs were still relevant; however it was no longer seen feasible to achieve these PDO in the initially planned project implementation period. While some key indicators towards PDOs were achieved, the MTR concluded that these achievements could not be attributed to TAMP. **As a result of the MTR, both IDA financing agreement and PHRD grant agreement were amended on September 19, 2012 to** (i) adjust project activities, (ii) amend conditions for disbursement, and (iii) extend project closing date to May 30, 2015 from June 30, 2013.

***Stage 4: Continued delays during and after restructuring (from April 2012 to June 2014)***

19. **In spite of continued delays, TAMP made some progress as follows:**

- The MoF approved the issuance of the ITAIS bidding documents on April 24, 2012.
- In September 2012, the MoF/GDT management visited the Chilean Internal Revenue Service and the World Bank Headquarters to learn from international experience in tax administration reform and deployment of a complex IT solution. In June 2013, the MoF/GDT visited Russia and Hungary to study their experience in managing tax administration modernization programs.
- The GDT/PMU organized seminars on the role of TAMP and comprehensive performance indicators for tax administration reform during 2012, risk management and change management seminars during 2013, and procurement workshop during 2014 to explore options for fast-tracking the ITAIS procurement.

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<sup>5</sup> The GDT submitted the ITAIS bidding documents to the Bank the first time on March 2, 2010 when the Bank responded with comments on April 28, 2010. The GDT resubmitted the bidding documents on September 15, 2010, and the Bank provided comments on December 1, 2010. The final version was submitted on June 27, 2011, and the Bank issued no objection on July 22, 2011.

<sup>6</sup> System integrators and firms that did not provide adequate evidence on their eligibility to bid on contract of size and complexity as that of the ITAIS were excluded.

<sup>7</sup> After 36 months, TAMP only disbursed 0.3% of funds (US\$ 230,333 million).

- In January 2013, after long delay, requests for expressions of interest were published for three consultancy packages<sup>8</sup>.
- The GDT submitted a bid evaluation report (BER) to the Bank for the first stage the ITAIS procurement on March 13, 2013 and received a conditional no objection on June 24, 2013<sup>9</sup>. The MoF approved the second stage ITAIS bidding documents and submitted to the Bank for no objection on January 10, 2014.

20. **TAMP continued to face procurement delays.** Accordingly, the project was extended for 23 months with a new closing date on May 30, 2015.

- By January 2013, the GDT received complaints from the first-stage bidders. Complaints included (i) eligibility criteria, (ii) handling of the bid extension process, and (iii), interpretation of the financial stability requirement. Subsequently, the GDT extended the bid closing date, further requiring time to complete the ITAIS bid evaluation report.
- The MoF needed additional time to approve the General Procurement Plan and the Revised Feasibility Study. Obtaining MoF's approval for consultancy packages required extra time (January 2013).
- The MoF issued Decision 393, regarding procurement implementation of goods and consultants for the projects under the MoF using World Bank funding, on March 1, 2013. The Bank prepared a Memorandum of Understanding (MoU), which was aimed at improving MoF's project management and procurement supervision.

***Stage 5: Considerable progress in the government-funded PIT-IT system led to project cancellation (from June 2014 to March 2015)***

21. **The mission was officially informed by the GDT that the development of the PIT-IT system had been successful.** During the 12<sup>th</sup> and the last supervision mission in June 2-10, 2014, the mission was asked to visit several local offices and the GDT showed the progress made in the government-funded PIT-IT computerization in their pilot offices. The local GDT offices had demonstrated that the system had the potential to be developed further into a comprehensive IT system for tax administration (Tax Management System - TMS). The mission concluded that this PIT-IT/TMS system could duplicate the ITAIS.

- (i) TMS was an integrated tax administration system based on a COTS package that incorporated a number of functions that were meant to be part of the ITAIS; TMS included seven types of tax collection modules;
- (ii) TMS could be enhanced to meet GDT's requirements to modernize its tax administration;
- (iii) continuing the ITAIS procurement would result in system duplications; and
- (iv) the major value-added of Bank support in this situation would be to change the approach from developing a new integrated tax administration information system to assisting in completing the TMS, in particular by providing support to develop missing modules in TMS.

22. **It became apparent that there was no room for TAMP to be restructured with the cancellation of the ITAIS procurement package.** The MoF, therefore, requested the cancellation of the ITAIS and three related consultancy packages on September 17, 2014 as a requirement for overall TAMP cancellation. The consultancy packages included (i) project and change management and ICT quality

<sup>8</sup> These were QCBS packages; (i) ITAIS's contract management and quality assurance and project change management, (ii) compliance and risk management capacity enhancement, and (iii) undertaking periodic surveys on the project performance feedback from taxpayers and tax offices.

<sup>9</sup> First stage bid evaluation report (BER) was submitted to the Bank on March 13, 2013 and the Bank provided its response on April 4, 2013. Revised BER was submitted on May 5, 2013. The Bank issued a conditional no objection on June 24, 2013. Conditions included correcting inconsistencies between individual bidder addenda and the general addendum, addressing change in evaluation methodology, and reflecting changes in a number of hardware requirements and the cost estimates.

assurance for the implementation of an ITAIS (US\$ 3.961 million); (ii) capacity building for compliance risk analysis and management in tax administration (US\$1.078 million); (iii) undertaking periodic surveys on the project performance feedback from tax payers and tax officers (US\$0.429 million). The MoF requested officially on March 17, 2015 for the World Bank to cancel the project with an amount of the IDA credit equal to Special Drawing Rights (SDR) 51,373,000, and an amount of the PHRD grant equal to US\$ 4,100,000. Since then, the undisbursed funds from the PHRD were returned to the Bank after the grace period. As of September 21, 2015, the project disbursed the amount of IDA US\$530,045. 27 or SDR 378,007.05 (0.72 percent of total IDA amount for the project) and PHRD grant US\$ 800,198.40 (16.0 percent of total PHRD grant for the project).

### 3. Assessment of Bank Performance

Rating: Unsatisfactory

#### 3.1 Quality at Entry<sup>10</sup>

23. **The task team conducted sound sector analyses and consulted with key stakeholders.** As part of the project preparation, the task team, in coordination with the GDT and other donors, reviewed the government's tax administration reform strategy and analyzed its tax administration reform needs and obstacles. The team also reviewed existing tax policies, legal framework, tax administrative systems and IT needs. These analyses provided an in-depth understanding of challenges in tax administration facing Vietnam. The team held a series of discussions with senior MoF and GDT officials and defined project scope and activities in project components. Through these discussions, the MoF/GDT acknowledged their commitment to tax reform and supported TAMP as a key project to advance tax reform in Vietnam. Discussions were also held with donors to harmonize and align the Bank's support with their initiatives in tax administration reform in Vietnam. TAMP project design clearly reflected Vietnam's tax administration reform needs and other donors' support in this area.

24. **TAMP reflected international good practices in tax administration at the time of design (2005-2007), but the project was packaged with a single large procurement package, which was operationally challenging.** The Bank saw an opportunity for strategic value addition in supporting the government's tax administration reform strategy. Accordingly, TAMP was designed with the objectives of strengthening governance in tax administration and increasing the level of tax compliance. Component one (institutional development), two (operational modernization) and four (project management) were designed with activities that would strengthen institutional capacity of the GDT and to build efficient and equitable tax administration systems. Component three (IT development) supported the installation and the roll-out of a tax IT platform and in building institutional IT capacity. This component was designed based on international good practices of installing a comprehensive IT system instead of installing a multiple "siloes" system. Many tax administration agencies around the world had suffered from inefficiency with multiple tax administration IT systems that supported a single tax type with limited functionalities. To improve the administrative efficiency, TAMP designed an integrated tax IT system or ITAIS that comprised *all functionalities*<sup>11</sup> for tax administration to support *multiple tax types*<sup>12</sup>. The scope of this integrated tax IT system approach was fully supported by the GDT. In addition, Component three incorporated business process re-engineering and change management aspects, which were often neglected in other projects. To install an integrated system, ITAIS was packaged with a single procurement item which comprised of 75 percent of total financing. Both the economic and financial analysis assumed smooth contracting of the

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<sup>10</sup> The project was conceptualized in early 2006 and the decision meeting was held on January 16, 2007. Following the decision meeting, project was appraised on January 17, 2007.

<sup>11</sup> These included tax registration, returns processing, payment processing, refunds processing, taxpayer accounting, assessments, compliance/delinquency control, collections, audit and inspection, appeals, revenue accounting, and taxpayer services

<sup>12</sup> These included VAT, CIP, PIT, Excise tax, licenses and other new taxes

ITAIS procurement package within the project period, with an estimated financial IRR of 51 percent and an economic IRR of 73 percent. A single large procurement package can be executed, though the complexities inherent in such a package require careful and capable management. As a note, no specific activities were implemented for environmental, poverty, gender and social development aspects, as it was not directly relevant to the project.

25. **Recognized as a high risk project, the Bank could have provided more rigorous preparatory support to the MoF/GDT.** First, ITAIS bidding documents could have been drafted with higher quality before project implementation began. The Borrower used a Bank-funded trust fund to hire a well-recognized consulting firm to draft the initial ITAIS bidding documents. However, the output turned out to be overly complex, and therefore, the GDT requested that it be redrafted. While it is common to hire a consulting firm to draft bidding documents, the Bank could have communicated better with the consulting firm to ensure the quality and relevance of the bidding documents and could have reflected the GDT's needs. Second, an IT procurement consultant could have been recruited during project preparation. The GDT/PMU took almost two years to recruit the final IT procurement consultant due to the failed initial attempt of a first consultant and the PMU's unfamiliarity to the Bank procurement procedures (See paragraph 16). The expertise of an IT procurement consultant was critical in capacitating the GDT to undertake the ITAIS procurement, and the consultant's role became even more critical after the GDT decided to redraft the bidding documents. Third, the Bank could have provided more training to the PMU during project preparation to familiarize themselves with Bank's procurement procedures. While the GDT-recruited consultants' performance may be beyond the Bank's direct management, TAMP heavily relied external consultants and consulting firms on the initial and critical tax IT procurement. This made the Bank difficult to adjust the project implementation schedule when TAMP faced with low quality or relevance of external consultants' outputs. In hindsight, the Bank could have supported the GDT/PMU to strategize TAMP procurement and analyzed i) what procurement items (goods, services and key human resources) could be deployed in-house and needed to be outsourced, and ii) what activities needed to be done (e.g. training, pre-draft) before the project officially started. In addition, the associated risks to the outsourcing of procurement tasks should have been fully recognized and adequate mitigation measures should have been taken. This was particularly important for TAMP, which had a tight implementation schedule and with a single large procurement item. In any case, the Bank could have placed more effort in providing preparatory support to the GDT/PMU to build their capacity in project management, and ensure the quality and relevance of outputs from external consultants.

### *3.2 Quality of Supervision*

26. **The task team conducted regular semi-annual supervision missions, and provided support to the GDT/PMU, but these missions narrowly focused on procurement delays.** Throughout the project implementation, the task team leadership and the team composition remained more or less the same. The team conducted regular supervision missions once every six months with a total of 12 missions including a MTR mission. The team was aware of implementation delays since the second supervision mission and recorded these delays, slow disbursement, and the team's response in the Implementation Status and Results (ISRs) and Aide Memoires and flagged these issues to the management. The Bank supervision missions made significant effort to support the GDT by identifying key steps and setting six-month timeline for all procurement packages. Unfortunately, these milestones slipped constantly. The missions also constantly explored the overall reform environment for ITAIS implementation and tried to ensure the MoF/GDT's commitment to still proceed with the ITAIS as the primary tax IT solution for Vietnam tax reform program. To this respect, the Bank's supervision missions, including the task team and the management, frequently requested meetings with the Vice Minister of Finance to clarify senior MoF management position on TAMP implementation. The missions also regularly tried to get updates on the status of PIT computerization, however, the Bank was not able to obtain adequate information on the development status of the government PIT computerization. The task team, therefore, focused on procurement delays and response to these delays without a clear understanding of PIT-IT development and surrounding political economy.

While the ITAIS implementation was hugely behind schedule, the team supported the MoF/GDT officials to gain in-depth knowledge on IT-enabled tax administration and procurement. Various tax administration seminars and study tours to Chile, Hungary, Russia and the Bank headquarters were organized (see paragraph 19), and the knowledge obtained through these activities became useful for the GDT to accelerate its development of the PIT-IT system.

27. **The Bank was not able to obtain adequate information on the development status of the government PIT-IT system and the lack of information forestalled the Bank's consideration of possible suspension, early cancellation or restructuring measures.** The Bank recognized the GDT's initiative on PIT-IT system development since the first supervision mission in June 2008. The Bank discussed with the GDT/MoF several times how to align the PIT-IT and ITAIS. In 2008, the Bank and the GDT agreed that the ITAIS bidding documents were to include the PIT. At this time, the government initiative was regarded as an interim solution to cover only immediate PIT administration needs and to continue with the procurement of ITAIS as the final integrated IT solution. However, the GDT affirmed their clear intention to develop their interim PIT-IT system regardless of TAMP implementation. In 2010, the GDT requested the Bank the ITAIS bidding documents would exclude the PIT. Throughout the project implementation period, the Bank was not able to obtain full information on the development of the PIT-IT system, despite the Bank's candid and repeated requests to the GDT/MoF for information. The Country Director had visited the Minister and Vice Ministers of Finance numerous times to discuss challenges facing TAMP. Several management letters were sent to the MoF addressing procurement delays. The Bank had also proposed signing an MOU to pledge improved management of procurement and accelerated project implementation through an establishment of a project coordination and supervisory committee chaired by the Minister of Finance or a senior level official. It was only at the 12<sup>th</sup> mission in 2014 when the GDT allowed the Bank team to visit several local tax administration offices where the team learned the full deployment of the government PIT-IT/TMS. Because of the lack of access to complete information, both the task team and management did not fully understand the core reasons causing the TAMP procurement delays. While the Bank could have been more upfront with the MoF/GDT with their reasons not to disclose key information, it had to be dealt sensitively to the degree that did not aggravate the Bank-government relations.

28. **The Bank was not able to coordinate other development partners (DPs) support and clarify with the MoF/GDT on their reform priority jointly with other DPs.** As in 'the Bank's rationale for involvement', the Bank intended to coordinate DPs' tax reform initiatives at the GDT (see Paragraph 5). Since the Bank did not have fully updated information from the GDT, the Bank communicated with relevant development partners rather individually and tried to sort out areas of duplications. However, the Bank was not successful in engaging with DPs in a coordinated manner to tackle the issue on the implementation of parallel tax IT systems. Even though the Bank had the information on the PIT-IT implementation at early stage, the Bank did not have a joint policy dialogue with all the relevant DPs and the MoF/GDT. The Bank, together with the DPs, could have jointly discussed with the MoF/GDT on their future direction of tax IT in relation to the overall tax administration reform.

29. **Recognized as a high risk project, the Bank could have strengthened oversight of the TAMP operations.** As mentioned above, the Bank management held frequent discussions with senior government officials, sent management letters to the government. The management even allocated increased supervision funds to the project to increase an oversight. However, it seems that the increased attention was only provided after the TAMP was recognized as a problem project in the Bank portfolio in Vietnam. The management could have placed more attention to oversee this high risk project from the early stage. For example, the readiness of the TAMP implementation could have been rigorously assessed, the quality of risk mitigation measures could have been reviewed, and the resources for the Bank's preparatory and implementation support to the GDT/PMU could have been prioritized. In addition, while a mission every six months may be adequate in regular investment project financing (IPF) projects, management's implementation oversight could have been strengthened by monitoring the high risk project status and

taking appropriate actions as needed. For example, the management could have suggested to increase the frequency of supervision missions or reviewed the quality of day-to-day support provided by the country office based staff and made recommendations. Moreover, other actions such as conducting frequent political economy assessment, increasing communications with the task team, and changing operational structures could have been initiated.

30. **While the Bank supported establishment of TASC, further support should have been provided to operationalize TASC as a decision making body.** During preparation, the task team provided some support to the MoF/GDT in establishing project governance bodies through a Japan PHRD grant. The MoF/GDT established the Tax Administration Steering Committee (TASC) which was intended to provide overall guidance on tax reform policies and discuss issues arising from the project. TASC was represented by high level officials in the MoF and GDT and was expected to provide policy coordination and oversight of the project. Also, this was the key governance body to ensure high level official commitment to the project. However, this body did not seem to operationalize well as expected. The task team failed to recommend a strengthening mechanism for this body to effectively oversee TAMP after the project was approved. While the diminishing role of TASC was politically driven, a restructured TASC or its effective replacement could have been an appropriate platform to discuss TAMP's emerging issues such as parallel implementation of ITAIS and the PIT-IT system, as well as procurement delays and institutional coordination issues between the MoF and the GDT.

31. **The Bank could have coordinated the procurement process among different parties.** This includes the GDT/PMU, the task team and the procurement team. Each party had different views in the technical and functional specifications of ITAIS, the bid evaluation criteria, and the responsibilities relating to fiduciary risk. The process of reaching an agreement which conformed to the Bank's procurement policies became overly protracted, due to poor coordination internally and with the GDT/PMU. The complexity of the bidding documents also contributed to the delay. The ITAIS bidding documents and the bid evaluation reports were revised multiple times, leading to strained relations between the GDT/PMU, the task team, and the procurement team. The review process took almost a year and half. The lack of unified understanding of the government's PIT-IT system was also a source of tension, leading to heated debates among the Bank team on technical aspects of the procurement. Moreover, this negatively affected the Bank-government relations. In hindsight, the Bank could have placed more emphasis on coordination among different parties to identify fundamental causes that created difference in views.

32. **The overall Bank's Performance is rated as unsatisfactory.** The TAMP was designed to reflect international good practices in tax administration. The project was rated as high risk due in part to its design, yet the Bank did not have proper risk mitigation measures in place. The Bank was not able to manage materialized risks, and disbursement remained low. The Bank could have invested more time and resources during preparation, and could have managed project implementation process more carefully. Overall ratings of the project in ISRs should have been rated as *unsatisfactory* rather than *moderately unsatisfactory*, particularly after 2012 for both progress towards achievement of development objectives and implementation progress.

#### 4. Assessment of Borrower Performance<sup>13</sup>

Rating: Unsatisfactory

##### 4.1 Government Performance

33. **The MoF/GDT continued to be committed to tax administration reform, and they made the decision to implement the PIT-IT system, but their ownership of TAMP gradually waned as the PIT-**

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<sup>13</sup> The views on the borrower performance are different between the Bank and the borrower. See Annex 5 for details.

**IT system developed.** Initially, the MoF/GDT showed strong ownership towards TAMP. The project was designed to support the government Tax Administration Reform Program 2005-2010, which was approved by the Politburo and the Prime Minister. The MoF/GDT took an initiative to prepare TAMP scope and activities in close discussions with the Bank and established an internal process to manage the project within the GDT. At the same time, the government made the decision to implement the PIT-IT system in the context of the implementation of the new PIT law, funded through an allocation of state's annual budget, just after the TAMP became effective. To manage the implementation, the MoF/GDT assigned two separate units to lead; the IT Department to manage the PIT-IT project and the Project Management Unit (PMU) to manage TAMP. The Bank agreed with the MoF/GDT's initial decision to develop an interim PIT-IT system to meet urgent management needs and to integrate it in ITAIS in the near future. However, the parallel implementation of the two initiatives induced the MoF/GDT to shift their development focus to the PIT-IT system rather than integrating the PIT-IT system into the ITAIS.

34. **The MoF/GDT did not provide up-to-date information to the Bank on the government's PIT-IT system, yet continued to implement TAMP in parallel.** The Bank made frequent requests for information and the MoF/GDT and the Bank had series of discussions, both technical and management level, to find alignment between the two tax IT systems and their implementation. However, the Bank was not kept updated on the status of the PIT-IT system and how its development affected the implementation of TAMP. The MoF/GDT were also reluctant to disclose information to the Bank on donor support they planned to receive. Subsequently, the GDT secured in-kind or technical assistance from other donors for activities to be supported by TAMP. Over time, the engagement between the GDT and the Bank became more for the GDT to gain knowledge from TAMP to better implement their PIT-IT system, while keeping TAMP as an interim fall back option. While their rationale remains unclear, the MoF/GDT, only at 12<sup>th</sup> mission, disclosed the information on the development status of the PIT-IT system after the system was fully developed, which led to the project cancelation. As a result, TAMP was kept operational almost seven years with a less than 1 percent disbursement rate.

35. **The procurement review process was cumbersome and took a long time for the MoF/GDT to discuss, particularly in the context of aligning the two tax IT systems.** The MoF/GDT had to comply with the Procurement Law and the very complex nature of ITAIS package required several additional approvals. Large contracts drafted by the PMU were first reviewed by each functional unit in the GDT, by multiple functional MoF units, and several managements. Exchanging information, review, holding discussion and reporting to all levels before the approval required a long time<sup>14</sup> particularly when the alignment between the ITAIS and PIT-IP systems were needed. Their review process remained extremely lengthy<sup>15</sup>, despite the Bank's frequent request to streamline the process. For example, large contracts cleared by the Bank were reviewed again by the MoF, thus necessitating an additional and subsequent Bank clearance. The MoF and the GDT were also taking a longer time in their approval of procurement plans, which affected the timely processing of various contracts. In hindsight, the MoF/GDT did not have enough incentive to streamline their review process when discussions were needed to align the two tax IT systems.

#### 4.2 *Implementing Agency Performance*

36. **Out of six covenants set in the financing agreements, the GDT complied with five covenants by the due date.** One of the covenants referred in Schedule II, Section V. 1 "to put into effect throughout the GDT of revised and re-engineered core business processes" was due on December 1, 2010, but remained as "partially complied with" in the Bank ISRs throughout the life of the project. This was because at the time of project design, contents of the business process re-engineering were placed in Component 2, and after the project effectiveness, the contents were to be placed in the procurement of hardware and ICT software system in Component 3, which was agreed by the GDT and the Bank. Another covenant referred

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<sup>14</sup> On average, the review process took at least 20 days at each office.

<sup>15</sup> It seems that a recently completed PFM project in Vietnam managed to streamline review and approval process, and was led by one Vice Minister.

to in Schedule II, Section I.4 “for the GDT to engage an international ICT expert and TORs acceptable to IDA” was complied by due date but recruitment of the first consultant failed and the GDT undertook a re-hiring process. This covenant was fully complied in July of 2010. The GDT complied with fiduciary requirements, though there were occasions that financial and audit reports were submitted after the due date.

37. **The PMU took strong ownership over TAMP, but the parallel implementation of the two IT systems exhausted their capacity.** The PMU was new to Bank operations and required some time to build project management capacity and comply with the Bank’s operational policies. A number of key positions in the PMU – including procurement - remained vacant for some time due to the low salary posted for these positions. Unfilled positions and a lack of familiarity with the Bank’s policies affected the speed of drafting ITAIS bidding documents and other consultancy packages. The PMU’s initial weak institutional capacity contributed to some of the implementation delays – in particular with the recruitment of an IT procurement consultant - which in turn triggered multiple delays in completing bidding documents. In addition, the PMU faced delays in submitting financial and audit reports, though these delays did not affect project implementation significantly. Nevertheless, the PMU’s initial weak capacity does not seem to be a major contributing factor in cancellation of the project. In fact, the PMU maintained strong ownership in TAMP implementation throughout the life of the project. Over time, the PMU staff became familiar with Bank procurement requirements and fiduciary procedures, came to understand the Bank’s rationale for technical comments provided to their draft contracts, and built their capacity to manage the project. They also maintained close communication with the Bank and the GDT.

38. **Borrower Performance is rated as unsatisfactory.** The government was committed to tax administration reform and initially regarded TAMP as a key means of achieving their reform objectives. However, political decisions made to implement the government’s PIT-IT system in parallel with TAMP affected GDT’s implementation capacity. Ownership towards TAMP gradually deteriorated, the role of TASC diminished, and review processes were not streamlined. Moreover, the MoF/GDT did not adequately disclose the status of PIT-IT development to the Bank, nor disclose the support it was receiving from other donors on tax administration reform. The PMU’s capacity was initially weak, but their ownership was high and capacity was built up over time. Overall ratings of the project in ISRs should have been rated as *unsatisfactory* rather than *moderately unsatisfactory*, particularly after 2012 for both progress towards achievement of development objectives and implementation progress.

## 5. Lessons Learned

### 5.1 *Bank’s expertise in tax administration projects*

39. **The Bank should consider whether the Bank has the right expertise in house to design, manage and implement tax administration projects particularly with complex IT system.** Tax administration projects with complex IT system are often rated as high risk and are prone to significant delays and cost overrun. The Bank should assess carefully the appropriateness of the operational instrument, coordinate with other development partners and jointly discuss with the borrower, support the borrower’s effective policy and operational coordination mechanism, and make sure the team is comprised of right expertise. Key lessons as described as below.

40. **The Bank should assess the appropriateness of the operational instrument before embarking on tax administration projects.** TAMP used Investment Project Financing (IPF) as a financing instrument and suffered from the materialized risks in political economy, procurement, and IT. The Bank should carefully consider the appropriateness of support, whether Technical Assistance (TA) or Advisory Services and Analytics (ASA) would be more appropriate to support project development objectives, or whether financing instrument - either IPF, Development Policy Financing (DPF) or Program for Results (PforR) -

are more appropriate. If financing was nevertheless considered as the best option, the Bank may first consider PforR for these types of operation<sup>16</sup>. PforR can help borrowers improve design and implementation of their administrative reforms by sequencing activities, and disbursing upon achievement of program results instead of focusing on implementation of IT procurement. Alternatively, the Bank may consider DPF for supporting broader policy and institutional reforms, and incorporate tax IT-related reforms as policy actions. When choosing an instrument, the Bank needs to assess its limitations and adjust project scope as appropriate. The Bank should also determine if these instruments are operationally feasible and still add value for Bank and borrower alike. In addition, these projects should be accompanied by risk mitigation measures such as i) having tighter oversight to the operational teams (e.g. increased number of supervision missions, strengthened local office day-to-day support, and more frequent reporting to management); ii) conducting periodic political economy and monitoring operational risks periodically; and iii) actively taking appropriate measures as the risks materialize.

41. **The Bank should engage sufficiently with other development partners (DPs) who are supporting the borrower on the same development challenges in tax administration, and jointly communicate with the borrower on overall direction of the reform.** The Bank, the leading development agency, is in a position to partner with other DPs to better coordinate aid and to more effectively achieve development goals of borrowers. However, the Bank did not manage to coordinate DPs support in tax administration and communicate with the GDT in a harmonized voice. The Bank should sufficiently engage with all the relevant DPs, and coordinate existing activities (i.e. information sharing, discussions, coordinated planning, and active communication), harmonize future support, and discuss with the borrower jointly as a donor community on overall direction of the reform and how each DPs support can align with the government reform priority.

42. **The Bank should support the borrower in establishing effective coordination mechanisms that inform tax administration policy and guide project operation.** This is particularly important when an implementing agency has special relations with a central ministry. Tax agencies usually are given the autonomy to manage tax administration from the central finance ministry. The degree of a finance ministry's controls and managerial responsibilities over tax administration vary between countries. Tensions frequently exist between finance ministries and tax agencies. The Bank's support towards tax administration projects must take these institutional sensitivities into account and place greater emphasis on establishing effective management structures that coordinate these two institutions. First, it is important to involve a finance ministry from the early stage to build their ownership to provide project oversight. In doing so, it is important to clarify roles and responsibilities in project management between the finance ministry and tax agency. Second, these projects should provide greater support towards sustaining coordination committees. For example, a high level *oversight committee* should actively operate throughout the project implementation period. This type of high level committee should be attended by senior management from both a finance ministry and tax agency and discuss up-to-date tax policies, tax reform programs, and provide guidance to the project. A mid-level *management committee* should regularly meet and provide guidance on day-to-day project management issues that require immediate attention. This type of committee should ideally be led by the head of the tax agency and should include government officials in IT, legal, heads of operational units, tax enforcement specialists, and heads of regional tax offices. Equally important, projects must ensure that issues discussed at the management committee are reported to an oversight committee or vice versa.

43. **The Bank management should make sure that the team is comprised of the right staff with right expertise to support complex tax IT operation.** Tax administration projects with complex IT system require specialized knowledge to respond to borrowers' needs, particularly in IT and procurement beyond tax administration reforms. These projects, for example, should ideally be comprised of staff with backgrounds in economics, tax administration, political economy, change management, business process,

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<sup>16</sup> PforR did not exist at the time of TAMP's project design in 2005-2007, and thus PforR was not an option.

ICT, tax IT, IT procurement, fiduciary, legal and others. These multi-disciplinary specialists must work as a unified team to implement the project and support the borrower to achieve project objectives. However, multi-disciplinary specialists often have different views and languages in their expertise and can cause misunderstanding when working together as a team, and can be particularly difficult if not physically work in the same geographic location. The management should seek the right expertise through the current Global Practice set up and provide incentives for staff from different expertise to work together effectively. During implementation, the management should also actively assess the current team compositions whether or not the team is providing the right expertise and take appropriate actions as needed.

### *5.2 Specific to IT procurement (when using IPF)*

44. **The Bank should assess if tax administration projects with complex IT system can be completed in seven-year project period, taking into account procurement delays that may occur.** These projects require managing IT procurement including drafting complex bidding documents, deployment, piloting and roll-out. In addition, they require business re-engineering and change management. In most cases, these projects do not complete within five-year project period and require two years of extensions. To mitigate the risk of schedule overrun, the Bank should carefully assess the level of complexity and the time requirements during project design stage. It is also important to review borrower's ownership, management capacity and internal process steps, and assess if these elements may affect project implementation schedule. After project becomes effective, the management should actively monitor the project implementation schedule and take appropriate measures to respond to potential schedule over run.

45. **The Bank should conduct comprehensive assessment on IT market, procurement and the review process, and agree with the borrower before embarking on the project.** At the time of drafting ITAIS bidding documents, the GDT gained wider knowledge on the IT market and its procurement packages (i.e. ITAIS Discovery Workshop in May 2009). Even though the workshop provided in-depth knowledge on IT market to the GDT (and the tax IT requirements to the supplier), it could have organized during project preparation. In addition, the IT market provided technical updates in a short period and the GDT needed more time to determine appropriate IT system and revised the TAMP's bidding documents multiple times. Furthermore, the Bank and the GDT did not have a strategy to manage such technical change. For future engagements (if IPF is used as an instrument), the Bank should conduct comprehensive assessment of IT market and assess market ability to supply complex IT packages (e.g. hardware and software applications as well as the technical specifications) together with the borrower at early stage. The Bank also needs to communicate with the borrower on the procurement steps required for drafting complex IT bidding documents and explain how technical updates in IT markets (and subsequent revisions to bidding documents) in complex bidding documents will impact the procurement clearance and the rest of the project implementation.

46. **The Bank should consider if high-value procurement packages can be de-bundled and sequenced with quick-wins to minimize project risks.** Based on the international good practices of taking integrated approach at the time, TAMP allocated 75 percent of total project cost to the procurement of tax IT system as a single procurement package. Tax administration projects with IT designed with large procurement packages are now proven to be difficult to restructure when risks are materialized. In addition, managing large IT contracts can mount frustrations among stakeholders when they faced with delays without seeing any achievements. The Bank should carefully assess if the procumbent can be divided into several packages with appropriate technical requirements. Careful de-bundling of procurement packages and sequencing of those bundles will reduce project risks and allow the Bank to respond adequately when restructuring is needed. It would also provide quick-wins to the borrower to build reform momentum and confidence. Furthermore, it would mitigate risks associated with stakeholders' resistance of the integrated IT system to revert years of corrupt and un-transparent practice overnight. Whether or not such de-bundling makes technical sense needs to be carefully examined, but the Bank should review both pros and cons of having a single large package or de-bundled packages in these type of projects and discuss with the

borrower on associated risks. Governance Global Practice may collaborate with Transport and ICT Global Practice and other practices to take stock of their experience in procurement design and implementation.

47. **The Bank's procurement process must be streamlined to respond to clients in a timely manner.** A recent internal study<sup>17</sup> shows that the most time-consuming task in ICT procurement is the Bank review. The study indicates that clients acknowledge that bidding documents sent for the Bank's review are often incomplete or confusing, thus demanding several rounds of clarification and additional work before a "no objection" can be granted. While it is important for the Bank to mitigate fiduciary risks, balance must be maintained in order to provide clients with a response in a timely and clear-cut manner. Indeed, the objective of the procurement process should be to help clients execute project activities and improve the quality of contracts. Confusion exists due to the fact that the Bank's procurement guidelines do not necessarily provide sufficient detail for ICT procurement, and moreover the complexity in ICT contracts may create interpretive difficulties. Ambiguity exists regarding whether such interpretations represent uniform Bank-wide views, or individual, subjective, or ad hoc interpretations. Some clients may prefer the subjective criteria, allowing them more freedom in complex technical bids. However, it is important for the Bank to communicate uniform views and policies in ICT sector procurement, so as to ensure transparent and objective criteria. The on-going Bank's procurement reform should be able to address some of these issues. Governance Global Practice should work with other global practices to further streamline the Bank's procurement policies and process in ICT sector.

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<sup>17</sup> The World Bank, January 2014, Bottlenecks in ICT procurement in EAP: Main conclusions

## ANNEXES

### Annex 1. Bank Lending and Implementation Support/Supervision Processes

#### (a) Task Team members

Names	Title	Unit	Responsibility/Specialty
<b>Lending</b> (from Task Team in PAD Data Sheet)			
Duc Minh Pham	Senior Economist	EASPR	TTL
Michael Engelschalk	Senior Public Sector Management Specialist	PRMPS	Tax Administration
Tuan Minh Le	Senior Public Sector Management Specialist	PRMPS	Tax Administration
Hoi-Chan Nguyen	Senior Counsel	LEGEA	Counsel
Kofi Awanyo	Senior Procurement Specialist	EAPCO	Procurement
Thang Chien Nguyen	Senior Procurement Specialist	EAPCO	Procurement
Jennifer Thomson	Senior Financial Management Specialist	EAPCO	Financial Management
Quynh Xuan Thi Phan	Financial Management Analyst	EAPCO	Financial Management
Dung Thi Ngoc Tran	Team Assistant	EACVF	Team Assistant
Malcolm Lane	IT Consultant		IT Consultant
<b>Supervision</b> (from Task Team Members in all archived ISRs, if available)			
Duc Minh Pham	Senior Economist	GGODR	TTL
Michael Engelschalk	Senior Private Sector Development Specialist	GTCDR	Tax Administration
Tuan Minh Le	Senior Economist	GMFDR	Tax Administration
Enrique Fanta Ivanovic	Senior Public Sector Management Specialist	GGODR	Public Administration
Soren Davidsen	Senior Governance Specialist	GGODR	Governance
Malcolm Lane	IT Consultant		IT Consultant
GP Shukla	Tax Consultant		Tax Consultant
Kofi Awanyo	Lead Procurement Specialist	GGODR	Procurement
Kien Trung Tran	Senior Procurement Specialist	GGODR	Procurement
Robert Gilfoyle	Senior Financial Management Officer	GGODR	Financial Management
Pham Van Cung	Senior Financial Management Specialist	GGODR	Financial Management
Ha Thuy Tran	Financial Management Officer	GGODR	Financial Management

Quynh Xuan Thi Phan	Financial Management Analyst	GGODR	Financial Management
Hanh Thi Huu Nguyen	Financial Management Specialist	GGODR	Financial Management
Dung Thi Ngoc Tran	Program Assistant	EACVF	Administration
Phuong Minh Le	Program Assistant	EACVF	Administration
Linh Anh Thi Vu	Program Assistant	EACVF	Administration
Khanh Linh Thi Le	Program Assistant	EACVF	Administration

**(b) Staff Time and Cost** (from SAP) *[all fields are pre-populated by the system]*

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	US\$ thousands (incl. travel and consultants costs)
<b>Lending (by FY)</b>		
FY2006	13.72	92.1
FY2007	35.73	149.3
FY2008	11.59	27.2
<b>TOTAL</b>	<b>61.04</b>	<b>268.6</b>
<b>Supervision/NCO (by FY)</b>		
FY2008	14.73	136.6
FY2009	18.85	93.5
FY2010	12.25	78.0
FY2011	15.55	72.6
FY2012	12.45	80.4
FY2013	18.12	132.3
FY2014	20.37	139.7
FY2015	14.87	64.6
<b>TOTAL</b>	<b>127.19</b>	<b>797.7</b>

## Annex 2. Project Components

**Table 3. Project Components** (as approved)

Objective	Sub-component
<b>Component 1: Institutional Development (US\$1.2 million)*</b>	
<p>The objective of the component was, in close coordination with other donors, to support the implementation of the key requirements and instruments for good governance in tax administration.</p>	<p><i>Sub-component 1.1 Legal Framework Development and compliance Analysis.</i> The objective of this sub-component was to support the review of the Tax Administration Law and regulations and build capacity for compliance analysis.</p> <p><i>Sub-component 1.2 Anti-Corruption and Stakeholder Relations.</i> The main purpose of this sub-component was to support development and implementation of core elements of good governance in tax administration.</p> <p><i>Sub-component 1.3 Enhancing the GDT Management Information System.</i> This sub-component aimed at supporting the reforms in human resource management by providing assistance to enhance the management information system (MIS).</p>
<b>Component 2: Operational Modernization (US\$8.4 million)*</b>	
<p>The objective of this component was to enable the GDT to ensure a high level of voluntary compliance with the tax system. To reduce the compliance burden for taxpayers, it aimed to streamline processes and establish a service culture that responds efficiently to taxpayer service.</p>	<p><i>Sub-component 2.1 Taxpayer Services.</i> The objective of this sub-component was to establish the service related to the compliance management strategy. It aimed at reducing compliance costs for taxpayers and supporting improvements in the quality of private tax advisory services.</p> <p><i>Sub-component 2.2 Registration, Return Processing, Payments, Taxpayer Accounting, Tax Refunds.</i> The objective of this sub-component was to improve the registration process and the reliability of information in the tax register. It aimed at promoting new electronic systems for registration, filing and tax payments, which could have reduced both administration and compliance costs, and improved tax administrative capacity.</p> <p><i>Sub-component 2.3 Tax Audit and Inspection.</i> The purpose of this sub-component was to support the risk analysis and audit selection process, and improve the actual desk and field audit approaches. It aimed to develop tax audit capacity, which was a core compliance management function.</p> <p><i>Sub-component 2.4 Collection and Enforcement.</i> This sub-component aimed at strengthening collection and enforcement measures by developing and implementing a system, procedures, and managing the arrears.</p> <p><i>Sub-component 2.5 Dispute Resolution.</i> The objective of this sub-component was to support the development of an efficient administrative dispute resolution mechanism to guarantee taxpayer rights.</p>
<b>Component 3: IT Development (US\$70.3 million)*</b>	

<p>The objective of this component was to provide the IT support to all aspects of tax administration in the GDT. In particular, the component aimed at providing the computer and networking hardware, systems software, and tax application software and associated consulting services needed for tax administration modernization in the GDT.</p>	<p><i>Sub-component 3.1 Integrated Tax Administration Information System (ITAIS).</i> The objective of this sub-component was to provide the procurement and implementation of a proven (COTS-commercial-off-the-shelf or reusable) ITAIS and associated consulting services to support modernized tax administration operations in the GDT. ITAIS was designed to cover all the core functional areas of the tax administration including, but not limited to registration/de-registration, returns processing, payment processing, refunds processing, taxpayer accounting, assessments, compliance/delinquency control, collections, audit and inspection, appeals (objections), revenue accounting, and taxpayer services.</p> <p><i>Sub-component 3.2 Procurement, Installation and Testing of IT Hardware and System Software.</i> This sub-components was to provide the procurement, installation and testing of IT hardware and system software (operating system, database system, software development suits).</p> <p><i>Sub-component 3.3 E-Tax Applications.</i> This sub-component was to provide procurement and trainings of “e-tax” applications that support online registration, e-filing and e-payments, and online taxpayer services.</p> <p><i>Sub-component 3.4 Pilot Data Warehouse.</i> This sub-component aimed at providing a data warehouse pilot for the GDT to familiarize with the operation, tools, and capabilities of a data warehouse.</p>
<p>Component 4: Project Management (US\$4.4 million)*</p>	
<p>The objective of this component is to provide support advisory services and the necessary office infrastructure in the PMU, and activities managing organizational change at all level of the tax administration.</p>	<p><i>Sub-component 4.1 Project coordination. and administration.</i> The objective of this sub-component was to support advisory services and the necessary office infrastructure to assist the Project Management Unit (PMU) in implementing all aspects of the project including project management, procurement, FM and disbursement.</p> <p><i>Sub-component 4.2 Change management.</i> This sub-component was to support activities to develop and implement appropriate strategies for managing organizational change at all levels of the tax administration. This includes developing communication strategies to explain the rationale and potential impact of proposed changes to all managers, staff, taxpayers and other stakeholders.</p>

\*See Table 1 Financing Plan for the complete figure for the total financing required for the project

### Annex 3. Risk Analysis

**Table 4. Risk Analysis at the time of Appraisal**

Risk	Rating	Risk Mitigation Measures
<i>Project Development Objective</i>		
Internal and external agents who perceive a loss from the planned reform efforts may try to impede implementation progress through political or other means.	H	There is strong government and senior management support for the reforms. Also counteracting corruption is a high priority in the government's public sector reform program. Project will through active outreach activities and demonstrating the benefits of the reform for taxpayers build support for the project. Introduction of new business processes and computerization and integrity program will reduce opportunities for resistance.
Continuing high incidence of corruption impairs reputation of the Bank as reliable technical assistance provider.	M	The government is committed to improving integrity in revenue administration. A comprehensive strategy to reduce motives and opportunities for corruption will be put in place and supported by the project. In particular, the project will support the implementation of reforms reducing the discretion of tax officials and increasing the uniformity in the application of the tax system.
The GTD decision to embark on an overly ambitious computerization plan shifts focus of the IT reforms and marginalizes governance elements of the reform program.	H	The Project Implementation Plan (PIP) will lay down the proper sequencing of activities and technical advice. Extensive discussions have been held with the GDT about the governance and capacity building elements of the reform program, and the GDT management fully understands and supports the governance aspects of the reforms. The introduction of performance evaluation measures linked to improvements in governance, in particular the regular taxpayer feedback surveys, will create additional incentives for pursuing the governance elements of the reform.
Ongoing coordination between government's tax administration reform plan and World Bank project cannot be guaranteed.	M	The implementation arrangements for the project take into account the timing and sequencing of the activities included in the Tax Administration Reform Plan 2005 – 2010. In case of an update of the government's reform strategy, the GTD management will ensure coordination of implementation.
Counterpart funds required to implement the project are not allocated sufficiently or on time.	M	World Bank will seek early commitment from the MOF to make counterpart funds available throughout the implementation of the project.
<i>To Component Results</i>		
Lack of skills and willingness of tax administration staff to apply new techniques and procedures.	H	The project provides for significant investments in training capacity building and implementation of a targeted training program. A voluntary retirement program for non-trainable staff will be developed if necessary. To counteract staff resistance to change a comprehensive change management program will be supported by the project.
Improper sequencing of implementation of the multitude of highly interdependent project activities due to inadequate planning or delays in procurement.	M	The PIP makes adequate provision for sequencing of reform activities. Where interdependencies are present they have been highlighted and scheduled accordingly.
Dual subordination of tax offices to the GDT and to local governments impedes	M	The GDT's experience is that local governments typically support and facilitate the provincial and

implementation of anticorruption program.		district tax offices in fulfilling their operations in tax administration. In addition, the draft Law on Tax Administration provides detailed provisions on responsibilities of local governments with regard to tax administration and collection.
Complex multifaceted interdependence between activities under the IT components and other components of the project.	H	Teams composed of functional and IT specialists will be established and responsible for the development and implementation of the specific functional components.
PMU lacks of project management capacity.	S	The project, in particular through the project management component, provides sufficient training activities in the project management, procurement and financial management, to the project management team and finances to acquire appropriate consulting services, including those from permanent advisors for the project implementation, and short term consultants in the areas of the FM, procurement and disbursement.
Delays in acquiring or errors in selecting an appropriate ITAIS for the support of new tax laws and procedures.	H	Guidance to the GDT in the procurement process in advance during the project preparation will allow the GDT to understand the essential elements of any ITAIS solution. In addition, an early development of a sound Request for Proposal (RFP) for the ITAIS should facilitate the successful procurement of an IT package. Consulting assistance will be available for management of the IT component.
Overall Risk Rating	H	

Risk Rating: H (High Risk), S (Substantial Risk), M (Moderate Risk), N (Negligible or Low Risk).

**Table 5. New Risks and Risk Mitigation Measures**

New Risks	New Risk Mitigation Measures
Risk that the scope of the reform program with the complex interrelationship between individual activities exceeds the implementation and coordination capacity of the GDT.	Simplifying the project structure and reducing the total number of procurements required, while simultaneously taking measures to increase the capacity and efficiency of the PMU.
Risk of resistance from certain tax officials and taxpayers, as reforms reduce rent-seeking opportunities.	Ensuring that an efficient change management program is designed and launched early in the computerization process.
Risk of failures/delays in the ITAIS procurement process.	Adjusting the ITAIS implementation schedule in light of the delays encountered in the ITAIS procurement process.

## Annex 4. PHRD Financed Activities

**Table 6: Detailed descriptions on the PHRD funds**

<b>Component</b>	<b>Contract Description</b>	<b>Contract Currency</b>	<b>Contract Amount</b>
Component 1	Business process reengineering & development of RFP for ITAIS	USD	687,064
Component 2	Anticorruption Consultant for developing anti-corruption strategy, code of conducts for tax officers and measures to improve the quality of internal inspection in the Tax Administration.	USD	120,540
	Organization restructuring, HR & Training Strategy Development	USD	142,527
Component 3	Information and Communications Technologies Procurement Advisor	USD	265,850
	ICT Procurement Advisor	USD	179,734
Component 4	Upgrading Accounting Software	VND	274,726,000
	Package 2: Auditing Service	VND	267,366,000
	Change Management Consultant	USD	18,120
	Consulting Service - Financial Management Consultant	USD	15,140
	Auditing Services for Fiscal Year 2009-2012	VND	260,535,000
	Consulting Services on Financial Management	USD	9,798
	Consulting Services on Procurement for Tax Administration Modernization Project (TAMP)	USD	33,267
	Consulting Services on Finance and Disbursement	USD	34,050
	Baseline Survey	USD	112,750

The objective of the grant is to finance capacity building components of TAMP project. The grant objectives of supporting the institutional development (Component 1, 2, 3) and project management components (Component 4) have been partly achieved. Over the past years, a series of trainings and international workshops have been organized for knowledge sharing and capacity enhancement, in particular on risk-based audit, compliance management, and change management.

## Annex 5. Borrower's Comments



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**CỘNG HÒA XÃ HỘI CHỦ NGHĨA VIỆT NAM**  
**Độc lập - Tự do - Hạnh phúc**

*Hà Nội, ngày 11 tháng 7 năm 2015*

To: **Mr. Pham Minh Duc**  
Senior Economist, Project Task Team Leader  
The World Bank in Vietnam

**Tax Administration Modernization Project - Cr. 4361-VN**  
**Subject: Note on Cancelled Operation**

**Dear Mr. Duc,**

Thank you for sharing us the note on cancelled operation for Tax Administration Modernization Project (TAMP).

It has been shown that the note on cancelled operation of the Bank has fully reviewed milestones, key events throughout the project implementation. The note has provided independent opinions, evaluations of the Bank as an experience lesson when implementing other projects in IT sector. However, there are some contents we would like to request a few considerations as follows:

It is reported that “the MoF/GDT was not proactive in providing up-to-date information to the Bank on the government’s PIT-IT, yet continued to implement TAMP in parallel” (par.33). This should be reconsidered because during the project implementation the GDT and the Bank’s task team had maintained an active and close collaboration in exchanging and providing information related to the project. In practice, all information requested by the Bank was provided timely.

For the remark “just after the TAMP became effective, the government made firm decisions to implement the own PIT-IT system in parallel with TAMP implementation. Gradually, the MoF/GDT shifted their focus towards the PIT-IT project while keeping TAMP as a back-up option” (par.32). And, “it seems that the MoF/GDT was not fully confident about developing own PIT-IT system and wished to learn from the TAMP implementation. By the same token, they seemed to be constantly searching for opportunities to expand TAMP implementation if their PIT-IT system failed. It appears that the MoF/GDT did not wish to cancel TAMP until their own PIT-IT system was fully developed, and clearly intended to keep the project alive” (par.33). This does not seem to reflect events during the project implementation. In fact, PIT system had been deployed and developed in the context of implementing the new Law on Personal Income Tax that came into effect from January 1<sup>st</sup>, 2009. At that time, the Bank agreed with the GDT to develop a basic PIT-IT system to meet immediate PIT administration needs and to continue with the procurement of ITAIS as the final integrated IT solution (as mentioned in para.15).

It has been noted that “the procurement review process was lengthy and the MoF and the GDT remained uncoordinated. Their procurement review process remained extremely bureaucratic and lengthy (par. 34). Some of the procurement packages were valued at above the threshold requiring additional reviews by three different MoF vice ministers before final submission to the Bank for its no objection issuance” (par. 16). We would like to request to delete this remark. Because, as you know TAMP in general and ITAIS package in particular are extremely complex programs and big scale, it covers not only IT but also tax policy and tax administration matters. Therefore, the exchange of information and discussion between related

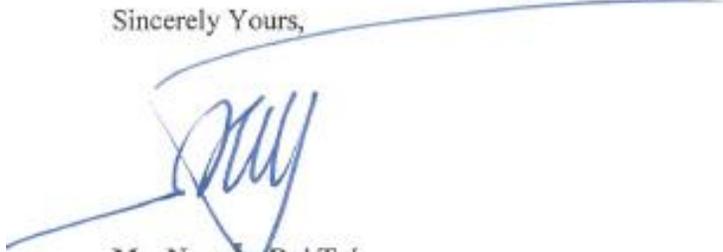
departments are necessary to avoid risks and ensure the effectiveness in the project implementation.

In addition, although the cancellation of the project is unexpected, it is important to mention the positive results achieved during the project implementation such as the GDT's staff capacity, knowledge and experience have enhanced. This is extremely useful and significant for the implementation of large projects later.

For the above reasons, we are writing this letter with request for appropriate revision to the note on cancelled operation.

Thank you for your cooperation. 

Sincerely Yours,



**Mr. Nguyễn Đại Trí**  
Deputy General Director  
General Department of Taxation



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SOCIALIST REPUBLIC OF VIETNAM  
**Independence - Freedom - Happiness**

Hanoi, date .8 month 9. year 2015

To: **Mr. Pham Minh Duc**  
Senior Economist, Project Task Team Leader  
The World Bank in Vietnam

**Tax Administration Modernization Project - Cr. 4361-VN**  
**Subject: Notice of cancelled operations (continued)**

Dear Mr. Pham Minh Duc,

Concerning the draft of Note on Cancelled Operation for the Tax Administration Modernisation Project (TAMP), General Department of Taxation sent a letter to the World Bank (WB) for proposing some considerations and revisions (the letter dated July 1<sup>st</sup> 2015 is attached).

In addition, based on discussions with several departments under the Ministry of Finance, we would like to supplement some proposals for consideration to the note on cancelled operation as follows:

1. For the content specified in Section 16, *"The GDT and the MoF were uncoordinated in their review of the Project Implementation Plan (PIP) and General and 18 months Procurement Plans. While the GDT approved the PIP before project effectiveness on June 26, 2008, the MoF approved these plans only six month later on December 9, 2008. Similarly, the MoF only approved the General Procurement Plan and the 18-month Procurement Plan, six months after the GDT obtained the Bank's no objections"*. We would like to remove this content because of the following reasons:

i. According to decentralized management mechanism and regulations on ODA project implementation of the Government, Project Implementation Plan and Procurement Plans shall be approved by authorized agencies based on the proposals of investors. Therefore, the gap in the time of approving PIP, procurement plans by MoF and the time of proposing its drafts by GDT are understandable.

ii. The duration of consideration and approval of the MoF for the plans proposed by GDT should be considered from the time that no-objection letter issued by the WB dated July 24, 2008 to the MoF's approval dated Sep 12, 2008. During this period, the MoF and the GDT had corporated actively to review the entire PIP and Procurement Plans to ensure the feasibility and suitability in the reality context of project implementation. A lot of work has been carried out in practice, particularly for PIP as follows:

On the basis of the PIP which was approved by the MoF dated April 1, 2008 (in the project negotiation process) at the 1<sup>st</sup> mission from May 26 to June 6, 2008 GDT and WB agreed to update, amend and supplement some contents to PIP. A revised PIP was therefore provided on June 26, 2008 as mentioned in the note. Compared with the PIP dated April 1, the latter revision provided important changes including restructuring Component 2 of the project (Operation Modernization); adjustment of the implementation duration to some main activities such as procurement and deployment

ITAIS, legal framework and compliance analysis, development of anti-corruption strategy, ethics and relations of stakeholders; adding some project managing and advisory positions, ect. Therefore, time for reviewing thoroughly before approval is necessary.

At the same time, according to the government's regulations for ODA projects at the time in 2008, after the PMU was established (Decision 806/QD-TCT dated June 23, 2008), PIP as well as Procurement Plans were required to be reviewed and updated by PMU and the investor (GDT) under the authorized agency's direction. For above reasons, the MoF had conducted a review of PIP once again and considered the proposal of the WB and GDT for the draft dated June 26, 2008 before approval officially on Sep 12, 2008.

2. For the comments referred to section 32, "*The MoF/GDT continued to be committed to tax administration reform, but the government's ownership of TAMP deteriorated over time, due primarily to the political decisions to implement the PIT-IT system*", we would like to propose revising or removing this comment because the PIT-IT system was invested and deployed in the context of the implementation of the new law of personal income tax, it came into effect since January 1, 2009. At that time, the Bank and the MoF/GDT had agreed to develop a PIT system basically to meet urgent management needs for PIT. The exchanged and agreed information between GDT and WB involved building the PIT system, while continuing to procure ITAIS system as a final integrated information technology solution for tax administration had also been recorded in the AM of the WB's 1<sup>st</sup> mission from May 26 to June 6, 2008 as well as the latter technical exchanges, including discussions and approvals of ITAIS bidding documents.

3. It has been mentioned in section 33 that "*the high internal transaction costs within the government associated with cancelling a Bank project discouraged the MoF/GDT from doing so. Furthermore, there was a fear that the cancellation of a Bank project would harm the reputation of MoF/GDT*". This remark should be removed because the following reasons:

i. The decision to cancel the project was considered and discussed carefully among the relevant government agencies and the WB at the time of 2013-2014 on the basis of objective reality and the results of the reform programs that Vietnam tax authorities have achieved after implementing the PIT system nationwide to avoid duplication and ensure efficiency in investment (for the WB) and in using ODA capital (for the Government of Vietnam). This decision was made based on the exchange of information and documents between government agencies in accordance with the normal administrative process, without generating any internal transaction costs in the Government as mentioned in the note.

ii. For the MoF, this is an important decision in order to ensure credibility of the MoF/GDT in particular and the Government of Vietnam in general for the international donors community in committing the effective use of foreign aids capital. Based on this principle, the MoF/GDT did not fear the cancellation of the TAMP project (or any other project in the future) if the fact indicates that the investment and implementation of that project will not bring effective results.

4. For the contents described in section 33 "*The MoF/GDT was not proactive in providing up-to-date information to the Bank on the government's PIT-IT, yet continued to implement TAMP in parallel*", we would like to ask for a consideration of

revising or removing this content because of the fact that the information related to the development and implementation of PIT-IT project had been discussed with the WB at the beginning and whenever requested. In addition, the PIT-IT system was developed before approval and issuance of the ITAIS bidding documents - first stage, before that time MoF/GDT and the WB agreed to adjust the scope of the ITAIS bidding package did not include PIT scope.

5. In section 34: *"The procurement review process was lengthy and the MoF and the GDT remained uncoordinated. The MoF enforced additional approvals from three vice ministers in the MoF for bidding documents and contracts above thresholds. Therefore, large contracts drafted by the PMU had to be reviewed by each functional unit in the GDT, by appropriate MoF units, and three vice ministers. On average, the review process took at least 20 days at each office. Their procurement review process remained extremely bureaucratic and lengthy"*. This remark should be removed because the following reasons:

i. For TAMP's bidding packages, the MoF and the GDT had to comply simultaneously with the domestic law (Procurement Law 61/2005/QH11 and 43/2013/QH13) and the provisions on procurement of the donor WB. It therefore took time.

ii. The TAMP's bidding packages, especially ITAIS package was very complex in nature, it was related to the management expertise of multiple functional units in GDT as well as the MoF. Therefore the exchange of information and spending time to review, discuss and report to leaders at all levels before the approval were necessary in order to avoid risks and ensure effective project implementation.

6. For the information presented in section 35 *"The GDT complied with the covenants set in the financing agreement except one"*. The GDT would like to explain and request for a revision as follows: the financing agreement for the TAMP include 6 covenants. In which, covenant 6 required "the borrowing, no later than December 1, 2010 will put into effect throughout GDT of revised and re-engineered core business processes, including but not limited to tax registration process, tax return and declaration, inspection processes and taxpayer services". At the time of the project design, the contents of re-engineering business processes were placed in component 2 of the project. However, after the agreement was signed the GDT and the WB were discussed and agreed to include requirements of re-engineering business processes into the procurement of hardware and ICT software system belonging component 3 of the project. This integration was to ensure synchronization of ITAIS solution. Thus, the parties agreed on re-engineering business processes will be undertaken in parallel with the procurement of ITAIS. Based on the above information, we would like to revise this section as follows *"In the project implementation, the MoF/GDT had complied with 5 out of 6 covenants by the due date. One of the covenants referred in Schedule II, Section V.1 "to put into effect throughout the GDT of revised and re-engineered core business processes was due on December 1, 2010" was agreed between the MoF/GDT and the WB to include into ITAIS bidding package aiming the effectiveness and synchronization of ITAIS solution."*

7. For "Lessons Learned", we would like to ask the WB adding some lessons relating to the implementation of complex IT projects, including:

i. It needs to be researched and assessed more carefully for the ability of the market to supply complex IT packages at the time of project design, which includes

identifying clearly components of complex bidding packages such as hardware and software applications. It is necessary to determine procurement rules prior approval or divided into several packages with appropriate technical requirements and follow a logical sequence.

ii. The WB needs to review to simplify the process and procedures for issuing no objection for the IT procurements towards harmonization/unified application for processes and procedures on procurement with the government of Vietnam.

8. Beside above suggestion and requirements, we would like to ask the WB adding the outputs achieved by the implementation of the project, including:

i. Although the main outputs of the project has not achieved as the original design, TAMP has contributed to improve awareness of the MoF/GDT in defining objectives; tax modernization and reform model as well as necessary technology solutions to achieve its objectives. It raises awareness in the entire tax agency of necessity needs to reform and modernize in order to meet the requirements of development and international integration of the country. It also has contributed to improve the capacity of tax officials on the expertise, modern working methods.

ii. The process of preparing and implementing projects TAMP have contributed to improve the capacity, knowledge and experience of MoF/GDT's staffs thereby contributing significantly to the ability to deploy large-scale projects of the GDT.

iii. In addition, the 2 stages ITAIS bidding documents which has been issued conditional no-objection letter dated March 4, 2014 by the WB is one of the particular outcomes of the project. It reflects clearly and objectively the MoF/GDT efforts in the process of implementing this project.

For the above reasons, we are writing this letter with request for appropriate revision to the note on cancelled operation.

Thank you for your cooperation. ✓

Sincerely Yours,



**Mr. Nguyễn Đại Trí**  
Deputy Director General  
General Department of Taxation

## **Annex 6. List of Supporting Documents**

*(In the Portal, each document can be linked to a file in IRIS or attach a new document)*

1. Project Concept Note, July 2006
2. Project Appraisal Document, August 20, 2007
3. Financing Agreement
  - 1) IDA Financing Agreement, March 28, 2008
  - 2) PHRD Grant Agreement, March 28, 2008
  - 3) IDA Amendments to Financing Agreement, September 19, 2012
  - 4) PHRD Amendments to Grant Agreement, September 19, 2012
4. Implementation Status and Results
  - 1) Sequence #1, July 15, 2008
  - 2) Sequence #2, February 27, 2010
  - 3) Sequence #3, July 28, 2011
  - 4) Sequence #4, March 21, 2012
  - 5) Sequence #5, November 19, 2012
  - 6) Sequence #6, June 29, 2013
  - 7) Sequence #7, April 3, 2014
5. Preparation Documents
  - 1) Comments from Concept Note Review Meeting: March 15, 2004
  - 2) Proposed TAMP Quality Enhancement Review: November 24, 29, 2006 Summary of Discussion
  - 3) TAMP Project Identification Mission: January 10-20, 2006
  - 4) Decision Meeting Minutes: January 16, 2007
  - 5) TAMP Project Appraisal Mission: January 18-26, 2007
6. Supervision Mission Aide Memoire
  - 1) First TAMP Supervision Mission: May 26-June 6, 2008
  - 2) Second TAMP Supervision Mission: December 8-12, 2008
  - 3) Third TAMP Supervision Mission: November 23-27, 2009
  - 4) Fourth TAMP Supervision Mission: June 7-11, 2010
  - 5) Fifth TAMP Supervision Mission: January 10-14, 2011
  - 6) Mid-term Review Mission Aide Memoire, June 20-July 1, 2011 (Sixth TAMP Supervision Mission)
  - 7) Seventh TAMP Supervision Mission: January 11-19, 2012
  - 8) Eighth TAMP Supervision Mission: May 23-29, 2012
  - 9) Ninth TAMP Supervision Mission: January 8-15, 2013
  - 10) Tenth TAMP Supervision Mission: June 3-11, 2013
  - 11) Eleventh TAMP Supervision Mission: January 7-17, 2014
  - 12) Twelfth TAMP Supervision Mission: June 2-10, 2014
7. The World Bank, January 2014, Bottlenecks in ICT procurement in EAP: Main conclusions
8. The World Bank, Capturing Technology for Development, An evaluation of world bank group activities in information and communication technologies

9. IFC Advisory Services Plan and Completion note

- 1) Project Name: IC-VN Tax, Project ID 564330
- 2) Project Name: IC-VN Tax 2, Project ID 596607